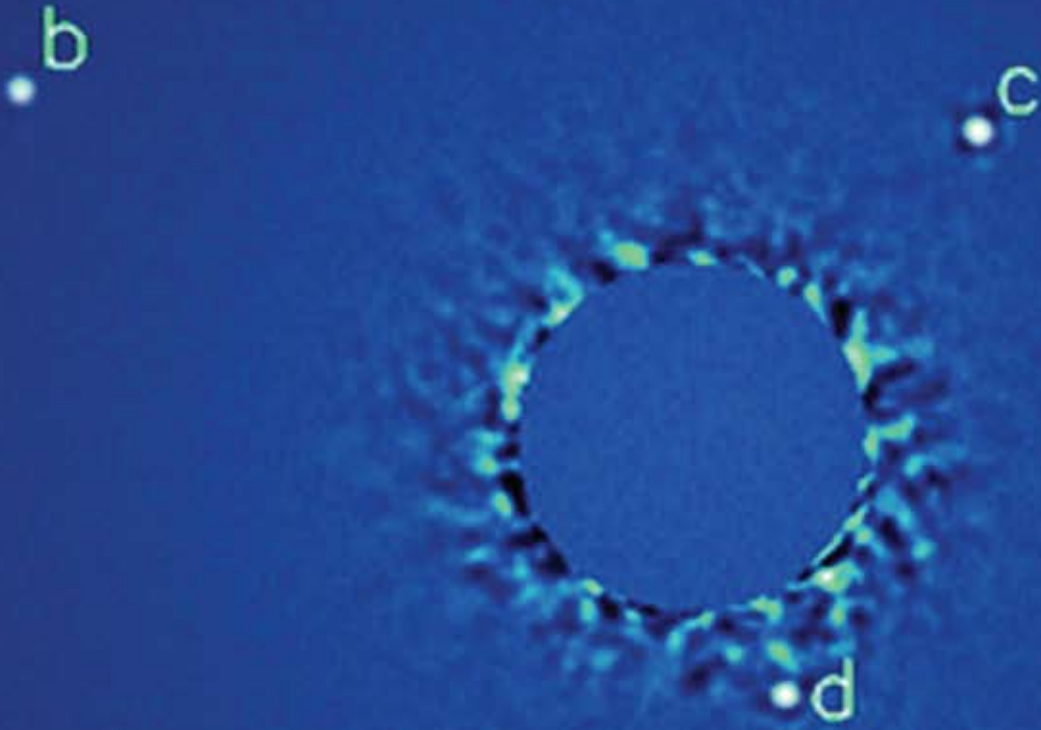


THE W. M. KECK FOUNDATION

2008 ANNUAL REPORT



Discovery

THE W. M. KECK FOUNDATION

2008 ANNUAL REPORT

On the cover: Scientists using the Keck II Telescopes released the first image of a multi-planet system in November 2008. The image reveals a scaled-up version of our solar system, with giant Jupiter-like planets (b, c, d) orbiting at distances far greater than Earth is from our sun.

CHAIRMAN'S MESSAGE



Bold. Innovative. High-impact. At the W. M. Keck Foundation, we use these words every day to describe the grant applications we seek and the work we support. Remembering the qualities valued by our founder William Myron Keck, the Keck Foundation funds projects that have advanced human knowledge, made breakthrough innovations and devised creative solutions to intractable problems.

Such great advances begin not at the bench, however, but by fostering a mindset of curiosity and possibility in our students. To this end, the Foundation has renewed its commitment to the undergraduate science and liberal arts programs. Now combined into one comprehensive program called Undergraduate Education, the Foundation continues to support distinctive curricula that foster active learning and the study of science, engineering and the liberal arts. In this way, we hope to encourage a mindset of discovery in students across these disciplines. While this program will focus primarily on private colleges in the western United States, the Foundation will also continue to support national consortia promoting these types of undergraduate programs.

I am gratified to report that our special projects continue to flourish. For example, in June 2008 a panel led by the distinguished scientist and engineer James Duderstadt completed a review of the first five years of the *National Academies Keck Futures Initiative* (NAKFI). This 15-year national effort is designed to catalyze interdisciplinary research. The panel found the NAKFI conferences to be a “powerful framework for drawing together investigators from widely diverse disciplines and exploring important scientific topics.” We expect that this year’s conference on synthetic biology will build on this framework as we push the cause of interdisciplinary science forward at both the individual researcher and institutional levels.

We believe that all of our grantees’ achievements are impressive, and I am therefore pleased to present this year’s annual report. It highlights a few of the important discoveries made by Keck-supported researchers, as well as exciting programs that foster curiosity and active learning at the undergraduate and pre-collegiate level.

During this national economic slowdown, the W. M. Keck Foundation has seen a drop in its endowment, closing with net assets of \$870,000,000 as of

December 31, 2008. The Foundation has instituted a series of cost controls this year to help continue to make funds available for grants. The Foundation will honor all of its existing multiple-year commitments while also funding a limited number of new research projects and programs considered innovative and potentially transformative in their respective fields. In our Southern California program, we will emphasize grants that will help build the capacity of organizations providing safety-net services.

In 2008, the Foundation paid out more than \$59 million. It awarded 25 new grants totaling \$25 million as well as welcoming a new class of five Distinguished Young Scholars. Of the program grants, 12 were for science, engineering and biomedical research; three were for undergraduate education; and 10 were for organizations in the Southern California program.

