PATH

A catalyst for global health

Consolidated Financial Statements

For the Years Ended
December 31, 2010 and 2009

Table of Contents

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Certified Public
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Independent Auditors' Report

Board of Directors
Program for Appropriate Technology in Health (PATH) and Subsidiaries
Seattle, Washington

We have audited the accompanying consolidated statements of financial position of Program for Appropriate Technology in Health (PATH) and Subsidiaries (collectively, the Organization) as of December 31, 2010 and 2009, and the related consolidated statements of unrestricted activities, changes in net assets, and cash flows for the years then ended. These consolidated financial statements are the responsibility of the Organization's management. Our responsibility is to express an opinion on these 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 financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the Organization as of December 31, 2010 and 2009, and the changes in its net assets and its cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

Clark Nuber P.S.

Certified Public Accountants
May 10, 2011

PROGRAM FOR APPROPRIATE TECHNOLOGY IN HEALTH (PATH) AND SUBSIDIARIES

Consolidated Statements of Financial Position (In Thousands of Dollars)

December 31,	*2010*	*2009*
Assets		
Cash and cash equivalents	$ 33,740	$ 72,521
Investments	309,453	292,808
Contributions and awards receivable, net	398,329	459,288
Prepaid expenses and other	2,337	1,882
Other receivables	2,503	5,533
Furniture, equipment and leasehold improvements, net	20,552	16,861
Patent, net	762	941
Total Assets	**$ 767,676**	**$ 849,834**
Liabilities and Net Assets		
Accounts payable	$ 33,826	$ 17,532
Accrued expenses and other liabilities	20,705	15,337
Notes payable	6,714	8,296
Total Liabilities	**61,245**	**41,165**
Net Assets:		
Unrestricted	18,149	17,476
Temporarily restricted	684,915	787,828
Permanently restricted	3,367	3,365
Total Net Assets	**706,431**	**808,669**
Total Liabilities and Net Assets	**$ 767,676**	**$ 849,834**

See accompanying notes.

PROGRAM FOR APPROPRIATE TECHNOLOGY IN HEALTH (PATH) AND SUBSIDIARIES

Consolidated Statements of Unrestricted Activities (In Thousands of Dollars)

For the Years Ended December 31,	*2010*	*2009*
Revenues, Gains and Other Support:		
Contributions and awards - government, international, agencies, foundations, and public and private funders-		
Contributions and awards released from restriction	$ 278,553	$ 250,018
Unrestricted private contributions	1,755	2,448
	280,308	252,466
Other income-		
Investment income	1,408	3,396
Program service revenue	43	80
License and royalty income	59	67
Gain on foreign currency exchange	660	156
Other	800	427
	2,970	4,126
Total Revenues, Gains and Other Support	**283,278**	**256,592**
Expenses:		
Program services-		
Vaccines and immunizations	140,374	128,143
Emerging and epidemic diseases	56,903	42,383
Health technologies	18,702	16,773
Maternal and child health	18,289	16,539
Reproductive health	15,912	21,905
Cross program	105	267
	250,285	226,010
Support services-		
Fundraising	1,863	1,258
Bid and proposal	2,375	2,109
Management and general	28,082	24,078
	32,320	27,445
Total Expenses	**282,605**	**253,455**
Change in Unrestricted Net Assets	**$ 673**	**$ 3,137**

See accompanying notes.

PROGRAM FOR APPROPRIATE TECHNOLOGY IN HEALTH (PATH) AND SUBSIDIARIES

Consolidated Statements of Changes in Net Assets (In Thousands of Dollars)

For the Years Ended December 31,	*2010*	*2009*
Unrestricted Net Assets:		
Contributions and awards released from restrictions	$ 278,553	$ 250,018
Total unrestricted revenue, gains, and other support	4,725	6,574
Total unrestricted expenses	(282,605)	(253,455)
Change in Unrestricted Net Assets	**673**	**3,137**
Temporarily Restricted Net Assets:		
Contributions and awards	173,197	277,762
Investment income	2,443	7,817
Contributions and awards released from restrictions	(278,553)	(250,018)
Change in Temporarily Restricted Net Assets	**(102,913)**	**35,561**
Permanently Restricted Net Assets:		
Contributions	2	2
Change in Permanently Restricted Net Assets	**2**	**2**
Total Change in Net Assets	**(102,238)**	**38,700**
Net assets, beginning of year	808,669	769,969
Net Assets, End of Year	**$ 706,431**	**$ 808,669**

See accompanying notes.

