

Application for Recognition of Exemption Under Section 501(c)(3) of the Internal Revenue Code

Note: If exempt status is approved, this application will be open for public inspection.

Read the instructions for each Part carefully.

A User Fee must be attached to this application.

If the required information and appropriate documents are not submitted along with Form 8718 (with payment of the appropriate user fee), the application may be returned to you.

Complete the Procedural Checklist on page 8 of the instructions.

Part I Identification of Applicant

1a Full name of organization (as shown in organizing document) Cystic Fibrosis Foundation Therapeutics, Inc.		2 Employer identification number (EIN) (If none, see page 3 of the Specific Instructions). : applied for
1b c/o Name (if applicable) Dr. Robert J. Beall, President		3 Name and telephone number of person to be contacted if additional information is needed (202) 424-7518 Kenneth Schaner
1c Address (number and street) 6931 Arlington Road	Room/Suite 200	
1d City, town, or post office, state, and ZIP + 4. If you have a foreign address, see Specific Instructions for Part I, page 3. Bethesda, MD 20814		4 Month the annual accounting period ends <p style="text-align: center;">December</p>
1e Web site address n/a		5 Date incorporated or formed <p style="text-align: center;">7/7/00</p>
7 Did the organization previously apply for recognition of exemption under this Code section or under any other section of the Code? If "Yes," attach an explanation.		6 Check here if applying under section: a <input type="checkbox"/> 501(e) b <input type="checkbox"/> 501(f) c <input type="checkbox"/> 501(k) d <input type="checkbox"/> 501(n)
8 Is the organization required to file Form 990 (or Form 990-EZ)? If "No," attach an explanation (see page 3 of the Specific Instructions).		<input type="checkbox"/> N/A <input checked="" type="checkbox"/> Yes <input type="checkbox"/> No
9 Has the organization filed Federal income tax returns or exempt organization information returns? If "Yes," state the form numbers, years filed, and Internal Revenue office where filed.		<input type="checkbox"/> Yes <input checked="" type="checkbox"/> No

10 Check the box for the type of organization. ATTACH A CONFORMED COPY OF THE CORRESPONDING ORGANIZING DOCUMENTS TO THE APPLICATION BEFORE MAILING. (See **Specific Instructions** for Part I, Line 10, on page 3.) See also Pub. 557 for examples of organizational documents.)

- a Corporation—Attach a copy of the Articles of Incorporation (including amendments and restatements) showing approval by the appropriate state official; also include a copy of the bylaws.
- b Trust— Attach a copy of the Trust Indenture or Agreement, including all appropriate signatures and dates.
- c Association— Attach a copy of the Articles of Association, Constitution, or other creating document, with a declaration (see instructions) or other evidence the organization was formed by adoption of the document by more than one person; also include a copy of the bylaws.

If the organization is a corporation or an unincorporated association that has not yet adopted bylaws, check here

I declare under the penalties of perjury that I am authorized to sign this application on behalf of the above organization and that I have examined this application, including the accompanying schedules and attachments, and to the best of my knowledge it is true, correct, and complete.

Please Sign Here _____
 (Signature) Robert J. Beall, Ph.D. President 9/15/00
 (Type or print name and title or authority of signer) (Date)

Part II Activities and Operational Information

- 1 Provide a detailed narrative description of all the activities of the organization—past, present, and planned. **Do not merely refer to or repeat the language in the organizational document.** List each activity separately in the order of importance based on the relative time and other resources devoted to the activity. Indicate the percentage of time for each activity. Each description should include, as a minimum, the following: **(a)** a detailed description of the activity including its purpose and how each activity furthers your exempt purpose; **(b)** when the activity was or will be initiated; and **(c)** where and by whom the activity will be conducted.