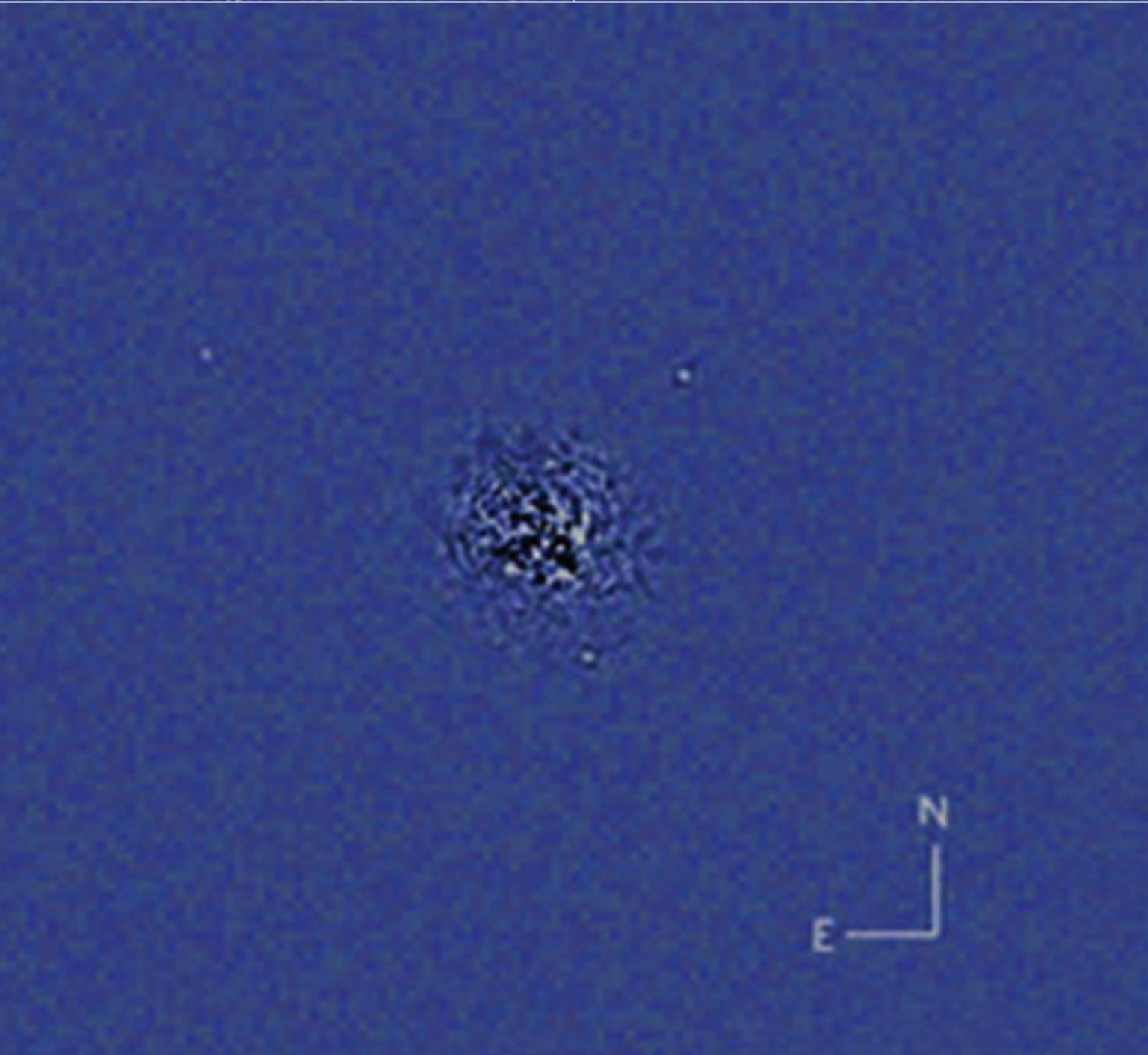
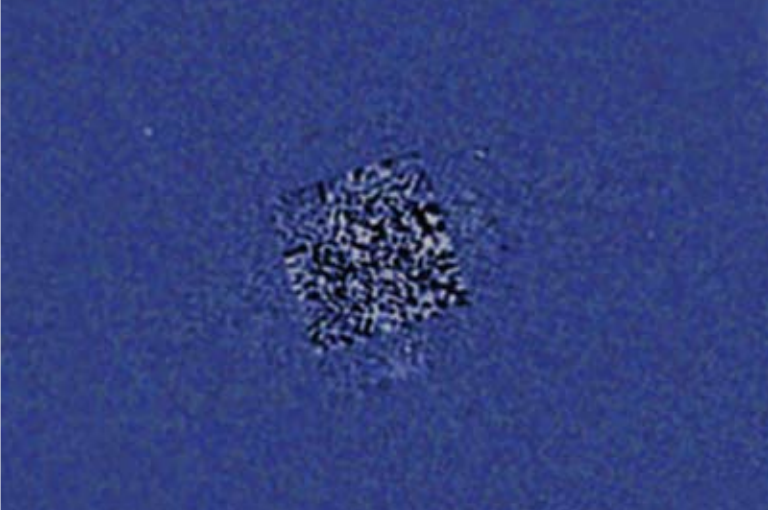
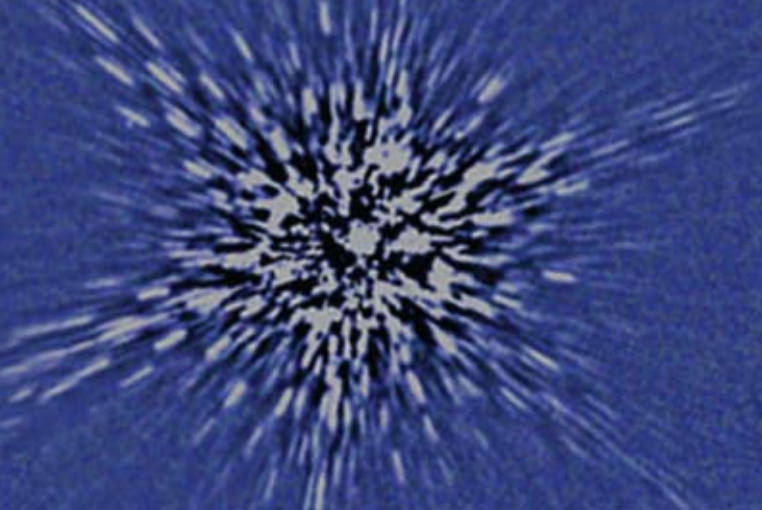
Our highly qualified directors work closely with our knowledgeable staff to lead the Foundation with high standards for governance and accountability. On behalf of the Foundation staff and directors, I would like to thank Michael Masin, who did not stand for reelection in 2009, for his many years of service. I also extend my thanks to the Honorable David A. Thomas, and to Peter Barker, who became our legal committee and audit committee chairs, respectively, and to John Kolb, who resigned from the Executive Committee after many years of service to that body. In addition to these changes to our board, we are particularly fortunate to welcome back to our staff Dr. Maria Pellegrini as Executive Director of Programs.

While we have challenges ahead, we intend to meet them with the same sense of innovation, discovery and perseverance that served my grandfather W. M. Keck so well.

Sincerely,

A handwritten signature in black ink, appearing to read "Robert A. Day". The signature is fluid and cursive, with the first letters of the first and last names being capitalized and prominent.

ROBERT A. DAY
CHAIRMAN, PRESIDENT AND CHIEF EXECUTIVE OFFICER
W. M. KECK FOUNDATION



Discovering our Universe

Multi-planet Systems

ASTRONOMERS HAVE KNOWN FOR SOME TIME THAT OUR SUN IS NOT THE ONLY STAR WITH ORBITING PLANETS. INDIRECT OBSERVATIONS HAD BEEN USED TO FIND THESE EXOPLANETS, BUT NONE HAD EVER BEEN SEEN. THAT CHANGED RECENTLY WHEN SCIENTISTS OBTAINED THE FIRST IMAGES OF A DISTANT PLANETARY SYSTEM CALLED HR 8799 USING OBSERVATIONS FROM THE KECK II AND GEMINI TELESCOPES ON MAUNA KEA IN HAWAII.

