



Request for Information 08-02

Financial Services Provider and/or Delegated Underwriter for CIRM Loan Program

Responses due: January 9, 2009

The California Institute for Regenerative Medicine (“CIRM”) plans to issue a request for proposals in February 2009 for financial services providers/delegated underwriters in connection with CIRM’s Loan Program, which CIRM plans to implement in the Spring of 2009. The purpose of this Request for Information is to assist CIRM in gathering information regarding the types of services provided by financial services firms and the various options for the relationship between CIRM and the delegated underwriter/financial services provider, including payment options for such services. CIRM plans to use this information in developing its request for proposals.

Background

CIRM was established in 2004 when California voters approved Proposition 71, which authorized the issuance of \$3 billion in bonds to fund stem cell research, related research, and research facilities through grants and loans. CIRM’s governing board has indicated that it plans to use \$500 million or more to fund loans to for-profits entities for preclinical development and clinical development over the next seven to ten years. Individual loans amounts may range from \$500,000 to as much as \$20 million, depending upon the terms of each Request for Application. Loans will be awarded through a competitive evaluation process involving both an assessment of the scientific merit of the proposal and the feasibility of the business. A description of the Loan Program is attached.

Proposition 71 imposes a limit of 50 staff members on CIRM. Given the scope and urgency of its mission, CIRM has focused its efforts on hiring the best scientific staff and administrative personnel to carry out the agency’s diverse functions. CIRM’s staff, however, does not have the internal expertise or capacity to manage all of the financial components of a loan program. CIRM therefore plans to externalize these tasks while maintaining ultimate control over the loan program. To ensure that CIRM obtains this expertise at the best value to California taxpayers, CIRM plans to issue a request for proposals to select two to three financial services providers/delegated underwriters. Because this is a start-up program, it is important to have at least two delegated underwriters at the outset. This would permit CIRM to learn from their different approaches and to refine our best practices. Furthermore, it would permit CIRM to

transfer future transactions to another delegated underwriter if the relationship with one of the contractors is unsuccessful.

Proposal

CIRM is considering the use of outside firms to perform the following financial functions:

- **Financial Due Diligence:** The contractor would conduct due diligence of applicants' business plans and financial status. The due diligence would include a review of the applicant entity's business plan, key financial metrics, and the credit history and litigation of record for both the applicant entity and the principals of the entity. This review would occur after scientific peer review of the applications but before CIRM's Governing Board considers the applications, which is typically a period of approximately one month. This review is not intended to delay the application process; it is expected to be processed concurrently with the staff write-ups of the peer review results.
- **Financial Underwriting Review:** The contractor would: review the status of current capitalization and plans for obtaining future capital; analyze the applicant's cash flow plans and internal financial controls; and confirm the lack of any major contingent liabilities, liens, or obligations against the applicant entity, beyond those that could be managed pursuant to the company's business plan (including any consideration of CIRM funding).
- **Structuring of Loan and Documentation of Loan Agreement:** The contractor would fulfill and/or direct all financial and legal recordings, security agreements, and documentation, under CIRM's oversight. The contractor would also participate in preparing the financial components of the loan agreement, subject to the review and approval of CIRM's General Counsel and Board Counsel. The loan agreement will include terms specified in CIRM's Loan Administration Policy, including prepayment provisions, covenants regarding additional debt, default provisions, and other provisions to protect CIRM, including without limitation, suspension of future advances for scientific or financial non-performance.
- **Loan Administration:** The contractor would monitor compliance with financial milestones (including checking the status of the loan recipient's capitalization and obtaining CIRM approval before disbursing additional funds) and administer the financial components of the loan agreement, including management and exercise of warrants, reporting, and ensuring compliance with the financial components of the loan agreement, while closely communicating and coordinating with CIRM on all CIRM required approvals
- **Management of Warrants:** The contractor would manage warrants held by CIRM and transfer them at the direction of CIRM.

- **Disbursement and Collection:** The contractor would disburse loan proceeds based on documentation of financial milestones and CIRM's review of scientific progress, with CIRM concurrence and direction. The contractor would also collect interest and loan repayments, at CIRM's direction. CIRM may evaluate alternative disbursement and loan collection structures utilized by other contracting parties.

Request for Information

In order to develop its request for proposals, CIRM would like to obtain information from **potential contractors, loan program managers, and others with relevant experience or information**, regarding the following:

1. The scope of services provided by financial services providers/delegated underwriters, including the capacity to perform all of the services described above; whether each of these functions should be included in the loan process, and whether there are other forms of review or loan management that should be considered;
2. The models available for the relationship between CIRM and financial services providers/delegated underwriters, such as a delegated underwriter model (delegated underwriter advances its own funds with CIRM guarantee), a hybrid model (delegated underwriter advances its own funds, but CIRM provides cash as collateral), and a fee for services model (CIRM originates loan and advances funds and pays financial services provider a fee for services);
3. The fee structure or compensation model for companies providing such services.
4. Conflicts of interest rules or other policies to guard against conflicts of interest in the provision of such services.

How to Respond

One electronic copy in machine-readable format (typically MS Word, or Adobe PDF) should be sent to **RFIresponse@cirm.ca.gov**. One confirming paper copy of all documents should be sent to CIRM at the address below.

California Institute for Regenerative Medicine
Attn: Cynthia Schaffer
RE: RFI 08-02
210 King Street
San Francisco, CA 94107

Please submit responsive information no later than January 9, 2009.

Responses to this request may be provided to members of CIRM's Governing Board and may be subject to the Public Records Act. If information is proprietary, please so indicate when responding to this Request.

If you have questions about this Request for Information, please contact Ian Sweedler, CIRM Interim General Counsel, at isweedler@cirm.ca.gov or Board counsel, James Harrison, at harrison@rjp.com.