



**ALS THERAPY DEVELOPMENT FOUNDATION, INC.
D/B/A ALS THERAPY DEVELOPMENT INSTITUTE
AND SUBSIDIARY**

**CONSOLIDATING FINANCIAL STATEMENTS
DECEMBER 31, 2017 AND 2016**

**ALS THERAPY DEVELOPMENT FOUNDATION, INC.
D/B/A ALS THERAPY DEVELOPMENT INSTITUTE AND SUBSIDIARY**

Contents
December 31, 2017 and 2016

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Independent Auditor's Report

To the Boards of Directors of
ALS Therapy Development Foundation, Inc.
d/b/a ALS Therapy Development Institute and Subsidiary:

Report on the Consolidating Financial Statements

We have audited the accompanying consolidating financial statements of ALS Therapy Development Foundation, Inc. d/b/a ALS Therapy Development Institute (a Massachusetts corporation, not for profit) and its subsidiary, Anelixis Therapeutics, Inc. (a Delaware corporation), which comprise the consolidating statements of financial position as of December 31, 2017 and 2016, and the related consolidating statements of activities, changes in net assets, cash flows and functional expenses for the years then ended, and the related notes to the consolidating financial statements.

Management's Responsibility for the Consolidating Financial Statements

Management is responsible for the preparation and fair presentation of these consolidating 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 consolidating 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 consolidating financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the consolidating financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidating financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidating 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 consolidating 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 consolidating 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 consolidating financial statements referred to on page one present fairly, in all material respects, the consolidating financial position of ALS Therapy Development Foundation, Inc. d/b/a ALS Therapy Development Institute and Anelixis Therapeutics, Inc. as of December 31, 2017 and 2016, and the changes in their net assets and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Alexander, Brown, Fenning & Co., P.C.

Boston, Massachusetts
April 23, 2018

ALS THERAPY DEVELOPMENT FOUNDATION, INC.
D/B/A ALS THERAPY DEVELOPMENT INSTITUTE AND SUBSIDIARY

Consolidating Statements of Financial Position
December 31, 2017 and 2016

Assets	2017				2016			
	ALS TDI	Anelixis	Eliminations	Total	ALS TDI	Anelixis	Eliminations	Total
Current Assets:								
Cash and cash equivalents	\$ 4,187,524	\$ 60,429	\$ -	\$ 4,247,953	\$ 3,058,974	\$ 180,509	\$ -	\$ 3,239,483
Cash held for others	814,157	-	-	814,157	1,208,523	-	-	1,208,523
Accounts receivable	479,147	401,900	(401,900)	479,147	129,172	-	-	129,172
Current portion of pledges receivable	500,000	-	-	500,000	250,000	-	-	250,000
Prepaid expenses and other	371,468	1,995	-	373,463	370,313	-	-	370,313
Total current assets	6,352,296	464,324	(401,900)	6,414,720	5,016,982	180,509	-	5,197,491
Other Assets:								
Pledges receivable, net of current portion and discount	720,971	-	-	720,971	-	-	-	-
Certificate of deposit - restricted	296,247	-	-	296,247	294,918	-	-	294,918
Due from related party	271,492	-	(271,492)	-	2,689,355	-	(2,689,355)	-
Investment in Affiliate	4,839,396	-	(4,839,396)	-	-	-	-	-
Property and equipment, net	781,861	-	-	781,861	804,503	-	-	804,503
Capitalized costs, net	333,320	-	-	333,320	278,459	-	-	278,459
Total other assets	7,243,287	-	(5,110,888)	2,132,399	4,067,235	-	(2,689,355)	1,377,880
Total assets	\$ 13,595,583	\$ 464,324	\$ (5,512,788)	\$ 8,547,119	\$ 9,084,217	\$ 180,509	\$ (2,689,355)	\$ 6,575,371
Liabilities and Net Assets								
Current Liabilities:								
Current portion of capital lease obligations	\$ 222,770	\$ -	\$ -	\$ 222,770	\$ 253,261	\$ -	\$ -	\$ 253,261
Note payable - related party	-	-	-	-	-	750,000	-	750,000
Accounts payable	392,087	251,037	-	643,124	397,764	33,465	-	431,229
Accrued expenses	665,234	-	(401,900)	263,334	265,057	-	-	265,057
Deferred revenue	89,175	-	-	89,175	145,961	-	-	145,961
Cash held for others	814,157	-	-	814,157	1,208,523	-	-	1,208,523
Total current liabilities	2,183,423	251,037	(401,900)	2,032,560	2,270,566	783,465	-	3,054,031
Long-Term Liabilities:								
Capital lease obligations, net of current portion	287,177	-	-	287,177	500,367	-	-	500,367
Deferred rent liability	414,736	-	-	414,736	318,355	-	-	318,355
Due to related party	-	271,492	(271,492)	-	-	2,689,355	(2,689,355)	-
Total liabilities	2,885,336	522,529	(673,392)	2,734,473	3,089,288	3,472,820	(2,689,355)	3,872,753
Net Assets:								
Unrestricted:								
Operating	8,869,573	94,868	(4,839,396)	4,125,045	5,645,827	(3,292,311)	-	2,353,516
Property and equipment and capitalized costs	590,674	-	-	590,674	324,102	-	-	324,102
Total unrestricted	9,460,247	94,868	(4,839,396)	4,715,719	5,969,929	(3,292,311)	-	2,677,618
Temporarily restricted	1,250,000	-	-	1,250,000	25,000	-	-	25,000
Total net assets attributable to ALS TDI and Subsidiary	10,710,247	94,868	(4,839,396)	5,965,719	5,994,929	(3,292,311)	-	2,702,618
Non-controlling interest	-	(153,073)	-	(153,073)	-	-	-	-
Total net assets	10,710,247	(58,205)	(4,839,396)	5,812,646	5,994,929	(3,292,311)	-	2,702,618
Total liabilities and net assets	\$ 13,595,583	\$ 464,324	\$ (5,512,788)	\$ 8,547,119	\$ 9,084,217	\$ 180,509	\$ (2,689,355)	\$ 6,575,371

The accompanying notes are an integral part of these consolidating statements.