Precise measurements of the small wobbling motion of the stars, caused by the pull of the giant planets rapidly orbiting them, have helped scientists infer the location of more than 300 planetary systems around nearby stars. Astronomers could not image the individual planets in these other systems because the brighter light from the nearby star overwhelmed their dim light – HR 8799 is sixty thousand times brighter than its giant planets. By combining high-contrast, near-infrared adaptive optics to correct for the blurring effects of Earth’s atmosphere along with new observational techniques, astronomers have eliminated most of the starlight in images of HR 8799, revealing the presence of three Jupiter-like planets.

HR 8799 is a young star between 30 and 160 million years old, and is surrounded by a dust disk. Its planets still glow with the energy released during their formation. Like our solar system, its giant planets are located a great distance from their star. While there may be smaller planets in the system that have not yet been discovered, the ability to visualize the giant planets makes 128 light years feel a little closer to home.

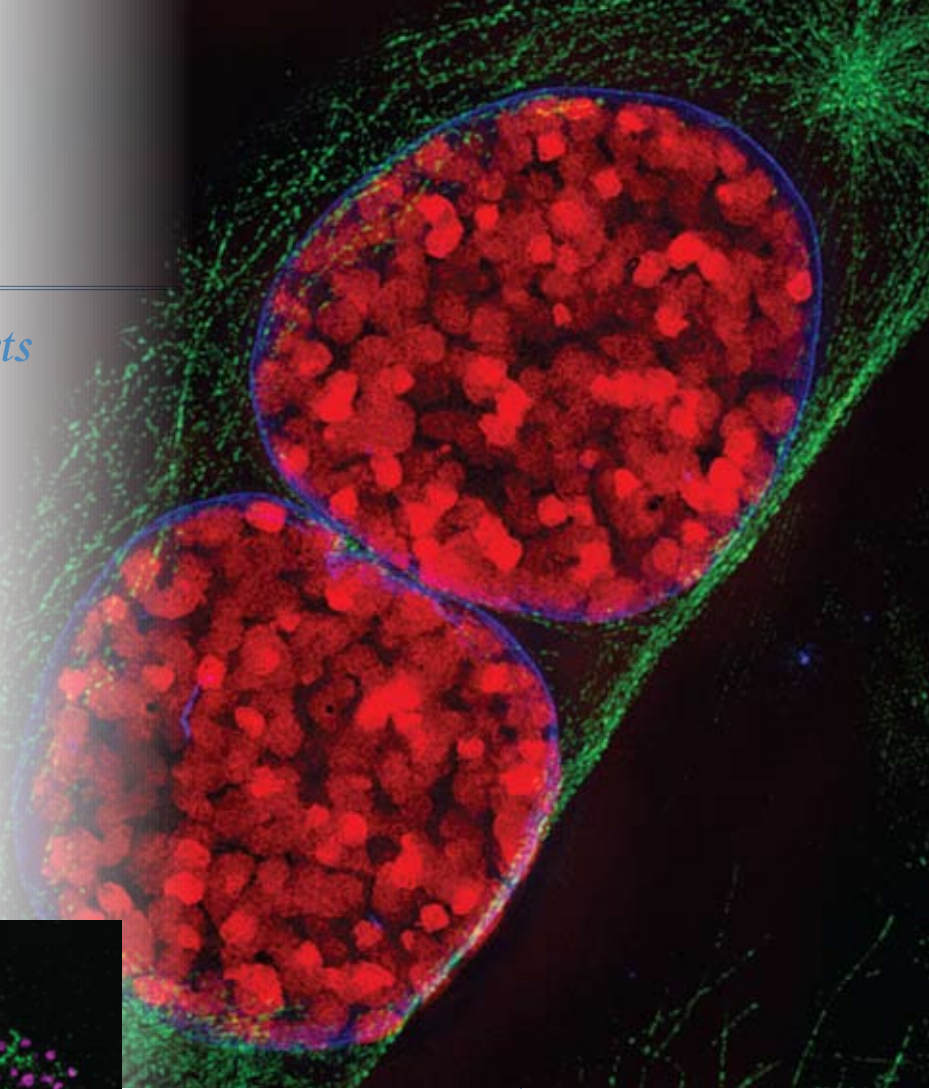
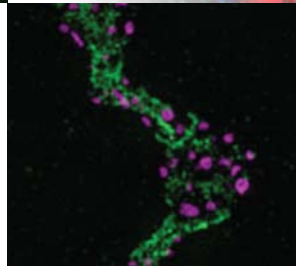
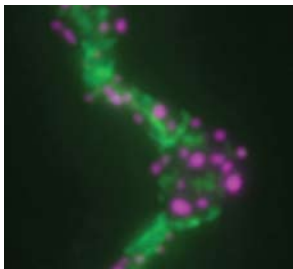
← With adaptive optics and advanced techniques including virtual coronagraph software, astronomers cancelled out most of HR 8799’s starlight to reveal three giant planets orbiting the star.



Keck II uses a laser to create an artificial guide star for adaptive optics.

Discovering Cells' Secrets

Pushing the Limits of Optical Imaging



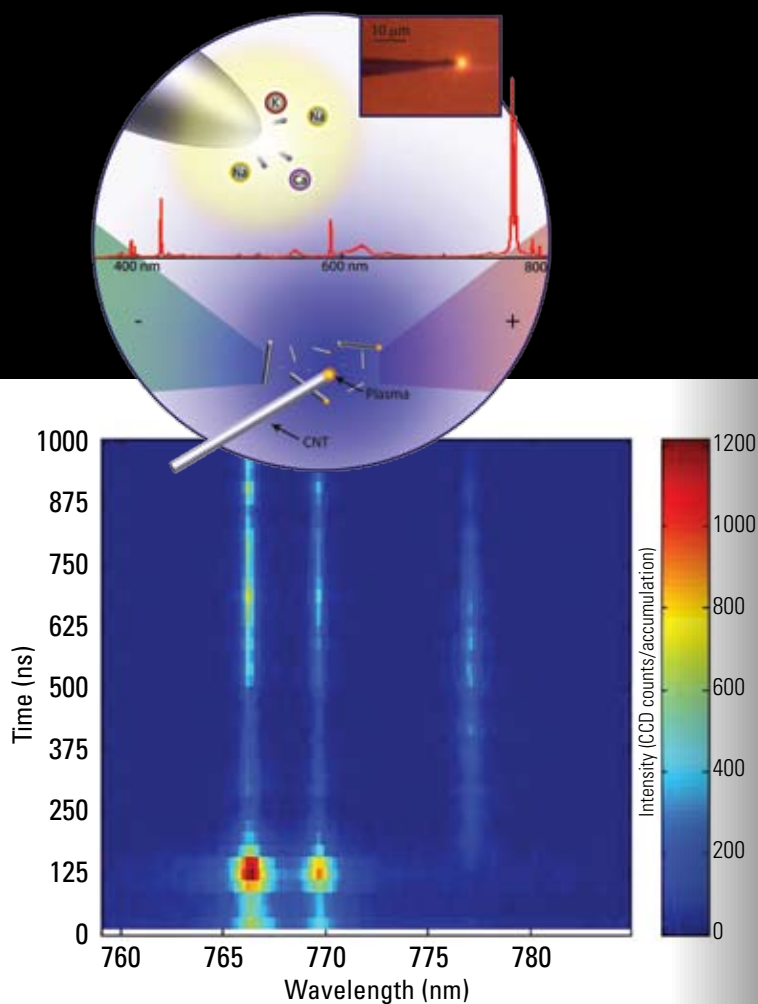
One of optical microscopy's important roles in biology is allowing scientists to image fluorescently labeled molecules inside living cells. Physical limitations imposed by the nature of light restrict the data available through optical imaging to a resolution of 200 nm. Now, researchers at the University of California at San Francisco have developed novel techniques that sidestep this diffraction limit. The Experimental Optical Microscope (OMX) can record four-color fluorescent images of living cells at a rate of 30 frames per second. It can also provide simultaneous two-color, three-dimensional images at 100 nm resolution. The doubled resolving power opens up new possibilities to analyze subcellular structures. These researchers are now looking to integrate the adaptive optics first developed for telescopes into the OMX, and anticipate revealing even finer structures of cells' inner secrets.