During the 45 year history of the Cystic Fibrosis Foundation (the "Foundation"), the Foundation has provided approximately \$333 million of grants to educational and research organizations for the purpose of seeking a cure for or mitigating the effects of cystic fibrosis. In recent years, however, it has become clear that a more proactive program of medical research is required especially because of the orphan nature of the disease. The Foundation's recent contract with Aurora Biosciences Corporation (see press release attached hereto as Exhibit 1), which contract has been assigned to CFFTI, and CFFTI contracts with Affymetrix, Inc. (to develop a cystic fibrosis custom probe array for distribution to research institutions) and with the University of North Carolina (see press release attached hereto as Exhibit 2) are examples of such proactive programs that it is hoped will speed the way to invention of new drugs and the eventual cure of cystic fibrosis. The formation of CFFTI is a further effort to improve the efficacy of the Foundation's research program by concentrating the program in a separate organization and bringing to the CFFTI Board medical research expertise that will assist CFFTI in research programs.

- 2 What are or will be the organization's sources of financial support? List in order of size.

One hundred percent of CFFTI's support will come from grants from the Foundation.

- 3 Describe the organization's fundraising program, both actual and planned, and explain to what extent it has been put into effect. Include details of fundraising activities such as selective mailings, formation of fundraising committees, use of volunteers or professional fundraisers, etc. Attach representative copies of solicitations for financial support.
CFFTI will not engage in fundraising efforts of any kind. All of its support will come from the Foundation.

Part II Activities and Operational Information (Continued)

4 Give the following information about the organization's governing body:

a Names, addresses, and titles of officers, directors, trustees, etc.

b Annual compensation

See attachment

n/a except as indicated

c Do any of the above persons serve as members of the governing body by reason of being public officials or being appointed by public officials? Yes No
If "Yes," name those persons and explain the basis of their selection or appointment.

d Are any members of the organization's governing body "disqualified persons" with respect to the organization (other than by reason of being a member of the governing body) or do any of the members have either a business or family relationship with "disqualified persons"? (See **Specific Instructions** for Part II, Line 4d, on page 3.) Yes No
If "Yes," explain.

In addition to serving on the organization's Board, Dr. Robert Beall will be the organization's President.

5 Does the organization control or is it controlled by any other organization? Yes No

Is the organization the outgrowth of (or successor to) another organization, or does it have a special relationship with another organization by reason of interlocking directorates or other factors? Yes No
If either of these questions is answered "Yes," explain.

CFFTI is applying as a section 501(a)(3) organization. As such, by definition, it is required to have such a relationship and as discussed subsequently, it has such a relationship with the Cystic Fibrosis Foundation.

6 Does or will the organization directly or indirectly engage in any of the following transactions with any political organization or other exempt organization (other than a 501(c)(3) organization): (a) grants; (b) purchases or sales of assets; (c) rental of facilities or equipment; (d) loans or loan guarantees; (e) reimbursement arrangements; (f) performance of services, membership, or fundraising solicitations; or (g) sharing of facilities, equipment, mailing lists or other assets, or paid employees? Yes No
If "Yes," explain fully and identify the other organizations involved.

7 Is the organization financially accountable to any other organization? Yes No
If "Yes," explain and identify the other organization. Include details concerning accountability or attach copies of reports if any have been submitted.

The Cystic Fibrosis Foundation will approve the CFFTI budget.

Part II Activities and Operational Information (Continued)

8 What assets does the organization have that are used in the performance of its exempt function? (Do not include property producing investment income.) If any assets are not fully operational, explain their status, what additional steps remain to be completed, and when such final steps will be taken. If none, indicate "N/A."

CFFTI will be fully supported by the Foundation.

9 Will the organization be the beneficiary of tax-exempt bond financing within the next 2 years? Yes No

10a Will any of the organization's facilities or operations be managed by another organization or individual under a contractual agreement? Yes No

b Is the organization a party to any leases? Yes No

If either of these questions is answered "Yes," attach a copy of the contracts and explain the relationship between the applicant and the other parties. Yes No

11 Is the organization a membership organization? Yes No
If "Yes," complete the following:

a Describe the organization's membership requirements and attach a schedule of membership fees and dues.

b Describe the organization's present and proposed efforts to attract members and attach a copy of any descriptive literature or promotional material used for this purpose.

c What benefits do (or will) the members receive in exchange for their payment of dues?

