The David and Lucile Packard Foundation

Consolidating Financial Statements as of and for the Year Ended December 31, 2007, and Independent Auditors' Report

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INDEPENDENT AUDITORS' REPORT

To the Board of Trustees of
The David and Lucile Packard Foundation
Los Altos, CA

We have audited the accompanying consolidating statement of financial position of The David and Lucile Packard Foundation and its affiliate, the Monterey Bay Aquarium Research Institute (MBARI) (collectively, the "Foundation") as of December 31, 2007, and the related consolidating statements of activities and changes in net assets and of cash flows for the year then ended. These financial statements are the responsibility of the Foundation's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit 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 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, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, such consolidating financial statements present fairly, in all material respects, the financial position of The David and Lucile Packard Foundation and its affiliate, the Monterey Bay Aquarium Research Institute as of December 31, 2007, and the changes in their net assets and their cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note 1 and 7 to the consolidating financial statements, effective December 31, 2007, the Foundation adopted the recognition and disclosure provisions of Financial Accounting Standards Board Statement No. 158, *Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans — an amendment of FASB Statement No. 87, 88, 106 and 132(R),* which changed its method of accounting for its postretirement benefit plans.

Deloitte & Touche LLP

May 9, 2008

THE DAVID AND LUCILE PACKARD FOUNDATION

CONSOLIDATING STATEMENT OF FINANCIAL POSITION
AS OF DECEMBER 31, 2007

	Packard Foundation	MBARI	Eliminations	Total
ASSETS				
CASH AND CASH EQUIVALENTS	$ 1,710,592,000	$ 7,047,000	$ -	$ 1,717,639,000
INVESTMENTS — At fair value	4,703,968,000			4,703,968,000
INTEREST AND DIVIDENDS RECEIVABLE	42,453,000			42,453,000
CONTRIBUTIONS AND OTHER RECEIVABLES		44,031,000	(43,228,000)	803,000
PROGRAM RELATED INVESTMENTS	106,004,000			106,004,000
PROPERTY AND EQUIPMENT — Net	30,928,000	72,963,000		103,891,000
OTHER ASSETS	502,000	2,226,000		2,728,000
TOTAL	$ 6,594,447,000	$ 126,267,000	$ (43,228,000)	$ 6,677,486,000
LIABILITIES AND NET ASSETS				
LIABILITIES:				
Grants payable	$ 125,444,000	$ -	$ (43,228,000)	$ 82,216,000
Accounts payable and other liabilities	6,049,000	22,405,000		28,454,000
Deferred federal excise taxes	36,860,000			36,860,000
Total liabilities	168,353,000	22,405,000	(43,228,000)	147,530,000
NET ASSETS:				
Unrestricted	6,426,094,000	67,046,000	36,816,000	6,529,956,000
Temporarily restricted		36,816,000	(36,816,000)	-
Total net assets	6,426,094,000	103,862,000	-	6,529,956,000
TOTAL	$ 6,594,447,000	$ 126,267,000	$ (43,228,000)	$ 6,677,486,000

See notes to consolidating financial statements.