ALS THERAPY DEVELOPMENT FOUNDATION, INC.
D/B/A ALS THERAPY DEVELOPMENT INSTITUTE AND SUBSIDIARY

Consolidating Statements of Activities
For the Years Ended December 31, 2017 and 2016

	2017				2016			
	ALS TDI	Anelixis	Eliminations	Total	ALS TDI	Anelixis	Eliminations	Total
Changes in Unrestricted Net Assets:								
Revenue:								
Special event contributions, support and donated goods	\$ 12,682,111	\$ -	\$ -	\$ 12,682,111	\$ 10,107,760	\$ -	\$ -	\$ 10,107,760
Less - direct expenses	1,749,703	-	-	1,749,703	1,666,571	-	-	1,666,571
Special event contributions, support and donated goods, net	10,932,408	-	-	10,932,408	8,441,189	-	-	8,441,189
Grants and contracts	1,931,946	1,695,900	(1,695,900)	1,931,946	1,876,365	-	-	1,876,365
Contributions	1,457,011	-	-	1,457,011	669,386	-	-	669,386
Fee for service	374,412	-	-	374,412	461,779	-	-	461,779
Interest and other	302,743	-	(292,007)	10,736	385,101	-	(378,986)	6,115
Donated services	4,390	-	-	4,390	6,613	-	-	6,613
Patent license fees	1,000,000	-	(1,000,000)	-	-	-	-	-
Net assets released from time restrictions	25,000	-	-	25,000	529,510	-	-	529,510
Total revenue	16,027,910	1,695,900	(2,987,907)	14,735,903	12,369,943	-	(378,986)	11,990,957
Operating expenses:								
Program services:								
Research and development:								
Science programs	7,959,013	-	(1,695,900)	6,263,113	6,833,679	-	-	6,833,679
Informatics	385,959	-	-	385,959	398,601	-	-	398,601
Patient services	157,331	-	-	157,331	160,584	-	-	160,584
Anelixis	-	4,201,190	(1,292,007)	2,909,183	-	2,520,416	(378,986)	2,141,430
Total research and development	8,502,303	4,201,190	(2,987,907)	9,715,586	7,392,864	2,520,416	(378,986)	9,534,294
Communications	2,036,328	-	-	2,036,328	2,056,929	-	-	2,056,929
Business development	232,933	-	-	232,933	255,508	-	-	255,508
Total program services	10,771,564	4,201,190	(2,987,907)	11,984,847	9,705,301	2,520,416	(378,986)	11,846,731
Support services:								
General and administrative	731,493	-	-	731,493	659,258	-	-	659,258
Fundraising	1,034,535	-	-	1,034,535	910,389	-	-	910,389
Total support services	1,766,028	-	-	1,766,028	1,569,647	-	-	1,569,647
Total operating expenses	12,537,592	4,201,190	(2,987,907)	13,750,875	11,274,948	2,520,416	(378,986)	13,416,378
Changes in unrestricted net assets	3,490,318	(2,505,290)	-	985,028	1,094,995	(2,520,416)	-	(1,425,421)
Changes in Temporarily Restricted Net Assets:								
Contributions	1,250,000	-	-	1,250,000	-	-	-	-
Net assets released from restrictions	(25,000)	-	-	(25,000)	(529,510)	-	-	(529,510)
Changes in temporarily restricted net assets	1,225,000	-	-	1,225,000	(529,510)	-	-	(529,510)
Changes in net assets	4,715,318	(2,505,290)	-	2,210,028	565,485	(2,520,416)	-	(1,954,931)
Non-Controlling Interest								
Changes in net assets attributable to ALS TDI and Subsidiary	\$ 4,715,318	\$ (2,352,217)	\$ -	\$ 2,363,101	\$ 565,485	\$ (2,520,416)	\$ -	\$ (1,954,931)

The accompanying notes are an integral part of these consolidating statements.

**ALS THERAPY DEVELOPMENT FOUNDATION, INC.
D/B/A ALS THERAPY DEVELOPMENT INSTITUTE AND SUBSIDIARY**

Consolidating Statements of Changes in Net Assets
For the Years Ended December 31, 2017 and 2016

	ALS TDI			Anelixis							Eliminations	Total
	Unrestricted	Temporarily Restricted	Total	Common Stock \$.00001 Par Value		Additional Paid-In Capital	Accumulated Deficit		Total Shareholders' Deficit			
				Shares Outstanding	Amount		Controlling Interest	Non- Controlling Interest				
Net Assets, December 31, 2015	\$ 4,874,934	\$ 554,510	\$ 5,429,444	5,000,000	\$ -	\$ -	\$ (771,895)	\$ -	\$ (771,895)	\$ -	\$ 4,657,549	
Changes in net assets	1,094,995	(529,510)	565,485	-	-	-	(2,520,416)	-	(2,520,416)	-	(1,954,931)	
Net Assets, December 31, 2016	5,969,929	25,000	5,994,929	5,000,000	-	-	(3,292,311)	-	(3,292,311)	-	2,702,618	
Stock issuance	-	-	-	2,771,883	78	4,989,318	-	-	4,989,396	(4,089,396)	900,000	
Loan conversion to stock	-	-	-	416,667	4	749,996	-	-	750,000	(750,000)	-	
Changes in net assets	3,490,318	1,225,000	4,715,318	-	-	-	(2,352,217)	(153,073)	(2,505,290)	-	2,210,028	
Net Assets, December 31, 2017	<u>\$ 9,460,247</u>	<u>\$ 1,250,000</u>	<u>\$ 10,710,247</u>	<u>8,188,550</u>	<u>\$ 82</u>	<u>\$ 5,739,314</u>	<u>\$ (5,644,528)</u>	<u>\$ (153,073)</u>	<u>\$ (58,205)</u>	<u>\$ (4,839,396)</u>	<u>\$ 5,812,646</u>	

The accompanying notes are an integral part of these consolidating statements.

ALS THERAPY DEVELOPMENT FOUNDATION, INC.
D/B/A ALS THERAPY DEVELOPMENT INSTITUTE AND SUBSIDIARY

Consolidating Statements of Cash Flows
For the Years Ended December 31, 2017 and 2016