12a If the organization provides benefits, services, or products, are the recipients required, or will they be required, to pay for them? N/A Yes No
If "Yes," explain how the charges are determined and attach a copy of the current fee schedule.

If CFFTI's research program results in the invention of drugs for the treatment of cystic fibrosis, CFFTI will likely retain a royalty interest which income will be used to finance further medical research.

b Does or will the organization limit its benefits, services, or products to specific individuals or classes of individuals? N/A Yes No
If "Yes," explain how the recipients or beneficiaries are or will be selected.

13 Does or will the organization attempt to influence legislation? Yes No
If "Yes," explain. Also, give an estimate of the percentage of the organization's time and funds that it devotes or plans to devote to this activity.

14 Does or will the organization intervene in any way in political campaigns, including the publication or distribution of statements? Yes No
If "Yes," explain fully.

Part III Technical Requirements

- 1 Are you filing Form 1023 within 15 months from the end of the month in which your organization was created or formed? Yes No
If you answer "Yes," do not answer questions on lines 2 through 6 below.
-
- 2 If one of the exceptions to the 15-month filing requirement shown below applies, check the appropriate box and proceed to question 7.
Exceptions—You are not required to file an exemption application within 15 months if the organization:
- a Is a church, interchurch organization of local units of a church, a convention or association of churches, or an integrated auxiliary of a church. See **Specific Instructions**, Line 2a, on page 4;
- b Is not a private foundation and normally has gross receipts of not more than \$5,000 in each tax year; or
- c Is a subordinate organization covered by a group exemption letter, but only if the parent or supervisory organization timely submitted a notice covering the subordinate.
-
- 3 If the organization does not meet any of the exceptions on line 2 above, are you filing Form 1023 within 27 months from the end of the month in which the organization was created or formed? Yes No
If "Yes," your organization qualifies under Regulation section 301.9100-2, for an automatic 12-month extension of the 15-month filing requirement. Do not answer questions 4 through 6.
If "No," answer question 4.
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- 4 If you answer "No" to question 3, does the organization wish to request an extension of time to apply under the "reasonable action and good faith" and the "no prejudice to the interest of the government" requirements of Regulations section 301.9100-3? Yes No
If "Yes," give the reasons for not filing this application within the 27-month period described in question 3. See **Specific Instructions**, Part III, Line 4, before completing this item. Do not answer questions 5 and 6.
If "No," answer questions 5 and 6.
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- 5 If you answer "No" to question 4, your organization's qualification as a section 501(c)(3) organization can be recognized only from the date this application is filed. Therefore, do you want us to consider the application as a request for recognition of exemption as a section 501(c)(3) organization from the date the application is received and not retroactively to the date the organization was created or formed? . . . Yes No
-
- 6 If you answer "Yes" to question 5 above and wish to request recognition of section 501(c)(4) status for the period beginning with the date the organization was formed and ending with the date the Form 1023 application was received (the effective date of the organization's section 501(c)(3) status), check here and attach a completed page 1 of Form 1024 to this application.

Part III Technical Requirements (Continued)

7 Is the organization a private foundation?

- Yes (Answer question 8.)
 No (Answer question 9 and proceed as instructed.)

8 If you answer "Yes" to question 7, does the organization claim to be a private operating foundation?

- Yes (Complete Schedule E.)
 No

After answering question 8 on this line, go to line 14 on page 7.