Above: A 3D structured illumination sub-diffraction image reveals prophase during cell division.

Left: Neuromuscular junction imaged conventionally (top), with OMX (bottom).

Discovering at the Nanoscale

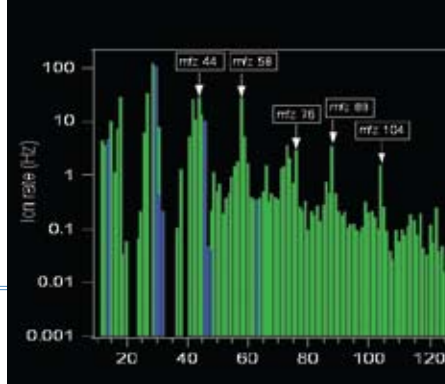
Chemical Spectroscopy



Analysis of the chemical composition of small samples has always been difficult. Now, however, scientists at Drexel University in Philadelphia, Pennsylvania have discovered a new form of plasma in liquid. This phenomenon can be exploited to permit analysis in nanoseconds on volumes 10–100 times less than that contained in a single mammalian cell. After the liquid is electrically excited, data are collected on the spectrum of light emitted by sharp tips or carbon nanotubes dispersed in the sample, providing a new method for “chemical” spectroscopy. The optical spectra obtained using this technique provide higher quality information than conventional emission spectroscopy. The analysis can be performed remotely, without connecting a wire to the probe. The newly demonstrated nanoscale probes may be applicable to forensics and materials science, and could open a new era in chemical, environmental and biological sensing.

Top: Corona discharge in liquid is generated around the tip of a nanoscale probe. Nanotubes are dispersed in the liquid and placed between two electrodes. Bottom: the optical emission spectrum after corona discharge.

University of California, Riverside (UCR) is located in an area chronically beset by poor air quality. This unfortunate situation presents a major opportunity for UCR's scientists, however, who have a tradition of excellence in atmospheric chemistry and air pollution research. Earlier this decade, the Environmental Protection Agency partnered with UCR to construct two state-of-the-art atmospheric chambers. This facility enables scientists to precisely control temperature, humidity, light and the introduction of chemicals to study the formation and composition of air pollution. A subsequent grant from the W. M. Keck Foundation provided a suite of instruments that allows the researchers to delve into the complex mechanisms of aerosol formation. This work has allowed the university to collaborate with both industry and regulators to evaluate environmental options for safeguarding our environment.



Aerosol mass spectrum from oxidized trimethylamine, a common agricultural pollutant.

Discovering Solutions Smog's Chemistry

Associate Professor David Cocker and Bethany Warren, a graduate student, are pictured inside the atmospheric chamber located in the Center for Environmental Research and Technology.

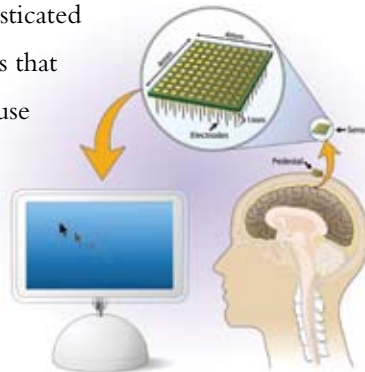


Discovering the Power of Thought

BrainGate



While many research projects develop sequentially, some take leaps beyond the scientists' original expectations. Ten years ago, Brown University received a Keck grant to develop a state-of-the-art multi-electrode recording facility to study vision, object recognition and planning and action in alert primates. The research has now reached new frontiers. Today, scientists at Brown are using their knowledge of how populations of neurons transform information into movement to develop a brain-computer interface. In the BrainGate device, electrodes implanted in a person's brain record electrical signals generated by motor neurons. Sophisticated software interprets the user's intent to move and uses that intention to control devices such as a computer mouse or robotic limb. In clinical trials, BrainGate has already allowed people who have lost all physical mobility to communicate and manipulate their environment using a computer, restoring a level of independence to their lives.



As a person who is paralyzed imagines moving his or her hand, the brain-computer interface records many types of neuronal signals, and interprets them to carry out the intended movement.



Students use an interactive white board during a lesson on cell structures in Charlotte Casher's biology class.



Under the tutelage of faculty member Pasha Salehi, students learn about the distribution of forces by building structures designed to protect an egg from a second-story fall.

