

The Global Alliance for TB Drug Development, Inc.

Financial Statements
Year Ended December 31, 2014

**The Global Alliance for TB Drug
Development, Inc.**

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The Global Alliance for TB Drug Development, Inc.

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Independent Auditor's Report

Board of Directors of
The Global Alliance for
TB Drug Development, Inc.
New York, New York

We have audited the accompanying financial statements of The Global Alliance for TB Drug Development, Inc. ("TB Alliance"), which comprise the statement of financial position as of December 31, 2014, and the related statements of activities, functional expenses and cash flows for the year then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

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 from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.



Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of The Global Alliance for TB Drug Development, Inc. as of December 31, 2014, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Report on Summarized Comparative Information

We have previously audited TB Alliance's 2013 financial statements and our report, dated June 9, 2014, expressed an unmodified opinion on those audited financial statements. In our opinion, the summarized comparative information presented herein as of and for the year ended December 31, 2013, is consistent, in all material respects, with the audited financial statements from which it has been derived.

BDO USA, LLP

July 7, 2015

The Global Alliance for TB Drug Development, Inc.

Statement of Financial Position (with comparative totals for 2013)

<i>December 31,</i>	2014	2013
Assets		
Cash and cash equivalents (Note 2)	\$83,933,910	\$64,957,673
Limited use - cash (Note 2)	923,039	922,009
Accounts receivable	655,261	3,835,797
Security deposits	46,144	53,582
Other assets	520,891	950,271
Fixed assets, net (Notes 2 and 3)	945,666	1,212,706
	\$87,024,911	\$71,932,038
Liabilities and Net Assets		
Liabilities:		
Accounts payable and other liabilities	\$ 5,224,261	\$ 2,608,867
Accrued payroll and payroll related liabilities	1,706,977	1,554,867
Deferred revenue (Notes 2 and 4)	27,264,255	17,159,532
Deferred rent	513,184	684,245
Total Liabilities	34,708,677	22,007,511
Commitments and Contingencies (Notes 2, 4, 5, and 6)		
Net Assets:		
Unrestricted (Note 2)	52,316,234	49,924,527
Total Liabilities and Net Assets	\$87,024,911	\$71,932,038

See accompanying notes to financial statements.

The Global Alliance for TB Drug Development, Inc.

Statement of Activities (with comparative totals for 2013)

<i>Year ended December 31,</i>	2014	2013
Public Support and Other Revenue:		
Contributions	\$36,706,699	\$40,588,056
Grants	8,256,889	5,195,914
Interest and dividend income	85,335	68,215
Miscellaneous income	847,998	265,772
Total Public Support and Other Revenue	45,896,921	46,117,957
Expenses:		
Program services (Note 2):		
Research and development	37,478,840	35,257,936
Business development	263,050	295,534
Public affairs and policy	2,174,325	2,182,707
Total Program Services	39,916,215	37,736,177
Supporting services:		
Management and general	2,477,814	2,125,137
Fundraising	842,672	718,202
Total Supporting Services	3,320,486	2,843,339
Total Expenses	43,236,701	40,579,516
Change in Net Assets Before Foreign Translation (Loss) Gain	2,660,220	5,538,441
Foreign Translation (Loss) Gain (Note 2)	(268,513)	142,151
Change in Unrestricted Net Assets	2,391,707	5,680,592
Net Assets, Beginning of Year	49,924,527	44,243,935
Net Assets, End of Year	\$52,316,234	\$49,924,527

See accompanying notes to financial statements.

The Global Alliance for TB Drug Development, Inc.

