

The Global Alliance for TB Drug Development, Inc.

Financial Statements
Year Ended December 31, 2013

**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, 2013, 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, 2013, 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 2012 financial statements and our report, dated June 17, 2013, 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, 2012, is consistent, in all material respects, with the audited financial statements from which it has been derived.

BDO USA, LLP

June 9, 2014

The Global Alliance for TB Drug Development, Inc.

Statement of Financial Position (with comparative totals for 2012)

<i>December 31,</i>	2013	2012
Assets		
Cash and cash equivalents (Note 2)	\$64,957,673	\$54,630,988
Limited use - cash (Note 2)	922,009	920,520
Accounts receivable (Note 2)	3,835,797	726,618
Security deposits	53,582	53,582
Other assets	950,271	271,930
Fixed assets, net (Notes 2 and 3)	1,212,706	1,540,572
	\$71,932,038	\$58,144,210
Liabilities and Net Assets		
Liabilities:		
Accounts payable and other liabilities	\$ 2,626,661	\$ 5,940,961
Accrued payroll and payroll related liabilities	1,537,073	1,486,509
Deferred revenue (Notes 2 and 4)	17,159,532	5,704,949
Deferred rent	684,245	767,856
Total Liabilities	22,007,511	13,900,275
Commitments and Contingencies (Notes 2, 4, 5, and 6)		
Net Assets:		
Unrestricted (Note 2)	49,924,527	44,243,935
Total Liabilities and Net Assets	\$71,932,038	\$58,144,210

See accompanying notes to financial statements.

The Global Alliance for TB Drug Development, Inc.

Statement of Activities (with comparative totals for 2012)

<i>Year ended December 31,</i>	2013	2012
Public Support and Other Revenue:		
Contributions	\$40,588,056	\$41,886,719
Grants	5,195,914	3,566,399
Interest and dividend income	68,215	111,139
Miscellaneous income	265,772	692,152
Total Public Support and Other Revenue	46,117,957	46,256,409
Expenses:		
Program services (Note 2):		
Research and development	35,257,936	36,727,131
Business development	295,534	417,411
Public affairs and policy	2,182,707	2,349,824
Total Program Services	37,736,177	39,494,366
Supporting services:		
Management and general	2,125,137	2,084,791
Fundraising	718,202	1,065,897
Total Supporting Services	2,843,339	3,150,688
Total Expenses	40,579,516	42,645,054
Change in Net Assets Before Foreign Translation		
Gain	5,538,441	3,611,355
Foreign Translation Gain (Note 2)	142,151	37,766
Change in Unrestricted Net Assets	5,680,592	3,649,121
Net Assets, Beginning of Year	44,243,935	40,594,814
Net Assets, End of Year	\$49,924,527	\$44,243,935

See accompanying notes to financial statements.

The Global Alliance for TB Drug Development, Inc.

Statement of Functional Expenses
(with comparative totals for 2012)

Year ended December 31,

	Program Services				Supporting Services			Total	
	Research and Development	Business Development	Public Affairs and Policy	Total	Management and General	Fundraising	Total	2013	2012
Salaries and Related Expenses:									
Salaries, benefits and taxes	\$ 6,986,320	\$ 216,821	\$ 736,114	\$ 7,939,255	\$ 948,936	\$ 441,917	\$ 1,390,853	\$ 9,330,108	\$ 9,282,788
Total Salaries and Related Expenses	6,986,320	216,821	736,114	7,939,255	948,936	441,917	1,390,853	9,330,108	9,282,788
Other Expenses:									
Professional services and agreements	25,577,995	25,193	684,722	26,287,910	17,487	119,198	136,685	26,424,595	28,513,250
Meetings, business travel, conferences and services	727,680	31,594	288,057	1,047,331	108,941	44,138	153,079	1,200,410	1,214,455
Rent and utilities	747,185	10,685	93,327	851,197	275,557	58,971	334,528	1,185,725	1,213,837
Office operations	167,532	713	100,223	268,468	258,335	5,761	264,096	532,564	576,446
IT and telecommunications	515,929	4,981	105,959	626,869	306,558	29,711	336,269	963,138	776,031
Legal and government fees	324,985	2,345	-	327,330	73,277	560	73,837	401,167	494,537
Audit and finance	-	-	-	-	59,000	-	59,000	59,000	54,792
Grants	-	-	146,377	146,377	-	-	-	146,377	124,076
Depreciation and amortization	210,310	3,202	27,928	241,440	77,046	17,946	94,992	336,432	394,842
Total Expenses	\$35,257,936	\$295,534	\$2,182,707	\$37,736,177	\$2,125,137	\$718,202	\$2,843,339	\$40,579,516	\$42,645,054

See accompanying notes to financial statements.