THE DAVID AND LUCILE PACKARD FOUNDATION

CONSOLIDATING STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS
FOR THE YEAR ENDED DECEMBER 31, 2007

CHANGES IN UNRESTRICTED NET ASSETS	Packard Foundation	MBARI	Eliminations	Total
REVENUE AND INVESTMENT INCOME:				
Dividends	$ 32,968,000	$ -	$ -	$ 32,968,000
Interest	106,096,000	286,000		106,382,000
Federal awards		5,513,000		5,513,000
Rental and other income	389,000	1,495,000		1,884,000
Contributions		15,000		15,000
Net realized and unrealized gains on investments	446,326,000			446,326,000
Investment related expenses	(2,181,000)			(2,181,000)
Net assets released from restrictions		37,000,000	(37,000,000)	-
Revenue and investment income — net before federal excise tax expense	583,598,000	44,309,000	(37,000,000)	590,907,000
Federal excise tax expense	(11,729,000)			(11,729,000)
Revenue and investment income — net	571,869,000	44,309,000	(37,000,000)	579,178,000
EXPENSES:				
Grants awarded	274,433,000		(36,816,000)	237,617,000
Direct charitable expenses	5,433,000	41,313,000		46,746,000
Program operating expenses	20,187,000	7,371,000		27,558,000
Total expenses	300,053,000	48,684,000	(36,816,000)	311,921,000
INCREASE (DECREASE) IN UNRESTRICTED NET ASSETS BEFORE EFFECT OF CHANGE IN ACCOUNTING FOR POSTRETIREMENT BENEFIT PLANS	271,816,000	(4,375,000)	(184,000)	267,257,000
EFFECT OF CHANGE IN ACCOUNTING FOR POSTRETIREMENT BENEFIT PLANS	(1,117,000)	(14,501,000)		(15,618,000)
INCREASE (DECREASE) IN UNRESTRICTED NET ASSETS	270,699,000	(18,876,000)	(184,000)	251,639,000
CHANGES IN TEMPORARILY RESTRICTED NET ASSETS				
CONTRIBUTIONS		36,816,000	(36,816,000)	-
NET ASSETS RELEASED FROM RESTRICTIONS		(37,000,000)	37,000,000	-
(DECREASE) INCREASE IN TEMPORARILY RESTRICTED NET ASSETS	-	(184,000)	184,000	-
INCREASE (DECREASE) IN NET ASSETS	270,699,000	(19,060,000)	-	251,639,000
NET ASSETS:				
Beginning of year	6,155,395,000	122,922,000		6,278,317,000
End of year	$6,426,094,000	$ 103,862,000	$ -	$6,529,956,000

See notes to consolidating financial statements.

THE DAVID AND LUCILE PACKARD FOUNDATION

CONSOLIDATING STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31, 2007

	Packard Foundation	MBARI	Eliminations	Total
CASH FLOWS FROM OPERATING ACTIVITIES:				
Increase (decrease) in net assets	$ 270,699,000	$ (19,060,000)	$ -	$ 251,639,000
Adjustments to reconcile increase (decrease) in net assets to net cash (used in) provided by operating activities:				
Net realized and unrealized gains on investments	(446,326,000)			(446,326,000)
Effect of change in accounting for postretirement benefit plans	1,117,000	14,501,000		15,618,000
Non cash interest	(3,675,000)			(3,675,000)
Depreciation and amortization	1,491,000	9,285,000		10,776,000
Loss on disposal of property and equipment		116,000		116,000
Changes in operating assets and liabilities:				
Interest and dividends receivable	(30,838,000)			(30,838,000)
Contributions and other receivables		(4,194,000)	4,278,000	84,000
Other assets	(14,000)	(356,000)		(370,000)
Grants payable	(33,500,000)		(4,278,000)	(37,778,000)
Accounts payable and other liabilities	(142,000)	4,008,000		3,866,000
Deferred federal excise taxes	5,607,000			5,607,000
Net cash (used in) provided by operating activities	(235,581,000)	4,300,000	-	(231,281,000)
CASH FLOWS FROM INVESTING ACTIVITIES:				
Purchases of investments	(100,000,000)			(100,000,000)
Proceeds from sales and maturities of investments	569,804,000			569,804,000
Principal advances to program-related investment loan recipients	(15,490,000)			(15,490,000)
Principal repayments received from program-related investment loan recipients	25,221,000			25,221,000
Purchases of property and equipment	(682,000)	(6,704,000)		(7,386,000)
Net cash provided by (used in) investing activities	478,853,000	(6,704,000)	-	472,149,000
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	243,272,000	(2,404,000)		240,868,000
CASH AND CASH EQUIVALENTS:				
Beginning of year	1,467,320,000	9,451,000		1,476,771,000
End of year	$1,710,592,000	$ 7,047,000	$ -	$1,717,639,000
SUPPLEMENTAL DISCLOSURES — Cash paid for federal excise and other taxes	$ 6,200,000	$ 14,000	$ -	$ 6,214,000
NONCASH ACTIVITY — Effect of change in accounting for postretirement benefit plans	$ 1,117,000	$ 14,501,000	$ -	$ 15,618,000

See notes to consolidating financial statements.

1. ORGANIZATION

The David and Lucile Packard Foundation is a private foundation established by David and Lucile Packard. The David and Lucile Packard Foundation provides funding primarily to not-for-profit organizations operating predominantly in three program areas that are of particular interest to the Board of Trustees: conservation and science; population; and children, families and communities. The David and Lucile Packard Foundation's primary facilities are located in Los Altos, California.