PROGRAM FOR APPROPRIATE TECHNOLOGY IN HEALTH (PATH) AND SUBSIDIARIES

Consolidated Statements of Cash Flows (In Thousands of Dollars)

For the Years Ended December 31,	*2010*	*2009*
Cash Flows from Operating Activities:		
Change in net assets	$ (102,238)	$ 38,700
Adjustments to reconcile change in net assets to net cash provided (used) by operating activities-		
Depreciation and amortization	3,018	2,385
Unrealized loss (gain) on investments	794	(5,012)
Loss (gain) on sale of equipment and leasehold improvements	202	(4)
Contributions restricted for endowment	(2)	(2)
Changes in assets and liabilities:		
Contributions and awards receivable	60,959	(6,053)
Other receivables	3,030	(3,601)
Prepaid expenses and other	(455)	(263)
Accounts payable	17,492	6,123
Accrued expenses and other liabilities	5,368	9,418
Net Cash (Used) Provided by Operating Activities	**(11,832)**	**41,691**
Cash Flows from Investing Activities:		
Purchases of furniture, equipment and leasehold improvements	(8,758)	(12,432)
Proceeds from sale of equipment and leasehold improvements	828	34
Purchases of investments	(145,741)	(96,695)
Proceeds from maturity/sales of investments	128,302	60,441
Net Cash Used by Investing Activities	**(25,369)**	**(48,652)**
Cash Flows from Financing Activities:		
Payments on notes payable	(1,582)	(387)
Proceeds from borrowings on notes payable		7,500
Proceeds from contributions restricted for endowment	2	2
Net Cash (Used) Provided by Financing Activities	**(1,580)**	**7,115**
Net Change in Cash and Cash Equivalents	**(38,781)**	**154**
Cash and cash equivalents, beginning of year	72,521	72,367
Cash and Cash Equivalents, End of Year	**$ 33,740**	**$ 72,521**
Supplemental Disclosure of Cash Flow Information:		
Cash paid during the year for interest	$ 183	$ 27
Supplemental Disclosure of Noncash Investing Activities:		
Leasehold improvement purchases included in accounts payable	$ 1,128	$ 2,326

See accompanying notes.

Note 1 - Organization and Summary of Accounting Policies

Organization - Program for Appropriate Technology in Health (PATH) and its Subsidiaries (collectively, the Organization) is a 501(c)(3) nonprofit, nongovernmental organization incorporated in the State of Washington. PATH creates sustainable, culturally relevant solutions, enabling communities worldwide to break longstanding cycles of poor health. By collaborating with diverse public and private-sector partners, PATH helps provide appropriate health technologies and vital strategies that change the way people think and act. PATH's work improves global health and well-being.

Headquartered in Seattle, PATH has offices in 31 cities in 22 countries. PATH currently works in more than 70 countries in the areas of health technologies, maternal and child health, reproductive health, vaccines and immunization, and emerging and epidemic diseases. For more information, please visit www.path.org.

In February 2011, PATH formed a new wholly owned and controlled subsidiary, Organization for Appropriate Technologies in Health (“OATH”), a Ukrainian international nongovernmental organization for the purpose of receiving local funding to further our exempt mission and purpose. PATH has registered the PATH service mark in Ukraine and will be licensing OATH to hold itself out and conduct business as “PATH-Ukraine”.

Basis of Presentation - The consolidated financial statements of the Organization have been prepared on the accrual basis of accounting under United States generally accepted accounting principles. The consolidated financial statements include the accounts of PATH and PATH’s wholly-owned subsidiaries, PACTEC, Inc. (PACTEC), a 501(c)(2) title-holding organization, and PATH Vaccine Solutions (PVS), a 501(c)(3) nonprofit corporation formed to advance the development of vaccines to improve the health of children worldwide. PACTEC’s operations were dissolved during 2010. All intercompany accounts and transactions have been eliminated in consolidation.

Net assets and revenue, expenses, gains and losses are classified based on the existence or absence of donor-imposed restrictions. Accordingly, the net assets of the Organization are classified and reported as follows:

> Unrestricted Net Assets - Net assets that are not subject to donor-imposed stipulations.
>
> Temporarily Restricted Net Assets - Net assets subject to donor-imposed stipulations that may or will be met either by actions of the Organization and/or the passage of time. Temporarily restricted net assets as of December 31, 2010 and 2009, were donor-restricted for various specific program activities.
>
> Permanently Restricted Net Assets - Net assets restricted by donor-imposed stipulations to be invested in perpetuity. The investment income from these funds is available for current use.

