

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

**Financial Statements**  
Year Ended December 31, 2008

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# The Global Alliance for TB Drug Development, Inc.

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## Independent Auditors' Report

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

We have audited the accompanying statement of financial position of The Global Alliance for TB Drug Development, Inc. ("TB Alliance") as of December 31, 2008, and the related statements of activities, functional expenses and cash flows for the year then ended. These financial statements are the responsibility of TB Alliance's management. Our responsibility is to express an opinion on these financial statements based on our audit. The prior year summarized comparative information has been derived from TB Alliance's 2007 financial statements and, in our report dated July 9, 2008, we expressed an unqualified opinion on those financial statements.

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 TB Alliance'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, 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, 2008, and the changes in its net assets and its cash flows for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

*BDO Seidman, LLP*

June 23, 2009

# The Global Alliance for TB Drug Development, Inc.

## Statement of Financial Position (with comparative totals for 2007)

<i>December 31,</i>	<b>2008</b>	<b>2007</b>
<b>Assets</b>		
Cash and cash equivalents (Notes 2 and 3)	<b>\$16,449,713</b>	\$30,267,411
Assets limited to use (Note 2)	<b>899,958</b>	873,478
Investments at fair value (Note 3)	<b>34,004,450</b>	21,458,570
Accounts receivable	<b>2,154,037</b>	584,666
Pledges receivable	<b>2,806,521</b>	-
Other assets	<b>194,699</b>	293,079
Fixed assets, net (Notes 2 and 5)	<b>3,016,339</b>	474,164
	<b>\$59,525,717</b>	\$53,951,368
<b>Liabilities and Net Assets</b>		
<b>Liabilities:</b>		
Accounts payable and other liabilities	<b>\$ 2,379,052</b>	\$ 4,207,638
Accrued payroll and payroll related liabilities	<b>1,115,106</b>	179,021
Deferred revenue (Note 6)	<b>24,555,552</b>	20,689,391
Deferred rent	<b>1,102,300</b>	384,508
<b>Total liabilities</b>	<b>29,152,010</b>	25,460,558
<b>Commitments (Note 7)</b>		
<b>Net assets:</b>		
Unrestricted net assets (Note 2)	<b>30,373,707</b>	28,490,810
	<b>\$59,525,717</b>	\$53,951,368

*See accompanying notes to financial statements.*

# The Global Alliance for TB Drug Development, Inc.

## Statement of Activities (with comparative totals for 2007)

<i>Year ended December 31,</i>	2008	2007
	Unrestricted	
<b>Public support and other revenue:</b>		
Contributions	\$28,250,136	\$24,697,671
Grants	6,482,967	4,221,636
Interest and dividend income	1,015,819	1,319,699
Net realized and unrealized (losses) gains on investments	(38,545)	584,420
Miscellaneous income	-	26,493
<b>Total public support and other revenue</b>	<b>35,710,377</b>	<b>30,849,919</b>
<b>Expenses:</b>		
Program services:		
Research and development	26,885,734	22,624,182
Business development	344,645	324,081
Public affairs and policy	2,586,737	2,404,032
<b>Total program services</b>	<b>29,817,116</b>	<b>25,352,295</b>
Supporting services:		
Management and general	3,751,009	1,842,489
Fundraising	168,293	180,527
<b>Total supporting services</b>	<b>3,919,302</b>	<b>2,023,016</b>
<b>Total expenses</b>	<b>33,736,418</b>	<b>27,375,311</b>
<b>Change in net assets before foreign translation gain</b>		
	1,973,959	3,474,608
<b>Foreign translation (loss) gain (Note 2)</b>	<b>(91,062)</b>	<b>213,078</b>
<b>Change in net assets</b>	<b>1,882,897</b>	<b>3,687,686</b>
<b>Net assets, beginning of year</b>	<b>28,490,810</b>	<b>24,803,124</b>
<b>Net assets, end of year</b>	<b>\$30,373,707</b>	<b>\$28,490,810</b>

