

BEFORE THE  
BIOTECH LOAN TASK FORCE OF THE  
INDEPENDENT CITIZENS' OVERSIGHT COMMITTEE  
TO THE CALIFORNIA INSTITUTE FOR REGENERATIVE MEDICINE  
ORGANIZED PURSUANT TO THE  
CALIFORNIA STEM CELL RESEARCH AND CURES ACT

REGULAR MEETING

LOCATION: CROWNE PLAZA HOTEL  
1177 AIRPORT BOULEVARD  
BURLINGAME, CALIFORNIA

DATE: JANUARY 16, 2008  
11 A. M.

REPORTER: BETH C. DRAIN, CSR  
CSR. NO. 7152

BRS FILE NO.: 80506

**BARRISTERS' REPORTING SERVICE**

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**BARRISTERS' REPORTING SERVICE**

1 SAN FRANCISCO, CALIFORNIA; WEDNESDAY, JANUARY 16, 2008

2 11 A.M.

3

4 CHAIRMAN ROTH: GOOD MORNING. MY NAME IS DUANE  
5 ROTH, AND I'M THE CHAIR OF THE LOAN TASK FORCE  
6 SUBCOMMITTEE. AND I WOULD LIKE TO CALL THE MEETING TO  
7 ORDER WITH A ROLL CALL OF THE TASK FORCE MEMBERS.

8 MS. KING: FLOYD BLOOM.

9 DR. BLOOM: HERE.

10 MS. KING: MARCY FEIT.

11 MS. FEIT: HERE.

12 MS. KING: MICHAEL GOLDBERG. BOB KLEIN. TED  
13 LOVE.

14 DR. LOVE: HERE.

15 MS. KING: ED PENHOET.

16 DR. PENHOET: HERE.

17 MS. KING: DUANE ROTH.

18 CHAIRMAN ROTH: HERE.

19 MS. KING: JEFF SHEEHY. OSWALD STEWARD.

20 DR. STEWARD: HERE.

21 CHAIRMAN ROTH: THANK YOU. BEFORE WE GET  
22 STARTED, I THOUGHT IT WOULD BE USEFUL FOR OUR GUESTS,  
23 WHICH WE'LL INTRODUCE IN A MINUTE, TO JUST GO THROUGH THE  
24 BACKGROUND AND SCOPE OF WHAT THIS TASK FORCE IS CHARGED  
25 WITH DOING. OUR MISSION IS TO DEVELOP A PROGRAM, A

## BARRISTERS' REPORTING SERVICE

1 POLICY, TO GOVERN LOANS GIVEN OUT BY CIRM.

2 THE LOAN PROGRAM WAS INCLUDED IN PROP 71, AND  
3 THE WAY WE PROCEEDED WITH PROP 71 IS TO FIRST GET THE  
4 GRANT POLICIES IN PLACE AND NOW ARE PROCEEDING TO THE  
5 LOAN POLICY.

6 THE INTENT OF THE LOAN PROGRAM WAS REALLY  
7 THOUGHT OF AS A PRODUCT LOAN AS OPPOSED TO MAYBE A BASIC  
8 RESEARCH LOAN OR FACILITY LOAN IN CONTRAST. SO WHILE  
9 MUCH OF THE DISCUSSION IS GOING TO BE AROUND COMPANIES,  
10 WE BELIEVE THAT THERE MAY BE ALSO APPLICATION FOR THE  
11 LOAN PROGRAM IN CERTAIN RESEARCH CENTERS THAT ARE GETTING  
12 MORE INVOLVED IN TRANSLATIONAL MEDICINE WHERE THEY MAY,  
13 IN FACT, DO EARLY PRODUCT DEVELOPMENT AS OPPOSED TO JUST  
14 TECHNOLOGY TRANSFER. SO THAT IS A BRIEF BACKGROUND.

15 THE TASK FORCE HAD ITS FIRST MEETING ON  
16 DECEMBER 11TH, AND WE AT THAT POINT WORKED OUT OUR PLAN,  
17 OUR WORK PLAN, SO THAT WE COULD HAVE SOMETHING TO REPORT  
18 TO THE ICOC BOARD AT OUR MARCH MEETING IN SACRAMENTO. SO  
19 AS PART OF THAT WORK PLAN, WE AGREED THERE WERE A NUMBER  
20 OF STAKEHOLDERS THAT WE REALLY NEEDED TO GET INPUT FROM.  
21 AND THE FIRST WOULD BE THE CAPITAL PROVIDERS WHO FUND  
22 MOST OF THIS WORK HISTORICALLY OVER THE PAST 25 OR 30  
23 YEARS. AND SO WE WANTED TO TALK WITH THEM TO GET THEIR  
24 COMMENTS ON POLICIES AND PROCEDURES THAT MAY IMPACT THEM  
25 AS PEOPLE WHO FUND SOME OF THESE ACTIVITIES DOWN THE

## BARRISTERS' REPORTING SERVICE

1 ROAD.

2 THE THINKING IN ICOC AND, IN FACT, IN MANY OF  
3 OUR DISCUSSIONS IS THAT OUR MISSION IS TO FUND THE GAPS  
4 WHERE MONEY IS NOT READILY AVAILABLE TO SUPPORT  
5 ADVANCEMENT OF THESE PRODUCT IDEAS. SO WE WILL NOT BE  
6 DEFINING THAT IN THIS TASK FORCE, BUT CIRM WILL, IN FACT,  
7 TRY TO HELP IDENTIFY THOSE GAPS AND THEN PUT OUT REQUESTS  
8 FOR APPLICATIONS ACCORDINGLY. SO WE WON'T DEAL WITH THE  
9 RFA PROCESS. WE WILL NOT DEAL WITH THE AMOUNT OF MONEY  
10 THAT MIGHT BE AVAILABLE IN THE LOAN PROGRAM VERSUS THE  
11 GRANT PROGRAM.

12 SO FROM THAT, WE NOW ARE IN OUR FIRST INPUT  
13 MEETING, WHICH IS WITH THE CAPITAL PROVIDERS, AND WE'LL  
14 INTRODUCE THEM. THE NEXT MEETING WILL BE WITH INDUSTRY,  
15 AND IT WILL BE SCHEDULED, IF IT ISN'T ALREADY, IN  
16 FEBRUARY IN SAN DIEGO. AND WE'LL ASK SIMILARLY A NUMBER  
17 OF THE COMPANIES OR INTERESTED PARTIES THAT MAY, IN FACT,  
18 BE APPLYING FOR THESE LOANS TO GIVE US SOME INPUT AT THE  
19 SAN DIEGO MEETING. AND THAT WILL BE SOMETIME IN  
20 FEBRUARY.

21 INFORMALLY WE WILL BE DISCUSSING THE LOAN  
22 PROGRAM WITH LEGISLATORS AS WE MOVE ALONG SORT OF ONE ON  
23 ONE. IT'S DIFFICULT TO GET THEM ALL IN ONE PLACE, BUT WE  
24 WANT TO MAKE SURE WE KEEP THE LEGISLATORS ADVISED ABOUT  
25 WHAT WE'RE DOING AND THE INTENT OF THIS POLICY SO THAT

## BARRISTERS' REPORTING SERVICE

1 THERE' S NO PREJUDGMENT BEFORE THEY ACTUALLY HEAR ABOUT  
2 THE WORK WE' RE TRYING TO DO.

3 I WANT TO JUST BRIEFLY ACKNOWLEDGE THAT WE DO  
4 HAVE A GROUP IN SAN DIEGO ON THE PHONE, AND THEY WILL BE  
5 GIVING US SOME INPUT DURING THE PUBLIC COMMENT SECTIONS,  
6 WHICH WE' LL ASK FOR ON AN ONGOING BASIS THROUGHOUT TODAY.

7 SO LET ME MAKE SURE THAT EVERYONE KNOWS THERE  
8 ARE SOME DOCUMENTS IN THE BACK OF THE ROOM. THERE' S A  
9 DOCUMENT, A PARTICULARLY IMPORTANT ONE, CALLED THE "LOAN  
10 NARRATIVE DOCUMENT" THAT WE PUT TOGETHER AS A STARTING  
11 POINT TO INVITE DISCUSSION ON SOME OF THE PRELIMINARY  
12 THOUGHTS. I WANT TO ACKNOWLEDGE LYNN HARWELL, WHO DID A  
13 LOT OF WORK ON THIS, AND SCOTT TOCHER, BOTH WHO ARE  
14 STAFFING THE PROGRAM. THEY DID AN EXCELLENT JOB OF  
15 HELPING ME ELICIT COMMENTS AND TO GET THIS DRAFT PUT  
16 TOGETHER, SO REALLY WANT TO ACKNOWLEDGE THEM. WE FOUND  
17 IT TO BE A VERY USEFUL DOCUMENT IN SOLICITING COMMENTS  
18 FROM PEOPLE THAT COULD NOT BE HERE TODAY, BUT WANTED TO  
19 BE HEARD NEVERTHELESS. SO WE HAVE THOSE.

20 ALSO IN THE BACK OF THE ROOM ARE A LIST OF THE  
21 PEOPLE WHO WILL BE PRESENTING TO US TODAY SO THAT YOU  
22 HAVE THE BACKGROUNDS ON THEM. WE ARE GRATEFUL THAT THEY  
23 COULD TAKE THE TIME TO COME ON THEIR OWN TO BE WITH US  
24 TODAY AND DO THAT.

25 I GUESS I' M GOING TO STOP AT THAT POINT AND SEE

## BARRISTERS' REPORTING SERVICE

1 ARE THERE ANY OTHER COMMITTEE MEMBERS THAT HAVE COMMENTS  
2 OR QUESTIONS? IF NOT, LET'S MOVE RIGHT INTO THE PROGRAM.  
3 AND LET'S BEGIN WITH GREG, WHO IS GOING TO -- GREG HAS  
4 AGREED TO GIVE US SOME BACKGROUND ABOUT THE VENTURE  
5 PERSPECTIVE FROM HIS POINT OF VIEW ON FUNDING AND WHERE  
6 SOME OF THE GAPS ARE. I FOUND IT VERY USEFUL IN OUR  
7 DIALOGUE ON THE PHONE, AND HE MENTIONED THAT HE HAD A  
8 POWERPOINT PRESENTATION THAT HE GIVES REGULARLY. SO,  
9 GREG, WE REALLY APPRECIATE YOUR TAKING THE TIME TO DO  
10 THIS TODAY.