Support and revenue are reported as increases in unrestricted net assets unless the use of the related assets is limited by donor-imposed restrictions. Expenses are reported as decreases in unrestricted net assets. Gains and losses on investments and other assets or liabilities are reported as increases or decreases in unrestricted net assets unless their use is restricted by explicit donor stipulation or by law. Temporary restrictions expire when the donor-stipulated purpose has been fulfilled and/or the donor-stipulated time period has elapsed. Expirations of temporary restrictions result in the reclassification of temporarily restricted net assets to unrestricted net assets and are reported in the consolidated statement of activities as contributions and awards released from restrictions.

Note 1 - Continued

Cash and Cash Equivalents - For purposes of the consolidated statements of cash flows, the Organization considers all highly liquid debt instruments purchased with an original maturity of three months or less, other than those held in the Organization's investment portfolio, to be cash equivalents.

Investments - Investments in debt securities and equity securities with readily determinable market values are recorded at fair value. Unrealized and realized gains and losses on these investments are reported in the consolidated statements of activities and changes in net assets. Securities are generally held in custodial investment accounts administered by certain financial institutions.

Investment securities, in general, are exposed to various risks, including interest rate, credit and overall market volatility. Due to the level of risk associated with certain long-term investments, it is possible that changes in the values of these investments will occur in the near term and that such changes could materially affect the amounts reported in the consolidated statements of financial position.

Investment Return - Investment return consists primarily of income earned on cash, cash equivalents and investments, and is recorded as earned. Where directed by donor or grantor, interest earned on award advances is credited to a specific restricted fund for future use as specified in the award agreement. All other interest income earned is credited to other restricted and unrestricted fund balances as is appropriate.

Fair Value of Financial Instruments - Financial instruments reported at fair value on a recurring basis include investments. Financial instruments not reported at fair value on a recurring basis include receivables, accounts payable and notes payable. The carrying amounts of these financial instruments approximate fair value.

Contributions and Awards Receivable - Contributions and awards receivable are stated at the amount management expects to collect from outstanding balances. Management provides for probable uncollectible amounts through a charge to change in net assets and a credit to a valuation allowance based on its assessment of the current status of individual accounts. Balances that are still outstanding after management has used reasonable collection efforts are written off through a charge to the valuation allowance and a credit to accounts, grants or contributions receivable. The allowance for doubtful accounts was immaterial for the years ended December 31, 2010 and 2009.

Furniture, Equipment and Leasehold Improvements - The Organization capitalizes furniture, equipment and leasehold improvements with a cost of $5,000 or greater. The cost of furniture and equipment is depreciated over the estimated useful life of the asset and is computed using the straight-line method. Leasehold improvements are amortized over the lives of the respective leases or the service lives of the improvements, whichever is shorter. Maintenance and repairs are charged to expense as incurred.

Patent - The donated patent is stated at the original assessed value less amortization computed on the straight-line method over the life of the patent.

Vulnerability from Certain Concentrations - Financial instruments that potentially subject the Organization to concentrations of credit and market risk consist primarily of cash and cash equivalents and investments. Cash and cash equivalents and investments held by financial institutions at times exceed Federal Deposit Insurance Corporation and Securities Investor Protection Corporation insured limits.

Note 1 - Continued

For the years ended December 31, 2010 and 2009, 59% and 60%, respectively, of the Organization's total unrestricted revenues, gains and other support is received from one organization, and 72% and 74%, respectively, of gross contributions and awards receivable are from one organization. For the years ended December 31, 2010 and 2009, 24% and 22%, respectively, of the Organization's total unrestricted revenues, gains and other support consists of awards from the United States government, and 23% and 16%, respectively, of gross contributions and awards receivable is from the United States government. Management is aware of the related vulnerabilities but does not anticipate any losses in connection with these concentrations. Management continues to seek improved diversification from donors and funding sources.

Contributions and Awards Revenue Recognition - Unconditional contributions and awards from U.S. and foreign government agencies, foundations and public and private funders are recognized as temporarily restricted revenue at the time committed or obligated, provided the donor has identified a restriction on the use of the funds. Revenue from contracts is recognized at the time the service or good is provided.

