



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

**CONSOLIDATING FINANCIAL STATEMENTS
DECEMBER 31, 2018 AND 2017**

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

Contents
December 31, 2018 and 2017

	<u>Pages</u>
Independent Auditor's Report	1 - 1A
Consolidating Financial Statements:	
Consolidating Statements of Financial Position	2
Consolidating Statements of Activities	3
Consolidating Statements of Changes in Net Assets	4
Consolidating Statements of Cash Flows	5
Consolidating Statements of Functional Expenses	6 - 7
Notes to Consolidating Financial Statements	8 - 22



50 Washington Street
Westborough, MA 01581
508.366.9100
aafcpa.com

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, Anelaxis Therapeutics, Inc. (a Delaware corporation), which comprise the consolidating statements of financial position as of December 31, 2018 and 2017, 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, 2018 and 2017, 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
May 10, 2019

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

Consolidating Statements of Financial Position
December 31, 2018 and 2017

Assets	2018				2017			
	ALS TDI	Anelixis	Eliminations	Total	ALS TDI	Anelixis	Eliminations	Total
Current Assets:								
Cash and cash equivalents	\$ 4,317,383	\$ 355,621	\$ -	\$ 4,673,004	\$ 4,187,524	\$ 60,429	\$ -	\$ 4,247,953
Cash held for others	686,190	-	-	686,190	814,157	-	-	814,157
Accounts receivable	20,609	-	-	20,609	479,147	401,900	(401,900)	479,147
Current portion of pledges receivable	355,000	-	-	355,000	500,000	-	-	500,000
Prepaid expenses and other	654,808	-	-	654,808	371,468	1,995	-	373,463
Total current assets	<u>6,033,990</u>	<u>355,621</u>	<u>-</u>	<u>6,389,611</u>	<u>6,352,296</u>	<u>464,324</u>	<u>(401,900)</u>	<u>6,414,720</u>
Other Assets:								
Pledges receivable, net of current portion and discount	485,390	-	-	485,390	720,971	-	-	720,971
Certificate of deposit - restricted	300,721	-	-	300,721	296,247	-	-	296,247
Due from related party	567,350	-	(567,350)	-	271,492	-	(271,492)	-
Investment in affiliate	7,263,532	-	(7,263,532)	-	4,839,396	-	(4,839,396)	-
Property and equipment, net	569,386	-	-	569,386	781,861	-	-	781,861
Capitalized costs, net	431,891	-	-	431,891	333,320	-	-	333,320
Total other assets	<u>9,618,270</u>	<u>-</u>	<u>(7,830,882)</u>	<u>1,787,388</u>	<u>7,243,287</u>	<u>-</u>	<u>(5,110,888)</u>	<u>2,132,399</u>
Total assets	<u>\$ 15,652,260</u>	<u>\$ 355,621</u>	<u>\$ (7,830,882)</u>	<u>\$ 8,176,999</u>	<u>\$ 13,595,583</u>	<u>\$ 464,324</u>	<u>\$ (5,512,788)</u>	<u>\$ 8,547,119</u>
Liabilities and Net Assets								
Current Liabilities:								
Current portion of capital lease obligations	\$ 190,954	\$ -	\$ -	\$ 190,954	\$ 222,770	\$ -	\$ -	\$ 222,770
Accounts payable	487,073	150,909	-	637,982	392,087	251,037	-	643,124
Accrued expenses	262,590	-	-	262,590	665,234	-	(401,900)	263,334
Deferred revenue	52,374	-	-	52,374	89,175	-	-	89,175
Cash held for others	686,190	-	-	686,190	814,157	-	-	814,157
Total current liabilities	<u>1,679,181</u>	<u>150,909</u>	<u>-</u>	<u>1,830,090</u>	<u>2,183,423</u>	<u>251,037</u>	<u>(401,900)</u>	<u>2,032,560</u>
Long-Term Liabilities:								
Capital lease obligations, net of current portion	84,149	-	-	84,149	287,177	-	-	287,177
Deferred rent liability	469,646	-	-	469,646	414,736	-	-	414,736
Due to related party	-	567,350	(567,350)	-	-	271,492	(271,492)	-
Total liabilities	<u>2,232,976</u>	<u>718,259</u>	<u>(567,350)</u>	<u>2,383,885</u>	<u>2,885,336</u>	<u>522,529</u>	<u>(673,392)</u>	<u>2,734,473</u>
Net Assets:								
Without donor restrictions:								
Operating	11,943,110	301,213	(7,263,532)	4,980,791	8,869,573	94,868	(4,839,396)	4,125,045
Property and equipment and capitalized costs	726,174	-	-	726,174	590,674	-	-	590,674
Total net assets without donor restrictions	<u>12,669,284</u>	<u>301,213</u>	<u>(7,263,532)</u>	<u>5,706,965</u>	<u>9,460,247</u>	<u>94,868</u>	<u>(4,839,396)</u>	<u>4,715,719</u>
With donor restrictions	<u>750,000</u>	<u>-</u>	<u>-</u>	<u>750,000</u>	<u>1,250,000</u>	<u>-</u>	<u>-</u>	<u>1,250,000</u>
Total net assets attributable to ALS TDI and Subsidiary	<u>13,419,284</u>	<u>301,213</u>	<u>(7,263,532)</u>	<u>6,456,965</u>	<u>10,710,247</u>	<u>94,868</u>	<u>(4,839,396)</u>	<u>5,965,719</u>
Non-controlling interest	<u>-</u>	<u>(663,851)</u>	<u>-</u>	<u>(663,851)</u>	<u>-</u>	<u>(153,073)</u>	<u>-</u>	<u>(153,073)</u>
Total net assets	<u>13,419,284</u>	<u>(362,638)</u>	<u>(7,263,532)</u>	<u>5,793,114</u>	<u>10,710,247</u>	<u>(58,205)</u>	<u>(4,839,396)</u>	<u>5,812,646</u>
Total liabilities and net assets	<u>\$ 15,652,260</u>	<u>\$ 355,621</u>	<u>\$ (7,830,882)</u>	<u>\$ 8,176,999</u>	<u>\$ 13,595,583</u>	<u>\$ 464,324</u>	<u>\$ (5,512,788)</u>	<u>\$ 8,547,119</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 Activities
For the Years Ended December 31, 2018 and 2017