	2017			2016			
	ALS TDI	Anelixis	Eliminations	Total	ALS TDI	Anelixis	Total
Cash Flows from Operating Activities:							
Changes in net assets	\$ 4,715,318	\$ (2,505,290)	\$ -	\$ 2,210,028	\$ 565,485	\$ (2,520,416)	\$ (1,954,931)
Adjustments to reconcile changes in net assets to net cash provided by (used in) operating activities:							
Patent license fees	(1,000,000)	1,000,000	-	-	-	-	-
Depreciation and amortization	379,591	-	-	379,591	420,806	-	420,806
Change in discount on pledges receivable	(28,539)	-	-	(28,539)	(490)	-	(490)
Changes in operating assets and liabilities:							
Accounts receivable	(349,975)	(401,900)	401,900	(349,975)	(112,026)	-	(112,026)
Pledges receivable	(942,432)	-	-	(942,432)	330,000	-	330,000
Prepaid expenses and other	(1,155)	(1,995)	-	(3,150)	(81,538)	-	(81,538)
Due to (from) related party	(671,533)	671,533	-	-	(1,409,111)	1,409,111	-
Accounts payable	(5,677)	217,572	-	211,895	118,901	(72,804)	46,097
Accrued expenses	400,177	-	(401,900)	(1,723)	(355,692)	-	(355,692)
Deferred rent liability	96,381	-	-	96,381	205,431	-	205,431
Deferred revenue	(56,786)	-	-	(56,786)	73,902	-	73,902
Net cash provided by (used in) operating activities	<u>2,535,370</u>	<u>(1,020,080)</u>	<u>-</u>	<u>1,515,290</u>	<u>(244,332)</u>	<u>(1,184,109)</u>	<u>(1,428,441)</u>
Cash Flows from Investing Activities:							
Acquisition of property and equipment	(307,320)	-	-	(307,320)	-	-	-
Cash paid for capitalized costs	(104,490)	-	-	(104,490)	(50,149)	-	(50,149)
Interest earned on certificate of deposit - restricted	(1,329)	-	-	(1,329)	(1,325)	-	(1,325)
Net cash used in investing activities	<u>(413,139)</u>	<u>-</u>	<u>-</u>	<u>(413,139)</u>	<u>(51,474)</u>	<u>-</u>	<u>(51,474)</u>
Cash Flows from Financing Activities:							
Proceeds from stock issuance	-	900,000	-	900,000	-	-	-
Principal payments on capital lease obligations	(243,681)	-	-	(243,681)	(236,438)	-	(236,438)
Principal payments on note payable - related party	(750,000)	-	-	(750,000)	-	-	-
Proceeds from note payable - related party	-	-	-	-	-	750,000	750,000
Net cash provided by (used in) financing activities	<u>(993,681)</u>	<u>900,000</u>	<u>-</u>	<u>(93,681)</u>	<u>(236,438)</u>	<u>750,000</u>	<u>513,562</u>
Net Change in Cash and Cash Equivalents	<u>1,128,550</u>	<u>(120,080)</u>	<u>-</u>	<u>1,008,470</u>	<u>(532,244)</u>	<u>(434,109)</u>	<u>(966,353)</u>
Cash and Cash Equivalents:							
Beginning of year	<u>3,058,974</u>	<u>180,509</u>	<u>-</u>	<u>3,239,483</u>	<u>3,591,218</u>	<u>614,618</u>	<u>4,205,836</u>
End of year	<u>\$ 4,187,524</u>	<u>\$ 60,429</u>	<u>\$ -</u>	<u>\$ 4,247,953</u>	<u>\$ 3,058,974</u>	<u>\$ 180,509</u>	<u>\$ 3,239,483</u>
Supplemental Disclosure of Cash Flow Information:							
Cash paid for interest	<u>\$ 40,802</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 40,802</u>	<u>\$ 53,275</u>	<u>\$ -</u>	<u>\$ 53,275</u>
Supplemental Disclosure of Non-Cash Transactions:							
Capitalized costs financed with accounts payable	<u>\$ 14,560</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 14,560</u>	<u>\$ 5,232</u>	<u>\$ -</u>	<u>\$ 5,232</u>
Debt converted to common stock in Affiliate	<u>\$ 4,839,396</u>	<u>\$ (4,839,396)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

The accompanying notes are an integral part of these consolidating statements.

ALS THERAPY DEVELOPMENT FOUNDATION, INC.
D/B/A ALS THERAPY DEVELOPMENT INSTITUTE AND SUBSIDIARY

Consolidating Statement of Functional Expenses
For the Year Ended December 31, 2017
(With Summarized Comparative Totals for the Year Ended December 31, 2016)

	2017											2016		
	Program Services						Support Services					Total	Total	
	Research and Development			Total Research and Development	Communi- cations	Business Development	Total Program Services	General and Adminis- trative		Fundraising	Total ALS TDI			Anelixis
Science Programs	Informatics	Patient Services	General and Adminis- trative					Fundraising						
Personnel and Related:														
Salaries	\$ 2,164,258	\$ 220,500	\$ 107,091	\$ 2,491,849	\$ 1,037,245	\$ 111,390	\$ 3,640,484	\$ 271,609	\$ 393,743	\$ 4,305,836	\$ -	\$ -	\$ 4,305,836	\$ 4,258,159
Payroll taxes and fringe benefits	493,948	47,401	24,934	566,283	276,897	33,372	876,552	90,891	92,101	1,059,544	-	-	1,059,544	1,074,573
Consultants	217,230	19,389	10,039	246,658	145,830	15,584	408,072	35,269	141,733	585,074	680,626	(292,007)	973,693	680,916
Total personnel and related	2,875,436	287,290	142,064	3,304,790	1,459,972	160,346	4,925,108	397,769	627,577	5,950,454	680,626	(292,007)	6,339,073	6,013,648
Other Expenses:														
Testing and lab expense	1,096,730	-	-	1,096,730	789	-	1,097,519	-	-	1,097,519	2,287,103	-	3,384,622	3,417,437
Facility	1,193,522	27,437	-	1,220,959	87,008	34,297	1,342,264	64,435	-	1,406,699	79,612	-	1,486,311	1,492,838
Maintenance	420,642	11,072	1,824	433,538	19,244	13,060	465,842	20,749	6,921	493,512	29,249	-	522,761	584,409
Meetings and conferences	32,396	-	-	32,396	151,715	-	184,111	25,316	23,739	233,166	9,194	-	242,360	233,130
Printing and postage	84,496	563	309	85,368	86,878	636	172,882	1,130	63,803	237,815	-	-	237,815	165,112
Miscellaneous	11,190	876	439	12,505	5,171	624	18,300	46,953	152,520	217,773	5,841	-	223,614	197,627
Utilities	182,966	4,183	-	187,149	9,412	5,229	201,790	8,366	-	210,156	12,040	-	222,196	206,149
Professional services	-	-	-	-	-	-	-	115,259	-	115,259	89,453	-	204,712	119,532
Small equipment	100,875	33,213	1,752	135,840	17,889	679	154,408	4,153	38,690	197,251	-	-	197,251	198,215
Telephone and internet	13,178	1,706	654	15,538	91,445	1,049	108,032	2,448	12,525	123,005	658	-	123,663	133,650
Program supplies and materials	10,564	660	342	11,566	4,869	461	16,896	1,832	31,897	50,625	-	-	50,625	48,906
Advertising	914	-	-	914	1,154	-	2,068	-	39,541	41,609	-	-	41,609	62,673
Interest	36,088	-	-	36,088	-	-	36,088	4,714	-	40,802	-	-	40,802	53,275
Insurance	11,009	1,046	553	12,608	5,575	894	19,077	1,453	2,079	22,609	1,295	-	23,904	48,800
Dues and subscriptions	3,263	-	-	3,263	153	-	3,416	9,660	-	13,076	6,119	-	19,195	11,932
Staff training and travel	4,523	240	-	4,763	1,342	1,320	7,425	3,080	266	10,771	-	-	10,771	8,239
Grant expense	1,695,900	-	-	1,695,900	-	-	1,695,900	-	-	1,695,900	-	(1,695,900)	-	-
Patent license fees	-	-	-	-	-	-	-	-	-	-	1,000,000	(1,000,000)	-	-
Total other expenses	4,898,256	80,996	5,873	4,985,125	482,644	58,249	5,526,018	309,548	371,981	6,207,547	3,520,564	(2,695,900)	7,032,211	6,981,924
Depreciation and Amortization	185,321	17,673	9,394	212,388	93,712	14,338	320,438	24,176	34,977	379,591	-	-	379,591	420,806
Total expenses	\$ 7,959,013	\$ 385,959	\$ 157,331	\$ 8,502,303	\$ 2,036,328	\$ 232,933	\$ 10,771,564	\$ 731,493	\$ 1,034,535	\$ 12,537,592	\$ 4,201,190	\$ (2,987,907)	\$ 13,750,875	\$ 13,416,378