Donated Goods and Services - Donations of goods, including property and equipment, are recorded as support at their estimated fair values at the date of donation. Such donations are reported as unrestricted support unless the donor has restricted the donated asset to a specific purpose. Donated services are recognized if the services received (i) create or enhance non-financial assets or (ii) require specialized skills, are provided by individuals possessing those skills and would need to be purchased if not provided by donation. In-kind donations totaled $3.6 million and $11.4 million for the years ended December 31, 2010 and 2009, respectively, and are included in program services expense.

Functional Allocation of Expenses - The costs of providing the various programs and other activities have been summarized on a functional basis in the consolidated statements of unrestricted activities. Accordingly, certain costs have been allocated among the programs and supporting services benefited. Additionally, the Organization incurs various fundraising expenses.

Collaborations - Awards, contracts and temporarily restricted contributions are used to fund projects related to global health. In connection with these projects, the Organization works with collaborating partners to assess health problems, identify and implement solutions and evaluate results. Accordingly, the Organization enters into funding agreements and cooperative agreements with these collaborating partners including international agencies, ministries of health, nongovernmental organizations and universities, et cetera. Subagreements and subcontracts awarded from these projects are funded by temporarily restricted contributions to other organizations and recorded as expense totaled $142.7 million and $125.5 million for the years ended December 31, 2010 and 2009, respectively.

Tax Exempt Status - The Internal Revenue Service has determined that PATH is exempt from federal income taxes under provisions of Section 501(c)(3) of the Internal Revenue Code (IRC). It is classified as an organization that is not a private foundation under 501(a) of the IRC. PACTEC is exempt from federal income taxes under provisions of Section 501(c)(2) of the IRC. PATH Vaccine Solutions is a supporting 501(c)(3) organization to PATH. The Organization files income tax returns with the United States and various state and local governments. The Organization is subject to income tax examinations by the tax authorities of these governments for the current year and certain prior years based on the applicable laws and regulations of each jurisdiction.

Note 1 - Continued

Use of Estimates - The preparation of financial statements in accordance with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Reclassifications - Certain reclassifications were made to the December 31, 2009, financial statements to conform to the current period presentation. The reclassifications have no effect on previously reported change in net assets or net assets.

Subsequent Events - The Organization has evaluated subsequent events through May 10, 2011, the date on which the financial statements were available to be issued.

Note 2 - Cash and Cash Equivalents

Cash and cash equivalents consisted of the following at December 31:

	(in thousands)	
	2010	*2009*
Money market accounts and other cash equivalents	$ 31,889	$ 69,448
Cash	1,851	3,073
	$ 33,740	**$ 72,521**

When specified by funding agreement, the Organization holds project-related funds in separate bank accounts.

Cash and cash equivalents held in bank accounts outside of the United States totaled $2.9 million and $3.2 million at December 31, 2010 and 2009, respectively.

Note 3 - Investments

Investments consisted of the following at December 31:

	(in thousands)	
	2010	*2009*
Corporate bonds	$ 177,941	$ 149,081
U.S. and state government securities	29,545	67,638
Government guaranteed corporate securities	5,574	33,931
Asset-backed securities	23,937	28,281
Repurchase agreements	22,498	9,300
Equity securities	4,321	3,888
Commercial paper and short-term funds	45,342	
Money market investment funds	295	689
	$ 309,453	**$ 292,808**

Note 3 - Continued

Investment return was comprised of the following for the years ended December 31:

	(in thousands)	
	2010	*2009*
Interest and dividends	$ 5,036	$ 6,126
Unrealized (losses) gains	(794)	5,012
Realized (losses) gains	(391)	75
	$ 3,851	**$ 11,213**

Note 4 - Fair Value Measurements

United States generally accepted accounting principles (GAAP) provides a framework for measuring fair value. To increase consistency and comparability in fair value measurements, the framework requires fair value to be determined based on the exchange price that would be received for an asset or paid to transfer a liability (exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants.

The framework uses a three-level valuation hierarchy based on observable and non-observable inputs. Observable inputs consist of data obtained from independent sources. Non-observable inputs reflect market assumptions. These two types of inputs are used to create the fair value hierarchy, giving preference to observable inputs.

Assets and liabilities classified as Level 1 have fair values based on unadjusted quoted market prices for identical instruments in active markets. Assets and liabilities classified as Level 2 have fair values based on quoted prices for similar instruments in active markets, quoted prices for identical or similar instruments in inactive markets, and model-derived valuations whose inputs are observable. Assets and liabilities classified as Level 3 have fair values based on value drivers that are unobservable.

Following is a description of the valuation methodologies used for assets measured at fair value. There have been no changes in the methodologies used at December 31, 2010 and 2009.