Statement of Functional Expenses
(with comparative totals for 2013)

Year ended December 31,

	Program Services				Supporting Services			Total	
	Research and Development	Business Development	Public Affairs and Policy	Total	Management and General	Fundraising	Total	2014	2013
Salaries and Related Expenses:									
Salaries, benefits and taxes	\$ 7,236,644	\$199,261	\$ 911,921	\$ 8,347,826	\$1,211,246	\$412,237	\$1,623,483	\$ 9,971,309	\$ 9,330,108
Total Salaries and Related Expenses	7,236,644	199,261	911,921	8,347,826	1,211,246	412,237	1,623,483	9,971,309	9,330,108
Other Expenses:									
Professional services and agreements	27,167,413	877	535,989	27,704,279	118,871	208,171	327,042	28,031,321	26,424,595
Meetings, business travel, conferences and services	966,273	6,754	337,374	1,310,401	122,661	113,909	236,570	1,546,971	1,200,410
Rent and utilities	796,906	13,384	109,286	919,576	155,843	52,376	208,219	1,127,795	1,185,725
Office operations	178,621	1,031	76,544	256,196	289,936	6,703	296,639	552,835	532,564
IT and telecommunications	570,667	6,324	60,936	637,927	391,811	35,411	427,222	1,065,149	963,138
Legal and government fees	360,642	31,877	1,358	393,877	87,977	-	87,977	481,854	401,167
Audit and finance	-	-	-	-	59,000	-	59,000	59,000	59,000
Grants	-	-	112,833	112,833	-	-	-	112,833	146,377
Depreciation and amortization	201,674	3,542	28,084	233,300	40,469	13,865	54,334	287,634	336,432
Total Expenses	\$37,478,840	\$263,050	\$2,174,325	\$39,916,215	\$2,477,814	\$842,672	\$3,320,486	\$43,236,701	\$40,579,516

See accompanying notes to financial statements.

The Global Alliance for TB Drug Development, Inc.

Statement of Cash Flows (with comparative totals for 2013)

<i>Year ended December 31,</i>	2014	2013
Cash Flows From Operating Activities:		
Change in net assets	\$ 2,391,707	\$ 5,680,592
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation and amortization	287,634	336,432
(Increase) decrease in assets:		
Accounts receivable	3,180,536	(3,109,179)
Security deposits	7,438	-
Other assets	429,380	(678,341)
Increase (decrease) in liabilities:		
Accounts payable and other liabilities	2,615,394	(3,314,300)
Accrued payroll and payroll related liabilities	152,110	50,564
Deferred revenue	10,104,723	11,454,583
Deferred rent	(171,061)	(83,611)
Net Cash Provided By Operating Activities	18,997,861	10,336,740
Cash Flows From Investing Activities:		
Purchase of fixed assets	(20,594)	(8,566)
Limited use - cash	(1,030)	(1,489)
Net Cash Used In Investing Activities	(21,624)	(10,055)
Net Increase in Cash and Cash Equivalents	18,976,237	10,326,685
Cash and Cash Equivalents, Beginning of Year	64,957,673	54,630,988
Cash and Cash Equivalents, End of Year	\$83,933,910	\$64,957,673

See accompanying notes to financial statements.

The Global Alliance for TB Drug Development, Inc.

Notes to Financial Statements

1. Organization

The Global Alliance for TB Drug Development, Inc. ("TB Alliance") is a nonprofit organization incorporated on July 24, 2000 under the General Corporation Law of Delaware and authorized to conduct business in New York under the Not-for-Profit Corporation Law of New York. It operates as a not-for-profit, with offices in New York, New York; Pretoria, South Africa and Brussels, Belgium.

TB Alliance is a product development partnership focused on accelerating the discovery, development, and delivery of new tuberculosis drugs that will shorten treatment, be effective against susceptible and resistant strains, be compatible with antiretroviral therapies for those HIV-TB patients currently on such therapies, and improve treatment of latent infection.

Working with public and private partners worldwide, TB Alliance is leading the development of the most comprehensive portfolio of TB drug candidates in history. It is committed to ensuring that approved new regimens are affordable, adopted and available to those who need them.

2. Summary of Significant Accounting Policies

(a) Basis of Presentation

The financial statements of TB Alliance have been prepared on the accrual basis. In the statement of financial position, assets and liabilities are presented in order of liquidity or conversion to cash and their maturity resulting in the use of cash, respectively.