	2018				2017			
	ALS TDI	Anelixis	Eliminations	Total	ALS TDI	Anelixis	Eliminations	Total
Changes in Net Assets Without Donor Restrictions:								
Revenue:								
Special event contributions, support and donated goods	\$ 14,492,788	\$ -	\$ -	\$ 14,492,788	\$ 12,682,111	\$ -	\$ -	\$ 12,682,111
Less - direct expenses	2,657,352	-	-	2,657,352	1,749,703	-	-	1,749,703
Special event contributions, support and donated goods, net	11,835,436	-	-	11,835,436	10,932,408	-	-	10,932,408
Contributions	1,023,879	-	-	1,023,879	1,457,011	-	-	1,457,011
Grants and contracts	521,544	649,000	(275,000)	895,544	1,931,946	1,695,900	(1,695,900)	1,931,946
Net assets released from purpose restrictions	500,000	-	-	500,000	-	-	-	-
Fee for service	175,932	-	-	175,932	374,412	-	-	374,412
Interest and other	481,805	-	(396,903)	84,902	302,743	-	(292,007)	10,736
Donated services	73,289	-	-	73,289	4,390	-	-	4,390
Patent license fees	1,000,000	-	(1,000,000)	-	1,000,000	-	(1,000,000)	-
Net assets released from time restrictions	-	-	-	-	25,000	-	-	25,000
Total revenue	15,611,885	649,000	(1,671,903)	14,588,982	16,027,910	1,695,900	(2,987,907)	14,735,903
Operating expenses:								
Program services:								
Research and development:								
Science programs	7,198,048	-	(275,000)	6,923,048	7,959,013	-	(1,695,900)	6,263,113
Informatics	499,656	-	-	499,656	385,959	-	-	385,959
Patient services	216,776	-	-	216,776	157,331	-	-	157,331
Anelixis	-	4,923,289	(1,396,903)	3,526,386	-	4,201,190	(1,292,007)	2,909,183
Total research and development	7,914,480	4,923,289	(1,671,903)	11,165,866	8,502,303	4,201,190	(2,987,907)	9,715,586
Communications	2,365,946	-	-	2,365,946	2,036,328	-	-	2,036,328
Business development	306,634	-	-	306,634	232,933	-	-	232,933
Total program services	10,587,060	4,923,289	(1,671,903)	13,838,446	10,771,564	4,201,190	(2,987,907)	11,984,847
Support services:								
General and administrative	731,267	-	-	731,267	731,493	-	-	731,493
Fundraising	1,084,521	-	-	1,084,521	1,034,535	-	-	1,034,535
Total support services	1,815,788	-	-	1,815,788	1,766,028	-	-	1,766,028
Total operating expenses	12,402,848	4,923,289	(1,671,903)	15,654,234	12,537,592	4,201,190	(2,987,907)	13,750,875
Changes in net assets without donor restrictions	3,209,037	(4,274,289)	-	(1,065,252)	3,490,318	(2,505,290)	-	985,028
Changes in Net Assets With Donor Restrictions:								
Contributions	-	-	-	-	1,250,000	-	-	1,250,000
Net assets released from time restrictions	-	-	-	-	(25,000)	-	-	(25,000)
Net assets released from purpose restrictions	(500,000)	-	-	(500,000)	-	-	-	-
Changes in net assets with donor restrictions	(500,000)	-	-	(500,000)	1,225,000	-	-	1,225,000
Changes in net assets	2,709,037	(4,274,289)	-	(1,565,252)	4,715,318	(2,505,290)	-	2,210,028
Non-Controlling Interest	-	(510,778)	-	(510,778)	-	(153,073)	-	(153,073)
Changes in net assets attributable to ALS TDI and Subsidiary	\$ 2,709,037	\$ (3,763,511)	\$ -	\$ (1,054,474)	\$ 4,715,318	\$ (2,352,217)	\$ -	\$ 2,363,101