*See accompanying notes to financial statements.*

# The Global Alliance for TB Drug Development, Inc.

## Statement of Functional Expenses (with comparative totals for 2007)

Year ended December 31,

	Program services			Total	Supporting services		Total	Total	
	Research and development	Business development	Public affairs and policy		Management and general	Fundraising		2008	2007
<b>Salaries and related expenses:</b>									
Salaries	\$ 2,218,944	\$ 27,971	\$ 773,192	\$ 3,020,107	\$1,418,346	\$114,222	\$1,532,568	\$ 4,552,675	\$ 3,089,248
Employee benefits and payroll related taxes	378,522	5,625	156,032	540,179	185,663	21,107	206,770	746,949	562,592
Pension	99,158	1,501	36,556	137,215	46,307	5,179	51,486	188,701	164,103
<b>Total salaries and related expenses</b>	<b>2,696,624</b>	<b>35,097</b>	<b>965,780</b>	<b>3,697,501</b>	<b>1,650,316</b>	<b>140,508</b>	<b>1,790,824</b>	<b>5,488,325</b>	<b>3,815,943</b>
<b>Other expenses:</b>									
Research and development portfolio investments	21,884,752	-	-	21,884,752	-	-	-	21,884,752	19,196,928
Consulting	653,158	212,463	298,128	1,163,749	361,853	23,582	385,435	1,549,184	816,458
Policy studies	-	-	18,000	18,000	-	-	-	18,000	560,932
Recruiting and temporary help	81,698	-	50,974	132,672	177,832	120	177,952	310,624	359,724
Meetings, business travel, conferences and services	643,790	4,533	472,609	1,120,932	145,620	2,953	148,573	1,269,505	887,712
Professional fees	29,497	92,552	15,019	137,068	432,727	-	432,727	569,795	346,610
Public and media outreach	-	-	245,319	245,319	-	-	-	245,319	200,266
Publications and website development	-	-	186,871	186,871	5,727	-	5,727	192,598	214,425
Rent and utilities	542,313	-	255,840	798,153	322,797	-	322,797	1,120,950	337,959
Insurance	81,341	-	1,120	82,461	48,669	-	48,669	131,130	123,361
Telecommunications	121,304	-	40,687	161,991	51,898	-	51,898	213,889	187,555
Equipment rental and expense	27,554	-	13,201	40,755	61,442	-	61,442	102,197	67,193
Office expense	36,415	-	15,236	51,651	115,743	1,130	116,873	168,524	119,231
Dues and subscriptions	87,288	-	7,953	95,241	7,527	-	7,527	102,768	54,827
Loss on disposal of fixed assets	-	-	-	-	104,683	-	104,683	104,683	-
Depreciation and amortization	-	-	-	-	264,175	-	264,175	264,175	86,187
<b>Total expenses</b>	<b>\$26,885,734</b>	<b>\$344,645</b>	<b>\$2,586,737</b>	<b>\$29,817,116</b>	<b>\$3,751,009</b>	<b>\$168,293</b>	<b>\$3,919,302</b>	<b>\$33,736,418</b>	<b>\$27,375,311</b>

See accompanying notes to financial statements.