(b) Financial Statement Presentation

The classification of a not-for-profit organization's net assets and its support, revenue and expenses is based on the existence or absence of donor-imposed restrictions. It requires that the amounts for each of three classes of net assets, permanently restricted, temporarily restricted, and unrestricted, be displayed in a statement of financial position and that the amounts of change in each of those classes of net assets be displayed in a statement of activities.

Income from investment gains and losses, including unrealized gains and losses, dividends, interest and other investments should be reported as increases (or decreases) in unrestricted net assets unless the use of the income received is limited by donor-imposed restrictions.

These classes are defined as follows:

- (i) Permanently Restricted* - Net assets resulting from contributions and other inflows of assets whose use by TB Alliance is limited by donor-imposed stipulations that neither expire by passage of time nor can be fulfilled or otherwise removed by actions of TB Alliance.
- (ii) Temporarily Restricted* - Net assets resulting from contributions and other inflows of assets whose use by TB Alliance is limited by donor-imposed stipulations that either expire by passage of time or can be fulfilled and removed by actions of TB Alliance pursuant to those stipulations. When such stipulations end or are fulfilled, such temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities.
- (iii) Unrestricted* - The part of net assets that is neither permanently nor temporarily restricted by donor-imposed stipulations.

(c) Cash and Cash Equivalents

TB Alliance considers short-term investments with original maturities of three months or less to be cash equivalents.

The Global Alliance for TB Drug Development, Inc.

Notes to Financial Statements

(d) Limited Use - Cash

Limited use - cash consists of cash and cash equivalents held by a bank providing collateral for a lease held by TB Alliance.

(e) Accounts Receivable

Accounts receivable are recorded at the reimbursable or contracted amount and do not bear interest. Periodically, the receivables are reviewed and evaluated as to their collectability. A receivable balance is considered past due once it has not been received by its scheduled due date. If necessary, an allowance is recorded based on these evaluations. At December 31, 2014, management determined that there was no allowance that needed to be recorded.

(f) Depreciation and Amortization

The cost of fixed assets is depreciated over the estimated useful lives of the assets using the straight-line method. Leasehold improvements are amortized over the lesser of the life of the lease or asset. The estimated useful lives of the assets are as follows:

Computer equipment	3 - 5 years
Furniture and equipment	3 - 5 years
Leasehold improvements	5 - 10 years

TB Alliance follows the policy of capitalizing all fixed asset acquisitions in excess of \$5,000. Maintenance and repairs are charged to operations when incurred. When fixed assets are sold or otherwise disposed of, the asset account and related accumulated depreciation account are relieved, and any gain or loss is included in operations.

(g) Impairment of Fixed Assets

TB Alliance reviews fixed assets for impairment whenever events or changes in business circumstances indicate that the carrying amount of an asset may not be fully recoverable. An impairment loss would be recognized when the future cash flows from the use of the asset are less than the carrying amount of that asset. As of December 31, 2014, there have been no such losses.

(h) Income Taxes

TB Alliance is exempt from Federal and state income taxes under Section 501(c)(3) of the Internal Revenue Code (the "Code") and therefore has made no provision for income taxes in the accompanying financial statements. In addition, TB Alliance has been determined by the Internal Revenue Service not to be a "private foundation" within the meaning of Section 509(a) of the Code. There was no unrelated business income for 2014.

Under Financial Accounting Standards Board ("FASB") Accounting Standards Codification ("ASC") 740, "Income Taxes," an organization must recognize the tax benefit associated with tax positions taken for tax return purposes when it is more likely than not the position will be sustained upon examination by a taxing authority. TB Alliance does not believe it has taken any material uncertain tax positions and, accordingly, it has not recorded any liability for unrecognized tax benefits. TB Alliance has filed for and received income tax exemptions in the jurisdictions where it is required to do so. Additionally, TB Alliance has filed IRS Form 990 information returns, as required, and all other applicable returns in jurisdictions where so required. For the year ended December 31, 2014, there was no interest or penalties recorded or included in the statements of activities. TB Alliance is subject to routine audits by a taxing authority. As of December 31, 2014, TB Alliance was not subjected to any examination by a taxing authority prior to 2011.