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, 2018 and 2017

	ALS TDI			Anelixis							Eliminations	Total
	Without Donor Restrictions	With Donor Restrictions	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, 2016	\$ 5,969,929	\$ 25,000	\$ 5,994,929	5,000,000	\$ -	\$ -	\$ (3,292,311)	\$ -	\$ (3,292,311)	\$ -	\$ 2,702,618	
Stock issuance, in exchange for cash, net of costs	-	-	-	499,997	55	899,945	-	-	900,000	-	900,000	
Conversion of debt from related party to common stock	-	-	-	1,716,331	17	3,089,379	-	-	3,089,396	(3,089,396)	-	
Common stock issued in lieu of payment of license fee expense - related party	-	-	-	555,555	6	999,994	-	-	1,000,000	(1,000,000)	-	
Loan conversion to stock	-	-	-	416,667	4	749,996	-	-	750,000	(750,000)	-	
Changes in net assets	<u>3,490,318</u>	<u>1,225,000</u>	<u>4,715,318</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(2,352,217)</u>	<u>(153,073)</u>	<u>(2,505,290)</u>	<u>-</u>	<u>2,210,028</u>	
Net Assets, December 31, 2017	9,460,247	1,250,000	10,710,247	8,188,550	82	5,739,314	(5,644,528)	(153,073)	(58,205)	(4,839,396)	5,812,646	
Stock issuance, in exchange for cash, net of costs	-	-	-	1,133,329	12	2,470,535	-	-	2,470,547	(1,000,000)	1,470,547	
Conversion of debt from related party to common stock	-	-	-	188,504	2	424,134	-	-	424,136	(424,136)	-	
Common stock issued in lieu of payment of license fee expense - related party	-	-	-	444,444	4	999,996	-	-	1,000,000	(1,000,000)	-	
Stock compensation expense	-	-	-	-	-	75,173	-	-	75,173	-	75,173	
Changes in net assets	<u>3,209,037</u>	<u>(500,000)</u>	<u>2,709,037</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(3,763,511)</u>	<u>(510,778)</u>	<u>(4,274,289)</u>	<u>-</u>	<u>(1,565,252)</u>	
Net Assets, December 31, 2018	<u>\$ 12,669,284</u>	<u>\$ 750,000</u>	<u>\$ 13,419,284</u>	<u>9,954,827</u>	<u>\$ 100</u>	<u>\$ 9,709,152</u>	<u>\$ (9,408,039)</u>	<u>\$ (663,851)</u>	<u>\$ (362,638)</u>	<u>\$ (7,263,532)</u>	<u>\$ 5,793,114</u>	

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, 2018 and 2017

	2018				2017			
	ALS TDI	Anelixis	Eliminations	Total	ALS TDI	Anelixis	Eliminations	Total
Cash Flows from Operating Activities:								
Changes in net assets	\$ 2,709,037	\$ (4,274,289)	\$ -	\$ (1,565,252)	\$ 4,715,318	\$ (2,505,290)	\$ -	\$ 2,210,028
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	-	-	(1,000,000)	1,000,000	-	-
Depreciation and amortization	380,926	-	-	380,926	379,591	-	-	379,591
Change in discount on pledges receivable	14,419	-	-	14,419	(28,539)	-	-	(28,539)
Stock compensation expense	-	75,173	-	75,173	-	-	-	-
Changes in operating assets and liabilities:								
Accounts receivable	458,538	401,900	-	860,438	(349,975)	(401,900)	401,900	(349,975)
Pledges receivable	366,162	-	-	366,162	(942,432)	-	-	(942,432)
Prepaid expenses and other	(283,340)	1,995	-	(281,345)	(1,155)	(1,995)	-	(3,150)
Due to (from) related party	(719,994)	719,994	-	-	(671,533)	671,533	-	-
Accounts payable	109,546	(100,128)	-	9,418	(5,677)	217,572	-	211,895
Accrued expenses	(402,644)	-	-	(402,644)	400,177	-	(401,900)	(1,723)
Deferred rent liability	54,910	-	-	54,910	96,381	-	-	96,381
Deferred revenue	(36,801)	-	-	(36,801)	(56,786)	-	-	(56,786)
Net cash provided by (used in) operating activities	<u>1,650,759</u>	<u>(2,175,355)</u>	<u>-</u>	<u>(524,596)</u>	<u>2,535,370</u>	<u>(1,020,080)</u>	<u>-</u>	<u>1,515,290</u>
Cash Flows from Investing Activities:								
Acquisition of property and equipment	(131,783)	-	-	(131,783)	(307,320)	-	-	(307,320)
Cash paid for capitalized costs	(149,799)	-	-	(149,799)	(104,490)	-	-	(104,490)
Interest earned on certificate of deposit - restricted	(4,474)	-	-	(4,474)	(1,329)	-	-	(1,329)
Net cash used in investing activities	<u>(286,056)</u>	<u>-</u>	<u>-</u>	<u>(286,056)</u>	<u>(413,139)</u>	<u>-</u>	<u>-</u>	<u>(413,139)</u>
Cash Flows from Financing Activities:								
Proceeds from stock issuance, net	-	2,470,547	(1,000,000)	1,470,547	-	900,000	-	900,000
Purchase of common stock	(1,000,000)	-	1,000,000	-	-	-	-	-
Principal payments on capital lease obligations	(234,844)	-	-	(234,844)	(243,681)	-	-	(243,681)
Principal payments on note payable - related party	-	-	-	-	(750,000)	-	-	(750,000)
Net cash provided by (used in) financing activities	<u>(1,234,844)</u>	<u>2,470,547</u>	<u>-</u>	<u>1,235,703</u>	<u>(993,681)</u>	<u>900,000</u>	<u>-</u>	<u>(93,681)</u>
Net Change in Cash and Cash Equivalents	<u>129,859</u>	<u>295,192</u>	<u>-</u>	<u>425,051</u>	<u>1,128,550</u>	<u>(120,080)</u>	<u>-</u>	<u>1,008,470</u>
Cash and Cash Equivalents:								
Beginning 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>-</u>	<u>3,239,483</u>
End of year	<u>\$ 4,317,383</u>	<u>\$ 355,621</u>	<u>\$ -</u>	<u>\$ 4,673,004</u>	<u>\$ 4,187,524</u>	<u>\$ 60,429</u>	<u>\$ -</u>	<u>\$ 4,247,953</u>
Supplemental Disclosure of Cash Flow Information:								
Cash paid for interest	<u>\$ 21,424</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 21,424</u>	<u>\$ 40,802</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 40,802</u>
Supplemental Disclosure of Non-Cash Transactions:								
Property and equipment financed with accounts payable	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 14,560</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 14,560</u>
Debt converted to common stock in subsidiary	<u>\$ 1,424,136</u>	<u>\$ (1,424,136)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 4,839,396</u>	<u>\$ (4,839,396)</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, 2018
(With Summarized Comparative Totals for the Year Ended December 31, 2017)