The Monterey Bay Aquarium Research Institute (MBARI) is a not-for-profit organization founded in 1987 for the purpose of conducting scientific research in marine biology, oceanography, underwater geology, and other kinds of marine research in and around the Monterey Bay and elsewhere, and to educate the scientific community and the general public in regard to such research. MBARI's primary facilities are located in Moss Landing, California.

Certain trustees and officers of The David and Lucile Packard Foundation are also trustees, officers or directors of MBARI. Trustees of The David and Lucile Packard Foundation are not permitted to vote for grants to organizations for which they serve as trustees, officers or directors. The David and Lucile Packard Foundation is MBARI's only member, with the power to elect the Board of Directors.

2. BASIS OF PRESENTATION AND SIGNIFICANT ACCOUNTING POLICIES

Principles of Consolidation — The accompanying consolidating financial statements include the accounts of The David and Lucile Packard Foundation (the "Packard Foundation") and its affiliate, MBARI (collectively, the "Foundation"). Since the Packard Foundation has both control and an economic interest in MBARI, the financial statements of MBARI have been included in the consolidating financial statements of the Foundation. All significant intercompany transactions and balances have been eliminated in the consolidation.

Basis of Presentation — The accompanying consolidating financial statements are presented on the basis of unrestricted, temporarily restricted, and permanently restricted net assets. At December 31, 2007, the Foundation had no permanently restricted net assets.

Use of Estimates — The preparation of consolidating financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions. These estimates and assumptions 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 revenue and expenses during the reporting period. Actual results could differ from those estimates. Significant estimates include the valuation of the Foundation's investments and program related investments, the expected useful lives of property and equipment, the determination of postretirement benefit liabilities, the valuation of deferred federal excise taxes, and the determination of functional expense allocations.

Unrestricted Net Assets — Unrestricted net assets represent unrestricted resources available to support the Foundation's operations and temporarily restricted resources that have become available for use by the Foundation in accordance with the intentions of donors.

Temporarily Restricted Net Assets — Temporarily restricted net assets represent gifts that are limited in use by MBARI in accordance with temporary donor-imposed stipulations. These stipulations may expire with time or may be satisfied and removed by the actions of MBARI according to the terms of the gift. At December 31, 2007, MBARI's temporarily restricted net assets consist entirely of gifts from the Packard Foundation restricted to the subsequent years' operations. Net assets of $37,000,000 were released from restrictions due to the expiration of time restrictions during the year ended December 31, 2007.

Cash and Cash Equivalents — Cash and cash equivalents consist of cash and money market funds. The Foundation considers investments with maturities of three months or less at the time of purchase to be cash equivalents.

Investments — Investments in equity and debt securities are stated at estimated fair value based on quoted market prices. Investments in a limited partnership are carried at estimated fair value. A portion of such value has been estimated by management in the absence of readily determinable fair value. Management estimates are based on information provided by fund managers or the general partners. Investments in real estate held by the Foundation are carried at estimated fair value. Gains or losses that result from market fluctuations are recognized in the period such fluctuations occur. Realized gains or losses resulting from sales of securities are calculated on an adjusted cost basis. Adjusted cost for this purpose is the market value of the security at the beginning of the year, or the cost if purchased during the year. Dividend and interest income are accrued when earned.

Program-Related Investments — Program-related investments at December 31, 2007, include $101,077,000 of loans made to organizations and $4,927,000 of collateral deposits, that serve to guaranty loans made by third-party lenders to organizations as a means of assisting them in achieving charitable objectives. Interest rates on loans receivable range from 0% to 3% as of December 31, 2007, and are generally repayable over five to ten years. Management has reviewed the collectibility of all program-related investments and has determined no allowance is necessary as of December 31, 2007.

Property and Equipment — Property and equipment are stated at cost or at the fair market value at the date of donation and depreciated using the straight-line method over estimated useful lives of 3 to 30 years. Leasehold improvements are amortized over the lesser of the asset's useful life or the lease term. Capitalized costs for self-constructed assets include direct labor and benefits for employees specifically identified with the project. Long-lived assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable.

Grants — Grants are recognized when the unconditional promise to give is approved by the Board of Trustees. Conditional promises to give are recognized as grant expense in the period in which the recipient meets the terms of the condition. There were no conditional promises to give at December 31, 2007.