11 MR. BONFIGLIO: HAPPY TO DO IT. I THINK WE  
12 NEED TO TAKE THE GATE OFF THE FRONT OF THAT PROJECTOR.  
13 SO WHAT I'M GOING TO TRY AND DO IS PUT IN CONTEXT THE  
14 CURRENT FUNDING ENVIRONMENT FOR REGENERATIVE MEDICINE  
15 COMPANIES AND ALSO TALK A LITTLE BIT ABOUT WHAT THE  
16 VENTURE COMMUNITY IS LOOKING FOR AND WHAT WE'RE  
17 INTERESTED IN AND WHAT KIND OF TERMS WE'RE ASKING FOR  
18 WHEN WE COME TO FUND A REGENERATIVE MEDICINE COMPANY JUST  
19 TO GIVE YOU A SENSE OF WHERE WE ARE.

20 SO HERE'S THE AGENDA. I'LL TALK A LITTLE BIT  
21 ABOUT WHO -- WHAT MY FUND IS, VERY LITTLE, SINCE THERE'S  
22 A BIO HERE AND YOU CAN PICK THAT UP, AND WE'LL JUMP RIGHT  
23 INTO WHAT IS THE FUNDING ENVIRONMENT.

24 I WANT TO PUT IT IN A HISTORIC PERSPECTIVE FOR  
25 YOU BECAUSE I THINK IT'S IMPORTANT TO UNDERSTAND HOW WE

## BARRISTERS' REPORTING SERVICE

1 GOT TO WHERE WE ARE RIGHT NOW. WE'RE IN A POSITION RIGHT  
2 NOW WHERE THE VENTURE COMMUNITY IS RE-EMERGING INTO THE  
3 FIELD AND STARTING TO SHOW SOME INTEREST AND WILLINGNESS  
4 TO FUND COMPANIES, BUT THAT HASN'T BEEN TRUE FOR THE LAST  
5 FOUR OR FIVE YEARS. AND THE REASON FOR THAT, THAT'S  
6 PRETTY EASY TO EXPLAIN. I HOPE I CAN PUT THAT IN CONTEXT  
7 FOR YOU. THEN I'M GOING TO SPEND A LITTLE TIME TALKING  
8 ABOUT THE CURRENT MARKET DYNAMICS. WHY IS IT THAT THE  
9 VENTURE COMMUNITY HAS REAWOKEN TO THE OPPORTUNITY, WHAT'S  
10 HAPPENING, AND THEN WE'LL GET INTO WHAT I THINK MOST OF  
11 YOU ARE INTERESTED IN ON A MORE GRANULAR LEVEL. WHAT ARE  
12 THE VENTURE COMMUNITY LOOKING FOR AND WHAT KIND OF  
13 TYPICAL TERMS ARE THERE?

14 SO REAL QUICKLY, MY FUND IS FOCUSED SOLELY ON  
15 REGENERATIVE MEDICINES. ONE OF THE REASONS THAT WE'RE  
16 HERE TALKING WITH YOU IS THIS IS THE SOLE FOCUS OF THE  
17 FUND. WE SPEND ALL OF OUR TIME AND ENERGY LOOKING AT  
18 REGENERATIVE MEDICINE COMPANIES AND TALKING WITH  
19 COMPANIES ABOUT FUNDING STRUCTURES. SO I THINK I'M IN A  
20 REASONABLY GOOD POSITION TO TRY AND HELP YOU UNDERSTAND  
21 WHAT THE VENTURE COMMUNITY THINKS ABOUT WHEN THEY LOOK AT  
22 REGENERATIVE MEDICINE COMPANIES. I'D BE HAPPY TO TALK TO  
23 ANY OF YOU IN DETAIL ABOUT THE FUND LATER IF YOU WOULD  
24 LIKE, BUT PROBABLY NOT WHAT WE OUGHT TO BE TALKING ABOUT.

25 I'M SURE THAT MANY OF YOU ARE FAMILIAR WITH THE



## BARRISTERS' REPORTING SERVICE

1 GARTNER HYPE CYCLE. THIS IS A THEORY THAT'S BEEN  
2 POSTULATED BY THE GARTNER FOLKS THAT PRETTY ACCURATELY,  
3 HONESTLY, DESCRIBES THE ADOPTION CURVE FOR ANY NEW  
4 TECHNOLOGY. THE THEORY GOES THAT WHEN NEW TECHNOLOGY IS  
5 BORN, YOU HAVE THIS TECHNOLOGY TRIGGER. THE TECHNOLOGY  
6 TRIGGER TYPICALLY, IF THE TECHNOLOGY IS COMPELLING, IS  
7 FOLLOWED BY A HUGE RUN-UP IN ENTHUSIASM AND FROTH AROUND  
8 THE TECHNOLOGY. YOU HIT THE PEAK OF INFLATED  
9 EXPECTATIONS WHERE THE TECHNOLOGY IS GOING TO CHANGE THE  
10 WORLD AND PEOPLE EXPECT IT TO HAPPEN NOW. REALITY THEN  
11 SETS IN, AND IT BECOMES APPARENT THAT THE TECHNOLOGY IS  
12 NOT GOING TO CHANGE THE WORLD WITHIN THE NEXT 30 DAYS,  
13 AND YOU DROP DRAMATICALLY BACK DOWN TO THE TROUGH OF  
14 DISILLUSIONMENT, AND THEN THE REAL WORK BEGINS, AND YOU  
15 BEGIN TO BUILD OUT AND FOLLOW A PATH THAT TAKES YOU UP  
16 ONTO THE BENEFITS THAT THE TECHNOLOGY OFFERED IN THE  
17 FIRST INSTANCE.

18 IT'S BEEN PRETTY CLEAR THAT MANY NEW  
19 TECHNOLOGIES THAT FOLLOWED THIS PATH -- I SEE A LOT OF  
20 FACES AROUND HERE, I THINK, WHO HAVE LIVED OR GROWN UP OR  
21 SPENT TIME IN SILICON VALLEY OVER THE YEARS. WE'VE ALL  
22 SEEN THIS CYCLE. WHETHER IT WAS THE EARLY ADOPTION OF  
23 THE PC, WHETHER IT WAS THE INTERNET, IT'S A PRETTY  
24 ACCURATE DESCRIPTION OF HOW TECHNOLOGY, NEW TECHNOLOGIES,  
25 ARE ADOPTED IN THE MARKET OR ENTERED INTO THE MARKET.

## BARRISTERS' REPORTING SERVICE

1 AND MY THEORY IS, AND I HAVE SOME DATA FOR YOU, THAT  
2 REGENERATIVE MEDICINES FOLLOW THIS VERY CYCLE, AND THAT  
3 WE ARE NOW COMING OUT OF THE TROUGH OF DISILLUSIONMENT,  
4 AND WE ARE ON THE SLOPE OF ENLIGHTENMENT.

5 MR. ROTH: SOMEBODY ONCE DESCRIBED THIS FOR ME,  
6 GREG, AS THE MARRIAGE CYCLE.

7 MR. BONFIGLIO: THERE ARE MANY PARALLELS IN  
8 LIFE. SO LET ME TALK ABOUT THE FIRST PART OF THE CYCLE.  
9 THIS IS THE FIRST PART OF THE GARTNER HYPE CYCLE. THIS  
10 IS THE FUNDING ENVIRONMENT FROM 1985 TO 2002. DURING  
11 THAT PERIOD CELL THERAPIES AND TISSUE-ENGINEERED PRODUCTS  
12 WERE INCREDIBLY HOT, AND HONESTLY IT WAS MORE TISSUE  
13 ENGINEERING AT THAT TIME THAN IT WAS CELL THERAPIES. IT  
14 WAS A TIME WHEN THE VENTURE COMMUNITY WAS VERY  
15 AGGRESSIVELY PURSUING THE TECHNOLOGY AND FUNDING  
16 COMPANIES ON A VERY AGGRESSIVE BASIS. WE WERE FUNDING  
17 RESEARCH PROJECTS, WE WERE FUNDING GRAND BUSINESS  
18 VISIONS. ADVANCED TISSUES SCIENCES IS PROBABLY THE  
19 POSTER CHILD FOR THAT ERA.

20 REALIZE, OF COURSE, THAT THIS ALSO COINCIDES  
21 WITH THE RUN-UP IN THE STOCK MARKET. AND AT THAT TIME  
22 THERE WERE A WHOLE SLEW OF COMPANIES THAT WERE FORMED WHO  
23 ARE NO LONGER AROUND. AGAIN, ADVANCED TISSUE SCIENCES,  
24 ATS, IS THE POSTER CHILD THERE. ATS WAS A  
25 TISSUE-ENGINEERED COMPANY THAT WAS GOING TO ENGINEER

## BARRISTERS' REPORTING SERVICE

1 EVERY PART OF THE HUMAN BODY AND MAKE IT AVAILABLE FOR  
2 THERAPEUTICS. THEY ULTIMATELY ENGINEERED ONE PRODUCT,  
3 BUT THEY RAISED OVER \$600 MILLION BETWEEN PUBLIC AND  
4 PRIVATE SECTOR. THEY WENT PUBLIC IN THE MID-'90S AND HIT  
5 A MARKET CAP OF \$1.4 BILLION. THEY WERE BANKRUPT A  
6 COUPLE YEARS LATER.

7           ATS, CURIS, SYSTEMIX, BRESAGEN, ORGANOGENESIS,  
8 THESE ARE ALL NAMES THAT WERE VERY HOT COMPANIES BACK IN  
9 THAT TIMEFRAME. I KNOW MANY OF YOU LIVED THROUGH IT, SO  
10 YOU RECOGNIZE THOSE NAMES AND KNOW THE STORY PRETTY WELL.  
11 THERE WERE A FEW PRODUCTS PRODUCED DURING THAT ERA:  
12 CARTICEL, APLIGRAF, DERMAGRAF, MOSTLY SKIN PRODUCTS OR  
13 CARTILAGE-BASED PRODUCTS.