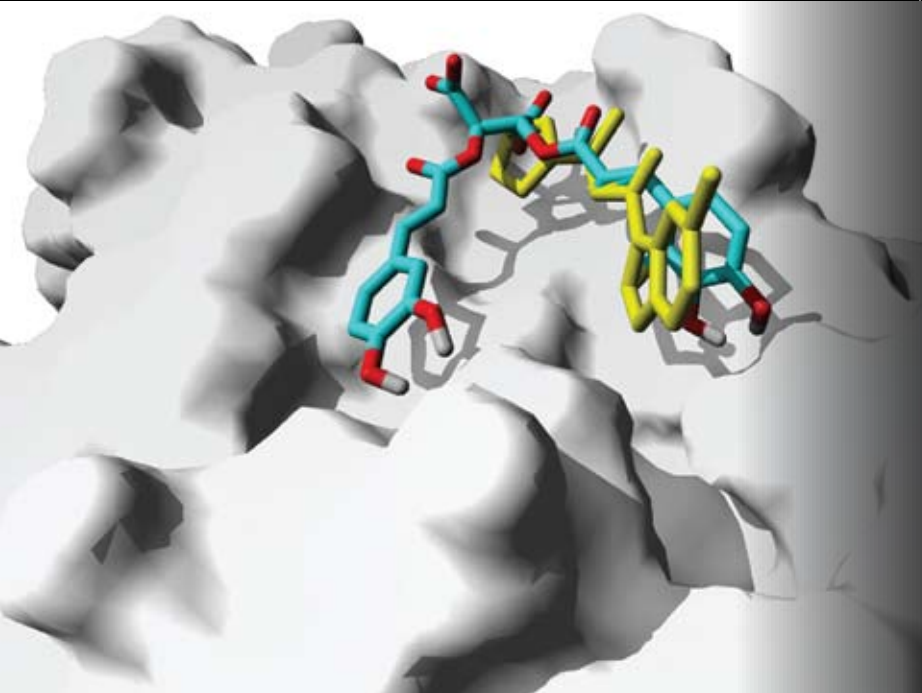
Discovering Their Future

Inspiring Girls to Succeed in Math and Science

Given self confidence and opportunity, studies show that young women enjoy and excel at science. St. Mary's Academy in Inglewood, California, is a beacon for young minority girls interested in math and the sciences. Recently, the private academy, with support from the faculty at nearby Mount Saint Mary's College, redesigned and modernized their science labs and revised the curriculum. The Academy's faculty adopted hands-on, participatory teaching methods and new ways to integrate math and science concepts. As a result, the students' confidence is up: both last year and this year, 10 girls were selected to participate in a summer-long Science and Engineering Apprentices Program at the Department of Navy labs in San Diego. Such powerful academic and research experiences encourage these young women to attend college and consider careers in health and the sciences.

Discovering Collaboratively Working Together to Understand HIV

At St. Edward's University in Austin, Texas, students experience the excitement of collaborative discovery. Science majors and non-majors work on projects that blend research and education across the disciplines. Three student-faculty teams work on the problem of emerging HIV drug resistance. Each team approaches the work from one of three perspectives – modeling, molecular biology, or bioinformatics. Just two years into the project, the students have already published their findings. In conjunction with their intense periods of summer research, the teams are also developing discovery-based curricular modules that are gradually being integrated into the general science curriculum. Once this model is proved, the research focus will shift to other diseases to create a signature, self-sustaining collaborative program for undergraduate education.



A small molecule drug candidate l-chicoric acid docks with HIV-1 integrase, blocking its ability to integrate HIV's viral DNA into the host genome.

California Institute of Technology

Pasadena, CA

\$2,300,000

To develop a microwave polarimeter to search for the signature of inflation in the cosmic gravitational-wave background.

Princeton University

Princeton, NJ

\$1,300,000

To develop a high-frequency scanning tunneling microscope for probing and manipulating quantum dynamics.

University of California, Davis

Davis, CA

\$1,200,000

To develop an electron detector system for phase-contrast scanning transmission electron microscopy for imaging biological samples.

University of California, Santa Cruz

Santa Cruz, CA

\$1,500,000

To develop optofluidic chip technologies for single-biomolecule analysis.

University of Hawaii at Manoa

Honolulu, HI

\$1,200,000

To build an instrument that will mimic the interaction of ionizing radiation with Kuiper Belt Objects for better understanding the chemical evolution of the solar system.

University of Maine

Orono, ME

\$1,600,000

To develop new instrumentation for ice core research that will significantly improve the speed, efficiency, safety and quality of data acquisition.

University of New Mexico

Albuquerque, NM

\$1,100,000

To develop an instrument to make three-dimensional images of biological objects at the scale of one nanometer.

← Seth Blackshaw's lab at Johns Hopkins University studies the functional genomics of cell specification in the retina and hypothalamus. Here, the differential expression of Pias3 (red) in medium (green) and short (blue) wavelength-sensitive cones of the mouse retina.

California State University, Northridge

Northridge, CA

\$500,000

To create a hands-on nanotechnology research experience for undergraduate students using a field-effect transmission electron microscope.

Simmons College

Boston, MA

\$245,000

To redesign undergraduate laboratory instruction in biology, chemistry and physics by focusing on original research.

University of California, Los Angeles

Los Angeles, CA

\$500,000

To develop an undergraduate curriculum in Digital Cultural Mapping.

Buck Institute

Novato, CA

\$1,500,000

To research the role of the aging process in the etiology of human disease.

J. David Gladstone Institutes

San Francisco, CA

\$1,500,000

To study the striatum's role in regulating and disregulating motor activity at scales from the molecular to the behavioral.

Northwestern University

Evanston, IL

\$1,600,000

To examine whether zinc plays a central role in oocyte maturation and in mediating early signals in embryogenesis.

Stanford University

Stanford, CA

\$1,500,000

To support research using bioengineering technologies to study electrically excitable tissue in rodent models of neuropsychiatric, motor and cardiac disease.

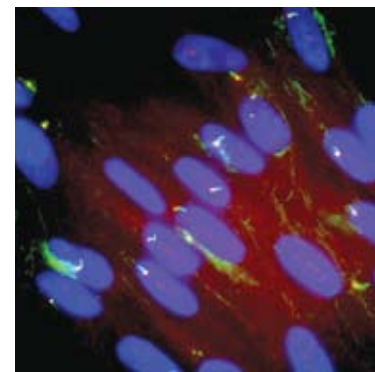
University of Colorado at Boulder

Boulder, CO

\$1,200,000

To develop research strategies in mass spectrometry to detect and characterize all proteins in a cellular proteome.

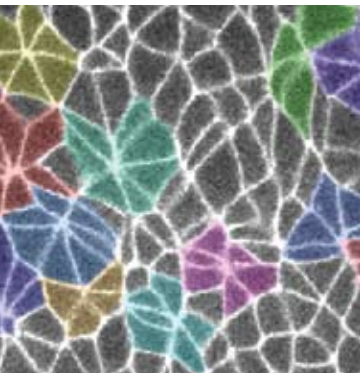
Wallace Marshall's lab at UCSF uses ciliated RPE-1 cells to understand the engineering design principles that underlie morphogenesis. Cilia are stained green; nuclei blue and centrosomes red.



Images on these pages were provided by Keck Distinguished Young Scholars in Medical Research.

DISTINGUISHED YOUNG
SCHOLARS IN MEDICAL
RESEARCH

Jennifer Zallen's lab at Memorial Sloan-Kettering Cancer Center investigates how cell populations organize to establish body form. Here, cells assemble into multicellular rosettes that contribute to axis elongation in the *Drosophila* embryo.



\$1,000,000 per award

Dana-Farber Cancer Institute

Boston, MA

To support Dr. Carl Novina's work to identify genes controlling effectors and regulators of mammalian microRNA, which silence genes and are often dysregulated in cancer.

Princeton University

Princeton, NJ

To support Dr. Coleen Murphy's research to identify genes critical for maintenance of higher neuronal activities during aging, particularly learning and memory.

Stanford University

Stanford, CA

To support Dr. Joanna Wysocka's studies on understanding how certain chemical modifications of chromatin, the complex of DNA and proteins that makes up chromosomes, play a role in regulating cell fate determination.

University of California, Berkeley

Berkeley, CA

To support Dr. Britt Glaunsinger's research on how cellular gene expression is regulated by the human herpesviruses' interface with cellular RNA processing, which bypasses normal cellular quality control machinery and enhances its own replication.