# The Global Alliance for TB Drug Development, Inc.

## Statement of Cash Flows (with comparative totals for 2007)

<i>Year ended December 31,</i>	2008	2007
<b>Cash flows from operating activities:</b>		
Change in net assets	\$ 1,882,897	\$ 3,687,686
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation and amortization	264,175	86,187
Loss on disposal of fixed assets	104,683	-
Realized gain on sales of investments at fair value, net	(199,495)	(578,444)
Unrealized losses (gains) on investments at fair value	238,040	(5,976)
(Increase) decrease in assets:		
Assets limited to use	(26,480)	(873,478)
Accounts receivable	(1,569,371)	282,479
Pledges receivable	(2,806,521)	-
Other assets	98,380	(77,567)
Increase (decrease) in liabilities:		
Accounts payable and other liabilities	(1,828,586)	2,244,870
Accrued payroll and related liabilities	936,085	37,667
Deferred revenue	3,866,161	9,630,251
Deferred rent	717,792	220,995
<b>Net cash provided by operating activities</b>	<b>1,677,760</b>	<b>14,654,670</b>
<b>Cash flows from investing activities:</b>		
Purchase of investments	(53,126,085)	(34,115,479)
Proceeds from sale of investments	40,541,660	31,913,000
Purchase of fixed assets	(2,911,033)	(332,041)
<b>Net cash used in investing activities</b>	<b>(15,495,458)</b>	<b>(2,534,520)</b>
<b>Net (decrease) increase in cash and cash equivalents</b>	<b>(13,817,698)</b>	<b>12,120,150</b>
<b>Cash and cash equivalents, beginning of year</b>	<b>30,267,411</b>	<b>18,147,261</b>
<b>Cash and cash equivalents, end of year</b>	<b>\$ 16,449,713</b>	<b>\$ 30,267,411</b>
<b>Supplemental disclosure of cash flow information:</b>		
Cash paid for interest	\$ -	\$ -

*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 and the presentation follows the requirements of the Financial Accounting Standards Board in its Statement of Financial Accounting Standards (“SFAS”) No. 117, “Financial Statements of Not-for-Profit Organizations”. Under SFAS No. 117, TB Alliance is required to report information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets and permanently restricted net assets.

# The Global Alliance for TB Drug Development, Inc.

## Notes to Financial Statements

### (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.

# The Global Alliance for TB Drug Development, Inc.

## Notes to Financial Statements

(c) *Cash and Cash Equivalents*

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

(d) *Assets Limited to Use*

Assets limited to use consist of cash and cash equivalents held by banks providing collateral for certain leases held by TB Alliance.

(e) *Investments at Fair Value*

Investments in equity securities with readily determinable fair values and all investments in debt securities are stated at their fair values in the statement of financial position. Net realized gains and losses and net change in unrealized gains and losses for the period are shown in the statement of activities.

(f) *Investments in Auction Rate Securities*

In 2007, TB Alliance invested in certain Auction Rate Preferred Shares (“the Securities”) issued by several closed end mutual funds (“the Funds”). The Securities generally entitled TB Alliance to receive interest or dividends at a rate that is reset periodically to the rate produced in an auction that is governed by a set of auction procedures established by the Funds and their auction agents. At December 31, 2007, \$4,675,000 was invested in these securities. The securities were subsequently redeemed in 2008 and no material gains or losses were realized on disposition.

The Securities are subject to redemption at the option of the issuing Funds; however, the Funds’ ability to redeem the Securities is generally limited by securities regulations. The Securities are mandatorily redeemable upon liquidation of the issuing fund. It is the policy of TB Alliance to hold the Securities to maturity.

# The Global Alliance for TB Drug Development, Inc.

## Notes to Financial Statements

(g) *Depreciation and Amortization*

The cost of property and equipment 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

(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 2008.

(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.

# The Global Alliance for TB Drug Development, Inc.

## Notes to Financial Statements

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) *Reclassifications*

Certain reclassifications have been made to the 2007 amounts to conform with the 2008 presentation. Such reclassifications have no impact on changes in net assets.

(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) *Contributed Goods and Services*

Contributed goods and services are recognized as revenue and expenses if such goods and services meet the criteria for recognition as stated in SFAS No. 116, "Accounting for Contributions Received or Contributions Made."

# The Global Alliance for TB Drug Development, Inc.

## Notes to Financial Statements

(m) *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

(n) *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.

(o) *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.

(p) *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.

# The Global Alliance for TB Drug Development, Inc.

## Notes to Financial Statements

(q) *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 property and equipment which is 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, 2008 was \$1.4097 EUR/USD.