14           THE MARKET PEAKED IN 2000. THERE WERE 3,000  
15 JOBS, 73 COMPANIES, AND YOU KNOW YOU HAVE HIT THE TOP OF  
16 THAT PEAK WHEN *TIME MAGAZINE* SAYS THAT TISSUE ENGINEERING  
17 IS THE NO. 1 JOB IN THE UNITED STATES. OF COURSE, THE  
18 MARKET COLLAPSED. YOU WILL ALL PAINFULLY RECALL MARCH  
19 2000 WHEN THE STOCK MARKET MADE ITS FIRST CORRECTION AND  
20 THEN IT STARTED COMING DOWN FROM THERE. THE I.T. MARKET,  
21 OF COURSE, COLLAPSED DRAMATICALLY. THE BIOTECH SECTOR  
22 DID NOT FALL QUITE AS FAR BECAUSE IT HADN'T COME UP QUITE  
23 AS FAR, BUT ADVANCED TISSUE SCIENCES, ORGANOGENESIS, A  
24 NUMBER OF THOSE COMPANIES FILED FOR BANKRUPTCY. ALL OF  
25 THEM HAVE BEEN RESTRUCTURED AND RECAPPED. SOME OF THEM

## BARRISTERS' REPORTING SERVICE

1 ARE STILL AROUND. ATS IS NO LONGER AROUND. IT'S BEEN  
2 REBORN AS THERAGEN, AND THERE'S ANOTHER COMPANY THAT'S  
3 WORKING WITH THEIR PRODUCTS.

4 OF COURSE, YOU HAD THE POLITICAL CONTROVERSY  
5 AROUND HUMAN EMBRYONIC STEM CELLS. WHEN YOU HAVE SENATOR  
6 BROWNBACK GETTING UP ON THE FLOOR OF THE SENATE AND  
7 LIKENING SCIENTISTS WORKING IN THE FIELD WITH THE DEVIL  
8 INCARNATE, YOU KNOW YOU'VE KIND OF RUN INTO A BUZZ SAW.  
9 THAT CERTAINLY PUT THE BRAKES ON THE MARKET A LITTLE.  
10 I'M SURE YOU'RE ALL PAINFULLY AWARE OF THAT AS WELL.

11 AGAIN, ATS, CURIS, THESE COMPANIES ALL WENT  
12 AWAY. AS A RESULT OF THIS, THE VENTURE COMMUNITY  
13 WITHDREW THEIR SUPPORT FROM THE SECTOR. OVERALL FUNDING  
14 FROM THE VENTURE COMMUNITY FOR HEALTHCARE REMAINS STRONG,  
15 BUT REGENERATIVE MEDICINE COMPANIES GOT UNDER 2 PERCENT  
16 OF THE CAPITAL THAT WAS BEING PROVIDED TO THE BIOTECH  
17 SECTOR AT THAT TIME.

18 WHY IS THAT? WELL, ACCEPTED WISDOM WITHIN THE  
19 VENTURE COMMUNITY IS THAT IF YOU HAVE A NUCLEAR BOMB GO  
20 OFF IN YOUR PORTFOLIO IN ONE SECTOR, YOU TEND TO STAY  
21 AWAY FROM IT. WE'RE IN A BUSINESS OF INVESTING THE FUND  
22 THAT WE'RE CURRENTLY INVESTING, BUT WE'RE ALSO IN THE  
23 BUSINESS OF RAISING OUR NEXT FUND. AND THAT'S SOMETHING  
24 THAT YOU DO ALL THE TIME. AND IF YOU HAVE A COLLAPSE OR  
25 A FAILURE IN YOUR EXISTING FUND, IT'S GOING TO BE VERY

## BARRISTERS' REPORTING SERVICE

1 HARD TO PERSUADE YOUR INVESTORS TO PROVIDE YOU MONEY FOR  
2 YOUR NEXT FUND. SO IF YOU'VE INVESTED HEAVILY IN  
3 ADVANCED TISSUE SCIENCES IN THE TISSUE ENGINEERING  
4 SECTOR, FOR INSTANCE, AND THAT COMPANY FILES FOR  
5 BANKRUPTCY AND YOU'VE LOST ALL OF YOUR MONEY, YOU'VE NOW  
6 HAD A NUCLEAR BOMB GO OFF IN YOUR PORTFOLIO. YOU  
7 TYPICALLY ARE PUTTING A BIG RED CROSS ON YOUR DOOR WHEN  
8 SOMEBODY COMES IN WITH A REGENERATIVE MEDICINE BUSINESS  
9 PLAN. THAT IS PRECISELY WHAT HAPPENED.

10 HOW DID THE MARKET BEGIN TO CHANGE? YOU GUYS  
11 ARE ALL FAMILIAR WITH THIS. AND I APOLOGIZE FOR SOME OF  
12 THE GRAPHICS HERE. PROP 71, WHICH, OF COURSE, YOU ALL  
13 KNOW WELL, GALVANIZED THE WORLD. I TRAVEL ALL OVER THE  
14 WORLD, AND I SEE A NUMBER OF FOLKS WHO FOLLOWED ME ALONG  
15 OR WERE WITH ME ON A LOT OF THOSE TRIPS. PROP 71 REALLY  
16 HAS CHANGED THE WEATHER IN THE WORLD IN TERMS OF THE  
17 FUNDING THAT'S PROVIDED AND THE ACTIVITY AROUND  
18 REGENERATIVE MEDICINES, AND THAT HAS TRIGGERED A  
19 FUNDAMENTAL CHANGE. ALSO THE POLITICAL RISK IS  
20 DECLINING.

21 THERE HAVE BEEN A NUMBER OF STUDIES OF HOW THE  
22 AMERICAN POPULATION THINKS ABOUT STEM CELLS, AND BY AND  
23 LARGE A MAJORITY OF THE AMERICAN POPULATION ACROSS BOTH  
24 POLITICAL SECTORS AND ACROSS RELIGIOUS BASES SUPPORT STEM  
25 CELL WORK AND SUPPORT REGENERATIVE MEDICINE.

## BARRISTERS' REPORTING SERVICE

1                   AND ALSO EQUALLY IMPORTANT FOR THE VENTURE  
2   COMMUNITY, THE MARKET IS MATURING. WE'RE NOT SEEING  
3   PRODUCTS ENTER THE MARKET. SO IF YOU TOOK THE GARTNER  
4   HYPE CYCLE AND YOU MAPPED OUT WHAT HAPPENED WITH  
5   REGENERATIVE MEDICINES, THIS IS WHAT IT LOOKS LIKE. I  
6   THINK WE ARE GOING TO MAKE THIS AVAILABLE, SO I WON'T GO  
7   THROUGH IT ALL. SUFFICE IT TO SAY THAT WE HIT THE TROUGH  
8   OF DISILLUSIONMENT AND WE'RE NOW ON OUR WAY OUT.

9                   HOW DO I KNOW THAT? WHAT IS THE CURRENT MARKET  
10   DYNAMIC? WELL, THE CURRENT MARKET DYNAMIC, TRIGGERED  
11   AGAIN IN PART TO RESPOND TO PROP 71, IS THAT YOU ARE  
12   SEEING AN INCREDIBLE AMOUNT OF ACTIVITY AT THE UNIVERSITY  
13   LEVEL. THIS TECHNOLOGY IS SO COMPELLING THAT IT HAS  
14   CAPTURED THE IMAGINATION OF THE BEST AND BRIGHTEST AT OUR  
15   MAJOR UNIVERSITIES. EVERY MAJOR UNIVERSITY IN THE UNITED  
16   STATES NOW WITH A MEDICAL SCHOOL HAS A DEDICATED  
17   REGENERATIVE MEDICINE PROGRAM. THERE ARE 65 OF THEM IN  
18   THE U.S. ALONE. THERE ARE ANOTHER TEN TO TWELVE IN THE  
19   UK, AND THERE IS ALSO VERY, VERY PROMISING RESEARCH GOING  
20   ON IN SINGAPORE, IN AUSTRALIA, IN CHINA, IN INDIA.  
21   AROUND THE WORLD YOU'RE SEEING THIS TECHNOLOGY PUSH  
22   COMING OUT OF UNIVERSITIES.

23                  ON THE OTHER SIDE YOU'VE GOT A MARKET PULL, AND  
24   AGAIN I'M SURE ALL OF YOU ARE FAMILIAR WITH THESE ISSUES,  
25   THE DEMOGRAPHICS, OUR POPULATION IS AGING, WE'RE

## BARRISTERS' REPORTING SERVICE

1 INCREASING OUR HEALTHCARE SPEND. AND, OF COURSE, ON THE  
2 PHARMA SIDE, YOU'VE GOT COMPANIES WHOSE PATENTS WHOSE KEY  
3 PRODUCT IS BLOCKBUSTER DRUGS ARE GOING OFF PATENT, AND  
4 THEY ARE LOOKING FOR WAYS TO FILL THAT PIPELINE.

5 THERE WAS A RECENT STUDY DONE OF WHERE PHARMA  
6 REVENUES ARE GOING TO COME FROM OVER A TEN-YEAR CYCLE.  
7 THIS WAS ACTUALLY PUBLISHED. *WALL STREET JOURNAL* HAD AN  
8 ARTICLE ABOUT IT ABOUT TWO MONTHS AGO. THE STUDY  
9 CONCLUDED THAT 50 PERCENT OF THE REVENUE, 50 PERCENT OF  
10 THE REVENUE TO BIG PHARMA IN YEARS FIVE THROUGH TEN, IN  
11 THE NEXT TEN-YEAR CYCLE, WILL COME FROM PRODUCTS THAT ARE  
12 CURRENTLY UNKNOWN TO THEM, UNKNOWN TO THEM. SO YOU'RE  
13 TALKING ABOUT BILLIONS OF DOLLARS OF PRODUCTS THAT NEED  
14 TO BE IDENTIFIED.