9 If you answer "No" to question 7, indicate the public charity classification the organization is requesting by checking the box below that most appropriately applies:

THE ORGANIZATION IS NOT A PRIVATE FOUNDATION BECAUSE IT QUALIFIES:

- | | | |
|---|--|--|
| a | <input type="checkbox"/> As a church or a convention or association of churches (CHURCHES MUST COMPLETE SCHEDULE A.) | Sections 509(a)(1) and 170(b)(1)(A)(i) |
| b | <input type="checkbox"/> As a school (MUST COMPLETE SCHEDULE B.) | Sections 509(a)(1) and 170(b)(1)(A)(ii) |
| c | <input type="checkbox"/> As a hospital or a cooperative hospital service organization, or a medical research organization operated in conjunction with a hospital (These organizations, except for hospital service organizations, MUST COMPLETE SCHEDULE C.) | Sections 509(a)(1) and 170(b)(1)(A)(iii) |
| d | <input type="checkbox"/> As a governmental unit described in section 170(c)(1). | Sections 509(a)(1) and 170(b)(1)(A)(v) |
| e | <input checked="" type="checkbox"/> As being operated solely for the benefit of, or in connection with, one or more of the organizations described in a through d, g, h, or i (MUST COMPLETE SCHEDULE D.) | Section 509(a)(3) |
| f | <input type="checkbox"/> As being organized and operated exclusively for testing for public safety. | Section 509(a)(4) |
| g | <input type="checkbox"/> As being operated for the benefit of a college or university that is owned or operated by a governmental unit. | Sections 509(a)(1) and 170(b)(1)(A)(iv) |
| h | <input type="checkbox"/> As receiving a substantial part of its support in the form of contributions from publicly supported organizations, from a governmental unit, or from the general public. | Sections 509(a)(1) and 170(b)(1)(A)(vi) |
| i | <input type="checkbox"/> As normally receiving not more than one-third of its support from gross investment income and more than one-third of its support from contributions, membership fees, and gross receipts from activities related to its exempt functions (subject to certain exceptions). | Section 509(a)(2) |
| j | <input type="checkbox"/> The organization is a publicly supported organization but is not sure whether it meets the public support test of h or i. The organization would like the IRS to decide the proper classification. | Sections 509(a)(1) and 170(b)(1)(A)(vi) or Section 509(a)(2) |

If you checked one of the boxes a through f in question 9, go to question 14. If you checked box g in question 9, go to questions 11 and 12. If you checked box h, i, or j, in question 9, go to question 10.

Part III Technical Requirements (Continued)

10 If you checked box **h, i, or j** in question 9, has the organization completed a tax year of at least 8 months?
 Yes—Indicate whether you are requesting:
 A definitive ruling. (Answer questions 11 through 14.)
 An advance ruling. (Answer questions 11 and 14 and attach two Forms 872-C completed and signed.)
 No—You must request an advance ruling by completing and signing two Forms 872-C and attaching them to the Form 1023.

11 If the organization received any unusual grants during any of the tax years shown in Part IV-A, **Statement of Revenue and Expenses**, attach a list for each year showing the name of the contributor; the date and the amount of the grant; and a brief description of the nature of the grant.
 n/a

12 If you are requesting a definitive ruling under section 170(b)(1)(A)(iv) or (vi), check here and:
a Enter 2% of line 8, column (e), Total, of Part IV-A _____
b Attach a list showing the name and amount contributed by each person (other than a governmental unit or "publicly supported" organization) whose total gifts, grants, contributions, etc., were more than the amount entered on line **12a** above.

13 If you are requesting a definitive ruling under section 509(a)(2), check here and:
a For each of the years included on lines 1, 2, and 9 of Part IV-A, attach a list showing the name of and amount received from each "disqualified person." (For a definition of "disqualified person," see **Specific Instructions**, Part II, Line 4d, on page 3.)
b For each of the years included on line 9 of Part IV-A, attach a list showing the name of and amount received from each payer (other than a "disqualified person") whose payments to the organization were more than \$5,000. For this purpose, "payer" includes, but is not limited to, any organization described in sections 170(b)(1)(A)(i) through (vi) and any governmental agency or bureau.