Money Market Investment Funds - Valued at cost plus accrued interest, which approximates fair value.

Equity and Debt Mutual Funds - Valued at quoted market prices in active markets, which represent the net asset value (NAV) of shares held by PATH at year-end.

Equity Securities - Valued at the closing price reported on the active market on which the securities are traded.

Debt Securities - Valued using bid evaluations from similar instruments in actively traded markets.

Repurchase Agreements - Valued at cost plus accrued interest, which approximates fair value.

Note 4 - Continued

Assets recorded at fair value on a recurring basis were as follows at December 31, 2010:

	(in thousands)			
	Level 1	*Level 2*	*Level 3*	*Total*
Equity Securities and Equity Mutual Funds:				
Equity securities-				
Biopharmaceuticals	$ 17	$ -	$ -	$ 17
Equity mutual funds-				
Large blend	2,693			2,693
Large value	667			667
Total equity securities and equity mutual funds	3,377			3,377
Debt Securities and Debt Mutual Funds:				
Debt securities-				
U.S. government		19,347		19,347
U.S. municipal		2,053		2,053
Corporate		180,419		180,419
Government guaranteed corporate		5,566		5,566
Asset-backed securities		23,936		23,936
Commercial paper		7,495		7,495
Short-term bills and notes		29,590		29,590
Debt mutual funds-				
Multi-sector bond	3,310			3,310
Total debt securities and debt mutual funds	3,310	268,406		271,716
Money market investment funds	11,862			11,862
Repurchase agreements		22,498		22,498
Total Assets at Fair Value	**$ 18,549**	**$ 290,904**	**$ -**	**$ 309,453**

Note 4 - Continued

Assets recorded at fair value on a recurring basis were as follows at December 31, 2009:

	(in thousands)			
	Level 1	*Level 2*	*Level 3*	*Total*
Equity Securities and Equity Mutual Funds:				
Equity securities-				
Biopharmaceuticals	$ 14	$ -	$ -	$ 14
Equity mutual funds-				
Large blend	2,405			2,405
Large value	622			622
Total equity securities and equity mutual funds	3,041			3,041
Debt securities and Debt Mutual Funds:				
Debt securities-				
U.S. government		23,609		23,609
Foreign governments		3,535		3,535
Corporate		147,312		147,312
Government guaranteed corporate		33,931		33,931
Asset-backed securities		28,281		28,281
Commercial paper		14,962		14,962
Short-term bills and notes		25,532		25,532
Debt mutual funds-				
Multi-sector bond	2,916			2,916
Total debt securities and debt mutual funds	2,916	277,162		280,078
Money market investment funds	389			389
Repurchase agreements		9,300		9,300
Total Assets at Fair Value	**$ 6,346**	**$ 286,462**	**$ -**	**$ 292,808**

Note 5 - Contributions and Awards Receivable

Contributions and awards receivable consisted of the following at December 31:

	(in thousands)	
	2010	*2009*
Due in less than one year	$ 227,445	$ 257,889
Due in one to five years	177,114	211,023
	404,559	468,912
Less present value discount (0.9% - 4.8%)	(6,065)	(9,522)
Less allowance for doubtful accounts	(165)	(102)
	$ 398,329	**$ 459,288**

Awards from the U.S. government and certain nongovernment organizations are recorded as revenue when obligated, which may not reflect the full amount awarded. The total amount of unobligated awards pending for active projects was $242.3 million and $257.7 million at December 31, 2010 and 2009, respectively.

Note 6 - Furniture, Equipment and Leasehold Improvements

The Organization funds purchases of furniture, equipment and leasehold improvements from two sources: from the capital fund, a designated reserve of unrestricted net assets; or directly from temporarily restricted project funds.

Furniture, equipment and leasehold improvements consisted of the following at December 31:

	(in thousands)		
	2010		
	Capital Fund	*Project Funds*	*Total*
Furniture	$ 2,532	$ 201	$ 2,733
Equipment	4,546	3,655	8,201
Leasehold improvements	15,911		15,911
Construction in progress	3,291		3,291
	26,280	3,856	30,136
Less accumulated depreciation and amortization	(6,766)	(2,818)	(9,584)
	$ 19,514	**$ 1,038**	**$ 20,552**

Note 6 - Continued

	(in thousands)		
	2009		
	Capital Fund	*Project Funds*	*Total*
Furniture	$ 580	$ 224	$ 804
Equipment	3,825	3,762	7,587
Leasehold improvements	7,142		7,142
Construction in progress	13,103		13,103
	24,650	3,986	28,636
Less accumulated depreciation and amortization	(8,817)	(2,958)	(11,775)
	$ 15,833	**$ 1,028**	**$ 16,861**

Note 7 - Patent

The Organization holds a patent for the UltraRice Technology for fortified rice originally valued at $3.3 million. The patent was issued in March 1995 and expires in March 2015. The patent is being amortized over its expected useful life of 18.25 years. Accumulated amortization totaled $2.5 million and $2.3 million as of December 31, 2010 and 2009, respectively.