15 AS A RESULT OF THAT, WHAT YOU'VE GOT:  
16 TECHNOLOGY PUSH, MARKET PULL. NATURE ABHORS A VACUUM; SO  
17 DOES BUSINESS. YOU END UP SEEING A BUNCH OF COMPANIES  
18 FORMED. OUR FIRM MAINTAINS A DATABASE OF ACTIVITY IN THE  
19 FIELD AND THE COMPANY FORMATION. WE ACTUALLY HAVE THREE  
20 DATABASES. WE'VE GOT A COMPANY DATABASE, A UNIVERSITY  
21 DATABASE, AND AN INTELLECTUAL PROPERTY DATABASE. WE HAVE  
22 A THOUSAND COMPANIES IN THE DATABASE THAT COVER THE  
23 ENTIRE ECOSYSTEM FROM START-UPS ALL THE WAY TO BIG  
24 PHARMA, ANYBODY WHO'S EXPRESSED AN INTEREST IN THE FIELD  
25 OR HAS SOME KIND OF RESEARCH PROJECT ONGOING, BUT THERE

## BARRISTERS' REPORTING SERVICE

1 ARE 300 COMPANIES RIGHT NOW THAT ARE PURE PLAY  
2 REGENERATIVE MEDICINE COMPANIES IN EXISTENCE, OPERATING.  
3 SO THE MARKET IS CHANGING. THIS IS JUST A  
4 QUICK GRAPHIC ON WHERE THE REGENERATIVE MEDICINE PROGRAMS  
5 ARE. ANOTHER GRAPHIC ON HOW THE FUNDING AROUND THE WORLD  
6 IS HELPING TO TRIGGER THIS CHANGE. THE FUNDING IS NOT  
7 JUST COMING FROM THE UNITED STATES, BUT IT IS COMING  
8 WORLDWIDE. THERE'S A LOT OF PUBLIC FUNDING AVAILABLE,  
9 AND THE PRODUCTS ARE ENTERING THE MARKET. SO WE'VE  
10 GOT -- RIGHT NOW THAT SAYS 90 PROGRAMS -- 80 CLINICAL  
11 TRIALS. THAT IS -- I APOLOGIZE FOR THAT -- THAT IS A  
12 SUBSTANTIAL ERROR. THERE ARE 800 CLINICAL TRIALS ONGOING  
13 RIGHT NOW REGARDING STEM CELLS AND REGENERATIVE MEDICINE  
14 PRODUCTS. YOU CAN DO IT TONIGHT. GO HOME AND GO TO THE  
15 FDA SITE THAT TRACKS. IT'S CLINICALACTIVITY.GOV. YOU  
16 CAN GOOGLE IT. AND JUST TYPE IN STEM CELLS AND SEE HOW  
17 MANY HITS YOU GET. YOU WILL GET OVER 800 HITS FOR  
18 ONGOING CLINICAL ACTIVITY.

19 WE'VE GOT A NUMBER OF PRODUCTS IN THE MARKET.  
20 ONE OF THE KEY METRICS FOR THOSE PRODUCTS IS WE'VE  
21 CROSSED THE BILLION-DOLLAR MARK FROM ACTIVITY IN THE  
22 SECTOR. REGENERATIVE MEDICINE PRODUCTS HAVE NOW  
23 GENERATED MORE THAN A BILLION DOLLARS. NOW, YOU CAN --  
24 WE MADE THIS CUT. YOU CAN CUT IT A NUMBER OF DIFFERENT  
25 WAYS. ONE OF THE OBVIOUS THINGS HERE IS THAT MEDTRONICS'



## BARRISTERS' REPORTING SERVICE

1 PRODUCT INFUSE DRIVES A LOT OF THAT REVENUE. INFUSE  
2 ACCOUNTED FOR HALF A MILLION DOLLARS AS A BONE  
3 MORPHOGENIC PROTEIN. SOME WOULD ARGUE THAT ISN'T PURELY  
4 A REGENERATIVE MEDICINE PRODUCT. BUT THE POINT IS THAT  
5 THE MARKET IS MATURING. WE NOW HAVE PRODUCTS IN THE  
6 MARKET THAT ARE GENERATING REVENUES FOR COMPANIES. YOU  
7 HAVE THIS TECHNOLOGY PUSH. YOU'VE GOT COMPANY FORMATION.  
8 HERE'S JUST A PARTIAL LIST OF THE COMPANIES THAT ARE IN  
9 EXISTENCE IN OUR DATABASE.

10 AND THE PUBLIC MARKETS ARE BECOMING RECEPTIVE.  
11 HONESTLY YOU WOULDN'T BELIEVE THAT OVER THE LAST SIX  
12 WEEKS. IT'S BEEN A TOUGH CYCLE OVER THE LAST SIX WEEKS,  
13 BUT WE'VE GOT 15 COMPANIES PUBLIC IN THE U.S. NOW, AND  
14 THE PUBLIC MARKETS HAVE DEMONSTRATED PRETTY CLEARLY. IF  
15 YOU SIMPLY HAVE WATCHED WHAT'S HAPPENED WITH DENDREON AND  
16 WITH OSIRIS, THE TWO COMPANIES THAT HAVE HAD BIG RUN-UPS  
17 IN THE LAST YEAR, 18 MONTHS, THOSE RUN-UPS HAVE  
18 TRIGGERED -- HAVE CORRESPONDED DIRECTLY TO PROGRESS IN  
19 THE CLINIC. SO IF YOU SHOW CLINICAL ACTIVITY, IF YOU ARE  
20 WORKING YOUR WAY THROUGH, YOU'RE PUTTING YOURSELF IN A  
21 POSITION WHERE YOU CAN GET A PRODUCT TO MARKET, THE  
22 PUBLIC MARKETS ARE GOING TO REWARD YOU.

23 AND HERE'S JUST SOME EXAMPLES OF DEALS THAT  
24 HAVE BEEN DONE, BOTH PUBLIC DEALS AND THERE ARE ALSO SOME  
25 M&A TRANSACTIONS. THESE ARE ALL PUBLIC. WE'VE GOT

## BARRISTERS' REPORTING SERVICE

1 ANOTHER COMING UP ON M&A ACTIVITY.

2 SO THE POINT OF ALL THAT IS YOU'VE NOW GOT A  
3 MATURE MARKET, YOU'VE GOT THE TECHNOLOGY BARRIER STARTING  
4 TO DROP, AND THE VENTURE COMMUNITY GETTING BACK IN THE  
5 GAME AGAIN. APOLOGIZE FOR THE GRAPHICS. A LOT OF PEOPLE  
6 LIKE IT. OKAY.

7 SO NOW LET ME TALK ABOUT THE FUNDING CYCLE FOR  
8 REGENERATIVE MEDICINE. JUST TO SET THE STAGE FOR THAT,  
9 I'M SURE ALL OF YOU ARE FAMILIAR WITH THIS. THIS IS THE  
10 PRODUCT DEVELOPMENT CYCLE FOR ANY NEW PHARMACEUTICAL  
11 PRODUCT. WHETHER IT'S A DRUG OR IT'S A BIOLOGIC, THIS IS  
12 WHAT YOU GO THROUGH. YOU'VE GOT TO SPEND TIME IN BASIC  
13 RESEARCH, TYPICALLY IN A UNIVERSITY SETTING, YOU'VE GOT  
14 TO SPEND SOME TIME IN PRECLINICAL RESEARCH WHERE YOU'RE  
15 WORKING THROUGH YOUR ANIMAL MODELS, THEN YOU'VE GOT TO  
16 IDENTIFY WHAT IS YOUR FIRST THERAPEUTIC APPLICATION,  
17 SPEND SOME TIME ON THAT, PUT YOURSELF IN A POSITION WHERE  
18 YOU CAN FILE YOUR IND, THEN YOU GO TO THE FDA, AND YOU  
19 WORK YOUR WAY THROUGH THE CLINIC. PHASE I, OF COURSE, IS  
20 SAFETY, PHASE II IS EFFICACY ON A SMALL SCALE, AND PHASE  
21 III, IF YOU GET THERE, IS A COMBINED SAFETY AND EFFICACY  
22 STUDY ON A MUCH BROADER SCALE. VERY WELL KNOWN TO  
23 ANYBODY WHO'S IN THE PHARMACEUTICAL INDUSTRY. I'M SURE  
24 MOST OF YOU UNDERSTAND THIS QUITE WELL.

25 THE BOTTOM CIRCLES IN GREEN ARE A SENSE OF HOW

## BARRISTERS' REPORTING SERVICE

1 THIS FUNDING GOES, WHERE THE FUNDING COMES FROM, AND WHO  
2 IS THE DOMINANT PLAYERS IN THAT SECTOR. IN THE CORE  
3 RESEARCH SECTOR, WHEN AN IDEA IS FIRST BEING GERMINATED  
4 AND DEVELOPED, OF COURSE, IT'S UNIVERSITIES AND RESEARCH  
5 INSTITUTES AND HOSPITALS. TYPICALLY THE VENTURE  
6 COMMUNITY PLAYS IN THE MIDDLE SECTOR, GENERALLY BEYOND  
7 PROOF OF CONCEPT AND UP TO PHASE III; AND ONCE YOU GET  
8 OUT INTO THE MARKET, YOU'RE TYPICALLY BRINGING IN A  
9 PHARMA PARTNER OR GOING PUBLIC. UNLESS YOU'RE BUILDING A  
10 VERTICALLY INTEGRATED OPERATION AND YOU WANT TO BE THE  
11 NEXT AMGEN, YOU'RE TYPICALLY PARTNERING UP WITH BIG  
12 PHARMA OR BIG BIO.

13 A COUPLE OF KEY METRICS IN THIS CYCLE, AND THIS  
14 IS FOR BIOTECH PRODUCTS AS A WHOLE. AGAIN, I'M JUST  
15 TRYING TO SET THE STAGE FOR REGENERATIVE MEDICINE. I'LL  
16 PLACE REGENERATIVE MEDICINE COMPANIES IN A SECOND WHERE  
17 THIS FITS. THE AVERAGE TIME TO BRING A PRODUCT TO MARKET  
18 IS BETWEEN 10 AND 15 YEARS. THE AVERAGE COST IS A  
19 BILLION DOLLARS, A BILLION DOLLARS. THE FAILURE RATE IS  
20 OVER 90 PERCENT. IT'S ACTUALLY RIGHT NOW 93 PERCENT. SO  
21 WHEN 93 COMPOUNDS ENTER THIS DEVELOPMENTAL CYCLE, ONLY  
22 SEVEN ARE GOING TO GET TO THE END. AND LESS THAN 30  
23 PERCENT OF THOSE SEVEN WILL RECOUP THE DEVELOPMENT COST  
24 ASSOCIATED WITH THE EFFORT. BOTTOM LINE, THIS IS AN  
25 EXTRAORDINARILY EXPENSIVE PROCESS, AN EXTRAORDINARILY

## BARRISTERS' REPORTING SERVICE

1 EXPENSIVE PROCESS THAT IS VERY, VERY RISKY. SO IF YOU'RE  
2 AN INVESTOR, IT'S A SCARY PLACE TO PLAY. YOU CAN GET  
3 YOUR HEAD HANDED TO YOU VERY EASILY.