	2018												2017	
	Program Services						Support Services						Total	
	Research and Development			Total Research and Development	Communi- cations	Business Development	Total Program Services	General and Adminis- trative		Fundraising	Total ALS TDI	Anelixis		Eliminations
Science Programs	Informatics	Patient Services	General and Adminis- trative					Fundraising						
Personnel and Related:														
Salaries	\$ 2,233,418	\$ 225,683	\$ 148,714	\$ 2,607,815	\$ 1,167,135	\$ 170,953	\$ 3,945,903	\$ 285,949	\$ 388,947	\$ 4,620,799	\$ -	\$ -	\$ 4,620,799	\$ 4,305,836
Consultants	226,370	20,995	13,518	260,883	301,616	15,530	578,029	49,473	153,201	780,703	1,344,552	(396,903)	1,728,352	973,693
Payroll taxes and fringe benefits	540,163	51,216	34,674	626,053	276,844	49,218	952,115	86,303	93,193	1,131,611	-	-	1,131,611	1,059,544
Total personnel and related	<u>2,999,951</u>	<u>297,894</u>	<u>196,906</u>	<u>3,494,751</u>	<u>1,745,595</u>	<u>235,701</u>	<u>5,476,047</u>	<u>421,725</u>	<u>635,341</u>	<u>6,533,113</u>	<u>1,344,552</u>	<u>(396,903)</u>	<u>7,480,762</u>	<u>6,339,073</u>
Other Expenses:														
Testing and lab expense	1,568,715	-	-	1,568,715	86	-	1,568,801	-	-	1,568,801	2,343,800	-	3,912,601	3,384,622
Fundraising event expenses	-	-	-	-	-	-	-	-	2,657,352	2,657,352	-	-	2,657,352	1,749,703
Facility	1,174,407	26,998	-	1,201,405	81,102	33,747	1,316,254	62,796	-	1,379,050	101,582	-	1,480,632	1,486,311
Maintenance	384,685	8,677	566	393,928	10,653	10,492	415,073	16,802	1,446	433,321	32,575	-	465,896	522,761
Small equipment	204,563	133,283	1,357	339,203	14,818	323	354,344	2,322	44,745	401,411	-	-	401,411	197,251
Meetings and conferences	32,556	-	-	32,556	226,480	-	259,036	14,064	26,370	299,470	28,132	-	327,602	242,360
Utilities	209,695	7,372	2,759	219,826	27,005	8,272	255,103	12,510	6,091	273,704	20,514	-	294,218	222,196
Miscellaneous	7,913	656	394	8,963	8,853	453	18,269	75,213	140,709	234,191	33,261	-	267,452	223,614
Printing and postage	78,504	413	201	79,118	70,437	214	149,769	888	63,295	213,952	-	-	213,952	237,815
Advertising	-	-	-	-	2,874	-	2,874	-	105,216	108,090	-	-	108,090	41,609
Professional services	-	-	-	-	-	-	-	85,682	-	85,682	11,664	-	97,346	204,712
Telephone and internet	14,573	1,922	924	17,419	53,593	1,082	72,094	3,009	3,685	78,788	817	-	79,605	123,663
Program supplies and materials	15,206	1,199	774	17,179	11,329	846	29,354	5,751	22,279	57,384	-	-	57,384	50,625
Insurance	20,156	2,022	1,356	23,534	10,572	1,555	35,661	2,611	3,510	41,782	3,070	-	44,852	23,904
Interest	21,424	-	-	21,424	-	-	21,424	-	-	21,424	-	-	21,424	40,802
Dues and subscriptions	5,634	-	-	5,634	3,211	-	8,845	3,004	-	11,849	3,322	-	15,171	19,195
Staff training and travel	160	240	-	400	1,789	1,207	3,396	1,503	11	4,910	-	-	4,910	10,771
Grant expense	275,000	-	-	275,000	-	-	275,000	-	-	275,000	-	(275,000)	-	-
Patent license fees	-	-	-	-	-	-	-	-	-	-	1,000,000	(1,000,000)	-	-
Total other expenses	<u>4,013,191</u>	<u>182,782</u>	<u>8,331</u>	<u>4,204,304</u>	<u>522,802</u>	<u>58,191</u>	<u>4,785,297</u>	<u>286,155</u>	<u>3,074,709</u>	<u>8,146,161</u>	<u>3,578,737</u>	<u>(1,275,000)</u>	<u>10,449,898</u>	<u>8,781,914</u>
Less - fundraising event expenses included with revenues on the consolidating statement of activities	-	-	-	-	-	-	-	-	(2,657,352)	(2,657,352)	-	-	(2,657,352)	(1,749,703)
Depreciation and Amortization	<u>184,906</u>	<u>18,980</u>	<u>11,539</u>	<u>215,425</u>	<u>97,549</u>	<u>12,742</u>	<u>325,716</u>	<u>23,387</u>	<u>31,823</u>	<u>380,926</u>	<u>-</u>	<u>-</u>	<u>380,926</u>	<u>379,591</u>
Total expenses	<u>\$ 7,198,048</u>	<u>\$ 499,656</u>	<u>\$ 216,776</u>	<u>\$ 7,914,480</u>	<u>\$ 2,365,946</u>	<u>\$ 306,634</u>	<u>\$ 10,587,060</u>	<u>\$ 731,267</u>	<u>\$ 1,084,521</u>	<u>\$ 12,402,848</u>	<u>\$ 4,923,289</u>	<u>\$ (1,671,903)</u>	<u>\$ 15,654,234</u>	<u>\$ 13,750,875</u>