Note 8 - Line of Credit

The Organization has a revolving line of credit for up to $1 million with a commercial bank for working capital purposes available through May 1, 2012. Interest on the line is at LIBOR plus 1.50%. The credit facility available to PATH is reduced by Standby Letters of Credit (SBLC) under $300,000 associated with various lease commitments. PATH has an additional SBLC for $361,000 associated with a domestic lease commitment that was obtained in 2010. No amounts were outstanding under the line of credit or SBLCs at December 31, 2010 or 2009. The line of credit is secured by the Organization's personal property.

Note 9 - Notes Payable

Notes payable consisted of the following at December 31:

	(in thousands)	
	2010	*2009*
Note payable to a commercial bank maturing December 1, 2014. Interest payments fluctuate based on the LIBOR rate BBA plus 1.65% (1.91% and 1.88% at December 31, 2010 and 2009, respectively). Principal is payable in monthly installments of $41,667 with remaining balance due December 1, 2014. The note is secured by the Organization’s personal property. The note includes certain restrictive covenants including the requirement for the Organization to maintain certain financial ratios.	$ 4,500	$ 5,000
Program-related investment from a private foundation in the form of a note payable maturing November 2019. Interest is paid at a 2% fixed rate. Quarterly principal and interest payments of $69,114 are required. The note is secured by the Organization’s trade fixtures, equipment and furnishings. The note includes certain restrictive covenants including the requirement for the Organization to maintain certain financial ratios.	2,214	2,443
Note payable to a commercial bank maturing July 2012. Interest payments fluctuate based on the one-month LIBOR rate plus 0.95% (1.19% at December 31, 2009). The note was repaid in full in January 2010.		853
	$ 6,714	**$ 8,296**

Maturities of notes payable are as follows:

Year Ending December 31, (in thousands)	
2011	$ 734
2012	739
2013	744
2014	3,248
2015	253
Thereafter	996
	$ 6,714

Interest expense on notes payable totaled $138,000 and $27,000 for the years ended December 31, 2010 and 2009, respectively.

Note 10 - Self-Insurance Reserve

The Organization maintains a research insurance program made up of a Self-Insured Retention (SIR) reserve fund and an excess insurance policy. The Organization's SIR program covers claims up to $250,000 per incident and is funded by allocations to programs that are conducting clinical trials involving human subjects. As of December 31, 2010, $2.2 million has been funded and set aside in the reserve. It is anticipated that additional planned annual allocations and interest income will add to the reserve going forward. Additionally, the Organization carries an excess insurance policy to cover any potential claims from $250,000 to $10 million.

Note 11 - Unrestricted Net Assets

Unrestricted net assets consisted of the following at December 31:

	(in thousands)	
	2010	*2009*
Capital Fund	$ 2,000	$ 2,000
Catalyst Fund	2,315	2,223
Reach Fund	1,500	
FIPI	57	88
Patent	762	941
Board-Designated Endowment	2,389	1,827
FTT (Operations)	77	77
FTT (Corpus)	2,019	2,027
Self-Insured Retention Reserve	2,246	2,243
Special Project Fund	62	62
Undesignated	4,722	5,988
	$ 18,149	**$ 17,476**

The following is a description of board designated unrestricted net assets:

Capital Fund - Represents the portion of net assets attributed to the net book value of fixed assets and amounts designated for future purchases of fixed assets, net of any related loan balance.

Catalyst Fund - Represents a fund established by the Organization that consists of donor contributions that serve as a key source of innovation funding; funds that support new initiatives, leverage major grants and meet critical organizational needs.

Reach Fund - Represents a fund established by the Organization that consists of donor contributions to expand and deepen the Organization's geographic reach, accelerate the development and introduction of health technologies, deliver integrated packages of health solutions, and build organizational infrastructure including investing in people and systems for the future.