4 THIS IS AN ANALYSIS OF HOW VALUE IS CREATED  
5 WITHIN BIOTECH COMPANIES ACROSS THE CYCLE. IT'S  
6 ESSENTIALLY THE SAME DATA YOU JUST SAW LAID OUT ON A BAR  
7 CURVE AND FOCUSED. WHAT I'M TRYING TO TRACK THERE IS  
8 VALUATION STEP-UPS IN COMPANIES AGAINST FUNDING TO THE  
9 COMPANY AND PROGRESS IN THE CLINIC. AND WHAT I WOULD  
10 HOPE YOU WOULD DRAW FROM IT, I KNOW IT'S A LITTLE  
11 DIFFICULT TO READ, THERE'S A FAIR AMOUNT OF DATA THERE,  
12 WHAT YOU WILL SEE IS, AGAIN, A HUNDRED COMPOUNDS OR  
13 PRODUCTS ENTERING THE PIPELINE, ONLY SEVEN GETTING  
14 THROUGH, A SUBSTANTIAL AMOUNT OF MONEY BEING INVESTED AS  
15 YOU GO THROUGH. ON AVERAGE, IF YOU HAVE A SUCCESSFUL  
16 PRODUCT, IT'S GOING TO COST YOU ABOUT A HUNDRED TO 125  
17 MILLION TO GET THAT PRODUCT THROUGH. THE BILLION-DOLLAR  
18 NUMBER INCLUDES ALL THE FAILURES.

19 SO WHEN YOU HEAR PEOPLE SAY IT COSTS A BILLION  
20 DOLLARS TO GET A NEW DRUG TO MARKET, THAT INCLUDES ALL  
21 THE COST ASSOCIATED WITH THE PRODUCTS THAT FAILED. SO  
22 THAT'S AN AVERAGE NUMBER ACROSS THE INDUSTRY FOR THE  
23 NUMBER OF PRODUCTS THAT GET TO MARKET. BUT IF YOU JUST  
24 LOOK AT ONE, IF YOU GOT LUCKY AND YOU BACKED A PRODUCT  
25 THAT WENT ALL THE WAY THROUGH THIS CYCLE AND MISSED ALL

## BARRISTERS' REPORTING SERVICE

1 OF THE LAND MINES AND GOT THERE, YOU'RE STILL SPENDING  
2 ABOUT \$100 MILLION TO GET THE PRODUCT THERE BECAUSE  
3 CLINICAL TRIALS ARE VERY EXPENSIVE.

4 AND THIS TRACKS WHERE VALUE IS CREATED,  
5 STEP-UPS IN VALUATION THAT THE VENTURE COMMUNITY OR  
6 OTHERS WOULD SEE AS YOU WERE GOING THROUGH THE CLINICAL  
7 PROGRAM. AND WHAT YOU WILL SEE IS THE MOST DRAMATIC  
8 STEP-UP ON A RISK ADJUSTED NET PRESENT VALUE BASIS IS  
9 FROM JUST BEFORE YOU FILE THE IND TO THE COMPLETION OF  
10 THE PHASE II STUDY. AND ALSO IN REAL DOLLARS TERMS, YOU  
11 GET A MUCH BIGGER STEP-UP UPON COMPLETION OF PHASE III,  
12 BUT PHASE III IS A VERY EXPENSIVE STUDY BECAUSE THERE'S A  
13 LOT OF PEOPLE INVOLVED AND IT TAKES A LONG TIME TO DO IT.  
14 ON A RISK ADJUSTED NET PRESENT VALUE BASIS, YOU'RE  
15 LOOKING AT THE MOST VALUE CREATED DURING THE PRECLINICAL  
16 TO POST-PHASE II BASIS, AND THAT'S WHERE YOU ARE GOING TO  
17 SEE A LOT OF VENTURE FOLKS INTERESTED BECAUSE WE ARE  
18 JUDGED ON AN IRR BASIS. FOR ME IT'S NOT JUST THE MONEY I  
19 INVEST AND WHAT I GET BACK. IT'S HOW LONG IS THAT MONEY  
20 OUT THERE.

21 ON A MORE GRANULAR LEVEL, LOOKING JUST AT A  
22 COMPANY AND A COMPANY DEVELOPMENT OR A PRODUCT  
23 DEVELOPMENT WITHIN A COMPANY, HOW DO THESE THINGS LOOK ON  
24 A MUCH MORE GRANULAR LEVEL? THE RESEARCH THAT GOES ON --  
25 AND THIS IS, AGAIN, FOR A PRODUCT THAT ACTUALLY MAKES IT

## BARRISTERS' REPORTING SERVICE

1 THROUGH. I'M NOT LOOKING AT THE AVERAGE OF COMPANIES  
2 THAT GET ALL THE WAY THROUGH. YOU'RE TYPICALLY SPENDING  
3 TWO TO THREE YEARS, SOMETIMES MUCH MORE, DEPENDING ON THE  
4 NOVELTY OF THE TECHNOLOGY, IN RESEARCH. THERE COULD BE A  
5 TEN-YEAR CYCLE ON THE FRONT END OF THIS.

6 INTERESTINGLY, ONE OF THE COMPANIES THAT'S BEEN  
7 QUITE SUCCESSFUL IN THE REGENERATIVE MEDICINE SPACE IS  
8 TANGEN, TONY ATALA'S COMPANY THAT'S OUT OF WAKE FOREST.  
9 THEY ARE MAKING HUMAN BLADDERS. THEY'VE CREATED AN  
10 ENTIRE HUMAN BLADDER IN THE LAB. THEY GROW IT ON A  
11 MATRIX THAT WAS DEVELOPED BY HARVARD AND MIT IN A  
12 COLLABORATIVE PROCESS THAT TOOK THEM 25 YEARS TO BUILD  
13 THAT MATRIX, TO FIND THE RIGHT SET OF MATERIALS TO GET  
14 THAT MATRIX IN PLACE, BUT THEY NOW HAVE IT. AND THEY CAN  
15 SEED THREE CELL TYPES ONTO THAT MATRIX, AND THEY'RE  
16 GROWING ENTIRE HUMAN BLADDERS. AND THEY'RE TAKING THOSE  
17 BLADDERS AND TRANSPLANTING THEM INTO HUMANS. THEY'VE NOW  
18 TREATED TEN PATIENTS AND OVER 50 DOGS. THEY'VE HAD NO  
19 ADVERSE IMPACTS, AND THE BLADDERS ARE FULLY FUNCTIONAL  
20 AND FULLY INTEGRATED WITHIN ABOUT NINE MONTHS AFTER  
21 IMPLANTATION. THEY GROW THEM UP TO 80-PERCENT MATURITY  
22 IN THE LAB AND THEN TRANSPLANT THEM AND LET THEM CONTINUE  
23 TO GROW IN THE SUBJECT, IN THE PATIENT, SO THAT THEY CAN  
24 FULLY INTEGRATE.

25 THE POINT OF IT IS, IF YOU LOOK AT TONY'S

## BARRISTERS' REPORTING SERVICE

1 TANGEN CYCLE, YOU WOULD STILL SEE TWO TO THREE YEARS OF  
2 WORK IN VITRO, BUT IT'S LEVERAGING OFF OF THE 25 YEARS OF  
3 CORE RESEARCH THAT WAS DONE BY HARVARD AND MIT BEFORE  
4 THEY GOT TO THE POINT THAT THEY FORMED A COMPANY AROUND  
5 IT.

6 IN ANY EVENT, ONE OF THE THINGS I THINK WE'RE  
7 FOCUSED ON HERE IN THIS TASK FORCE IS THE VALLEY OF  
8 DEATH. IF YOU HARKEN BACK TO THE SLIDE I SHOWED YOU  
9 EARLIER ABOUT WHERE VENTURE PEOPLE WANT TO PLAY, THAT'S A  
10 FLAT CYCLE. LET ME JUST GO BACK TO THAT FOR A SECOND.  
11 THE FRONT END OF THE CYCLE YOU WILL NOTICE IS VERY FLAT.  
12 THERE'S NOT A LOT OF VALUE CREATED, AT LEAST RECOGNIZED  
13 VALUE IN THE MARKET, DURING THAT FIRST PART OF THE CYCLE.  
14 THAT FLAT PART OF THE CYCLE CORRESPONDS TO THE VALLEY OF  
15 DEATH RIGHT HERE. IT'S AN AREA WHERE MOST VENTURE PEOPLE  
16 DO NOT WANT TO INVEST BECAUSE IT'S GOING TO TAKE YOU FIVE  
17 YEARS TO GET GOING AND YOU'RE NOT GOING TO SEE MUCH OF A  
18 STEP-UP IN VALUE.

19 HONESTLY, THERE HAS BEEN SIGNIFICANT MOVE AWAY  
20 FROM EARLY -- AGAIN, THIS IS EARLY STAGE INVESTING RIGHT  
21 HERE. THE VALLEY OF DEATH REPRESENTS THE EARLIEST OF  
22 EARLY STAGE INVESTING. MOST FOLKS WOULD THINK ABOUT THAT  
23 AS SEED CAPITAL OR ANGEL CAPITAL AREAS WHERE TYPICALLY  
24 VENTURE GUYS ARE NOT GOING TO PLAY. ONE OF THE REASONS  
25 IS YOU CAN'T SEE A STEP-UP IN VALUE WITHIN A DEFINED

## BARRISTERS' REPORTING SERVICE

1 TIMEFRAME. AGAIN, BACK TO THAT CHART. AND HONESTLY IT  
2 FITS INTO A LARGER CYCLE, AND THAT WAS WITH THE COLLAPSE  
3 OF THE STOCK MARKET AND ALL OF THE FAILURES THAT PEOPLE  
4 HAD IN THEIR PORTFOLIOS AROUND THE EARLY REGENERATIVE  
5 MEDICINE PRODUCTS. THERE WAS A FLIGHT FROM EARLY  
6 PRODUCTS. THERE'S ACTUALLY BEEN A MOVE OF CAPITAL OUT OF  
7 EARLY STAGE TO MORE LATER STAGE COMPANIES WHERE THERE IS  
8 LESS RISK. TECHNOLOGY RISK HAS BEEN REDUCED, AND SO YOUR  
9 OPPORTUNITY TO GET SOMETHING THROUGH TO THE MARKET IN A  
10 TIMEFRAME IS A LOT BETTER. THE CHANCE OF GETTING  
11 SOMETHING SUCCESSFUL AND GENERATING A RETURN FOR YOUR  
12 INVESTORS IS BETTER.