Revenue Recognition — Contributions are recognized as revenues when they are received or unconditionally pledged. MBARI reports gifts of cash and other assets as restricted support if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the accompanying consolidating statement of activities and changes in net assets as net assets released from restrictions. Temporarily restricted contributions are reported as unrestricted support when the restriction is met in the same period as the contribution is received.

Functional Expense Allocations — The Foundation's operating expenses have been allocated between direct charitable and program operating activities based on employee and occupancy ratios and estimates made by the Foundation's management.

The Packard Foundation's direct charitable expenses pertain to charitable activities for the benefit of others initiated and conducted in whole or in part by the Packard Foundation. Program operating expenses pertain to the general grant making activities of the Packard Foundation, such as reviewing proposals and awarding, monitoring, and evaluating grants.

MBARI's direct charitable expenses pertain to the general purpose of conducting scientific research in marine biology, oceanography, underwater geology, and other kinds of marine research in and around the Monterey Bay. Program operating expenses include costs related to managing MBARI.

Fair Value of Financial Instruments — The carrying amounts of cash and cash equivalents, interest, dividends, contributions and other receivables, grants payable, and accounts payable and other liabilities approximate fair value because of the short maturity of these items. Investments are carried at estimated fair value using methodologies described above. Given the varying interest rates, repayment terms and nature of the program-related investments, it is not practicable to estimate the fair value of such amounts.

Concentrations of Credit Risk — Financial instruments which potentially subject the Foundation to credit risk consist primarily of cash, cash equivalents, investments and program-related investments. The Foundation maintains cash and cash equivalents primarily with major financial institutions. Cash equivalents include investments in money market funds. Such amounts may exceed Federal Deposit Insurance Corporation limits. The Foundation's investments have been placed with major financial institutions. The Foundation's program-related investments are made to a wide variety of grantees and other organizations in which the Foundation's programs are focused. The Foundation closely monitors these program-related investments and has not experienced significant credit losses.

Postretirement Liabilities — Accounts payable and other liabilities include postretirement liabilities related to the Foundation's postretirement benefit plans. Effective December 31, 2007, the Foundation adopted the recognition and disclosure provisions of Financial Accounting Standards Board (FASB) Statement No. 158, *Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans — an amendment of FASB Statements No. 87, 88, 106 and 132(R)*. Statement of Financial Accounting Standard (SFAS) No. 158 required the Foundation to recognize the unfunded status (i.e. the difference between the fair value of the plan assets and the accumulated benefit obligations) of its postretirement benefit plans in the December 31, 2007, consolidating statement of financial position, with a corresponding adjustment to unrestricted net assets.

The adjustment to unrestricted net assets at adoption represents the net unrecognized prior service costs and unrecognized net actuarial gains (losses) which were previously netted against the Plans' unfunded status pursuant to the provisions of SFAS No. 106. These amounts will be subsequently recognized as net period pension cost pursuant to the Packard Foundation's historical accounting policy for amortizing such amounts. Further, any changes in the unfunded status will be recognized through the consolidating statement of activities and changes in net assets in the year the changes occur, prospectively. Those amounts will be subsequently recognized as a component of net periodic pension cost on the same basis as the amounts recognized in unrestricted net assets at adoption of SFAS No. 158 (see Note 7).

Foreign Currency Translation — Assets and liabilities in foreign currency are translated into U.S. dollars at the rate of exchange existing at year-end. Translation gains and losses are included as a component of unrestricted net assets.

Tax-Exempt Status — The Foundation is exempt from federal income tax under Section 501(c)(3) of the Internal Revenue Code and from California franchise and/or income taxes under section 23701(d) of the Revenue and Taxation Code.

New Accounting Pronouncements — In July 2006, FASB Interpretation No. 48, *Accounting for Uncertainty in Income Taxes — an interpretation of SFAS 109* (FIN No. 48) was issued. FIN No. 48 provides guidance on how uncertain tax positions should be recognized, measured, presented and disclosed in the financial statements. FIN No. 48 requires evaluation of tax positions taken in the course of preparing the Foundation's tax returns to determine whether tax positions are "more-likely-than-not" of been sustained by the applicable tax authority. Tax benefits of positions not deemed to meet the more-likely-than-not threshold would be recorded as a tax expense in the current year based on the guidance. Adoption of FIN No. 48 is required for fiscal years beginning after December 15, 2007, and is to be applied for all open tax years as of the effective date. At this time, the Foundation is evaluating the implications of FIN No. 48 and its impact on the consolidating financial statements has not yet been determined.