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

	Program Services						Support Services						
	Research and Development			Total Research and Development	Communi- cations	Business Development	Total Program Services	General and Adminis- trative		Total ALS TDI	Anelixis	Eliminations	Total
	Science Programs	Informatics	Patient Services					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
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
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
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
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
Fundraising event expenses	-	-	-	-	-	-	-	-	1,749,703	1,749,703	-	-	1,749,703
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
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
Small equipment	100,875	33,213	1,752	135,840	17,889	679	154,408	4,153	38,690	197,251	-	-	197,251
Meetings and conferences	32,396	-	-	32,396	151,715	-	184,111	25,316	23,739	233,166	9,194	-	242,360
Utilities	182,966	4,183	-	187,149	9,412	5,229	201,790	8,366	-	210,156	12,040	-	222,196
Miscellaneous	11,190	876	439	12,505	5,171	624	18,300	46,953	152,520	217,773	5,841	-	223,614
Printing and postage	84,496	563	309	85,368	86,878	636	172,882	1,130	63,803	237,815	-	-	237,815
Advertising	914	-	-	914	1,154	-	2,068	-	39,541	41,609	-	-	41,609
Professional services	-	-	-	-	-	-	-	115,259	-	115,259	89,453	-	204,712
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
Program supplies and materials	10,564	660	342	11,566	4,869	461	16,896	1,832	31,897	50,625	-	-	50,625
Insurance	11,009	1,046	553	12,608	5,575	894	19,077	1,453	2,079	22,609	1,295	-	23,904
Interest	36,088	-	-	36,088	-	-	36,088	4,714	-	40,802	-	-	40,802
Dues and subscriptions	3,263	-	-	3,263	153	-	3,416	9,660	-	13,076	6,119	-	19,195
Staff training and travel	4,523	240	-	4,763	1,342	1,320	7,425	3,080	266	10,771	-	-	10,771
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	2,121,684	7,957,250	3,520,564	(2,695,900)	8,781,914
	7,773,692	368,286	147,937	8,289,915	1,942,616	218,595	10,451,126	707,317	2,749,261	13,907,704	4,201,190	(2,987,907)	15,120,987
Less - fundraising event expenses included with revenues on the consolidating statement of activities	-	-	-	-	-	-	-	-	(1,749,703)	(1,749,703)	-	-	(1,749,703)
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
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

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

Notes to Consolidating Financial Statements
December 31, 2018 and 2017

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, 2018 and 2017, ALS TDI owns approximately 88% and 94% 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 \$10,071,890 and \$5,797,601 at December 31, 2018 and 2017, 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 88% and 94% of Anelixis' stock at December 31, 2018 and 2017, respectively.

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

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).

Adoption of New Accounting Standard

In 2018, the Organization adopted FASB's Accounting Standards Update (ASU) 2016-14, *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities*. This ASU modified the current guidance over several criteria, of which the following affected the Organization's consolidating financial statements:

- Net assets are segregated into two categories, "with donor restrictions" and "without donor restrictions", as opposed to the previous requirement "unrestricted" and "temporarily restricted" net assets.
- Qualitative and quantitative information relating to management of liquidity and the availability of financial assets to cover short-term cash needs within one year from the consolidating statement of financial position date has been included in the notes.
- A more detailed explanation of the methods used to allocate costs among program and supporting (general and administrative and fundraising) functions has been included in the notes to the consolidating financial statements.

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

Notes to Consolidating Financial Statements
December 31, 2018 and 2017

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Adoption of New Accounting Standard (Continued)

The Organization has adjusted the presentation of these statements accordingly. The adoption of this ASU did not impact the Organization's net asset balance, results of operations, or cash flows for the years ended December 31, 2018 and 2017. This ASU has been applied retrospectively to all periods presented. This ASU provides an option to omit the disclosure about its liquidity and availability of resources as of December 31, 2017.

Pledges Receivable

Pledges receivable are recorded as unconditionally committed. Long-term pledges receivable at December 31, 2018 and 2017, have been discounted to present value using a discount rate of 2% (see Note 5).

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 pledges 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 and pledges receivable has been recorded as of December 31, 2018 and 2017.

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 website 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 reductions in value due to impairment were recognized in 2018 or 2017.

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

Patents	15 years
Website costs	3 years

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

Notes to Consolidating Financial Statements
December 31, 2018 and 2017

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Net Assets

Net assets without donor restrictions are those net resources that bear no external restrictions and are generally available for use by the Organization. The Organization has grouped its net assets without donor restrictions 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.

Net assets with donor restrictions represent amounts received or committed by donors with time or purpose restrictions that have not yet been met.