Foreign currency is translated in accordance with the provisions of SFAS No. 52, "Foreign Currency Translation". Under the provisions of SFAS No. 52, 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, 2008*

Cumulative translation gain adjustment, beginning of year	\$595,152
Translation adjustment	(91,062)
Cumulative translation gain adjustment, end of year	\$504,090

The cumulative translation gain is included in unrestricted net assets.



# The Global Alliance for TB Drug Development, Inc.

## Notes to Financial Statements

(r) *Recently Issued Accounting Pronouncements*

(i) Fair Value Measurements

In September 2006, the Financial Accounting Standards Board (“FASB”) issued SFAS No. 157, “Fair Value Measurements”. This standard clarifies the definition of fair value for financial reporting, establishes a framework for measuring fair value and requires additional disclosures about the use of fair value measurements. SFAS No. 157 is effective for financial statements issued for fiscal years beginning after November 15, 2007 and interim periods within those fiscal years. Effective January 1, 2008, TB Alliance adopted SFAS No.157. The adoption did not impact the amounts reported in the financial statements, but does require additional footnote disclosures about the inputs used to develop the measurements of fair value and the effect of certain measurements reported in the statement of activities for the fiscal year as noted in Note 3 below.

(ii) Net Asset Classification

In August 2008, the FASB issued Staff Position No. 117-1 (“FSP No. 117-1”), “Endowments of Not-for-Profit Organizations: Net Asset Classification of Funds Subject to Enacted Version of Uniform Prudent Management of Institutional Funds Act (“UPMIFA”), and Enhanced Disclosures for all Endowment Funds”. This statement is intended to improve the quality and consistency of financial reporting of endowments held by not-for-profit organizations. This statement provides guidance on classifying the net assets (equity) associated with donor-restricted endowment funds held by organizations that are subject to an enacted version of UPMIFA, which serves as a model act for states to modernize their laws governing donor-restricted endowment funds. This statement is effective for all

# The Global Alliance for TB Drug Development, Inc.

## Notes to Financial Statements

fiscal periods ending after December 15, 2008. Effective January 1, 2008, TB Alliance adopted FSP No. 117-1. As of December 31, 2008, TB Alliance did not have any restricted endowments.

(iii) Accounting for Uncertainty in Income Taxes

FASB Interpretation No. 48, “Accounting for Uncertainty in Income Taxes” (“FIN 48”), was issued in July 2006 and was effective for fiscal years beginning after December 15, 2006. Under FIN 48, 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.

In February 2008 the FASB issued Staff Position No. 48-2, which defers the effective date of FIN 48 for certain nonpublic enterprises as defined in SFAS No. 109, “Accounting for Income Taxes”. Under SFAS No. 109, a nonpublic enterprise is defined as “an enterprise other than one (a) whose debt or equity securities are traded in a public market, including those traded on a stock exchange or in the over-the-counter market, (b) that is a conduit bond obligor for conduit debt securities that are traded in a public market, or (c) whose financial statements are filed with a regulatory agency in preparation for the sale of any class of securities”.

As of January 1, 2008, TB Alliance met the definition of a nonpublic enterprise as defined under SFAS No. 109 and has elected to defer the adoption of FIN 48.

# The Global Alliance for TB Drug Development, Inc.

## Notes to Financial Statements

### 3. **Financial Instruments and Fair Value**

As indicated in Note 2, TB Alliance adopted SFAS No. 157 in 2008. SFAS No. 157 establishes a hierarchy for inputs used in measuring fair value that maximizes the use of observable inputs and minimizes the use of unobservable inputs by requiring that inputs that are most observable be used when available. Observable inputs are inputs based on independently derived and observable market data. Unobservable inputs are inputs that can not be sourced from a broad active market. The input hierarchy is broken down into three levels based on the degree to which the exit price is independently observable or determinable as follows:

Level 1 – Valuation based on quoted market prices in active markets for identical assets or liabilities. Since valuations are based on quoted prices that are readily and regularly available in an active market, valuation of these products does not entail a significant degree of judgment. An example includes U.S. Government Bonds that are actively traded on a major exchange or over-the-counter market.