In September 2006, the FASB issued SFAS No. 157, *Fair Value Measurements* which defines fair value, establishes guidelines for measuring fair value, and expands disclosures regarding fair value measurements. SFAS No. 157 does not require any new fair value measurements but rather eliminates inconsistencies in guidance found in various prior accounting pronouncements. SFAS No. 157 is effective for fiscal years beginning after November 15, 2007. The Foundation is currently evaluating the impact of adopting SFAS No. 157 for its year ending December 31, 2008, but does not expect that its adoption will have a material impact on the Foundation's consolidating financial position, statement of activities, changes in net assets or cash flows.

In February 2007, the FASB issued SFAS No. 159, *The Fair Value Option for Financial Assets and Financial Liabilities — Including an amendment of FASB Statement No 115*. SFAS No 159 gives the Foundation the irrevocable option to carry most financial assets and liabilities at fair value, with changes in fair value recognized in earnings. SFAS No. 159 is effective for fiscal years beginning after November 15, 2007. The Foundation is currently evaluating the impact of adopting SFAS No. 159 for its year ending December 31, 2008, but does not expect that its adoption will have a material impact on the Foundation's consolidating financial position, statement of activities, changes in net assets or cash flows.

3. INVESTMENTS

The estimated fair value of investments as of December 31, 2007, is as follows:

	Packard Foundation
Hewlett-Packard Company — common stock	$ 454,320,000
Agilent Technologies, Inc. — common stock	440,880,000
Other equity securities	3,086,368,000
Bonds and notes	699,316,000
Limited partnership	6,363,000
Real estate	16,721,000
Total	$ 4,703,968,000

At December 31, 2007, investments include 9,000,000 shares of Hewlett-Packard Company common stock and 12,000,000 shares of Agilent Technologies, Inc. common stock. Bonds and notes consist primarily of investment grade instruments issued by the U.S. government and its agencies and by U.S. corporations, U.S. Treasury securities and mortgage-backed securities. All of the Foundation's real estate investments are located in Los Altos, California.

During the year ended December 31, 2007, the Foundation received $2,880,000 in dividends from Hewlett-Packard Company common stock and recognized $106,290,000 in net unrealized gains on Hewlett-Packard Company and Agilent Technologies, Inc. common stock.

4. PROPERTY AND EQUIPMENT

Property and equipment at December 31, 2007, consisted of the following:

	Packard Foundation	MBARI	Total
Land	$ 16,331,000	$ 4,246,000	$ 20,577,000
Buildings	21,724,000	49,859,000	71,583,000
Research vessels		41,185,000	41,185,000
Remotely operative vehicles		18,576,000	18,576,000
Office furniture and equipment	6,231,000	21,122,000	27,353,000
Capital projects in progress		18,788,000	18,788,000
Total	44,286,000	153,776,000	198,062,000
Accumulated depreciation and amortization	(13,358,000)	(80,813,000)	(94,171,000)
Property and equipment — net	$ 30,928,000	$ 72,963,000	$ 103,891,000

5. GRANTS

The Packard Foundation ordinarily makes grants to organizations that qualify as public charities under the Internal Revenue Code. When distributions are made to nonqualifying organizations, the Packard Foundation assumes the responsibility for the ultimate charitable use.

Grants awarded but unpaid are payable at December 31, 2007, as follows:

	Packard Foundation
Less than 1 year	$ 88,970,000
1 to 5 years	36,474,000
Total	$ 125,444,000

Included in grants payable in 2007 is $43,228,000 payable to MBARI.

6. FEDERAL EXCISE TAXES AND DISTRIBUTION REQUIREMENTS

Federal Excise Taxes — In accordance with the applicable provisions of the Internal Revenue Code, the Packard Foundation is a private foundation and qualifies as a tax-exempt organization. Private foundations are liable for an excise tax of 2% (1% if minimum payout requirements prescribed by the Internal Revenue Code (IRC) are met) on net investment income, excluding unrealized gains, as defined. The Packard Foundation was subject to the 2% rate for the year ended December 31, 2007. Deferred excise taxes arise primarily from unrealized tax basis gains on investments and are calculated at the effective rate expected to be paid by the Packard Foundation.