14 Indicate if your organization is one of the following. If so, complete the required schedule. (Submit only those schedules that apply to your organization. Do not submit blank schedules.)	Yes	No	If "Yes," complete Schedule:
Is the organization a church?		✓	A
Is the organization, or any part of it, a school?		✓	B
Is the organization, or any part of it, a hospital or medical research organization?		✓	C
Is the organization a section 509(a)(3) supporting organization?	✓		D
Is the organization a private operating foundation?		✓	E
Is the organization, or any part of it, a home for the aged or handicapped?		✓	F
Is the organization, or any part of it, a child care organization?		✓	G
Does the organization provide or administer any scholarship benefits, student aid, etc.?		✓	H
Has the organization taken over, or will it take over, the facilities of a "for profit" institution?		✓	I

Part IV Financial Data

Complete the financial statements for the current year and for each of the 3 years immediately before it. If in existence less than 4 years, complete the statements for each year in existence. If in existence less than 1 year, also provide proposed budgets for the 2 years following the current year.

A. Statement of Revenue and Expenses

	Current tax year	3 prior tax years or proposed budget for 2 years			(e) TOTAL
	(a) From..... to year 1 *	(b) year 2	(c) year 3	(d)	
Revenue					
1 Gifts, grants, and contributions received (not including unusual grants—see page 6 of the instructions).	28,119,724	31,798,825	34,965,837		See Exhibit 3
2 Membership fees received					
3 Gross investment income (see instructions for definition)					
4 Net income from organization's unrelated business activities not included on line 3					
5 Tax revenues levied for and either paid to or spent on behalf of the organization					
6 Value of services or facilities furnished by a governmental unit to the organization without charge (not including the value of services or facilities generally furnished the public without charge)					
7 Other income (not including gain or loss from sale of capital assets) (attach schedule)	800,000				See Exhibit 3
8 Total (add lines 1 through 7)	28,919,724	31,798,825	34,965,837		
9 Gross receipts from admissions, sales of merchandise or services, or furnishing of facilities in any activity that is not an unrelated business within the meaning of section 513. Include related cost of sales on line 22					
10 Total (add lines 8 and 9)					
11 Gain or loss from sale of capital assets (attach schedule)					
12 Unusual grants					
13 Total revenue (add lines 10 through 12)					
Expenses					
14 Fundraising expenses					
15 Contributions, gifts, grants, and similar amounts paid (attach schedule)	26,981,835	29,680,019	32,648,020	See Exhibit 3	
16 Disbursements to or for benefit of members (attach schedule)					
17 Compensation of officers, directors, and trustees (attach schedule)	128,712	128,712	128,712	See Exhibit 3	
18 Other salaries and wages	443,181	487,499	536,249	See Exhibit 3	
19 Interest					
20 Occupancy (rent, utilities, etc.)	22,602	24,862	27,348	See Exhibit 3	
21 Depreciation and depletion	78,049	85,854	94,439	See Exhibit 3	
22 Other (attach schedule)	1,265,345	1,391,880	1,531,067	See Exhibit 3	
23 Total expenses (add lines 14 through 22)	28,919,724	31,798,825	34,965,837		
24 Excess of revenue over expenses (line 13 minus line 23)	0	0	0		

*Annualized

Part IV Financial Data (Continued)

B. Balance Sheet (at the end of the period shown)

Current tax year
Date 9/1/00

Assets

1	Cash . . . and cash equivalents	1	854,892
2	Accounts receivable, net	2	
3	Inventories	3	
4	Bonds and notes receivable (attach schedule)	4	
5	Corporate stocks (attach schedule)	5	
6	Mortgage loans (attach schedule)	6	
7	Other investments (attach schedule)	7	
8	Depreciable and depletable assets (attach schedule)	8	
9	Land	9	
10	Other assets (attach schedule)	10	
11	Total assets (add lines 1 through 10)	11	854,892