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 members 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. Grants, contributions and donated goods and services without donor restrictions are recognized as revenue when unconditionally committed or received. Restricted grants and contributions are recorded as revenues with donor restrictions and net assets with donor restrictions when received or unconditionally pledged. Transfers are made to net assets without donor restrictions as costs are incurred or time restrictions lapse. Donor restricted grants received and satisfied in the same period are included in net assets without donor restrictions. 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 18).

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).

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.

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

Notes to Consolidating Financial Statements
December 31, 2018 and 2017

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

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.

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. All qualifying assets and liabilities are valued using Level 1 inputs, except for Anelixis' assets and liabilities which were not subject to ASC Topic, *Fair Value Measurements*, and were not valued using fair value accounting.

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.

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 year.

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

Notes to Consolidating Financial Statements
December 31, 2018 and 2017

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Certificate of Deposit - Restricted

Certificate of deposit - restricted (CD) consists of a CD with an initial maturity of twelve months which matured in November 2018 and earned interest at 1.5% per annum. The CD automatically renews annually and the CD was renewed through November 2019 with interest at 2.5% 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.

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.

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 (see Note 13).

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, 2018 and 2017. The Organization's information returns are subject to examination by the Federal and state jurisdictions.

Expense Allocation

Expenses related directly to a function are distributed to that function. The consolidating financial statements contain certain categories of expenses that are not directly attributable to program and supporting functions. Therefore, these expenses require allocation on a reasonable basis that is consistently applied. The expenses that are allocated include postage, printing, insurance, telephone and internet, which are allocated based on salary and staff time allocation. An additional allocated expense is facility expense, which is allocated based on the square footage that each program occupies.

Advertising Costs

Advertising costs are expensed when incurred.

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

Notes to Consolidating Financial Statements
December 31, 2018 and 2017

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Subsequent Events

Subsequent events have been evaluated through May 10, 2019, which is the date the consolidating financial statements were available to be issued. See Note 11 for an event that met the criteria for disclosure in the consolidating financial statements.

3. PROPERTY AND EQUIPMENT AND DEPRECIATION

As of December 31, 2018 and 2017, property and equipment consisted of the following:

	<u>2018</u>	<u>2017</u>
Equipment	\$ 2,592,774	\$ 2,845,137
Leasehold improvements	<u>375,683</u>	<u>375,683</u>
	2,968,457	3,220,820
Less - accumulated depreciation	<u>2,399,071</u>	<u>2,438,959</u>
	<u>\$ 569,386</u>	<u>\$ 781,861</u>

Depreciation expense was \$329,698 and \$329,962 for the years ended December 31, 2018 and 2017, respectively, and is included in depreciation and amortization in the accompanying consolidating statements of functional expenses.

The cost of equipment acquired under capital leases was \$1,245,768 as of December 31, 2018 and 2017. Accumulated depreciation of equipment acquired under capital leases was \$1,011,764 and \$784,763 as of December 31, 2018 and 2017, respectively. Depreciation expense on equipment acquired under capital leases was \$227,001 and \$249,154 for the years ended December 31, 2018 and 2017, respectively (see Note 8).

4. CAPITALIZED COSTS AND AMORTIZATION

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

	<u>2018</u>	<u>2017</u>
Patents	\$ 570,659	\$ 420,860
Website costs	<u>64,800</u>	<u>64,800</u>
	635,459	485,660
Less - accumulated amortization	<u>203,568</u>	<u>152,340</u>
	<u>\$ 431,891</u>	<u>\$ 333,320</u>

Amortization expense related to capitalized costs was \$51,228 and \$49,629 for the years ended December 31, 2018 and 2017, 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:

2019	\$ 40,544
2020	\$ 38,044
2021	\$ 38,044
2022	\$ 38,044
2023	\$ 38,044

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

Notes to Consolidating Financial Statements
December 31, 2018 and 2017

5. PLEDGES RECEIVABLE

Pledges receivable are due as follows as of December 31:

	<u>2018</u>	<u>2017</u>
Amounts due in:		
Less than one year	\$ 355,000	\$ 500,000
One to five years	500,000	750,000
	<u>855,000</u>	<u>1,250,000</u>
Less - discount	14,610	29,029
	<u>840,390</u>	<u>1,220,971</u>
Less - current portion	355,000	500,000
	<u>485,390</u>	<u>720,971</u>
Long-term pledges receivable, net	<u>\$ 485,390</u>	<u>\$ 720,971</u>

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, 2018 and 2017.

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, 2018 and 2017.

The value of these goods and services are as follows:

	<u>2018</u>	<u>2017</u>
Special events - supplies and materials (see Note 7)	\$ 256,917	\$ 148,864
Professional services	73,289	4,390
	<u>\$ 330,206</u>	<u>\$ 153,254</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>2018</u>	<u>2017</u>
Special event contributions and support	\$ 10,862,187	\$ 9,374,284
Special event revenue	3,373,684	3,158,963
Special event donated goods (see Note 6)	256,917	148,864
Less - direct expenses	<u>(2,657,352)</u>	<u>(1,749,703)</u>
Special event contributions, support and donated goods, net	<u>\$ 11,835,436</u>	<u>\$ 10,932,408</u>

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

Notes to Consolidating Financial Statements
December 31, 2018 and 2017

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 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 terms, 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 \$54,910 and \$96,381 during 2018 and 2017, respectively.