FIPI - The Fund for Intellectual Property and Innovation (FIPI) (formerly The Fund for Health Technologies - FHT) is a reserve generated by net royalty earnings and license fees resulting from the licensing and/or transfers of technologies. The funds are used for patent application and maintenance, and the advancement of technologies.

Note 11 - Continued

Patent - Represents the net value of the donated UltraRice Patent (see Note 7).

Board-Designated Endowment - The endowment that is included in unrestricted net assets represents amounts designated by the Board.

FTT (Operations) - The Fund for Technology Transfer (FTT) Operations fund is a reserve generated by net operating earnings of FTT. The reserve is used to supplement funding for operating costs.

FTT (Corpus) - The FTT Corpus fund represents funds available for lending. Funds are either out on loan or are invested in interest bearing accounts. Income on these funds is used for funding FTT Operations.

Self-Insured Retention Reserve **-** The amount funded to date to pay the Organization's share of any claims resulting from settlement or judgment of actions as a result of clinical trials (see Note 10).

Special Project Fund - The special project fund is a reserve of unrestricted funding that will be applied to specific programs.

Note 12 - Endowment

The Organization's endowment consists of a number of funds established for a variety of purposes. Its endowment includes both donor-restricted endowment funds and funds designated by the Board to function as an endowment (quasi-endowment). As required by United States generally accepted accounting principles, net assets associated with endowment funds, including quasi-endowments, are classified and reported based on the existence or absence of donor-imposed restrictions.

The Board of Directors of the Organization adopted provisions of the Washington State Prudent Management of Institutional Funds Act (PMIFA) during the year ended December 31, 2009. The Organization has interpreted the law as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this interpretation, the Organization classifies as permanently restricted net assets (a) the original value of gifts donated to the permanent endowment, and (b) the original value of subsequent gifts to the permanent endowment. The remaining portion of the donor-restricted endowment fund that is not classified in the permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditures by the Organization in a manner consistent with the standard of prudence described by PMIFA.

In accordance with PMIFA, the Organization considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds: 1) duration and preservation of the endowment fund; 2) the purposes of the Organization and the endowment fund; 3) general economic conditions; 4) effect of inflation or deflation; 5) the expected total return from income and the appreciation of investments; 6) other resources of the Organization; and, 7) the investment policy of the Organization.

Note 12 - Continued

Endowment net assets consisted of the following at December 31:

	(in thousands)			
	2010			
	Unrestricted	*Temporarily Restricted*	*Permanently Restricted*	*Total*
Donor restricted endowment funds	$ -	$ 916	$ 3,367	$ 4,283
Board designated quasi-endowment funds	2,389			2,389
	$ 2,389	**$ 916**	**$ 3,367**	**$ 6,672**

	(in thousands)			
	2009			
	Unrestricted	*Temporarily Restricted*	*Permanently Restricted*	*Total*
Donor restricted endowment funds	$ -	$ 752	$ 3,365	$ 4,117
Board designated quasi-endowment funds	1,827			1,827
	$ 1,827	**$ 752**	**$ 3,365**	**$ 5,944**

Note 12 - Continued

Changes to endowment net assets are as follows for the years ended December 31:

	(in thousands)			
	2010			
	Unrestricted	*Temporarily Restricted*	*Permanently Restricted*	*Total*
Endowment net assets, December 31, 2008	$ 1,389	$ -	$ 3,363	$ 4,752
Endowment investment return-				
Interest and dividends	64	93		157
Realized and unrealized gains and losses	416	617		1,033
Total endowment investment return	480	710		1,190
Contributions			2	2
Transfer to comply with PMIFA	(42)	42		
Endowment Net Assets, December 31, 2009	**1,827**	**752**	**3,365**	**5,944**
Endowment investment return-				
Interest and dividends	63	112		175
Realized and unrealized gains and losses	197	354		551
Total endowment investment return	260	466		726
Contributions			2	2
Transfer to comply with PMIFA	302	(302)		
Endowment Net Assets, December 31, 2010	**$ 2,389**	**$ 916**	**$ 3,367**	**$ 6,672**

Note 12 - Continued

The Organization has adopted investment and spending policies for endowment assets that attempt to provide a predictable stream of funding to programs supported by its endowment while seeking to maintain the purchasing power of the endowment assets. Endowment assets include those assets of donor-restricted funds that the Organization must hold in perpetuity or for donor-specified periods as well as board-designated funds. Under this policy, as approved by the Board of Directors, the endowment assets are invested in mutual funds to ensure a broad diversification among investment styles, sectors, industries, market capitalizations and credit quality. These vehicles offer the advantages of economies of scale, greater liquidity, broader diversification, cost efficiency, lower transaction costs and low minimum investment requirements not available through separate account management. The performance objective for the total endowment investment portfolio is to achieve an annualized investment return, net of fees, which will exceed a composite index composed of 40% Barclays Capital Aggregate Index and 60% S&P 500 Index. Performance is monitored quarterly over rolling one-year, three-year and five-year periods. The Organization expects its endowment funds, over time, to provide an average rate of return of approximately 5% annually. Actual returns in any given year may vary from this amount based on current market conditions.