ALS THERAPY DEVELOPMENT FOUNDATION, INC.
D/B/A ALS THERAPY DEVELOPMENT INSTITUTE AND SUBSIDIARY

Consolidating Statement of Functional Expenses
For the Year Ended December 31, 2016

	Program Services						Support Services						
	Research and Development			Total Research and Development	Communi- cations	Business Development	Total Program Services	General and Adminis- trative	Fundraising	Total ALS TDI	Anelixis	Eliminations	Total
	Science Programs	Informatics	Patient Services										
Personnel and Related:													
Salaries	\$ 2,126,406	\$ 204,387	\$ 105,726	\$ 2,436,519	\$ 1,083,280	\$ 137,634	\$ 3,657,433	\$ 223,439	\$ 377,287	\$ 4,258,159	\$ -	\$ -	\$ 4,258,159
Payroll taxes and fringe benefits	535,044	51,174	26,318	612,536	271,382	33,544	917,462	64,194	92,917	1,074,573	-	-	1,074,573
Consultants	266,428	21,530	10,883	298,841	159,848	14,100	472,789	64,942	69,394	607,125	452,777	(378,986)	680,916
Total personnel and related	<u>2,927,878</u>	<u>277,091</u>	<u>142,927</u>	<u>3,347,896</u>	<u>1,514,510</u>	<u>185,278</u>	<u>5,047,684</u>	<u>352,575</u>	<u>539,598</u>	<u>5,939,857</u>	<u>452,777</u>	<u>(378,986)</u>	<u>6,013,648</u>
Other Expenses:													
Testing and lab expense	1,560,133	-	-	1,560,133	925	-	1,561,058	-	-	1,561,058	1,856,379	-	3,417,437
Facility	1,171,954	26,941	-	1,198,895	93,395	33,676	1,325,966	62,465	-	1,388,431	104,407	-	1,492,838
Maintenance	444,996	14,377	3,572	462,945	30,071	13,725	506,741	21,801	12,643	541,185	43,224	-	584,409
Meetings and conferences	51,777	151	89	52,017	128,242	116	180,375	18,525	29,417	228,317	4,813	-	233,130
Printing and postage	87,248	693	352	88,293	37,041	433	125,767	4,181	35,164	165,112	-	-	165,112
Miscellaneous	8,236	787	400	9,423	4,078	527	14,028	60,039	122,204	196,271	1,356	-	197,627
Utilities	159,133	3,665	-	162,798	8,538	4,581	175,917	15,581	-	191,498	14,651	-	206,149
Professional services	-	-	-	-	-	-	-	80,191	-	80,191	39,341	-	119,532
Small equipment	98,165	49,665	747	148,577	15,242	695	164,514	9,556	24,145	198,215	-	-	198,215
Telephone and internet	14,569	1,726	641	16,936	98,811	829	116,576	2,139	14,935	133,650	-	-	133,650
Program supplies and materials	10,056	752	371	11,179	6,193	484	17,856	965	30,085	48,906	-	-	48,906
Advertising	-	-	-	-	1,431	-	1,431	-	61,242	62,673	-	-	62,673
Interest	53,275	-	-	53,275	-	-	53,275	-	-	53,275	-	-	53,275
Insurance	22,795	2,233	1,125	26,153	11,380	1,429	38,962	2,373	3,997	45,332	3,468	-	48,800
Dues and subscriptions	5,323	-	-	5,323	-	-	5,323	6,609	-	11,932	-	-	11,932
Staff training and travel	5,717	-	-	5,717	1,489	285	7,491	433	315	8,239	-	-	8,239
Total other expenses	<u>3,693,377</u>	<u>100,990</u>	<u>7,297</u>	<u>3,801,664</u>	<u>436,836</u>	<u>56,780</u>	<u>4,295,280</u>	<u>284,858</u>	<u>334,147</u>	<u>4,914,285</u>	<u>2,067,639</u>	<u>-</u>	<u>6,981,924</u>
Depreciation and Amortization	<u>212,424</u>	<u>20,520</u>	<u>10,360</u>	<u>243,304</u>	<u>105,583</u>	<u>13,450</u>	<u>362,337</u>	<u>21,825</u>	<u>36,644</u>	<u>420,806</u>	<u>-</u>	<u>-</u>	<u>420,806</u>
Total expenses	<u>\$ 6,833,679</u>	<u>\$ 398,601</u>	<u>\$ 160,584</u>	<u>\$ 7,392,864</u>	<u>\$ 2,056,929</u>	<u>\$ 255,508</u>	<u>\$ 9,705,301</u>	<u>\$ 659,258</u>	<u>\$ 910,389</u>	<u>\$ 11,274,948</u>	<u>\$ 2,520,416</u>	<u>\$ (378,986)</u>	<u>\$ 13,416,378</u>

**ALS THERAPY DEVELOPMENT FOUNDATION, INC.
D/B/A ALS THERAPY DEVELOPMENT INSTITUTE AND SUBSIDIARY**

Notes to Consolidating Financial Statements
December 31, 2017 and 2016

1. OPERATIONS

ALS Therapy Development Foundation, Inc. d/b/a ALS Therapy Development Institute (ALS TDI) is a not-for-profit corporation formed to conduct medical research associated with discovering cures for and the treatment of amyotrophic lateral sclerosis (ALS) or more commonly referred to as Lou Gehrig's disease.

In May 2015, ALS TDI formed a subsidiary, Anelixis Therapeutics, Inc. (Anelixis), a Delaware corporation. Anelixis was established to assist in providing mechanisms to ALS TDI to support research, scientific discoveries, inventions and processes to be developed, applied or patented. Anelixis was also established as a means to generate capital from investors to support discoveries and patents related to ALS TDI's mission. During 2017, Anelixis began selling and issuing shares of common stock (see Note 16). At December 31, 2017 and 2016, ALS TDI owns approximately 94% and 100% of the outstanding common stock of Anelixis, respectively.

As is common with a development-stage research company, Anelixis has incurred significant losses since inception and has accumulated deficits of \$5,797,601 and \$3,292,311 at December 31, 2017 and 2016, respectively. In addition to the capital from investors, ALS TDI supports the operations of Anelixis by providing unsecured advances and pass-through grants (see Note 11). As long as it is financially possible, ALS TDI plans on continuing to support Anelixis for the foreseeable future in order to ensure it meets its obligations as they become due.

2. SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation

The consolidating financial statements include the accounts of ALS TDI and Anelixis (collectively, the Organization), as ALS TDI owns 94% of Anelixis' stock.

The Organization prepares its consolidating financial statements in accordance with generally accepted accounting standards and principles (U.S. GAAP) established by the Financial Accounting Standards Board (FASB). References to U.S. GAAP in these notes are to the FASB Accounting Standards Codification (ASC).