Whitehead Institute for Biomedical Research

Cambridge, MA

To support Dr. Peter Reddien's studies to identify the genetic mechanisms of regeneration in planarians, leading to information about the regulation and function of stem cells in cell replacement and tissue repair.

Research Excellence Awards

\$25,000 per award

Brandeis University

Waltham, MA

Dr. Daniela Nicastro

California Institute of Technology

Pasadena, CA

Dr. Sarkis Mazmanian

Rice University

Houston, TX

Dr. Michael Diehl

University of Alabama at Birmingham

Birmingham, AL

Dr. Hengbin Wang

University of Pennsylvania

Philadelphia, PA

Dr. Ben Stanger

Civic and Community

Boys & Girls Clubs of Southwest County

Temecula, CA

\$300,000

To expand youth development programs by constructing a new clubhouse.

Downtown Women's Center

Los Angeles, CA

\$500,000

To provide permanent housing and supportive services for homeless women by renovating a building on Skid Row.

Shelter Partnership

Los Angeles, CA

\$350,000

To expand and streamline distribution of non-perishable goods to agencies throughout Los Angeles County by renovating a warehouse.

Union Rescue Mission

Los Angeles, CA

\$750,000

To provide long-term transitional housing for homeless women and their children by renovating facilities at Hope Gardens Family Center.

Health Care

Childrens Hospital Los Angeles

Los Angeles, CA

\$1,000,000

To expand acute and trauma pediatric care by constructing a state-of-the-art hospital.

Eisner Pediatric & Family Medical Center

Los Angeles, CA

\$150,000

To expand health care services to low-income women by renovating space for the Women's Health Center.

Precollegiate Education

Green Dot Public Schools

Los Angeles, CA

\$400,000

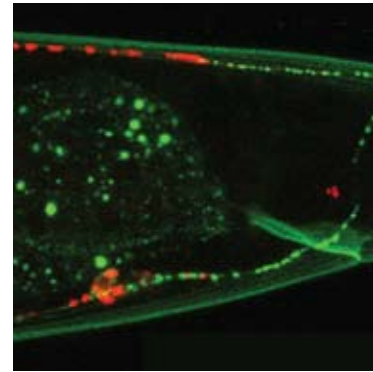
To improve educational opportunities for students in South Los Angeles by constructing a permanent facility for the Animo Pat Brown Charter High School.

Unite-LA

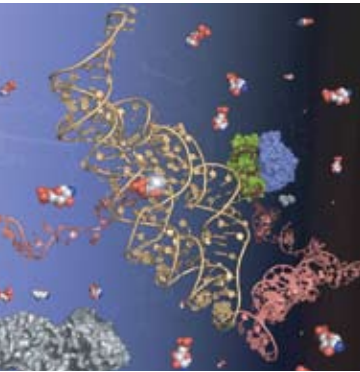
Los Angeles, CA

\$750,000

To increase high school graduation, career preparation and post-secondary education among LAUSD students by supporting the development of small learning communities and small schools.



Kang Shen's lab at Stanford University studies neural circuitry and synaptogenesis. In a *C. elegans* motor neuron, morphogenetic signals subdivide an axon into discrete domains (red and green), spatially regulating synaptic connections with other neurons.



Adrian Ferré-D'Amaré's lab at Fred Hutchinson Cancer Research Center seeks to elucidate the structural principles that underlie the stability and function of RNAs. They solved the structure of the *glmS* ribozyme, the only natural catalytic RNA known to require a small-molecule activator for catalysis.

Early Learning

Information and Referral Federation of Los Angeles County

San Gabriel, CA

\$300,000

To pilot developmental screening in a call center environment to increase early identification and access to intervention services for children zero to five throughout Los Angeles County.

Special Project

KCET-Community Television of Southern California

Los Angeles, CA

\$1,350,000

To continue exclusive underwriting of the local broadcast of *Sesame Street* and partial underwriting of the local broadcast of *A Place of Our Own/Los Niños en Su Casa*, a series for caregivers.

STATEMENTS OF FINANCIAL POSITION

December 31 (in thousands)	2008	2007
ASSETS		
Cash and cash equivalents	\$ 46,795	\$ 58,430
Receivable from brokers	3,792	2,935
Interest and dividends receivable	2,352	3,248
Prepaid federal excise taxes	2,038	352
Investments at fair value	813,585	1,465,511
Other assets	1,395	1,291
Total assets	\$ 869,957	\$ 1,531,767
LIABILITIES AND NET ASSETS		
Payable to brokers	\$ 3,074	\$ 5,466
Accounts payable and accrued expenses	1,499	1,914
Grants payable, net (<i>Note 5</i>)	34,649	40,864
Deferred federal excise taxes payable	—	6,875
Total liabilities	39,222	55,119
Unrestricted net assets	830,735	1,476,648
Total liabilities and unrestricted net assets	\$ 869,957	\$ 1,531,767

See accompanying notes.

STATEMENTS OF ACTIVITIES

Years ended December 31 (in thousands)	2008	2007
REVENUE:		
Interest	\$ 10,758	\$ 12,456
Dividends	12,284	13,208
Other income	2,384	533
	25,426	26,197
Realized and unrealized gains and losses on investments:		
Net realized gains and losses	(8,093)	133,431
Change in net unrealized gains and losses	(603,435)	45,372
	(611,528)	178,803
Total revenues and net realized and unrealized gains and losses on investments	(586,102)	205,000
EXPENSES:		
Grants	53,116	68,764
Management and general services	6,743	6,463
Investment management fees	5,811	7,427
Federal excise tax (benefit) provision	(6,682)	2,353
Foreign tax withheld	823	376
Total expenses	59,811	85,383
Change in unrestricted net assets	(645,913)	119,617
Unrestricted net assets, beginning of year	1,476,648	1,357,031
Unrestricted net assets, end of year	\$ 830,735	\$ 1,476,648

See accompanying notes.

STATEMENTS OF CASH FLOWS

Years ended December 31 (in thousands)	2008	2007
OPERATING ACTIVITIES		
Change in unrestricted net assets	\$ (645,913)	\$ 119,617
Adjustments to reconcile change in unrestricted net assets to net cash used in operating activities:		
Depreciation and amortization	367	331
Accretion of bond discounts	(252)	(228)
Other income from stock received for class action settlements	(109)	–
Net realized gains and losses on investments	8,093	(133,431)
Change in net unrealized gains and losses on investments	603,435	(45,372)
Changes in operating assets and liabilities:		
Receivable from brokers	(857)	(1,593)
Interest and dividends receivable	896	(426)
Other assets	–	(109)
Prepaid federal excise taxes	(1,686)	(314)
Payable to brokers	(2,392)	797
Accounts payable and accrued expenses	(415)	(524)
Deferred federal excise taxes payable	(6,875)	741
Grants payable	(6,215)	875
Net cash used in operating activities	(51,923)	(59,636)
INVESTING ACTIVITIES		
Purchase of investments	(774,221)	(801,774)
Proceeds on disposition of investments and return of capital	814,980	871,812
Acquisition of fixed assets, net	(471)	(227)
Net cash provided by investing activities	40,288	69,811
Net (decrease) increase in cash and cash equivalents	(11,635)	10,175
Cash and cash equivalents, beginning of year	58,430	48,255
Cash and cash equivalents, end of year	\$ 46,795	\$ 58,430
SUPPLEMENTAL DISCLOSURE		
Taxes paid during the year	\$ 1,880	\$ 1,925

See accompanying notes.