Rent expense and the deferred rent liability under this lease as of and for the years ended December 31, 2018 and 2017, are comprised of the following:

	<u>2018</u>	<u>2017</u>
Rent expense:		
Minimum rent due	\$ 1,396,570	\$ 1,355,099
Accrual of deferred rent	<u>54,910</u>	<u>96,381</u>
	<u>\$ 1,451,480</u>	<u>\$ 1,451,480</u>
Deferred rent liability	<u>\$ 469,646</u>	<u>\$ 414,736</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 in 2018 and 2017.

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

ALS TDI also leased 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, 2018 and 2017, totaled \$2,784 and \$9,723, 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>
2019	\$ 1,421,139	\$ 2,784
2020	\$ 1,445,712	\$ 2,088
2021	\$ 1,470,285	\$ -
2022	\$ 1,494,858	\$ -
2023	\$ 1,519,431	\$ -
Thereafter	\$ 4,971,937	\$ -

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

Notes to Consolidating Financial Statements
December 31, 2018 and 2017

8. LEASE COMMITMENTS (Continued)

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.

Future minimum lease payments under these agreements are as follows:

2019	\$ 201,045
2020	<u>85,628</u>
Total future minimum payments	286,673
Less - amounts representing interest	<u>11,570</u>
Future minimum principal payments	275,103
Less - current portion	<u>190,954</u>
Capital lease obligations, net	<u>\$ 84,149</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 2018 and 2017, ALS TDI contributed \$39,244 and \$39,333, respectively, to the Plan, which are 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.

Eighty-eight percent and one hundred percent of ALS TDI's net pledges receivable are from one donor as of December 31, 2018 and 2017, respectively. One hundred percent and ninety-nine percent of ALS TDI's accounts receivable are from one customer and two customers as of December 31, 2018 and 2017, respectively.

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

Notes to Consolidating Financial Statements
December 31, 2018 and 2017

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.
- The Chairman of the Board of Directors is married to another Board member and is the brother-in-law of another Board member.
- One member of the Board of Directors is the father of another member of the Board of Directors.
- The President 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 and CEO of the Organization.
- Three members of the Board of Directors made a combined capital contribution to Anelixis of \$800,000 in 2018. One member of the Board of Directors made a capital contribution of \$250,000 in 2017. This resulted in the issuance of 355,554 and 138,888 shares of Anelixis' common stock in 2018 and 2017, respectively (see Note 16). At December 31, 2018 and 2017, the Board member(s) own approximately 4% and 2% of Anelixis' outstanding common stock, respectively.
- 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).
- Effective November 1, 2017, ALS TDI entered into a Resource Sharing Agreement with Anelixis. Under this agreement, ALS TDI intends to share certain employees, office space, furniture, equipment, facilities, and other resources. ALS TDI charged Anelixis a management fee for managing its operations under this agreement, which totaled \$396,903 and \$292,007 for the years ended December 31, 2018 and 2017, 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.
- ALS TDI made advances to Anelixis for operating costs during 2018 and 2017. The outstanding balance of these advances totaled \$567,350 and \$271,492 at December 31, 2018 and 2017, 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 2018 and 2017, ALS TDI converted \$424,136 and \$3,089,394, respectively, of advances to Anelixis into 188,504 and 1,716,331 shares of common stock with par value of \$.00001, respectively (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.
- 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 \$275,000 and \$1,695,900 for the years ended December 31, 2018 and 2017, respectively, and is reflected as grant expense and grants and contracts revenue in the accompanying consolidating financial statements and are eliminated in the consolidated totals.

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

Notes to Consolidating Financial Statements
December 31, 2018 and 2017

11. RELATED PARTY TRANSACTIONS (Continued)

- During 2018, an unrelated nonprofit organization was formed by two Board members of ALS TDI. ALS TDI provided advances for start-up and initial operating expenses to this organization during 2018 (see Note 20).
- 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 two milestones in 2018 and 2017, respectively, and accordingly, owed a payment of \$1,000,000 to ALS TDI (see Note 18). The fees are shown as patent license fees in the accompanying consolidating statements of functional expenses and activities. In December 2018 and 2017, ALS TDI elected to convert the amount owed under this agreement into additional shares of Anelixis' stock. Anelixis issued ALS TDI 444,444 and 555,555 shares of \$.00001 par value common stock in lieu of payment under this agreement during 2018 and 2017, respectively (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 and is eliminated in the consolidated totals.
- During 2018, two members of the Board of Directors formed Augie's Quest to Cure ALS, Inc. (Augie's Quest), a California corporation, formed for charitable purposes under Section 501(c)(3) of the IRC. This entity had no operating activity during 2018. During 2018, ALS TDI paid startup costs on behalf of Augie's Quest totaling \$35,459 and also made an advance to Augie's Quest totaling \$200,000. At December 31, 2018, Augie's Quest owed ALS TDI \$235,459, which is included in prepaid expenses and other in the accompanying consolidating statement of financial position. Management expects these amounts to be repaid during 2019. Subsequent to year-end, Augie's Quest began operating as an unrelated nonprofit corporation.

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, 2018 and 2017, were \$444,687 and \$414,719, 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.