The Global Alliance for TB Drug Development, Inc.

Statement of Cash Flows (with comparative totals for 2012)

<i>Year ended December 31,</i>	2013	2012
Cash Flows From Operating Activities:		
Change in net assets	\$ 5,680,592	\$ 3,649,121
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation and amortization	336,432	394,842
(Increase) decrease in assets:		
Accounts receivable	(3,109,179)	115,506
Security deposits	-	(11,657)
Other assets	(678,341)	(14,221)
Increase (decrease) in liabilities:		
Accounts payable and other liabilities	(3,314,300)	2,048,422
Accrued payroll and payroll related liabilities	50,564	220,248
Deferred revenue	11,454,583	750,743
Deferred rent	(83,611)	(83,611)
Net Cash Provided By Operating Activities	10,336,740	7,069,393
Cash Flows From Investing Activities:		
Purchase of fixed assets	(8,566)	(23,531)
Limited use - cash	(1,489)	(2,184)
Net Cash Used In Investing Activities	(10,055)	(25,715)
Net Increase in Cash and Cash Equivalents	10,326,685	7,043,678
Cash and Cash Equivalents, Beginning of Year	54,630,988	47,587,310
Cash and Cash Equivalents, End of Year	\$64,957,673	\$54,630,988

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 TB 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) 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.

(f) 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, 2013, there have been no such losses.

(g) 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 2013.

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, 2013, 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, 2013, TB Alliance was not subjected to any examination by a taxing authority prior to 2010.

(h) 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,

The Global Alliance for TB Drug Development, Inc.

Notes to Financial Statements

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.

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

(i) 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.

(j) 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.

(k) 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.

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Notes to Financial Statements

(l) 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.

(m) 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.

(n) Foreign Currency Translation

All elements of the financial statements reflecting TB Alliance's operations in Brussels 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, 2013 was \$1.38/Eur \$0.10/ZAR, and \$.02/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, 2013

Cumulative translation gain adjustment, beginning of year	\$110,827
Translation adjustment	142,151
Cumulative translation gain adjustment, end of year	\$252,978

The cumulative translation gain is included in unrestricted net assets.

3. Fixed Assets, Net

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

December 31, 2013

Computer equipment	\$ 595,538
Furniture and equipment	467,777
Leasehold improvements	2,686,123
Total fixed assets	3,749,438
Less: Accumulated depreciation and amortization	(2,536,732)
Fixed assets, net	\$ 1,212,706

The Global Alliance for TB Drug Development, Inc.

Notes to Financial Statements

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. To date, TB Alliance has received \$104,643,478 of the award. As of December 31, 2013 TB Alliance deferred \$11,415,261 related to this grant.

Other deferred revenue includes \$2,742,025 from other contributions and \$3,002,246 from grants.

5. Commitments

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, 2013:

<i>Year ending December 31,</i>	
2014	\$1,186,489
2015	1,217,829
2016	1,184,982
2017	1,184,982
	<hr/>
	\$4,774,282

Rent expense for the year ended December 31, 2013, which included month-to-month leases, amounted to \$1,107,452.

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, 2013.

The following is a schedule of future minimum research and development payments under the above agreements as of December 31, 2013:

<i>Year ending December 31,</i>	
2014	\$5,770,630
2015	3,515,087
2016	500,000
2017	500,000
2018	500,000
Thereafter (per year)	500,000

The Global Alliance for TB Drug Development, Inc.

Notes to Financial Statements

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 2013, the combined limit for the amount an employee can defer under both plans is \$17,500. Catchup deferral of up to \$5,500 in 2013 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 \$413,863 for the year ended December 31, 2013.

7. Subsequent Events

TB Alliance's management has performed subsequent event procedures through June 9, 2014, 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.