All intercompany balances and transactions have been eliminated in the accompanying consolidating financial statements.

Estimates

The preparation of consolidating financial statements in accordance with U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidating financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Pledges Receivable

Pledges receivable are recorded as unconditionally committed. Long-term pledges receivable at December 31, 2017 have been discounted to present value using a discount rate of 2% (see Note 5). Pledges receivable at December 31, 2016, are due within one year and, therefore, no discount has been recorded.

**ALS THERAPY DEVELOPMENT FOUNDATION, INC.
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Notes to Consolidating Financial Statements
December 31, 2017 and 2016

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Allowance for Doubtful Accounts and Pledges Receivable

An allowance for uncollectible accounts and pledges receivable is recorded based on management's analysis of specific accounts and their estimate of amounts that may be uncollectible, if any. Amounts are written off against the allowance when they are determined to be uncollectible. No allowance for doubtful accounts has been recorded as of December 31, 2017 and 2016.

Property and Equipment and Depreciation

Purchased property and equipment are recorded at cost. Donated property and equipment are recorded at fair value at the time of donation. Renewals and betterments are capitalized as additions to the related asset accounts, while repairs and maintenance are expensed as they are incurred.

Expenditures for property and equipment in excess of \$5,000, and leases representing the purchase of equipment, are capitalized. Depreciation is computed using the straight-line method over the estimated useful life of the assets as follows:

Leasehold improvements	Life of lease
Equipment	3 - 5 years

Capitalized Costs and Amortization

Capitalized costs consist of patent costs on ALS TDI's medical procedures, as well as costs related to the redesign and implementation of ALS TDI's website (see Note 4). Costs incurred for developing a new website or adding new components to an existing website are capitalized. Costs incurred for renovations, upgrades, and uploading of content to the websites are considered routine maintenance and are expensed as incurred. The carrying value of these capitalized costs is assessed for impairment on an annual basis. No impairment was recognized in 2017 or 2016.

These costs are capitalized and amortized over the expected life of the asset as follows:

Patents	15 years
Website costs	3 years

Net Assets

Unrestricted net assets are those net resources that bear no external restrictions and are generally available for use by the Organization. The Organization has grouped its unrestricted net assets into the following categories:

Operating net assets represent net assets which are available for operations and include the accumulated deficit and proceeds from the issuance of stock in Anelixis.

Property and equipment and capitalized costs net assets represent the net book value of property and equipment and capitalized costs, net of related debt.

Temporarily restricted net assets represent amounts received or committed by donors with time or purpose restrictions that have not yet been met.

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Notes to Consolidating Financial Statements
December 31, 2017 and 2016

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Net Assets (Continued)

Non-Controlling Interest

Non-controlling interest represents the non-controlling interests in Anelixis, which is owned by unrelated investors. Non-controlling interest includes interest owned by the Chairman of the Board of Directors (see Note 11).

Revenue Recognition

Special event revenue is recognized in the period in which the event takes place. Special event revenue received in advance is recorded as deferred revenue until the event takes place. Unrestricted grants, contributions and donated goods and services are recognized as revenue when unconditionally committed or received. Restricted grants and contributions are recorded as temporarily restricted revenues and net assets when received or unconditionally pledged. Transfers are made to unrestricted net assets as costs are incurred or time restrictions lapse. Donor restricted grants received and satisfied in the same period are included in unrestricted net assets. Contract and fee for service revenue is recognized as income when services are rendered, costs are incurred or milestones are achieved. Interest and other revenue is recorded as earned.

Revenues from collaborative arrangements with milestone payments are accounted for in accordance with the milestone method (see Note 17).

Donated Goods and Services

Volunteers and other organizations contribute goods and services to ALS TDI in support of various aspects of its programs and special events. These goods and services are reflected in the accompanying consolidating financial statements based upon the estimated value assigned to them by the donating volunteers, agencies or by management (see Note 6).

Fair Value Measurements

The Organization follows the accounting and disclosure standards pertaining to ASC Topic, *Fair Value Measurements*, for qualifying assets and liabilities. Fair value is defined as the price that the Organization would receive upon selling an asset or pay to settle a liability in an orderly transaction between market participants.

The Organization uses a framework for measuring fair value that includes a hierarchy that categorizes and prioritizes the sources used to measure and disclose fair value. This hierarchy is broken down into three levels based on inputs that market participants would use in valuing the financial instruments based on market data obtained from sources independent of the Organization. Inputs refer broadly to the assumptions that market participants would use in pricing the financial instrument, including assumptions about risk. Inputs may be observable or unobservable. Observable inputs are inputs that reflect the assumptions market participants would use in pricing the financial instrument developed based on market data obtained from sources independent of the reporting entity. Unobservable inputs are inputs that reflect the reporting entity's own assumptions about the assumptions market participants would use in pricing the asset developed based on the best information available.

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Notes to Consolidating Financial Statements
December 31, 2017 and 2016

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Fair Value Measurements (Continued)

The three-tier hierarchy of inputs is summarized in the three broad levels as follows:

Level 1 - Inputs that reflect unadjusted quoted prices in active markets for identical assets at the measurement date.

Level 2 - Inputs other than quoted prices that are observable for the asset either directly or indirectly, including inputs in markets that are not considered to be active.

Level 3 - Inputs that are unobservable and which require significant judgment or estimation.

An asset or liability's level within the framework is based upon the lowest level of any input that is significant to the fair value measurement. Except for the value of Anelixis' common stock which is valued using Level 2 inputs, all other qualifying assets and liabilities are valued using Level 1 inputs.

Cash and Cash Equivalents

For the purpose of the consolidating statements of cash flows, management considers cash and cash equivalents to be any amounts held in checking, savings and money market accounts. Cash held for others is not included in cash and cash equivalents for the purpose of the consolidating statements of cash flows.

Certificate of Deposit - Restricted

Certificate of deposit - restricted (CD) consists of a CD with an initial maturity of twelve months which matured in November 2017 and earned interest at .45% per annum. The CD automatically renews annually and the CD was renewed through November 2018 at 1.5% per annum. This CD is collateral for a standby letter of credit (see Note 8). Given the restrictions on the CD, its inherent lack of liquidity and the intention to re-invest the CD for long-term purposes, it has been reflected as a long-term asset in the accompanying consolidating statements of financial position.

Cash Held for Others

Cash held for others represents amounts collected by ALS TDI on behalf of other public charities as directed by the donors. These amounts will be remitted to these charities in the following fiscal year.

Income Taxes

ALS TDI is exempt from Federal income taxes as an organization (not a private foundation) formed for charitable purposes under Section 501(c)(3) of the Internal Revenue Code (IRC). ALS TDI is also exempt from state income taxes. Donors may deduct contributions made to ALS TDI within the IRC requirements.