The Global Alliance for TB Drug Development, Inc.

Notes to Financial Statements

(i) Contributions and Grants

Contributions received are recorded as unrestricted, temporarily restricted or permanently restricted support, depending on the existence and/or nature of any donor restrictions. Contributions with purpose or time restrictions (defined by management as unrestricted amounts due in more than one year) are reported as increases in temporarily restricted net assets. When a donor restriction expires, that is, when a time restriction ends or purpose restriction is fulfilled, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions. Restricted gifts and grants, received and utilized in the current year, are reflected in the statement of activities in the unrestricted class of net assets.

Public grants from government agencies are recorded based on the terms of the grantor allotment, which generally provides that revenue is earned when the allowable costs or units of services of specific grant provisions have been incurred or provided.

(j) Deferred Revenue

Receipts which have not been spent are available for applicable future years and are, therefore, classified as deferred revenue.

(k) Promises to Give

Unconditional promises to give are recognized as contribution revenue in the period received and as assets, decreases of liabilities, or expenses depending on the form of the benefits received, and are classified as either unrestricted, temporarily restricted, or permanently restricted support. Promises to give are recorded at net realizable value if expected to be collected in one year. Unconditional promises to give that are expected to be collected in the future years are recorded at the present value of these estimated future cash flows.

Conditional promises to give are not recognized until they become unconditional, that is, when the conditions on which they depend are substantially met. Contributions of assets other than cash are recorded at the estimated fair value.

(l) Program Services

- (i) Research and Development* - TB Alliance creates and manages a portfolio of new anti-TB drug candidates by identifying, evaluating and acquiring promising molecules from scientific laboratories worldwide and outsourcing their development to appropriate public and private partners. Further, TB Alliance invests in infrastructure research projects that accelerate anti-TB drug development and analyzes existing scientific gaps to address these as part of the overall development strategy.
- (ii) Business Development* - TB Alliance negotiates, implements and manages agreements with public and private organizations worldwide and does so by adhering to sound business practices while ensuring the public good. Specifically, TB Alliance negotiates terms that support the development and access of new affordable anti-TB drugs equitably to those areas most in need while encouraging the private sector to help develop new medicines for TB indications.
- (iii) Public Affairs and Policy* - TB Alliance manages critical alliances with public and private organizations to raise awareness about tuberculosis ("TB") and advocate for public and private involvement in research for new anti-TB medicines. It develops landmark studies to support policy developments seeking to accelerate anti-TB drug research and mobilizes networks of researchers and investigators worldwide to focus on the development of these medicines.

The Global Alliance for TB Drug Development, Inc.

Notes to Financial Statements

(m) Use of Estimates

In preparing financial statements in conformity with accounting principles generally accepted in the United States of America, management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosures of contingent assets and liabilities at the date of the financial statements and revenues and expenses during the reported period. Actual results could differ from those estimates.

(n) Concentration of Credit Risk

Financial instruments which potentially subject TB Alliance to concentration of credit risk consist primarily of cash and cash equivalents. At various times during the year, TB Alliance had cash deposits at financial institutions which exceeded the FDIC insurance limit.

(o) Comparative Financial Information

The financial statements include certain prior year summarized comparative information. Accordingly, such information should be read in conjunction with the prior year financial statements from which the summarized information was derived. With respect to the statement of functional expenses, the prior year expenses by expense classification are presented in total rather than by functional category. Such information does not include sufficient detail to constitute a presentation in conformity with accounting principles generally accepted in the United States of America.

(p) Foreign Currency Translation

All elements of the financial statements reflecting TB Alliance's operations in Brussels and South Africa are translated into U.S. dollars using applicable exchange rates. For assets and liabilities, this is the rate in effect at the statement of financial position date, with the exception of fixed assets which are measured at the historical rate. For revenue and expense items, translation is performed monthly using the average rate for the month. The exchange rate as of December 31, 2014 was \$1.21/Eur \$0.08/ZAR, and \$0.156/INR.