Level 2 – Valuation based on quoted market prices of investments that are not actively traded or for which certain significant inputs are not observable, either directly or indirectly, such as Market Linked Investments (the “MLI”). The fair value of the MLI is estimated using recently executed transactions, bid/asked prices and pricing models that factor in, where applicable, interest rates, bond spreads and volatility.

Level 3 – Valuation based on inputs that are unobservable and reflect management’s best estimate of what market participants would use as fair value. Examples include limited partnerships and private equity investments. TB Alliance does not currently invest in any Level 3 investments.

TB Alliance’s holdings in U.S. Government Bonds consist principally of debt carried at their aggregate market value that is determined by quoted market prices. Each of the above investments can be liquidated daily. The valuation of the above is based on Level 1 inputs within the hierarchy used in measuring fair value.

# The Global Alliance for TB Drug Development, Inc.

## Notes to Financial Statements

The MLI are bank deposits with absolute returns which can only generate a gain if during the duration of the contract the index that it follows does not exceed a certain absolute percentage at any point in time. As of December 31, 2008, the indices which the MLI follow have exceeded its absolute return parameters and are valued at their principal investment of \$9,000,000. Since the MLI do not have quoted market prices and are not actively traded their valuation is based on Level 2 inputs within the hierarchy used in measuring fair value.

Below sets forth a table of assets measured at fair value as of December 31, 2008:

Description	Fair value measurement at reporting date using			Balance as of December 31, 2008
	Quoted prices in active markets for identical assets (Level 1)	Significant other observable inputs (Level 2)	Significant other unobservable inputs (Level 3)	
U.S. government bonds	\$25,004,450	\$ -	\$ -	\$25,004,450
MLI	-	9,000,000	-	9,000,000
Subtotal	\$25,004,450	\$9,000,000	\$ -	\$34,004,450

TB Alliance's cost and fair value of investments are summarized as follows:

<i>December 31, 2008</i>	Fair value	Cost
U.S. government bonds	\$25,004,450	\$25,064,900
MLI	9,000,000	9,000,000
	\$34,004,450	\$34,064,900

In addition to the above investments, the investment portfolio included \$9,621,003 of cash and cash equivalents at December 31, 2008.

# The Global Alliance for TB Drug Development, Inc.

## Notes to Financial Statements

### 4. Pledges Receivable, Net

The net present value of pledges receivable was calculated using a discounted rate equal to the estimated earnings rate of TB Alliance's cash and cash equivalents. At December 31, 2008, the estimated earnings rate of TB Alliance's cash and cash equivalents was calculated to be 1%.

The net present value of pledges receivable at December 31, 2008 is summarized below:

<i>December 31, 2008</i>	
Total pledges receivable	\$2,819,400
Discount at 1%	(12,879)
Net present value of pledges receivable at December 31, 2008	\$2,806,521
Amounts due in:	
One year	\$1,409,700
Two to five years	1,409,700
	\$2,819,400

### 5. Fixed Assets, Net

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

<i>December 31, 2008</i>	
Computer equipment	\$ 422,720
Furniture and equipment	461,350
Leasehold improvements	2,666,274
Total fixed assets	3,550,344
Less: Accumulated depreciation and amortization	(534,005)
Fixed assets, net	\$3,016,339

# The Global Alliance for TB Drug Development, Inc.

## Notes to Financial Statements

- 6. Deferred Revenue** In November 2006, the Department of Development of the Netherlands Ministry of Foreign Affairs (“DDC”) approved an 8,000,000 EUR three-year grant for the period from 2006 to 2009 for research and development to optimize tuberculosis drug therapy. The contract stipulates that any unused funds be returned to the DDC at the expiration of the grant term. As of December 31, 2008, TB Alliance received \$7,427,111 related to this grant. The remaining unspent funds of \$1,351,895 are recorded as deferred revenue as of December 31, 2008.