**ALS THERAPY DEVELOPMENT FOUNDATION, INC.
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Notes to Consolidating Financial Statements
December 31, 2017 and 2016

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Income Taxes (Continued)

Anelixis has elected to be taxed as a corporation and is subject to Federal and state income taxes. Anelixis accounts for income taxes according to the asset and liability method. The differences between the financial statement amounts and the tax basis of assets and liabilities are determined annually. Deferred tax assets and liabilities are computed for those differences that will result in taxable or deductible amounts in future periods using currently enacted tax laws and rates that apply to the periods in which the differences are expected to affect taxable income. Valuation allowances are established when necessary to reduce deferred tax assets to the amount that will more-likely-than-not be realized.

The Organization accounts for uncertainty in income taxes in accordance with ASC Topic, *Income Taxes*. This standard clarifies the accounting for uncertainty in tax positions and prescribes a recognition threshold and measurement attribute for the consolidating financial statements regarding a tax position taken or expected to be taken in a tax return. The Organization has determined that there are no uncertain tax positions which qualify for either recognition or disclosure in the consolidating financial statements at December 31, 2017 and 2016. The Organization's information returns are subject to examination by the Federal and state jurisdictions.

Expense Allocation

Expenses related directly to a program are distributed to that program, while other expenses are allocated based upon management's estimate of the percentage attributable to each program.

Advertising Costs

Advertising costs are expensed when incurred.

Subsequent Events

Subsequent events have been evaluated through April 23, 2018, which is the date the consolidating financial statements were available to be issued. See Note 18 for events that met the criteria for disclosure in the consolidating financial statements.

3. PROPERTY AND EQUIPMENT AND DEPRECIATION

As of December 31, 2017 and 2016, property and equipment consisted of the following:

	<u>2017</u>	<u>2016</u>
Equipment	\$ 2,845,137	\$ 2,537,817
Leasehold improvements	<u>375,683</u>	<u>375,683</u>
	3,220,820	2,913,500
Less - accumulated depreciation	<u>2,438,959</u>	<u>2,108,997</u>
	<u>\$ 781,861</u>	<u>\$ 804,503</u>

Depreciation expense was \$329,962 and \$380,614 for the years ended December 31, 2017 and 2016, respectively, and is included in depreciation and amortization in the accompanying consolidating statements of functional expenses.

**ALS THERAPY DEVELOPMENT FOUNDATION, INC.
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Notes to Consolidating Financial Statements
December 31, 2017 and 2016

3. PROPERTY AND EQUIPMENT AND DEPRECIATION (Continued)

The cost of equipment acquired under capital leases was \$1,245,768 as of December 31, 2017 and 2016. Accumulated depreciation of equipment acquired under capital leases was \$784,763 and \$535,609 as of December 31, 2017 and 2016, respectively. Depreciation expense on equipment acquired under capital leases was \$249,154 for the years ended December 31, 2017 and 2016 (see Note 8).

4. CAPITALIZED COSTS AND AMORTIZATION

Capitalized costs, net consisted of the following as of December 31:

	<u>2017</u>	<u>2016</u>
Patents	\$ 420,860	\$ 316,370
Website costs	<u>64,800</u>	<u>64,800</u>
	485,660	381,170
Less - accumulated amortization	<u>152,340</u>	<u>102,711</u>
	<u>\$ 333,320</u>	<u>\$ 278,459</u>

Amortization expense related to capitalized costs was \$49,629 and \$40,192 for the years ended December 31, 2017 and 2016, respectively, and is included in depreciation and amortization in the accompanying consolidating statements of functional expenses. Amortization expense over the next five years is expected to be as follows:

2018	\$ 43,857
2019	\$ 28,057
2020	\$ 28,057
2021	\$ 28,057
2022	\$ 28,057

5. PLEDGES RECEIVABLE

Pledges receivable are due as follows as of December 31:

	<u>2017</u>	<u>2016</u>
Amounts due in:		
Less than one year	\$ 500,000	\$ 250,000
One to five years	<u>750,000</u>	<u>-</u>
	1,250,000	250,000
Less - discount	<u>29,029</u>	<u>-</u>
	1,220,971	250,000
Less - current portion	<u>500,000</u>	<u>250,000</u>
Long-term pledges receivable, net	<u>\$ 720,971</u>	<u>\$ -</u>

**ALS THERAPY DEVELOPMENT FOUNDATION, INC.
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Notes to Consolidating Financial Statements
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6. DONATED GOODS AND SERVICES

Donated professional services are included in donated services in the accompanying consolidating statements of activities for the years ended December 31, 2017 and 2016.

Donated special events - supplies and materials are included in special event contributions, support and donated goods in the accompanying consolidating statements of activities for the years ended December 31, 2017 and 2016.

The value of these goods and services are as follows:

	<u>2017</u>	<u>2016</u>
Special events - supplies and materials (see Note 7)	\$ 148,864	\$ 433,748
Professional services	<u>4,390</u>	<u>6,613</u>
	<u>\$ 153,254</u>	<u>\$ 440,361</u>

7. SPECIAL EVENT CONTRIBUTIONS, SUPPORT AND DONATED GOODS

Included in special event contributions, support and donated goods are the results of various special events, which are shown net of related expenses in the accompanying consolidating statements of activities. Special event revenue and direct expenses are summarized as follows for the years ended December 31:

<u>Special Event</u>	<u>2017</u>	<u>2016</u>
Special event contributions and support	\$ 9,374,284	\$ 7,821,478
Special event revenue	3,158,963	1,852,534
Special event donated goods (see Note 6)	148,864	433,748
Less - direct expenses	<u>(1,749,703)</u>	<u>(1,666,571)</u>
Special event contributions, support and donated goods, net	<u>\$ 10,932,408</u>	<u>\$ 8,441,189</u>

8. LEASE COMMITMENTS

Operating Facility and Equipment Leases

The Organization leases office and lab space located in Cambridge, Massachusetts under an operating lease. The lease commenced on March 2, 2012, and this lease was extended through February 2027. As part of this agreement, ALS TDI has presented the landlord with a standby letter of credit from a bank in the amount of \$288,733. The letter of credit is secured by a CD held at the same bank (see Note 2). The Organization is also responsible for its proportionate share of operating expenses, payable monthly.

In accordance with ASC Topic, *Leases*, upon extension of these lease term, the Organization began recording rent expense on a straight-line basis over the remaining term of the lease, regardless of actual cash payments. Accordingly, the Organization recorded additional rent expense totaling \$96,381 and \$205,432 during 2017 and 2016, respectively.

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Notes to Consolidating Financial Statements
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8. LEASE COMMITMENTS (Continued)

Operating Facility and Equipment Leases (Continued)

Rent expense and the deferred rent liability under this lease as of and for the years ended December 31, 2017 and 2016, are comprised of the following:

	<u>2017</u>	<u>2016</u>
Rent Expense:		
Minimum rent due	\$ 1,355,099	\$ 1,246,048
Accrual of deferred rent	<u>96,381</u>	<u>205,432</u>
	<u>\$ 1,451,480</u>	<u>\$ 1,451,480</u>
Deferred rent liability	<u>\$ 414,736</u>	<u>\$ 318,355</u>

ALS TDI rents additional office space, as well as warehouse space, under tenant-at-will agreements. Total rent expense for these spaces totaled \$17,800 and \$17,580 in 2017 and 2016, respectively.