13 SO THE BOTTOM LINE IS THE VALLEY OF DEATH  
14 EXISTS AND IS AN AREA WHERE FUNDING IS VERY DIFFICULT TO  
15 ACHIEVE IF YOU'RE STARTING A COMPANY, AND IT'S COMPOUNDED  
16 BY THE MARKET DYNAMICS THAT WE'RE LIVING IN RIGHT NOW.

17 TYPICALLY YOU GET GRANT MONEY ON THE FRONT END,  
18 YOU HAVE POTENTIAL EXITS ON THE BACK END. THE VENTURE  
19 COMMUNITY WILL START TO PLAY ONCE YOU GET TOWARDS THE  
20 CLINICAL TRIALS ON THE BACK END OF THAT. THE POINT THAT  
21 IS OF GREATEST CONCERN FOR MOST NEW COMPANIES IS WHAT WE  
22 CALL THE VALLEY OF DEATH THERE. VENTURE GUYS ARE  
23 TYPICALLY INVESTING RIGHT HERE.

24 LET'S ASSUME YOU'RE IN A POSITION WHERE YOU'VE  
25 GOT A COMPANY, YOU WANT TO BRING IT OUT. WHAT ARE WE



## BARRISTERS' REPORTING SERVICE

1     LOOKING FOR?  WHAT ARE THE TYPICAL VENTURE METRICS THAT  
2     WE'RE MEASURING COMPANIES AGAINST?  THIS IS JUST A QUICK  
3     OVERVIEW.  I KNOW MANY OF YOU HAVE SPENT YOUR LIVES  
4     WORKING IN THE FIELD, AND I APOLOGIZE FOR GOING THROUGH  
5     STUFF YOU ALREADY KNOW.  BUT, AGAIN, YOU'VE GOT TO HAVE  
6     GOOD TECHNOLOGY, HAS TO BE PROPRIETARY, IT HAS TO BE  
7     COMMERCIAL.  ONE OF THE THINGS THAT IT IS VERY CLEAR IN  
8     LIFE SCIENCES AND BIOTECH INVESTING IS THAT GREAT SCIENCE  
9     DOES NOT EQUAL GREAT BUSINESS.  YOU MAY BE ABLE TO GET A  
10    NOBEL PRIZE FOR THE WORK THAT YOU'VE DONE IN YOUR LAB,  
11    BUT THAT DOESN'T MEAN YOU'RE EVER GOING TO MAKE A PENNY  
12    ON IT.  IT MAY BE A FUNDAMENTAL BREAKTHROUGH IN SCIENCE,  
13    BUT IT MAY NOT BE POSSIBLE FOR YOU TO COMMERCIALIZE THAT  
14    IN A WAY THAT WILL GENERATE A RETURN FOR YOU.

15            TYPICALLY WHAT VENTURE GUYS ARE LOOKING FOR IS  
16    TOP QUALITY SCIENCE, BUT TOP QUALITY SCIENCE THAT IS  
17    PROPRIETARY AND COMMERCIAL.  YOU'VE GOT TO HAVE YOUR CORE  
18    RESEARCH COMPLETED.  AGAIN, THAT'S THE VALLEY OF DEATH  
19    ISSUE BECAUSE THE CORE RESEARCH MAY NOT BE COMPLETED  
20    THERE.  YOU'VE GOT TO HAVE YOUR PROOF OF CONCEPT  
21    ESTABLISHED.  AGAIN, THE VALLEY OF DEATH ISSUE.

22            WE'RE ALSO, OF COURSE, LOOKING FOR A MANAGEMENT  
23    TEAM.  YOU'VE GOT TO HAVE INTELLECTUAL PROPERTY THAT  
24    PROTECTS YOUR PRODUCTS, AND YOU HAVE TO BE ADDRESSING A  
25    LARGE MARKET, YOU'VE GOT TO HAVE A GOOD BUSINESS MODEL.

## BARRISTERS' REPORTING SERVICE

1 IN REGENERATIVE MEDICINE COMPANIES, IT'S ANOTHER  
2 CHALLENGE THEY FACE BECAUSE, HONESTLY, THE BUSINESS  
3 MODELS ARE NOT WELL ESTABLISHED. IT ISN'T CLEAR WHAT THE  
4 BUSINESS MODEL IS GOING TO BE FOR AUTOLOGOUS CELL  
5 THERAPIES. IS THIS A SERVICE BUSINESS? ARE YOU GOING TO  
6 TAKE THE CY TORRE APPROACH WHERE YOU DO A SERVICE AND A  
7 DEVICE? YOU'RE NOT GOING TO HAVE A PRODUCT BECAUSE YOU  
8 CAN'T PUT AUTOLOGOUS CELLS IN A BOTTLE AND FREEZE THEM  
9 AWAY. SO YOU'RE NOT GOING TO HAVE A BLOCKBUSTER DRUG  
10 MODEL.

11 IF YOU DO THE ALLOGENEIC MODEL, WHICH IS CLOSER  
12 TO THE PILLS IN A BOTTLE OR CELLS IN A BOTTLE MODEL,  
13 YOU'VE GOT OTHER CHALLENGES. THE CHALLENGE THERE IS THAT  
14 THESE CELLS WILL HAVE AN IMMUNE REACTION TYPICALLY. SO  
15 YOU ARE GOING TO HAVE PUT THE PATIENT ON IMMUNE  
16 SUPPRESSANTS IF YOU WANT TO GIVE THEM ALLOGENEIC  
17 TREATMENTS TYPICALLY UNLESS THERE'S A STRATEGY THAT  
18 WORKS. PEOPLE ARE TALKING ABOUT IMMUNE MODULATION.  
19 THEY'RE TALKING ABOUT SENSITIVITY ISSUES WITH MESENCHYMAL  
20 CELLS. THERE MAY BE A WAY TO DEAL WITH THAT, BUT RIGHT  
21 NOW THAT'S A CHALLENGE THAT IS NOT WORKED OUT. SO WHEN  
22 YOU GO TO PITCH A VENTURE FIRM, IF YOU'RE IN A  
23 REGENERATIVE MEDICINE START-UP AND YOU'RE COMING TO PITCH  
24 ME, AND I ASK YOU WHAT'S YOUR BUSINESS MODEL, YOU'RE NOT  
25 GOING TO BE ABLE TO SAY TO ME I'M FOLLOWING THE BUSINESS

## BARRISTERS' REPORTING SERVICE

1 MODEL OF X COMPANY WHO HAS BEEN SUCCESSFUL IN THIS PHASE  
2 AND THEY'VE ALREADY TREAD THIS PATH AND THIS IS GOING TO  
3 WORK BECAUSE I KNOW THEY DID IT. IT'S JUST NOT THERE.  
4 SO PRODUCT VERSUS SERVICE.

5 TYPICALLY IN THE VENTURE BUSINESS WE DON'T WANT  
6 TO FUND SERVICE COMPANIES. YOU CAN MAKE A VERY NICE  
7 BUSINESS OUT OF A SERVICE BUSINESS. YOU CAN MAKE VERY  
8 NICE PROFITS OUT OF A SERVICE BUSINESS. LAW FIRMS HAVE  
9 BEEN DOING IT FOR YEARS. ACCOUNTING FIRMS HAVE BEEN  
10 DOING IT FOR YEARS, BUT THAT'S NOT A VENTURE BUSINESS.  
11 YOU CAN MAKE A LOT OF MONEY, BUT I CAN'T GET THE KIND OF  
12 RETURN THAT I NEED IN ORDER FOR ME TO JUSTIFY THE  
13 FAILURES THAT ARE GOING TO BE IN MY PORTFOLIO. I HAVE TO  
14 HAVE EVERY COMPANY HAVE THE POSSIBILITY OF AT LEAST  
15 GENERATING A 3 X RETURN, AND I WANT TO BE ABLE TO PENCIL  
16 IT OUT SO I CAN GET A 10 X RETURN ON ALL OF MY COMPANIES  
17 SO THE ONES THAT FAIL WILL COVER THE ONES -- THE ONES  
18 THAT SUCCEED WILL COVER THE ONES THAT DON'T. YOU CAN'T  
19 GENERATE A 10 X RETURN ON AN INVESTMENT IN THE SERVICE  
20 BUSINESS TYPICALLY. SO IT'S A CHALLENGE THERE.

21 YOU'VE ALSO GOT CHALLENGES JUST AROUND HOW IS  
22 YOUR APPROACH DIFFERENT FROM OTHERS. THAT'S SEPARATING  
23 YOURSELF FROM YOUR COMPETITORS. YOU GOT TO HAVE A  
24 REALISTIC EXIT STRATEGY, AND YOU WANT TO HAVE MULTIPLE  
25 SHOTS ON GOAL. YOU WANT TO BE IN A POSITION WHERE IF ONE

## BARRISTERS' REPORTING SERVICE

1 OF YOUR PRODUCTS FAIL, WE CAN INVEST IN SOMETHING ELSE.

2 WHAT ARE WE TYPICALLY GETTING WHEN I DO A  
3 VENTURE FINANCING? IF I GO IN AND FUND A COMPANY, WHAT  
4 AM I ASKING FOR JUST PRICE OF ADMISSION? WELL, OF  
5 COURSE, THE MAJOR ISSUE TO THE ENTREPRENEUR IS HOW MUCH  
6 AM I GOING TO GIVE YOU AS YOUR VALUATION OF THE COMPANY?  
7 AM I GOING TO VALUE YOUR COMPANY AT 5, 10, \$15 MILLION?  
8 WHATEVER IT IS, THAT IS ALWAYS ISSUE NO. 1. WHAT'S THE  
9 VALUATION.

