

The Global Alliance for TB Drug Development, Inc.

Financial Statements
Year Ended December 31, 2012

**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, 2012, 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, 2012, 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 19, 2012, 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, 2011, is consistent, in all material respects, with the audited financial statements from which it has been derived.

BDO USA, LLP

June 17, 2013

The Global Alliance for TB Drug Development, Inc.

Statement of Financial Position (with comparative totals for 2011)

<i>December 31,</i>	2012	2011
Assets		
Cash and cash equivalents	\$54,630,988	\$47,587,310
Limited use - cash (Note 2)	920,520	918,336
Accounts receivable	726,618	842,124
Security deposits	53,582	41,925
Other assets	271,930	257,709
Fixed assets, net (Notes 2 and 3)	1,540,572	1,911,883
	\$58,144,210	\$51,559,287
Liabilities and Net Assets		
Liabilities:		
Accounts payable and other liabilities	\$ 5,940,961	\$ 3,892,539
Accrued payroll and payroll related liabilities	1,486,509	1,266,261
Deferred revenue (Notes 2 and 4)	5,704,949	4,954,206
Deferred rent	767,856	851,467
Total Liabilities	13,900,275	10,964,473
Commitments and Contingencies (Notes 2, 4, 5, and 6)		
Net Assets:		
Unrestricted net assets (Note 2)	44,243,935	40,594,814
Total Liabilities and Net Assets	\$58,144,210	\$51,559,287

See accompanying notes to financial statements.

The Global Alliance for TB Drug Development, Inc.

Statement of Activities (with comparative totals for 2011)

<i>Year ended December 31,</i>	2012	2011
Public Support and Other Revenue:		
Contributions	\$41,886,719	\$42,888,409
Grants	3,566,399	3,782,465
Interest and dividend income	111,139	155,563
Miscellaneous income	692,152	119,930
Total Public Support and Other Revenue	46,256,409	46,946,367
Expenses:		
Program services:		
Research and development	36,727,131	29,376,209
Business development	417,411	503,836
Public affairs and policy	2,349,824	2,479,592
Total Program Services	39,494,366	32,359,637
Supporting services:		
Management and general	2,084,791	3,759,355
Fundraising	1,065,897	619,563
Total Supporting Services	3,150,688	4,378,918
Total Expenses	42,645,054	36,738,555
Change in Net Assets Before Foreign Translation		
Gain (Loss)	3,611,355	10,207,812
Foreign Translation Gain (Loss) (Note 2)	37,766	(43,780)
Change in Unrestricted Net Assets	3,649,121	10,164,032
Net Assets, Beginning of Year	40,594,814	30,430,782
Net Assets, End of Year	\$44,243,935	\$40,594,814

See accompanying notes to financial statements.

The Global Alliance for TB Drug Development, Inc.

Statement of Functional Expenses
(with comparative totals for 2011)

Year ended December 31,

	Program Services				Supporting Services			Total	
	Research and Development	Business Development	Public Affairs and Policy	Total	Management and General	Fundraising	Total	2012	2011
Salaries and Related Expenses:									
Salaries, benefits and taxes	\$ 6,085,328	\$346,857	\$ 992,720	\$ 7,424,905	\$1,235,297	\$ 622,586	\$1,857,883	\$ 9,282,788	\$ 8,319,184
Total Salaries and Related Expenses	6,085,328	346,857	992,720	7,424,905	1,235,297	622,586	1,857,883	9,282,788	8,319,184
Other Expenses:									
Professional services and agreements	27,715,884	29,730	519,954	28,265,568	158,072	89,610	247,682	28,513,250	24,214,907
Meetings, business travel, conferences and services	682,060	28,516	245,291	955,867	185,915	72,673	258,588	1,214,455	1,081,870
Rent and utilities	748,330	-	197,352	945,682	179,750	88,405	268,155	1,213,837	1,202,425
Office operations	400,652	-	74,526	475,178	67,883	33,385	101,268	576,446	633,642
IT and telecommunications	473,178	-	127,748	600,926	119,698	55,407	175,105	776,031	311,872
Legal and government fees	378,531	12,308	3,855	394,694	24,817	75,026	99,843	494,537	340,940
Audit and finance	-	-	-	-	54,792	-	54,792	54,792	42,992
Grants	-	-	124,076	124,076	-	-	-	124,076	173,497
Depreciation and amortization	243,168	-	64,302	307,470	58,567	28,805	87,372	394,842	417,226
Total Expenses	\$36,727,131	\$417,411	\$2,349,824	\$39,494,366	\$2,084,791	\$1,065,897	\$3,150,688	\$42,645,054	\$36,738,555

See accompanying notes to financial statements.