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

Notes to Consolidating Financial Statements
December 31, 2018 and 2017

13. INCOME TAXES

The principal components of Anelixis' deferred tax assets and liabilities consist of the following at December 31:

	<u>2018</u>	<u>2017</u>
Research and development credits	\$ 1,741,000	\$ 1,307,000
Federal and state net operating losses	929,000	221,000
Federal and state credits	770,000	516,000
Other	<u>21,000</u>	<u>-</u>
Total deferred tax assets, net	3,461,000	2,044,000
Less - valuation allowance	<u>(3,461,000)</u>	<u>(2,044,000)</u>
Net deferred tax assets	<u>\$ -</u>	<u>\$ -</u>

As of December 31, 2018, Anelixis has Federal and state net operating loss carryforwards of approximately \$3,431,000 and \$3,305,000, respectively, which may be used to offset future taxable income, if any, and expire at various dates through 2038. Federal net operating losses generated in 2018 totaling approximately \$2,616,000 are not subject to expiration. As of December 31, 2018, Anelixis also has Federal and state tax credits of approximately \$516,000 and \$254,000 which expire through 2038 and 2033, respectively.

Utilization of the net operating loss and research and development credit carryforwards may be subject to a substantial annual limitation under Section 382 of the Internal Revenue Code of 1986 due to ownership changes that have occurred previously or that could occur in the future. These ownership changes may limit the amount of net operating loss and research and development credit carryforwards that can be utilized annually to offset future taxable income and tax, respectively.

Anelixis has evaluated the positive and negative evidence bearing upon the realizability of its deferred tax assets, which are composed principally of net operating loss carryforwards and credits. Under the applicable accounting standards, management has considered Anelixis' history of losses and concluded that it is more-likely-than-not that Anelixis will not generate taxable income in the foreseeable future. Accordingly, a full valuation allowance has been established.

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 (see Note 11). 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 approximated 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. During 2017, ALS TDI reached the remaining specific milestones, recognized the revenue, and received the remaining installments on these conditional grants. There were no conditional grant awards outstanding as of December 31, 2018 and 2017.

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

Notes to Consolidating Financial Statements
December 31, 2018 and 2017

16. CAPITAL STOCK

Anelixis' Board of Directors has authorized the issuance of 35,000,000 shares comprised of 10,000,000 shares of Voting Common Stock, par value \$0.00001 per share, and 25,000,000 shares of Non-Voting Common Stock, par value \$0.00001 per share. The rights and privileges of the Voting and Non-Voting Common Stock shall be equal in all respects except that the voting power for the election of directors and all other purpose shall be vested exclusively in the holders of the Voting Common Stock.

During 2018, Anelixis issued 1,766,277 shares of Series 1 Common Stock. Of these shares issued, 333,331 shares were issued to outside investors at \$2.25 per share, generating proceeds of \$749,996. An additional 355,554 shares were issued at \$2.25 per share to members of the Board of Directors of ALS TDI for \$800,000 (see Note 11). ALS TDI acquired the remaining 1,077,392 shares in exchange for cash, forgiveness of repayment advances (see Note 11), and in lieu of license fee payments.

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 in exchange for loan conversion to stock, forgiveness of repayment advances (see Note 11), and in lieu of license fee payments.

The number of shares issued and outstanding is 9,954,827 and 8,188,550 as of December 31, 2018 and 2017, 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.

17. EQUITY INCENTIVE PLAN

Anelixis established an Equity Incentive Plan (the Plan) that allows for the issuance of up to 800,000 shares of common stock. The Plan provides an incentive to attract, retain and reward the person performing service for Anelixis and by motivating such persons to contribute to the growth and profitability of Anelixis. Under the Plan, Anelixis may grant shares of Common Stock to employees, officers, directors, and consultants of Anelixis.

The options vest over time or upon the achievement of certain milestones and are exercisable at a per share price equal to the fair value of the Common Stock on the grant date. The Board of Directors of Anelixis determines the time at which an award will vest or become exercisable and the terms on which the award requiring exercise will remain exercisable.

During 2017, Anelixis, granted stock options to an individual representing 2% ownership at the time of the grant (156,000 shares) as compensation for consulting services which vest over a thirty-six-month period with a strike price of \$1.80 per share. The agreement also provides for additional stock options to maintain 2% ownership contingent upon achievement of a certain level of outside financing. The Company recorded shared-base compensation in the amount of \$75,173 in connection with the consultant agreement in 2017. As of December 31, 2018, 156,000 options have been granted and remain outstanding, 86,667 of these shares remain subject to vesting conditions.

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

Notes to Consolidating Financial Statements
December 31, 2018 and 2017

18. 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.

The first and second milestones of the Agreement are the dosing of first subjects in first toxicity study in non-human primates and the dosing of the first patient in a Phase I Clinical Trial, respectively. The first milestone was achieved as of December 31, 2017, and the second as of December 31, 2018. The fee due under these milestones was \$1,000,000 each. During 2018 and 2017, Anelixis issued \$1,000,000 worth of common stock in lieu of making the cash payment that was due in each year.

The milestones of the Agreement not yet achieved as of December 31, 2018, are as follows:

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

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

Notes to Consolidating Financial Statements
December 31, 2018 and 2017

19. LIQUIDITY AND AVAILABILITY OF FINANCIAL ASSETS

The Organization's financial assets available within one year from the consolidating statement of financial position date for general operating expenses are as follows:

Cash and cash equivalents	\$ 4,673,004
Accounts receivable	20,609
Current portion of pledges receivable	<u>355,000</u>
Total financial assets	5,048,613
Less - current portion of pledges receivable with donor restrictions	<u>(250,000)</u>
Financial assets available to meet cash needs for general expenditures within one year	<u>\$ 4,798,613</u>

The Organization has a policy to structure its financial assets to be available as its obligations become due. As of December 31, 2018, the Organization has financial assets equal to approximately four months of operating expenses.