10 THAT REALLY TRANSLATES INTO THE PERCENT OF  
11 OWNERSHIP THAT THE MANAGEMENT TEAM AND THE FOUNDERS ARE  
12 GOING TO HAVE AFTER WE FUND, WHAT DILUTION ARE THEY GOING  
13 TO TAKE? THE OTHER TERMS ARE ALL PRETTY STANDARD IN  
14 VENTURE CAPITAL TERM SHEETS. YOU'RE ASKING FOR A  
15 DIVIDEND RATE, YOU WANT TO GET TYPICALLY 8-PERCENT  
16 RETURNS. IF YOU HAVE TO TAKE ADVANTAGE OF DIVIDEND  
17 PROVISIONS IN YOUR TERM SHEET, YOU GOT A FAILURE. I  
18 CAN'T STAY IN BUSINESS MAKING 8 PERCENT. THAT JUST  
19 DOESN'T WORK, BUT YOU TYPICALLY PUT IT IN THERE TO  
20 PROTECT YOURSELF IN THE EVENT THAT YOU HAVE PROVISIONS IN  
21 A WORST-CASE SCENARIO ANALYSIS.

22 VERY OFTEN YOU'RE ASKING FOR A PREFERRED  
23 RETURN. WHAT THAT MEANS IS I GET CASHED OUT FIRST ON THE  
24 SALE OF THE COMPANY. TYPICALLY I'M ASKING FOR THE AMOUNT  
25 OF MY INVESTMENT COMES OUT FIRST AND THEN I SHARE PRO

## BARRISTERS' REPORTING SERVICE

1 RATA WITH EVERYBODY ELSE. OFTENTIMES IT IS A VERY, VERY  
2 RISKY COMPANY AND THEY CAN'T FIND FINANCING AND IT'S A  
3 VERY HIGH BETA DEAL, MEANING IT'S EITHER GOING TO BE A  
4 BILLION-DOLLAR COMPANY OR IT'S GOING TO BE A FLOP. I  
5 MIGHT ASK FOR A 3 X RETURN. THREE TIMES MY MONEY  
6 INITIALLY BEFORE I SHARE PRO RATA WITH EVERYBODY ELSE IS  
7 MEANINGLESS IF IT'S A BILLION-DOLLAR COMPANY. EVERYBODY  
8 IS GOING TO DO VERY WELL, BUT IT ALSO THEN HELPS ME  
9 JUSTIFY THE RISK THAT I'M TAKING IN THOSE MUCH MORE RISKY  
10 INVESTMENTS. THAT'S THE RATIONALE.

11 ANTIDILUTION PROTECTION IS TO PROTECT THE  
12 VENTURE COMMUNITY OR THE VENTURE INVESTOR IN THE EVENT  
13 THAT THE NEXT ROUND OF FINANCING IS AT A LOWER RATE THAN  
14 THE ONE THAT WE FINANCED. IF I GIVE YOU A \$15-MILLION  
15 VALUATION ON YOUR MONEY AND I GAVE YOU 50 MILLION, THAT'S  
16 A POST MONEY OF 30, YOUR COMPANY IS NOW WORTH 30 ONCE  
17 WE'VE FUNDED YOU. IF YOUR NEXT ROUND OF FINANCING IS  
18 DONE AT 20, YOU'VE NOW LOST 30 PERCENT OF YOUR VALUE.  
19 AND I WANT MY EQUITY STATE TO BE PROTECTED AGAINST THAT,  
20 AND SO I ASK TYPICALLY FOR ANTIDILUTION PROTECTION, AND  
21 THERE ARE A RANGE OF AGGRESSIVE PROVISIONS. FULL RATCHET  
22 IS THE MOST AGGRESSIVE; WEIGHTED AVERAGE IS THE MOST  
23 COMMON.

24 PROTECTIVE PROVISIONS, I'M USUALLY ASKING TO  
25 HAVE PROVISIONS BUILT INTO THE CORPORATE CHARTER THAT

## BARRISTERS' REPORTING SERVICE

1     LIMIT WHAT MANAGEMENT CAN DO WITHOUT MY APPROVAL.    SO I  
2     WILL TAKE A BOARD SEAT, WHICH IS THE NEXT BULLET, BUT I  
3     ALSO WANT TO HAVE PROVISIONS THAT SAY, FOR INSTANCE, YOU  
4     CANNOT SPEND MORE THAN \$250,000 ON ANYTHING UNLESS IT  
5     COMES TO THE BOARD AND IS APPROVED BY THE BOARD.    AGAIN,  
6     A WAY OF CONTROLLING MANAGEMENT SO THAT YOU CAN FROM THE  
7     BOARD LEVEL TRY TO DIRECT WHERE THE COMPANY IS GOING.  
8     AND THEN THERE ARE RIGHTS THAT PROTECT ME IN THE EVENT OF  
9     TYPICAL FOLLOW-ON FINANCING, RIGHT OF FIRST REFUSAL, AND  
10    OUR ABILITY TO PARTICIPATE IN THE NEXT FINANCING.

11                 SO THAT'S IT.    AND THEN I'VE GOT A WHOLE BUNCH  
12    OF DATA TO BACK ALL THIS UP IN THE APPENDICES.    LYNN, IF  
13    YOU WANT TO MAKE THAT AVAILABLE, I'D BE HAPPY TO LET  
14    FOLKS HAVE IT.

15                 CHAIRMAN ROTH:   GREG, THANK YOU.    THAT WAS AN  
16    INCREDIBLE PRESENTATION.    THAT'S TAKING 30 YEARS AND  
17    HUNDREDS OF BILLIONS OF DOLLARS AND PUTTING IT IN 20  
18    SLIDES AND EXPLAINING THE RISK BENEFIT THAT YOU'VE GONE  
19    THROUGH.    I REALLY APPRECIATE THAT.    IT WOULD BE GREAT IF  
20    WE COULD MAKE THAT AVAILABLE TO THE TASK FORCE BECAUSE I  
21    THINK THERE'S SO MUCH DATA IN THERE.

22                 MR. BONFIGLIO:   I DID COVER A LOT OF DATA, SO  
23    IF ANYBODY HAS QUESTIONS, I'D BE VERY HAPPY TO ANSWER  
24    THEM.

25                 CHAIRMAN ROTH:   LET'S OPEN IT FOR QUESTIONS

## BARRISTERS' REPORTING SERVICE

1 SINCE THIS IS FRESH IN EVERYBODY'S MIND. AND IF YOU HAVE  
2 CLARIFICATION QUESTIONS OR QUESTIONS RELATED TO HOW THIS  
3 MIGHT IMPACT OUR LOAN PROGRAM, NOW IS THE TIME.

4 DR. BLOOM: IN TERMS OF APPLICATION TO  
5 REGENERATIVE MEDICINE, OF THE COMPANIES THAT HAVE FAILED  
6 SO FAR FOR FINANCIAL REASONS, IS THERE ANYONE TAKING A  
7 LOOK AT REVITALIZING THOSE COMPANIES?

8 MR. BONFIGLIO: YES. GOOD QUESTION. VIRTUALLY  
9 THE TECHNOLOGY THAT WAS FUNDED IN THAT INITIAL BUBBLE  
10 BACK IN THE EARLY '90S, THAT'S THE ATS, THE CURIS, THE  
11 BRESAGEN, ALL THOSE TECHNOLOGIES ARE STILL VIABLE AND  
12 STILL IN PLAY IN ONE FORM OR ANOTHER. SO, FOR INSTANCE,  
13 ADVANCED TISSUE SCIENCES, THEIR TECHNOLOGY HAS NOW BEEN  
14 REBORN INTO TWO DIFFERENT START-UPS. WHAT THEY  
15 ULTIMATELY GENERATED WAS A DERMAL PATCH THAT WAS USED FOR  
16 WOUND REPAIR. AND THERE'S A COMPANY THAT'S TAKING THAT  
17 PATCH AND JUST SELLING IT AS A WOUND REPAIR FOR DIABETIC  
18 ULCERS IN OTHER WOUND SETTINGS. AND THEN ANOTHER  
19 COMPANY, WHICH IS RIGHT HERE IN WOODSIDE, THERMOGEN --  
20 THERAGEN HAS TAKEN THAT PATCH AND USING IT FOR CARDIAC  
21 APPLICATIONS.

22 IT TURNS OUT THAT THE CELLS THAT THEY DEVELOPED  
23 PROMOTE REVASCULARIZATION IN A CARDIAC INCIDENT, SO  
24 THEY'RE SELLING THE PATCH, THAT YOU ESSENTIALLY TAKE THE  
25 PATCH AND SEW IT ON AFTER YOU'VE CRACKED SOMEBODY'S

## BARRISTERS' REPORTING SERVICE

1 CHEST, AND IT PROMOTES REVASCULARIZATION AND HELPS HEAL A  
2 HEART. SO VIRTUALLY NONE OF THOSE TECHNOLOGIES WERE  
3 LOST. THEY HAVE BEEN REBORN, BUT HONESTLY IT WAS A \$1.4  
4 BILLION MARKET CAP, \$600 MILLION OF CAPITAL. THERAGEN'S  
5 OUT RAISING MONEY ON A SINGLE DIGIT VALUATION, JUST TO  
6 GIVE YOU A SENSE OF WHERE THE VALUES ARE.

7 CHAIRMAN ROTH: JUST FOR THE COMMITTEE TO KEEP  
8 THAT ONE THOUGHT WHEN WE GET INTO DISCUSSIONS ABOUT  
9 REPAYMENT OF LOANS, BECAUSE I THINK WHAT GREG JUST  
10 DESCRIBED IS MANY COMPANIES WHO MOVE FORWARD IN THE  
11 PROCESS END UP, AS YOU SAW FROM THE SLIDE, HAVING  
12 PROBLEMS. BUT MUCH OF THAT INTELLECTUAL PROPERTY IS  
13 EVENTUALLY TAKEN OVER BY SOMEONE ELSE, IN WHICH CASE IN  
14 OUR CASE THE APPLICATION WOULD -- THE LOAN WOULD ACTUALLY  
15 FOLLOW THE TECHNOLOGY. SO THAT'S AN IMPORTANT  
16 CONSIDERATION. WHEN YOU LOOK AT THOSE DEPRESSING  
17 NUMBERS, YOU WOULD THINK THAT WE'D HAVE 97 BANKRUPTCIES  
18 OR 93 BANKRUPTCIES. AND, IN FACT, MOST OF THOSE  
19 COMPANIES ARE MERGED OR TAKEN OVER OR RESTRUCTURED AS HE  
20 DESCRIBED.