Rent expense under these facilities leases is included in facility in the accompanying consolidating statements of functional expenses.

ALS TDI also leases office equipment under two operating lease agreements with monthly payments of \$293 and \$710, which expired in September 2017. One of the two leases was renewed in 2017, with monthly payments of \$232 through September 2020.

Rent expense under these operating equipment leases for the years ended December 31, 2017 and 2016, totaled \$9,723 and \$12,036, respectively, and is included in small equipment in the accompanying consolidating statements of functional expenses.

Future minimum lease payments under these agreements over the remainder of the lease terms are as follows:

	<u>Facility</u>	<u>Equipment</u>
2018	\$ 1,396,566	\$ 2,784
2019	\$ 1,421,139	\$ 2,784
2020	\$ 1,445,712	\$ 2,088
2021	\$ 1,470,285	\$ -
2022	\$ 1,494,858	\$ -
Thereafter	\$ 6,491,368	\$ -

Capital Leases

ALS TDI leases certain research and laboratory equipment under capital lease obligations, which are included in equipment (see Note 3). The interest rates under these agreements range from 4.5% to 8.3% per annum. These agreements expire at various dates through September 2020.

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Notes to Consolidating Financial Statements
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8. LEASE COMMITMENTS (Continued)

Capital Leases (Continued)

Future minimum lease payments under these agreements are as follows:

2018	\$ 245,492
2019	213,118
2020	<u>85,629</u>
Total future minimum payments	544,239
Less - amounts representing interest	<u>34,292</u>
Future minimum principal payments	509,947
Less - current portion	<u>222,770</u>
	<u>\$ 287,177</u>

9. RETIREMENT PLAN

ALS TDI contributes to a defined contribution pension plan (the Plan) under IRC Section 403(b). All employees are eligible to participate in the Plan upon the commencement of employment at ALS TDI. ALS TDI matches 50% of employee contributions, not to exceed \$1,000 of total matching contributions per employee each year. Employees vest immediately in all contributions. For 2017 and 2016, ALS TDI contributed \$39,333 and \$40,700, respectively, to the Plan, which is included in payroll taxes and fringe benefits in the accompanying consolidating statements of functional expenses.

10. CONCENTRATIONS

The Organization maintains its cash balances in certain banks. The Federal Deposit Insurance Corporation (FDIC) insures balances up to certain amounts. At certain times during the year, cash balances may exceed the insured amounts. The Organization has not experienced any losses in such accounts. The Organization believes it is not exposed to any significant credit risk on cash.

Cash equivalents include short-term, highly liquid investments with original maturities of three months or less and are reported at cost, which approximates fair value. ALS TDI deposits its cash equivalents in major financial institutions, and these accounts are not insured. ALS TDI has not experienced any losses in such accounts. ALS TDI believes it is not exposed to any significant credit risk on cash equivalents.

One hundred percent of ALS TDI's net pledges receivable are from one donor and ninety-nine percent of ALS TDI's accounts receivable are from two customers as of December 31, 2017. One hundred percent of ALS TDI's net pledges receivable are from three donors and one hundred percent of ALS TDI's accounts receivable are from three customers as of December 31, 2016.

11. RELATED PARTY TRANSACTIONS

ALS TDI entered into the following related party transactions:

- A family member of a member of the Board of Directors is employed by ALS TDI in the information technology department.

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Notes to Consolidating Financial Statements
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11. RELATED PARTY TRANSACTIONS (Continued)

- The Chairman of the Board of Directors is married to another Board member and is the brother-in-law of another Board member.
- The President, Chief Scientific Officer (CSO) and Chief Executive Officer (CEO) of the Organization is also a voting member of the Board of Directors. He is only compensated for his services performed as the President, CSO and CEO of the Organization.
- A member of the Board of Directors made a capital contribution of \$250,000 in 2017. This resulted in the issuance of 138,888 shares of Anelixis' common stock (see Note 16). At December 31, 2017, the Board member owns 1.7% of Anelixis' outstanding common stock. Subsequent to year end, this Board member purchased an additional 222,222 shares of common stock (see Note 18).
- Anelixis had a \$750,000 demand note payable with a member of the Board of Directors as of December 31, 2016. This note payable was assumed and paid by ALS TDI during 2017 and then converted into additional shares in Anelixis (see Note 14).
- ALS TDI made advances to Anelixis for operating costs during 2017 and 2016. The outstanding balance of these advances totaled \$271,492 and \$2,689,355 at December 31, 2017 and 2016, respectively, and are reflected as due (to) from related party in the accompanying consolidating statements of financial position and are eliminated in the consolidated totals. During 2017, ALS TDI converted \$3,089,394 of advances to Anelixis into 1,716,331 shares of common stock with par value of \$.00001 (see Note 16). The fair value of the stock approximates the liability forgiven and, therefore, no gain or loss was recognized. The investment is included in investment in affiliate in the accompanying consolidating statements of financial position.
- ALS TDI charges Anelixis a management fee for managing its operations, which totaled \$292,007 and \$378,986 for the years ended December 31, 2017 and 2016, respectively. These amounts are included in interest and other revenue and consultants expense in the accompanying consolidating financial statements and are eliminated in the consolidated totals.
- Anelixis provides services for ALS TDI as a sub-contractor under certain grant agreements, and ALS TDI also passes certain grants through to Anelixis. The amount of these grants to Anelixis totaled \$1,695,900 for the year ended December 31, 2017, and is reflected as grant expense and grants and contracts revenue in the accompanying consolidating financial statements.
- ALS TDI granted a license to Anelixis to use its patent rights in order to develop and commercialize a treatment for ALS under an agreement dated May 20, 2015 (see Note 17). Under this agreement, Anelixis must make payments to ALS TDI upon reaching certain milestones. Anelixis met the first milestone in 2017, and accordingly, owed a payment of \$1,000,000 to ALS TDI (see Note 17). The fee is shown as patent license fees in the accompanying consolidating statements of functional expenses and activities. In December 2017, ALS TDI elected to convert the amount owed under this agreement into additional shares of Anelixis' stock. Anelixis issued ALS TDI 555,555 shares of \$.00001 par value common stock in lieu of payment under this agreement (see Note 16). The fair value of the stock approximates the liability and, therefore, no gain or loss was recognized. The investment is included in investment in affiliate in the accompanying consolidating statements of financial position.

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December 31, 2017 and 2016

12. MANAGEMENT AGREEMENT

The Organization has an agreement with a management agent (the Agent) to carry on the fiscal, human resources, and information technology responsibilities of the Organization. The Agent receives management fees for services provided, as defined in the agreement, payable in monthly installments. Total fees incurred under this agreement for the years ended December 31, 2017 and 2016, were \$414,719 and \$442,834, respectively, and are included in consultants in the accompanying consolidating statements of functional expenses. This agreement continues until either the Organization or the Agent terminates the agreement with thirty-days written notice.