NOTES TO FINANCIAL STATEMENTS

December 31, 2008

1. ORGANIZATION

Formation and Goals of the Foundation

The W. M. Keck Foundation (the Foundation) was incorporated in the state of Delaware on January 20, 1959, as a not-for-profit charitable corporation. The Foundation's goals are principally to identify and support university and college research and education programs in the areas of science, engineering and medicine. In addition, the Foundation gives some consideration to promoting liberal arts education and, in Southern California only, to supporting community services, health care, precollegiate education and the arts. Operations are funded by the Foundation's returns on its investment portfolio.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Use of Estimates

The preparation of the financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Contributions Received and Grant Payments Made

In accordance with Statement of Financial Accounting Standards (SFAS) No. 116, *Accounting for Contributions Received and Contributions Made*, unconditional grant payments are recognized as an expense in the period in which they are approved. If these grants are to be paid over a period exceeding one year, they are recorded at the net present value of the future cash payments, using an applicable Treasury Bill rate. Grants which are conditional upon a future and uncertain event are expensed when these conditions are substantially met or expected to be met in the subsequent year. A conditional promise to give is considered unconditional if the possibility that the condition will not be met is remote.

Cash and Cash Equivalents

Cash and cash equivalents are defined as liquid investments with original maturities of three months or less.

Investments

Investments in equity securities with readily determinable fair values and all investments in debt securities are measured at fair value in the statements of financial position. Purchases and sales of securities are recorded on the trade date. Dividend income is recorded based upon the ex-dividend date. Interest income is recorded as earned on an accrual basis. Realized gains and losses are recorded upon disposition of securities based on the specific identification method. The allocation of cost to a sale, where part of a holding is disposed of, assumes that the highest priced items are sold first. Unrealized gains and losses are included in the statements of activities and represent the net change in fair value for investments held at the end of the year.

The Foundation's interests in partnerships are carried at estimated fair value based on the Foundation's proportionate interest. In the absence of market price quotations, the fair value of the investments is determined by the general partner. Investments for which exchange quotations are not readily available are valued at the latest bid price obtained from one or more dealers making a market for such securities or at estimated fair values as determined in good faith by the general partner. Investments for which exchange quotations are not readily available may include specific classes or series of an issuer's equity or debt securities. The methods and procedures to value these investments may include, but are not limited to: (1) performing comparisons with prices of comparable or similar securities, (2) obtaining valuation-related information from issuers, and/or (3) other analytical data relating to the investment and using other available indications of value. However, because of the inherent uncertainty of valuation, the estimated fair values for the aforementioned securities and interests may differ from the values that would have been used had a ready market for the investments existed, and the differences could be material.

Fixed Assets

Fixed assets are carried at cost, less accumulated depreciation. Depreciation is computed on the straight-line method over the estimated useful life of each type of asset or the term of the related lease, whichever is shorter. The depreciable lives for leasehold improvements are between ten and fifteen years and the lives for furniture and equipment are five years.

Fair Value Measurement

The Foundation adopted SFAS No. 157, *Fair Value Measurements*, on January 1, 2008, for all financial assets and liabilities that are recognized or disclosed at fair value in the financial statements. This statement defines fair value, establishes a consistent framework for measuring fair value, and expands disclosure for each major asset and liability category measured at fair value on either a recurring or nonrecurring basis. SFAS 157 clarifies that fair value is an exit price, representing the amount that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants. As such, fair value is a market-based measurement that should be determined based on assumptions that market participants would use in pricing an asset or liability. As a basis for considering such assumptions, SFAS 157 establishes a three-fair value hierarchy, which prioritizes the inputs used in measuring fair value as follows:

Level 1 – Assets that have readily observable prices (quoted prices in active markets accessible at the measurement date for assets). The fair value hierarchy gives the highest priority to level 1 inputs.

Level 2 – Assets that are based on quoted prices for similar instruments in active markets, quoted prices for identical or similar instruments in markets that are not active, and model-based valuation techniques for which all significant assumptions are observable in the market or can be corroborated by observable market data for substantially the full term of the assets or liabilities. Financial assets and liabilities in this category generally include asset-backed securities, corporate bonds and loans, municipal bonds, forward contracts, future contracts, interest and credit swap agreements, options and interest rate swaps.

Level 3 – Assets whose fair value cannot be determined by using observable measures, and can only be calculated using estimates or risk-adjusted value ranges, when little or no market data is available. The inputs into the determination of fair value require management’s judgment or estimation of assumptions that market participants would use in pricing the assets or liabilities. The fair values are therefore determined using factors that involve considerable judgment and interpretations, including, but not limited to, private and public comparables, third party appraisals, discounted cash flow models, and fund manager estimates. The fair value hierarchy gives lowest priority to level 3 inputs.

In determining fair value, the Foundation utilizes valuation techniques that maximize the use of observable inputs and minimize the use of unobservable inputs to the extent possible.

The Foundation’s assets measured at fair value on a recurring basis subject to the disclosure requirements of SFAS 157 at December 31, 2008, were as follows (in thousands):

	Level 1	Level 2	Level 3
Assets:			
Marketable equity securities	\$ 341,088	\$ –	\$ –
Mutual funds	91,449	–	–
Debt securities – U.S. Treasury	4,682	–	–
Debt securities – corporate and other	–	121,561	–
Total	\$ 437,219	\$ 121,561	\$ –

The adoption of SFAS 157 did not have a material impact on the Foundation’s financial statements. The Foundation does not currently expect the application of the fair value framework established by SFAS 157 to nonfinancial assets and liabilities measured on a nonrecurring basis to have a material impact on the financial statements. However, the Foundation will continue to assess the potential effect of SFAS 157 as additional information becomes available.

The Foundation did not elect to adopt the provisions of SFAS 159, *The Fair Value Option for Financial Assets and Financial Liabilities*.

New Accounting Standards

In July 2006, the Financial Accounting Standards Board (FASB) issued Interpretation No. 48 (FIN 48), *Accounting for Uncertainty in Income Taxes – An Interpretation of FASB Statement No. 109*. FIN 48 clarifies the accounting for uncertainty in income taxes recognized in the financial statements. It also prescribes a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return, among other things. In December 2008, the FASB issued FIN 48-3, *Effective Date of FASB Interpretation No. 48 for Certain Nonpublic Enterprises*, delaying the effective date of FIN 48 for certain nonpublic enterprises until fiscal years beginning after December 15, 2008. The Foundation is currently evaluating the impact that adopting this standard will have on its financial statements.