In May 2006, TB Alliance received a conditional promise to give award from the Bill & Melinda Gates Foundation in the amount of \$104,403,823 for the period of May 1, 2006 to May 1, 2011. To date, TB Alliance has received \$69,842,011 of the award. As of December 31, 2008, TB Alliance recognized \$46,638,354 income on the grant for project milestones achieved and has included \$23,203,657 in deferred revenue. The remaining amount of \$34,561,812 has not been recognized in the financial statements.

- 7. 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, the Pretoria lease expires in October 2009 and the Brussels lease agreement expires in November 2009.

The following is a schedule of future minimum rental payments under those lease agreements as of December 31, 2008:

<i>Year ending December 31,</i>	
2009	\$ 1,125,035
2010	1,114,587
2011	1,149,785
2012	1,149,785
2013	1,149,785
Thereafter	4,704,733
	<u>\$10,393,710</u>

# The Global Alliance for TB Drug Development, Inc.

## Notes to Financial Statements

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, 2008.

The following is a schedule of future minimum research and development payments under the above agreements as of December 31, 2008:

<i>Year ending December 31,</i>	
2009	\$7,413,181
2010	4,188,293
2011	500,000
2012	500,000
2013	500,000
Thereafter (per year)	500,000

### 8. Pension Plan

GATB has a 401(k) plan that covers all employees who are age 21 and older. Employees may contribute up to 15% of their pay each pay period. Catchup deferral of up to \$5,000 in 2008 is available for eligible employees 50 years old or older during the plan year. GATB 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 \$188,701 for the year ended December 31, 2008. In January 2006, GATB converted into a 401(k) Safe Harbor Plan.

# The Global Alliance for TB Drug Development, Inc.

## Notes to Financial Statements

- 9. Subsequent Events** On June 17, 2009 TB Alliance announced a collaborative agreement with Tibotec Inc. (“Tibotec”), a global pharmaceutical company to develop TMC207 and enter into joint discovery efforts in search of a backup compound to TMC207. The two organizations will share their expertise and resources in these efforts. TMC207 could become the first new TB drug with a novel mechanism of action in 40 years. The interim data from an ongoing Phase II study of TMC207 were recently published in the “New England Journal of Medicine”. In the placebo-controlled study of 47 patients with multidrug-resistant TB (“MDR-TB”), it was found that 48 percent of patients receiving TMC207 in combination with standard treatment converted to negative sputum culture after eight weeks compared with 9 percent of those who received placebo and standard treatment.

Under the terms of the agreement, Tibotec will continue to develop TMC207 for the treatment of MDR-TB. The agreement grants TB Alliance a royalty-free license for the worldwide development, commercialization and manufacture of TMC207 in the field of drug-susceptible TB. In addition, Tibotec will collaborate with TB Alliance on a discovery research program to identify new compounds for the treatment of TB. The rights for the newly discovered compounds for the treatment of tuberculosis will belong to TB Alliance under a royalty free license. Costs for common elements necessary for the development of TMC207 in both drug sensitive as well as multi-drug resistant TB will be shared.

TMC207 was discovered by scientists at Janssen Pharmaceutical N.V., which signed the collaboration agreement with TB Alliance, and is being developed by its affiliate, Tibotec. *In vitro* studies show that it is highly active against “Mycobacterium tuberculosis” (“M.tb”). TMC207 has a unique mechanism of action targeting adenosine triphosphate (“ATP”) synthase, which M.tb requires to generate its energy supply. Currently, TMC207 is being studied in a Phase II clinical trial in patients with MDR-TB. The safety and efficacy of TMC207 has not yet been established.



# The Global Alliance for TB Drug Development, Inc.

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Tibotec, based in Yardley, Pa., USA, is a pharmaceutical research and development company. The company's main research and development facilities are in Mechelen, Belgium. Tibotec is dedicated to the discovery and development of innovative HIV/AIDS drugs and anti-infectives for diseases of high unmet medical need.