The provision for current and deferred federal excise taxes for the year ended December 31, 2007, was as follows:

	Packard Foundation
Current	$ 6,122,000
Deferred	5,607,000
Total	$ 11,729,000

Distribution Requirements — The Packard Foundation is subject to distribution requirements of the IRC. Accordingly, it must distribute within one year after the end of each fiscal year, 5% of the fair value of its investment assets, as defined. The investments that can be included for the 5% distribution requirement are based on average monthly balances and are exclusive of those investments deemed to be held for charitable activities or program-related investments. In determining qualifying distributions, grant payments are considered on a cash basis and certain expenses are considered as qualifying distributions. The Packard Foundation has complied with the distribution requirements through December 31, 2007.

MBARI is a private operating foundation that makes its required charitable expenditures by sponsoring and managing its own programs. MBARI's status as an operating foundation is determined annually by satisfying the income test and certain other numerical tests. Generally, a private operating foundation must make qualifying distributions of 4.25% of the average fair market value of the foundation's investment assets directly for the active conduct of the activities for which it is organized and operating. MBARI has met the requirements for private operating foundation status through December 31, 2007.

7. RETIREMENT PLANS

The Packard Foundation Retirement Plans are as follows:

The Packard Foundation sponsors defined contribution plans under both IRC Section 401(a) and 403(b). The plans cover all employees who meet eligibility requirements. Contributions to the 401(a) plan are made by the Packard Foundation at 15% of annual employee salary. Under the 403(b) plan and subject to statutory limits, employees make voluntary deferred salary contributions to the plan. Total expense related to such plans was $1,202,000 during 2007. As of December 31, 2007, $26,000 has been accrued related to the plans.

The Packard Foundation also has a voluntary salary deferral plan for highly compensated employees under IRC Section 457(b). Employees with a base salary of $175,000 and above are eligible to participate in the plan. As of December 31, 2007, $211,000 has been deferred based on elections made by the participants.

The Packard Foundation has a Nonqualified Benefits Restoration Plan (the "Restoration Plan") primarily for the purpose of providing deferred compensation for a select group of management or highly compensated employees to accumulate retirement assets. The Restoration Plan allows the Packard Foundation to make contributions to a participant's account equal to the amount in excess of IRC limits that the participant would otherwise have been eligible for in accordance with the Packard Foundation's 401(a) plan. The Restoration Plan is intended to be an unfunded plan although voluntary contributions are made to a grantor trust. Total expenses related to the Restoration Plan were $52,000 during 2007.

The Packard Foundation has a contributory retiree medical program (the "Plan") that will cover substantially all employees who meet eligibility requirements. The Packard Foundation will pay from 55% to 75% of the insurance premium for eligible retired employees with a minimum age of 55 and the combination of years of service and age equal to 65 or greater. This Plan can be amended at any time upon Board approval.

On December 31, 2007, the Packard Foundation adopted the recognition and disclosure provisions of SFAS No. 158 (see Note 1). The incremental effects of adopting the provisions of SFAS No. 158 on the Packard Foundation's consolidating statement of position at December 31, 2007, are as follows:

	Postretirement Plan		
	Before Application of SFAS No. 158	**Increase (Decrease)**	**After Application of SFAS No. 158**
Accounts payable and other liabilities	$ 4,932,000	$ 1,117,000	$ 6,049,000
Unrestricted net assets	$ 6,427,211,000	$ (1,117,000)	$ 6,426,094,000

The following information presents the Plan's unfunded status and amounts recognized in the consolidating statement of financial position as of December 31, 2007, based on a measurement date of December 31, 2007:

Benefit obligation	$ (3,968,000)
Fair value of plan assets	
Unfunded status	$ (3,968,000)
Amounts recognized in the consolidating statement of financial position — accounts payable and other liablities	$ (3,968,000)

Amounts recognized in unrestricted net assets at December 31, 2007, were as follows:

Prior-year service cost	$ 2,475,000
Net gain	(1,358,000)
Total	$ 1,117,000

The Packard Foundation's contributions to the Plan and benefit payments made from the Plan for the year ended December 31, 2007, are as follows:

Employer contributions	$ 32,000
Benefit payments	32,000

Amounts reflected in the consolidating statement of activities and changes in net assets for the year ended December 31, 2007, are as follows:

Net periodic pension cost	$ 740,000

A weighted-average discount rate of 6.75% was used in determining the accumulated postretirement benefit obligation as of December 31, 2007, and in determining the net periodic cost for the year ended December 31, 2007.