13. INCOME TAXES

At December 31, 2017 and 2016, Anelixis had, for Federal and state income tax purposes, net operating loss carryforwards (NOL) of approximately \$267,000 and \$150,000, respectively, available to offset future taxable income based on the December 31, 2016 tax returns. These carryforwards expire at various times through 2036. Due to the uncertainty of recognizing these carryforwards in future periods, they have been fully reserved as of December 31, 2017 and 2016. These Federal and state net operating losses may be carried forward for twenty years and five years, respectively.

14. NOTE PAYABLE - RELATED PARTY

During 2016, Anelixis entered into a \$750,000 demand note payable agreement with a member of ALS TDI's Board of Directors. The outstanding balance of this note earned interest at .75% and was due on demand. During 2017, the note payable was assumed by ALS TDI as consideration for Anelixis issuing 416,667 shares of common stock at \$.00001 par value (see Note 16). The fair value of the stock approximates the liability and, therefore, no gain or loss was recognized. ALS TDI paid this note in full during 2017.

15. CONDITIONAL GRANTS

In prior years, ALS TDI received grants that were conditional based on various criteria, as defined in the agreements. Remaining installments on these grants totaling \$690,000 as of December 31, 2016, were conditional upon ALS TDI reaching specific milestones, as defined in the grant agreements. During 2017, ALS TDI reached the specific milestones, recognized the revenue, and received the remaining installments. There were no conditional grant awards outstanding as of December 31, 2017.

16. CAPITAL STOCK

Anelixis' Board of Directors has authorized the issuance of 35,000,000 shares divided into (i) 25,000,000 of Common Stock, \$0.00001 par value per share (Series 1 Common Stock), (ii) 10,000,000 of Common Stock, \$0.00001 par value per share (Series 2 Common Stock).

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16. CAPITAL STOCK (Continued)

During 2017, Anelixis issued 3,188,550 shares of Series 1 Common Stock. Of these shares issued, 361,109 shares were issued to outside investors at \$1.80 per share, generating proceeds of \$650,000. An additional 138,888 shares were issued to a member of the Board of Directors of ALS TDI for \$250,000 (see Note 11). ALS TDI acquired the remaining 2,688,553 shares for the following consideration:

- 1,716,331 shares were issued in consideration of ALS TDI forgiving approximately \$3,090,000 of operating advances (see Note 11) it had made to Anelixis. The fair value of the shares at the time of the transaction was \$1.80 per share and, therefore, the consideration received approximated the value of the stock issued.
- 416,667 shares were issued for consideration of ALS TDI assuming a \$750,000 on-demand note payable from Anelixis (see Note 14). The fair value of the shares at the time of the transaction was \$1.80 per share and, therefore, the consideration received approximated the value of the stock issued.
- 555,555 shares were issued to ALS TDI in lieu of a cash payment for a \$1,000,000 license fee (see Notes 11 and 17). The fair value of the shares at the time of the transaction was \$1.80 per share and, therefore, the amount that was owed approximated the value of the stock issued.

The number of shares issued and outstanding is 8,188,550 and 5,000,000 as of December 31, 2017 and 2016, respectively.

Voting Rights

Except for certain permitted voting matters or as provided by law, the holders of Series 1 Common Stock are not entitled to vote on matters submitted to vote. The holders of Series 2 Common Stock are entitled to one vote per share on all matters submitted to stockholders for a vote.

Consulting Agreement

In October 2017, Anelixis entered into a consulting agreement with an unrelated individual. The agreement granted stock options representing 2% ownership at the time of the grant (156,000 shares) as compensation for consulting services which vest over a 36 month period. The strike price of options is \$1.80. The options are expected to be exercised. The agreement also provides for additional stock options to maintain 2% ownership contingent upon achievement of a certain level of outside financing. The strike price will be fair value of the options at the time financing is achieved. No expense was recorded in 2017 as the value of the options was not deemed to be material to the consolidating financial statements for the year ended December 31, 2017.

17. PATENT LICENSE AGREEMENT

On May 20, 2015, ALS TDI executed a License Agreement (the Agreement), which is an exclusive patent rights agreement with Anelixis for use of certain patents and “know-how” of ALS TDI. This agreement continues until Anelixis terminates the agreement with ninety-days written notice. The agreement calls for \$25,000,000 of license fees payable to ALS TDI, subject to Anelixis’ achievement of certain milestones and other conditions.

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17. PATENT LICENSE AGREEMENT (Continued)

The first milestone of the Agreement is the dosing of first subjects in first toxicity study in non-human primates, and was achieved as of December 31, 2017. The fee due under this milestone was \$1,000,000. As described in Notes 11 and 16, Anelixis issued common stock in lieu of making a cash payment.

The milestones of the Agreement not yet achieved as of December 31, 2017, are as follows:

- (a) \$1,000,000 after dosing of first patient in a Phase I Clinical Trial.
- (b) \$2,000,000 after dosing of first patient in a Phase IIA Clinical Trial.
- (c) \$2,000,000 after dosing of first patient in a Phase IIB Clinical Trial.
- (d) \$1,000,000 after dosing of first patient in a Phase III Clinical Trial.
- (e) \$5,000,000 after first completion of a Phase III Clinical Trial.
- (f) \$5,000,000 after first regulatory approval in the United States.
- (g) \$3,000,000 after first regulatory approval in the European Union.
- (h) \$2,000,000 after first regulatory approval in Asia.
- (i) \$3,000,000 after first commercial sale worldwide.

The milestones of the Agreement are considered substantive in nature based on the following:

- (a) substantive effort is involved in achieving each milestone;
- (b) milestone payments are reasonable in relation to the effort expended to achieve each milestone;
- (c) a reasonable amount of time has passed between each payment; and
- (d) there is risk associated with each milestone.

In addition to the milestone payments, Anelixis shall pay ALS TDI an annual license maintenance fee of \$150,000 beginning in the earlier of May 2021, Anelixis' first sublicense, or change in control, as defined in the Agreement. In the event of a change in control, the annual license maintenance fee and all milestone payments remaining will increase by 50%.

In addition, Anelixis shall pay ALS TDI fees based on reaching certain levels of annual net sales of any product produced with the patent rights. A royalty ranging between 4% and 7% shall be due on annual net sales greater than \$250 million. Upon the first calendar year of reaching \$500 million in aggregate net sales, Anelixis shall pay ALS TDI \$15,000,000. Upon the first calendar year of reaching \$1 billion in aggregate net sales, Anelixis shall pay ALS TDI \$30,000,000.

18. SUBSEQUENT EVENTS

In April 2018, the following stock transactions occurred:

- 788,887 shares of \$0.00001 par value non-voting common stock were issued to unrelated investors at \$2.25 per share for total cash proceeds of \$788,887.
- 632,948 shares of \$0.00001 par value non-voting common stock were issued to ALS TDI at \$2.25 per share in exchange for cash of \$999,999 and forgiving \$424,134 of operating advances.
- 222,222 shares of \$0.00001 par value non-voting common stock were issued to a member of the board of directors at \$2.25 per share for cash proceeds of \$500,000.