Foreign currency is translated in accordance with the provisions of ASC 830, "Foreign Currency Matters" (formerly SFAS No. 52, "Foreign Currency Translation"). Under the provisions of ASC 830, the local currency used in TB Alliance's foreign operations is considered to be the functional currency of these operations. Translation of the financial statements of these operations resulted in a translation gain as follows:

December 31, 2014

Cumulative translation gain adjustment, beginning of year	\$ 252,978
Translation adjustment	(268,513)
Cumulative translation gain adjustment, end of year	\$ (15,535)

The cumulative translation loss is included in unrestricted net assets.

(q) Reclassifications

Certain prior year balances have been reclassified to conform with the current year's presentation. The reclassification had no impact on the change in net assets.

The Global Alliance for TB Drug Development, Inc.

Notes to Financial Statements

3. Fixed Assets, Net

Fixed assets, net, stated at cost, consists of the following:

<i>December 31, 2014</i>	
Computer equipment	\$ 609,766
Furniture and equipment	467,777
Leasehold improvements	2,692,488
Total fixed assets	3,770,031
Less: Accumulated depreciation and amortization	(2,824,365)
Fixed assets, net	\$ 945,666

4. Deferred Revenue

In November 2010, TB Alliance received a conditional promise to give award from the Bill & Melinda Gates Foundation in the amount of \$164,910,038 for the period of November 18, 2010 to October 31, 2015. As of December 31, 2014, TB Alliance has received \$137,564,833 of the award, of which \$23,802,918 is deferred revenue.

In May 2014, TB Alliance received a \$1,640,000 grant to provide flexible project funding for new areas of exploration and innovation. The period of this grant agreement is May 6, 2014 to April 30, 2016. As of December 31, 2014, TB Alliance has received \$820,000 of the grant, of which \$449,624 is deferred revenue.

In November 2014, TB Alliance received a \$25,000,000 grant to support the STAND trial, which is the first Phase 3 registration trial testing a drug regimen for use against both TB and multidrug-resistant TB (MDR-TB). The period of this grant agreement is November 3, 2014 to February 28, 2019. As of December 31, 2014, TB Alliance has received \$3,000,000 of the grant, all of which has been deferred as of December 31, 2014.

Other deferred revenue includes \$11,713 from grants.

5. Commitments

(a) TB Alliance has operating lease agreements for office space in New York, New York; Brussels, Belgium and Pretoria, South Africa. The TB Alliance New York office lease expires in December 2017 and the Pretoria lease expires in October 2015.

The following is a schedule of future minimum rental payments under those lease agreements as of December 31, 2014:

<i>Year ending December 31,</i>	
2015	\$1,210,426
2016	1,212,442
2017	1,246,692
	\$3,669,560

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Notes to Financial Statements

Rent expense for the year ended December 31, 2014, which included month-to-month leases, amounted to \$1,045,903.

(b) TB Alliance has research and development agreements with several research institutions to fund various research and development contracts useful for treatment of TB. The agreements' expiration dates are undeterminable as of December 31, 2014.

The following is a schedule of future minimum research and development payments under the above agreements as of December 31, 2014:

<i>Year ending December 31,</i>	
2015	\$7,937,551
2016	2,367,068
2017	802,969
2018	500,000
2019	500,000
Thereafter (per year)	500,000

6. Pension Plan

TB Alliance has a 401(k) plan that covers all employees who are age 21 and older. Employees may designate all or a portion of the 401(k) elective deferral contributions as Roth elective deferral contributions instead of pre-tax elective deferral contributions. For 2014, the combined limit for the amount an employee can defer under both plans is \$17,500. Catchup deferral of up to \$5,500 in 2014 is available for eligible employees 50 years old or older during the plan year. TB Alliance matches 50% of the first 3% of the pay contributed through the employee's salary deferral. Discretionary and qualified non-elective contributions are also made to the plan. Pension expense was \$417,201 for the year ended December 31, 2014.

7. Subsequent Events

TB Alliance's management has performed subsequent event procedures through July 7, 2015, which is the date the financial statements were available to be issued and there were no subsequent events requiring adjustments to the financial statements or disclosures as stated herein.