The Plan is fully insured and is funded on a pay-as-you-go basis. The estimated minimum benefit payments that reflect expected future service, as appropriate, to be paid by the Packard Foundation are as follows:

2008	$ 66,000
2009	105,000
2010	121,000
2011	141,000
2012	170,000
2013–2017	1,146,000

The annual rate of increase in the per capita cost of medical benefits (i.e., health care cost trend rate) was assumed to be 11% in 2007, declining by 1% per year through 2013, and then remaining at 5% thereafter. A 1% point increase or decrease in this rate would increase or decrease the accumulated postretirement benefit obligation by $729,000 and $586,000, and the service cost component of net periodic postretirement benefit cost by $136,000 and $108,000, respectively, for the year ended December 31, 2007.

MBARI Retirement Plans are as follows:

MBARI sponsors defined contribution plans under both IRC Section 401(a) and 403(b). The plans cover all employees who meet eligibility requirements. Contributions to the 401(a) plan are made by MBARI at 10% of annual employee salary. Under the 403(b) plan and subject to statutory limits, employees make voluntary deferred salary contributions to the plan. Total expense related to such plans was $1,801,000 during 2007.

MBARI sponsors a Section 457(b) Qualified Eligible Salary Deferral Plan (the “Salary Deferral Plan”) primarily for the purpose of providing deferred compensation for a select group of management or highly compensated employees to accumulate retirement assets. The Salary Deferral Plan enables participants to defer income on a pre-tax basis and is not funded. At December 31, 2007, MBARI held other assets of $600,000 that are included in prepaid and other, which are designated by MBARI to pay future Salary Deferral Plan and Compensation Restoration Plan liabilities of $600,000, that are included in accounts payable and other liabilities.

MBARI also sponsors a Nonqualified Deferred Compensation Restoration Plan (the “Compensation Restoration Plan”) primarily for the purpose of providing deferred compensation for a select group of management or highly compensated employees to accumulate retirement assets. The Compensation Restoration Plan provides for MBARI to make contributions to a participant’s account equal to the amount in excess of IRC limits that the participant would otherwise have been eligible for in accordance with MBARI’s 401(a) plan. The Compensation Restoration Plan is intended to be an unfunded plan. At December 31, 2007, MBARI held other assets of $21,000 that are included in prepaid and other, which are designated by MBARI to pay future Deferred Compensation Restoration Plan liabilities of $21,000, that are included in accounts payable and other liabilities.

Effective July 1, 2007, MBARI adopted a contributory retiree health insurance program (the "MBARI Plan") which covers substantially all employees who meet the eligibility requirements. MBARI will pay 50% of the insurance premium for eligible retired employees with a minimum age of 55 and the combination of years of service and age equal to 65 or greater. The MBARI Plan can be amended at any time upon Board approval.

On December 31, 2007, MBARI adopted the recognition and disclosure provisions of SFAS No. 158 (see Note 1). The incremental effects of adopting the provisions of SFAS No. 158 on MBARI's consolidating statement of position at December 31, 2007, are as follows:

	Postretirement Plan		
	Before Application of SFAS No. 158	**Increase (Decrease)**	**After Application of SFAS No. 158**
Accounts payable and other liabilities	$ 7,904,000	$ 14,501,000	$22,405,000
Unrestricted net assets	$81,547,000	$(14,501,000)	$67,046,000

The following information presents the MBARI Plan's unfunded status and amount recognized in the consolidating statement of financial position as of December 31, 2007, based on a measurement date of December 31, 2007:

Benefit obligation	$ (17,052,000)
Fair value of plan assets	
Unfunded status	$ (17,052,000)
Amount recognized in the consolidating statement of financial position — accounts payable and other liabilities	$ (17,052,000)

Amounts recognized in unrestricted net assets at December 31, 2007, were as follows:

Prior-year service cost	$14,501,000
Net gain	
Total	$14,501,000

MBARI made no contributions to, nor were any benefit payments made from, the MBARI Plan for the year ended December 31, 2007.

Amounts reflected in the consolidating statement of activities and changes in net assets for the year ended December 31, 2007, are as follows:

Net periodic pension cost	$ 2,553,000

A weighted-average discount rate of 5.75% was used in determining the accumulated postretirement benefit obligation as of December 31, 2007, and in determining the net periodic cost for the year ended December 31, 2007.