Liabilities

12	Accounts payable	12	
13	Contributions, gifts, grants, etc., payable	13	12,336,979
14	Mortgages and notes payable (attach schedule)	14	
15	Other liabilities (attach schedule)	15	
16	Total liabilities (add lines 12 through 15)	16	

Fund Balances or Net Assets

17	Total fund balances or net assets	17	(11,482,087)
18	Total liabilities and fund balances or net assets (add line 16 and line 17)	18	854,892

If there has been any substantial change in any aspect of the organization's financial activities since the end of the period shown above, check the box and attach a detailed explanation

Schedule D. Section 509(a)(3) Supporting Organizations

1a Organizations supported by the applicant organization: Name and address of supported organization	b Has the supported organization received a ruling or determination letter that it is not a private foundation by reason of section 509(a)(1) or (2)?
Cystic Fibrosis Foundation 6931 Arlington Road, Bethesda, MD 20814	<input checked="" type="checkbox"/> Yes <input type="checkbox"/> No
.....	<input type="checkbox"/> Yes <input type="checkbox"/> No
.....	<input type="checkbox"/> Yes <input type="checkbox"/> No
.....	<input type="checkbox"/> Yes <input type="checkbox"/> No
.....	<input type="checkbox"/> Yes <input type="checkbox"/> No

c If "No" for any of the organizations listed in **1a**, explain.

2 Does the supported organization have tax-exempt status under section 501(c)(4), 501(c)(5), or 501(c)(6)? **Yes** **No**
 If "Yes," attach: **(a)** a copy of its ruling or determination letter, and **(b)** an analysis of its revenue for the current year and the preceding 3 years. (Provide the financial data using the formats in Part IV-A (lines 1-13) and Part III (lines 11, 12, and 13).)

3 Does your organization's governing document indicate that the majority of its governing board is elected or appointed by the supported organizations? **Yes** **No**
 If "Yes," skip to line 9.
 If "No," you must answer the questions on lines 4 through 9.

4 Does your organization's governing document indicate the common supervision or control that it and the supported organizations share? **Yes** **No**
 If "Yes," give the article and paragraph numbers. If "No," explain.

5 To what extent do the supported organizations have a significant voice in your organization's investment policies, in the making and timing of grants, and in otherwise directing the use of your organization's income or assets?

6 Does the mentioning of the supported organizations in your organization's governing instrument make it a trust that the supported organizations can enforce under state law and compel to make an accounting? **Yes** **No**
 If "Yes," explain.

7a What percentage of your organization's income does it pay to each supported organization?

b What is the total annual income of each supported organization?

c How much does your organization contribute annually to each supported organization?

Schedule D. Section 509(a)(3) Supporting Organizations (Continued)

8 To what extent does your organization conduct activities that would otherwise be carried on by the supported organizations? Explain why these activities would otherwise be carried on by the supported organizations.
As explained previously, the Foundation has conducted medical research activities, generally through grants to research institutions, since its formation in 1955. In recent years, these activities have become more proactive and the Foundation decided that these activities could be more effective if they were concentrated in a separate entity.

9 Is the applicant organization controlled directly or indirectly by one or more "disqualified persons" (other than one who is a disqualified person solely because he or she is a manager) or by an organization that is not described in section 509(a)(1) or (2)? Yes No
 If "Yes," explain.

Instructions

For an explanation of the types of organizations defined in section 509(a)(3) as being excluded from the definition of a private foundation, see Pub. 557, Chapter 3.

Line 1

List each organization that is supported by your organization and indicate in item **1b** if the supported organization has received a letter recognizing exempt status as a section 501(c)(3) public charity as defined in section 509(a)(1) or 509(a)(2). If you answer "No" in **1b** to any of the listed organizations, please explain in **1c**.

Line 3

Your organization's governing document may be articles of incorporation, articles of association, constitution, trust indenture, or trust agreement.

Line 9

For a definition of a "disqualified person," see **Specific Instructions**, Part II, Line 4d, on page 3 of the application's instructions.