3. Investments

The cost and fair value of investments are as follows (in thousands):

	December 31, 2008		December 31, 2007	
	Cost	Fair Value	Cost	Fair Value
Common stock	\$ 377,479	\$ 322,343	\$ 476,832	\$ 736,412
Corporate bonds	83,070	66,256	74,467	71,991
Government bonds	6,187	6,341	8,567	8,771
Foreign investments	34,470	23,917	126,090	171,126
Mortgage and asset-backed securities	48,225	48,474	49,285	49,322
Mutual funds	179,173	91,449	82,025	81,067
Alternative investments	336,093	254,805	295,922	346,822
	\$ 1,064,697	\$ 813,585	\$ 1,113,188	\$ 1,465,511

The change in net unrealized gain (loss) on investments is reflected in the statements of activities and is summarized as follows (in thousands):

Years ended December 31	2008	2007
Net unrealized gain, beginning of year	\$ 352,323	\$ 306,951
Add net unrealized (loss) gain on investments for the year	(603,435)	45,372
Net unrealized gain, end of year	\$ (251,112)	\$ 352,323

Certain prior year amounts in investment cost, realized and unrealized gain (loss) have been reclassified to conform to the current year presentation.

Alternative Investments

As of December 31, 2008, the Foundation has made total capital contributions (net of distributions) of \$336,093,000 to eight partnerships and two foreign corporations. The Foundation has a total future capital commitment related to four of these partnerships of \$50,639,000.

4. Federal Excise Tax

The Foundation qualifies as a tax-exempt organization under Section 501(c)(3) of the Internal Revenue Code and accordingly, is not subject to federal income taxes. However, the Foundation is classified under the Internal Revenue Code as a private foundation and, as such, is subject to a federal excise tax.

During 2008, the Foundation has accrued a 1% excise tax on net investment income. Private foundations are required to distribute annually, in qualifying charitable distributions, an amount equal to approximately 5% of the average fair market value of the Foundation's assets (the minimum distribution). If the Foundation does not distribute the required minimum distribution, a one-year grace period is granted to distribute the undistributed income. If undistributed income is not distributed by the close of the following tax year, a minimum 30% penalty under IRC §4942(a) will apply. The Foundation's annual distributions were in excess of the required minimum for 2008 and 2007 to avoid the 30% penalty. Although the Foundation does have cumulative undistributed income at December 31, 2008, based on the Foundation's distribution history, the Foundation will be able to distribute the cumulative undistributed income from December 31, 2008, in 2009. Accordingly, the Foundation has not accrued for the penalty on undistributed income.

The Foundation uses the liability method required by Financial Accounting Standards Board Statement No. 109, *Accounting for Income Taxes*, for accounting for excise taxes. The federal excise tax provision consists of the following (in thousands):

Years ended December 31	2008	2007
Current	\$ 193	\$ 1,612
Deferred	(6,875)	741
	\$ (6,682)	\$ 2,353

Deferred federal excise taxes have been recorded on the unrealized appreciation in fair value of investments at a tax rate of 2% in 2007. As of December 31, 2008, the total market value of investments was less than the total cost of investments; therefore, deferred federal excise taxes payable as of that date was \$0.

5. Grants Payable and Conditional Grant Commitments

Grants payable and conditional grant commitments as of December 31, 2008, are as follows (in thousands):

	Unconditional	Conditional
2009	\$ 27,544	\$ 2,750
2010 – 2013	7,419	48,539
2014 and thereafter	–	11,882
	\$ 34,963	\$ 63,171
Less present value discount	(314)	
	\$ 34,649	

Projected timetable and payment amounts shown above for conditional grants are estimated. Conditional grants will be recorded as an expense in the period when the conditions to the grant are substantially met. These grants are conditioned upon other donors matching the amounts contributed by the Foundation, receipt of building permits and other regulations, and compliance with budget, timetable, and grant agreements' requirements.

Conditional grants outstanding as of December 31, 2008, consist of the following (in thousands):

Grantee	Date of Original Commitment	Original Commitment	Amount Outstanding
University of Southern California	1999	\$ 103,000	\$ 22,000
National Academy of Sciences	2002	40,000	21,171
Keck Graduate Institute of Life Sciences	2004	20,000	2,000
California Institute of Technology	2007	24,000	15,000
Other	Various	3,000	3,000
		\$ 190,000	\$ 63,171

6. Lease Commitments

Under the original lease agreement, the Foundation leases its main office space under a 15-year noncancelable operating lease. The lease agreement includes free rent for the first two years and rent escalation terms thereafter. On October 15, 2008, the Foundation amended its lease agreement to adjust the annual base rent for the December 1, 2009 to November 30, 2014 period from \$500,000 to \$435,000 and extend the term of the lease by five years. The annual base rent for the extended period, December 1, 2014 to November 30, 2019, is \$543,650. Rent expense is recognized on a straight-line basis over the lease term. As of December 31, 2008, the approximate future minimum lease obligation for the lease is as follows:

Years ending December 31	
2009	\$ 395,000
2010	435,000
2011	435,000
2012	435,000
2013	435,000
Thereafter	3,117,000
	<hr/>
	\$ 5,252,000

Total rental expense for each of the years ended December 31, 2008 and 2007, was approximately \$371,000 and \$360,000, respectively. Deferred rent was approximately \$737,500 and \$758,000 at December 31, 2008 and 2007, respectively.

7. Employee Pension Plan

The Foundation maintains a qualified 401(k) Profit Sharing Plan (the Plan) for eligible employees. Employees can contribute a percentage of their pretax compensation subject to IRS limitations. The Foundation matches 200% of the employee's deferral, but not more than 6% of the employee's compensation in total. The Foundation's matching contributions were approximately \$183,700 and \$177,500 for the years ended December 31, 2008 and 2007, respectively.

8. Related-Party Transactions

A director and an officer of the Foundation are partners of a law firm that provided legal services to the Foundation. The Foundation incurred legal fees for services provided by the law firm totaling \$500,000 and \$499,000 for the years ended December 31, 2008 and 2007, respectively.

REPORT OF INDEPENDENT AUDITORS

The Board of Directors
W. M. Keck Foundation

We have audited the accompanying statements of financial position of W. M. Keck Foundation (the Foundation) as of December 31, 2008 and 2007, and the related statements of activities and cash flows for the years then ended. These financial statements are the responsibility of the management of W. M. Keck Foundation. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. We were not engaged to perform an audit of the Foundation's internal control over financial reporting. Our audits included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Foundation's internal control over financial reporting. Accordingly, we express no such opinion. An audit also 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.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of W. M. Keck Foundation at December 31, 2008 and 2007, and the changes in its net assets and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States.

Ernst & Young LLP

April 30, 2009

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