The Plan is fully insured, and is funded on a pay-as-you-go basis. The estimated minimum benefit payments that reflect expected future service, as appropriate, to be paid by MBARI are as follows:

2008	$ 62,000
2009	87,000
2010	125,000
2011	193,000
2012	264,000
2013–2017	2,858,000

The annual rate of increase in the per capita cost of medical benefits (i.e., health care cost trend rate) was assumed to be 12% in 2007, declining by 1% per year through 2014, and then remaining at 5% thereafter. A 1% point increase or decrease in this rate would increase or decrease the accumulated postretirement benefit obligation by $2,693,000 and $1,724,000, and the service cost component of net periodic postretirement benefit cost by $273,000 and $211,000, respectively, for the year ended December 31, 2007.

8. COMMITMENTS AND CONTINGENT LIABILITIES

The Foundation has non-cancelable operating leases for certain land, facilities, furniture and equipment. The terms of these leases expire in 2008 through 2039, with certain options to renew. Certain rental rates are subject to adjustment based on increases in the consumer price index. Future minimum lease payments under noncancelable operating leases at December 31, 2007, are as follows:

Years Ending December 31	Packard Foundation	MBARI	Total
2008	$ 20,000	$ 113,000	$ 133,000
2009	20,000	22,000	42,000
2010	13,000	22,000	35,000
2011	5,000	23,000	28,000
2012		24,000	24,000
Thereafter		624,000	624,000
Total	$ 58,000	$ 828,000	$ 886,000

Rent expense for the year ended December 31, 2007, was $159,000.

The Packard Foundation has entered into various agreements to act as a guarantor for obligations of third-party organizations as a means of assisting these organizations in achieving charitable objectives. The values of guarantees that were entered into or modified subsequent to December 31, 2002, are recorded as obligations as required by FASB Interpretation No. 45, *Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others.*

Prior to December 31, 2002, the Packard Foundation guaranteed bonds that, at original issuance, amounted to approximately $9,429,000. The Packard Foundation would be required to perform under these guarantees should the beneficiaries be unable to meet their obligations. These guarantees have amortized to a total outstanding obligation of approximately $5,779,000 as of December 31, 2007, and the guarantees will be further reduced by scheduled payments. These guarantees expire between July 2009 and July 2012. The Packard Foundation has not recorded any liability for its obligations under the guarantees because it believes that the likelihood of making any payments is not probable.

During 2003, the Packard Foundation guaranteed a letter of credit on a $10,000,000 tax-exempt bond issuance and would be obligated under the guarantee for up to approximately $10,148,000 if the beneficiary was unable to meet its obligation. The guarantee expires on September 30, 2023, and is reduced by scheduled payments and is collateralized by the operations and assets, as defined, of the beneficiary. Based on the fair value of the collateral and the Packard Foundation's estimate of expected net cash flows, the fair value of the guarantee was determined to be immaterial and no liability has been recorded for the Packard Foundation's obligation under the agreement.

During 2005, the Packard Foundation provided an unsecured letter of credit of $250,000 to a third-party organization. The letter of credit expires November 30, 2010. If borrowed upon, the interest rate would be 1%. Based on the Packard Foundation's estimate of expected net cash flows, the fair value of the guarantee was determined to be immaterial and no liability has been recorded for the Packard Foundation's obligation under the agreement.

As of December 31, 2007, MBARI has $500,000 on deposit as collateral to guarantee that MBARI will comply with the provisions of a land lease entered into with the State of California, California State Lands Commission to obtain right-of-way use needed for the construction of the MARS Project. Such amount is included in other assets in the consolidating statement of financial position.

MBARI derives a portion of its revenues from various federally funded programs that are subject to review and audit by governmental oversight agencies. MBARI management believes that MBARI is in material compliance with the standards set forth by the federal governmental agencies and that the outcome of reviews and audits conducted by such agencies will not have a significant effect on the financial position or results of activities of MBARI.

9. MINIMUM FUTURE RENTAL REVENUES

MBARI leases land and facilities to others under noncancelable leases with lease terms expiring in 2008 through 2010, with options to renew. Certain rental rates are subject to annual increases ranging up to 3%.

Minimum future rental receipts from operating leases having noncancelable lease terms in excess of one year are approximately as follows:

Years Ending December 31	MBARI
2008	$ 123,000
2009	115,000
2010	29,000
Total	$ 267,000

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