The Global Alliance for TB Drug Development, Inc.

Statement of Cash Flows (with comparative totals for 2011)

<i>Year ended December 31,</i>	2012	2011
Cash Flows From Operating Activities:		
Change in net assets	\$ 3,649,121	\$10,164,032
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities:		
Depreciation and amortization	394,842	417,226
(Increase) decrease in assets:		
Cash restricted	(2,184)	(2,293)
Accounts receivable	115,506	1,991,814
Security deposits	(11,657)	-
Other assets	(14,221)	(5,101)
Increase (decrease) in liabilities:		
Accounts payable and other liabilities	2,048,422	(6,785,582)
Accrued payroll and payroll related liabilities	220,248	250,369
Deferred revenue	750,743	(9,645,970)
Deferred rent	(83,611)	(83,611)
Net Cash Provided By (Used In) Operating Activities	7,067,209	(3,699,116)
Cash Flows From Investing Activities:		
Purchase of fixed assets	(23,531)	(32,265)
Net Increase (Decrease) in Cash and Cash Equivalents	7,043,678	(3,731,381)
Cash and Cash Equivalents, Beginning of Year	47,587,310	51,318,691
Cash and Cash Equivalents, End of Year	\$54,630,988	\$47,587,310

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

Cash restricted 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) 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 2012.

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, 2012, 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, 2012, TB Alliance was not subjected to any examination by a taxing authority prior to 2009.

(g) 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.

(h) 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.

(i) 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 ASC 958, "Not-for-Profit Entities".

(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.

The Global Alliance for TB Drug Development, Inc.

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) Pledges Receivable

The net present value of pledges receivable is calculated using a discount rate equal to the risk-free interest rate, which is the U.S. Treasury note interest rate in effect at the time pledges are made and equal in duration to the length of time that the pledge is expected to be paid over.

(o) 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, 2012 was \$1.32/Eur \$0.12/ZAR, and \$0.02/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, 2012

Cumulative translation gain adjustment, beginning of year	\$ 73,061
Translation adjustment	37,766
Cumulative translation gain adjustment, end of year	\$110,827

The cumulative translation gain is included in unrestricted net assets.

(p) Fair Value of Financial Instruments

The carrying amounts of cash equivalents, accounts receivable and accounts payable and accrued expenses approximate fair value due to the short maturities of the respective instruments.

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:

December 31, 2012

Computer equipment	\$ 586,972
Furniture and equipment	467,777
Leasehold improvements	2,686,123
Total fixed assets	3,740,872
Less: Accumulated depreciation and amortization	(2,200,300)
Fixed assets, net	\$ 1,540,572

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 \$71,699,750 of the award. As of December 31, 2012 TB Alliance deferred \$5,704,949 related to this grant.

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, 2012:

Year ending December 31,

2013	\$1,183,458
2014	1,186,489
2015	1,217,829
2016	1,184,982
2017	1,184,982
	\$5,957,740

Rent expense for the year ended December 31, 2012, which included month-to-month leases, amounted to \$1,100,108.

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, 2012.

The Global Alliance for TB Drug Development, Inc.

Notes to Financial Statements

The following is a schedule of future minimum research and development payments under the above agreements as of December 31, 2012:

<i>Year ending December 31,</i>	
2013	\$3,405,571
2014	757,948
2015	500,000
2016	500,000
2017	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 2012, the combined limit for the amount an employee can defer under both plans is \$17,500. Catchup deferral of up to \$5,500 in 2012 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 \$403,663 for the year ended December 31, 2012.

7. Subsequent Events

TB Alliance's management has performed subsequent event procedures through June 17, 2013, 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.