To satisfy its long-term rate-of-return objectives, the Organization relies on a total return strategy in which investment returns are achieved through both capital appreciation (realized and unrealized) and current yield (interest and dividends). The Organization targets a diversified asset allocation between two asset classes: 40% fixed income and 60% equity investments to achieve its long-term return objectives within prudent risk constraints.

The Organization has established an endowment spending policy for appropriating a maximum distribution in support of PATH’s programs each year. In establishing this policy, the Organization considered the long-term expected return on its endowment and the need for that return to provide additional protection for any necessary adjustment to the value of the endowment for inflation. In order to sustain the real value of the endowment, the long-term return of the endowment should meet or exceed spending plus inflation as measured by an appropriate benchmark, such as the Consumer Price Index (CPI). To protect the essential value of the endowment against the expected impact of inflation, the Finance Committee sets a payout rate for the endowment’s income that provides a prudent rate of real growth of endowment funds while also providing a relatively constant funding stream in support of PATH’s current expenditures for programs. In determining each year’s level of distribution, PATH will be governed by a spending policy which seeks to distribute up to 5 percent of the market value of the endowment investment portfolio, calculated based on the prior year’s ending balance. This is consistent with the Organization's objective to maintain the purchasing power of the endowment assets held in perpetuity or for a specified term as well as to provide additional real growth through new gifts and investment return. There was no appropriation made during the years ended December 31, 2010 or 2009 due to market factors.

Note 13 - Employee Benefits

The Organization sponsors a defined contribution 401(k) plan (the Plan). Under the Plan employees may elect to contribute up to 75% of their pre-tax salaries. The Organization will match the employee’s contribution monthly at a ratio of 1:1 for the first 2%, 2:1 for the next 4% with a maximum employer contribution equal to 4% of pre-tax salary. Employer matching contributions to the Plan are fully vested after one year of completed service. Employee optional contributions in the Plan vest immediately. In addition, the Organization may make a voluntary employer contribution of up to 8% of employees' base compensation. Voluntary employer contributions to the Plan vest at a rate of 20% for each completed year of service. All regular U.S. hire employees are eligible to enter the Plan on the first of the month after completing three months of employment. PATH also offers an optional Roth 401(k) plan.

Note 13 - Continued

Employer contributions for both U.S.-based plans totaled $4.5 million and $4.1 million for the years ended December 31, 2010 and 2009, respectively. Total global pension costs totaled $5.2 million and $4.7 million for the years ended December 31, 2010 and 2009, respectively.

Note 14 - Commitments and Contingencies

Operating Leases - A summary of annual non-cancelable minimum commitments under operating leases for office space and equipment is as follows:

Years Ending December 31, (in thousands)

2011	$	8,579
2012		6,068
2013		5,825
2014		6,050
2015		6,204
Thereafter		54,241
	$	**86,967**

Rental expense was $7.5 million and $5.1 million in 2010 and 2009, respectively.

The leases related to the Organization's offices located at 1455 NW Leary Way, Seattle, Washington have terms that end in December, 2011. The Organization has subleased this office space to various tenants. Payments to be received under these subleases will total $2.1 million for the year ending December 31, 2011.

Awarding Agencies - Expenses incurred under certain programs are subject to audit by the awarding agencies. If, as a result of such audit, certain expenses incurred are determined to be nonreimbursable, the Organization may be liable for repayment of disallowed expenses previously claimed or received.

Guarantee - The Organization entered into an agreement whereby it agreed to participate as a guarantor in a microcredit loan guarantee program. Losses realized on the microcredit loans will be allocated pro rata to each guarantor in the program; however, the Organization's maximum commitment and obligation to the program will not exceed $1 million. The obligation under this program is with full recourse to the Organization. Under the terms of the agreement, the Organization will remain in the program until it provides advance written notice of withdrawal. Commitment may then be withdrawn after 18 months following the Organization's notice.