21 MR. BONFIGLIO: IT IS -- RECAPS ARE VERY COMMON  
22 IN BIOTECH COMPANIES. BY RECAP I MEAN A COMPANY WHO HAS  
23 RAISED AT ONE VALUATION ON A PROJECTED PATH AGAINST  
24 MILESTONES, A CREATION OF VALUE AGAINST MILESTONES THAT  
25 THEY CANNOT ACHIEVE EITHER BECAUSE THE TECHNOLOGY MOVES



## BARRISTERS' REPORTING SERVICE

1 TOO SLOW OR BECAUSE THEY LACK FUNDING, AND THEN THEY HAVE  
2 TO GO BACK OUT TO THE MARKET AND TRY AND RAISE MONEY  
3 HAVING NOT MET THEIR MILESTONES, SO THEY DIDN'T GET THE  
4 STEP-UP IN VALUATION, AND YOU HAVE TO DO IT AT A LOWER  
5 LEVEL. THAT'S WHY I HIGHLIGHTED THE PROTECTIVE  
6 PROVISIONS IN THE ANTIDILUTION PROVISIONS BECAUSE IT'S  
7 PRETTY COMMON IN BIOTECH. UNLIKE I.T. INVESTING WHERE  
8 YOU'RE INVESTING IN SOFTWARE CHIPS, ETC.

9 THE PRICE OF ADMISSION TO MAKE A PRESENTATION  
10 TO A VENTURE GUY IN AN I.T. SITE IS TYPICALLY HAVE YOU  
11 COMPLETED YOUR SCIENCE? IS THE SCIENCE DONE AND WE'RE  
12 NOW JUST TALKING ABOUT ENGINEERING? AND USUALLY IN THE  
13 I.T. SIDE, YOU WANT TO FUND COMPANIES WHERE IT'S JUST  
14 ENGINEERING BECAUSE YOU KNOW IF YOU THROW ENOUGH MONEY AT  
15 IT, YOU CAN ENGINEER YOUR WAY OUT OF THE PROBLEM.

16 THE ISSUE FOR BIOTECH, IT'S ALL SCIENCE. SO  
17 YOU NEVER KNOW UNTIL YOU GET THE PRODUCT TO MARKET, AND  
18 EVEN THEN YOU DON'T KNOW THAT THE PRODUCT IS ULTIMATELY  
19 GOING TO BE SUCCESSFUL. THERE'S JUST A HUGE AMOUNT OF  
20 RISK IN INVESTING IN THIS SECTOR. AND YOU CAN HAVE THE  
21 BEST PEOPLE IN THE BUSINESS, YOU CAN HAVE VERY COMPELLING  
22 TECHNOLOGY, AND FOR REASONS REALLY BEYOND YOUR CONTROL,  
23 YOU CAN'T MEET THOSE MILESTONES. SINCE YOU'RE USUALLY  
24 PLAYING PRE-IND UP TO THROUGH PHASE II, YOU'RE WORKING IN  
25 A REGULATORY FRAMEWORK MOST OF THE TIME AS YOU'RE TRYING

## BARRISTERS' REPORTING SERVICE

1 TO CREATE VALUE HERE.

2 YOU' RE WORKING WITH THE FDA, YOU' RE TALKING  
3 ABOUT TRYING TO GO THROUGH A CLINICAL PROGRAM WHERE YOU  
4 MAY NOT EVEN BE ABLE TO ENROLL THE PATIENTS. THEY HAVE  
5 NOTHING TO DO WITH YOUR TECHNOLOGY. YOU JUST CAN' T GET  
6 THE PATIENTS ENROLLED IN THE TRIAL IN THE TIME THAT YOU  
7 NEED. IF THE PATIENT ENROLLMENT SLOWS DOWN, YOU' RE STILL  
8 OPERATING YOUR BUSINESS, YOU' RE BURNING MONEY, BUT YOU' RE  
9 NOT HITTING YOUR MILESTONE. AND THEN YOU GET TO THE END  
10 OF THE CYCLE, TYPICALLY YOU' RE ONLY GETTING FUNDING TO  
11 KEEP YOU GOING FOR 18 MONTHS, MAYBE 24 MONTHS AT THE  
12 OUTSIDE. IF YOU HAD AN 18-MONTH CYCLE THAT EXPECTED YOU  
13 TO GET THROUGH ONE PHASE OF THE CLINIC AND YOU CAN' T  
14 ENROLL YOUR PATIENTS, YOU' RE STILL BURNING YOUR MONEY  
15 OUT, AND YOU GET TO THE END OF THAT CYCLE, YOU CAN' T  
16 RAISE MONEY ON THE SAME VALUATION THAT YOU WENT IN, SO  
17 YOU' RE DOING A RECAP. AND IT' S JUST COMMON. IT HAPPENS.

18 DR. MURPHY: IF YOU HAVE AN EARTHQUAKE ON THE  
19 BASIC SCIENCE SIDE LIKE INDUCED PLURIPOTENCY, WHICH IS  
20 NOW TWO OR THREE MONTHS AWAY, DOES THAT AFFECT YOUR  
21 THINKING, AND HAS IPS AFFECTED YOUR THINKING IN WHAT YOU  
22 GUYS ARE LOOKING FOR IN THE FUTURE?

23 CHAIRMAN ROTH: GREG, WOULD YOU REPEAT THE  
24 QUESTION JUST SO THE PEOPLE ON THE PHONE CAN HEAR?

25 MR. BONFIGLIO: SO THE QUESTION IS IF YOU HAVE

## BARRISTERS' REPORTING SERVICE

1 A BREAKTHROUGH, A MONUMENTAL CHANGE IN THE TECHNOLOGY,  
2 LIKE INDUCED PLURIPOTENCY, WHICH I AGREE IS ABSOLUTELY A  
3 FUNDAMENTAL SHIFT, DOES THAT CHANGE YOUR THINKING? OF  
4 COURSE, IT DOES. INDUCED PLURIPOTENCY IS A MAJOR  
5 BREAKTHROUGH FOR TWO REASONS. ONE HAS TO DO WITH  
6 COMMERCIALIZATION AND TECHNOLOGY. THE OTHER IS REALLY  
7 MORE POLITICAL. IT REMOVES A LOT OF THE POLITICAL  
8 BARRIERS. ON THAT BASIS ALONE, IT FUNDAMENTALLY CHANGES  
9 THE THINKING BECAUSE, WHETHER YOU ARE WORKING IN  
10 EMBRYONIC OR NOT, MOST PEOPLE OUT THERE IN THE WORLD  
11 THINK ABOUT REGENERATIVE MEDICINE COMPANIES. WHEN I'M  
12 OUT PITCHING OR TALKING TO FOLKS ABOUT REGENERATIVE  
13 MEDICINE, THEY THINK I'M TALKING EMBRYONIC. AND  
14 EMBRYONIC IS A SMALL PART OF THE WORLD. AND THROUGH  
15 INDUCED PLURIPOTENCY YOU'VE KIND OF REMOVED THE POLITICAL  
16 OVERHANG THAT WAS EMBRYONIC, BUT THERE WAS A HALO EFFECT,  
17 A NEGATIVE HALO EFFECT, AROUND THE REST OF IT. THAT HAS  
18 NOW BEEN LIFTED, SO THAT DOES FUNDAMENTALLY CHANGE.

19 DR. MURPHY: SO WHAT ARE YOU DOING DIFFERENTLY  
20 NOW BECAUSE OF IT?

21 MR. BONFIGLIO: HONESTLY, I'VE BEEN TRACKING  
22 THIS FIELD FOR YEARS. I INVESTED IN MY FIRST STEM CELL  
23 COMPANY IN 2000. THEY HAVE AN IP, AND I'VE BEEN  
24 FOLLOWING THE DEVELOPMENTS AT THE UNIVERSITY LEVEL AROUND  
25 INDUCED PLURIPOTENCY. THE GENE MODIFICATION APPROACH

## BARRISTERS' REPORTING SERVICE

1 THAT YAMANAKA AND JAMIE THOMPSON TOOK, I DON'T THINK IT'S  
2 COMMERCIALY VIABLE, BUT THERE ARE OTHER FOLKS WORKING  
3 ON -- IT'S A GREAT BREAKTHROUGH. IT DEMONSTRATES PROOF  
4 OF CONCEPT, BUT THERE ARE A NUMBER OF FOLKS WORKING ON  
5 EXTRACELLULAR TRIGGERS THAT WILL INDUCE AN EMBRYONIC-LIKE  
6 STATE. AND THERE WAS A COMPANY JUST FUNDED A COUPLE  
7 WEEKS AGO, FATE THERAPEUTICS, THAT'S WORKING ON THAT VERY  
8 ISSUE. DAVE STANTON OUT OF HARVARD AND SOME OTHER GUYS  
9 HERE ON THE WEST COAST ARE WORKING ON THAT.

10 WHAT I'M DOING IS I'M TRACKING THE COMPANIES  
11 AND THE RESEARCH THAT'S GOING ON AROUND THAT. STEVEN  
12 MINGER AT OXFORD HAS BEEN WORKING ON THAT FOR QUITE A  
13 WHILE. WE'RE TRYING TO IDENTIFY WHERE THAT COMPELLING  
14 TECHNOLOGY IS BECAUSE, HONESTLY, FROM MY PERSPECTIVE, THE  
15 COMMERCIAL ASPECT OF THAT IS AROUND EXTRACELLULAR  
16 TRIGGERS, DRUGS OR CYTOKINES, GROWTH FACTORS THAT WILL  
17 TRIGGER DIFFERENTIATION. BUT THAT'S JUST ONE OF A  
18 NUMBER OF MAJOR BREAKTHROUGHS THAT HAVE OCCURRED IN THE  
19 LAST 10, 15 YEARS. AND THEY ALL CHANGE YOUR THINKING.  
20 YOU HAVE TO CHANGE THE WAY YOU THINK ABOUT IT.

21 CHAIRMAN ROTH: LET ME SEE IF THERE'S ANY  
22 MORE --

23 DR. LOVE: GREG, VERY NICE PRESENTATION. I  
24 WANTED TO ASK JUST TO THE EXTENT THAT WE'RE FOCUSING ON A  
25 LOAN PROGRAM HERE, AND ULTIMATELY WE'RE ALL TRYING TO

## BARRISTERS' REPORTING SERVICE

1 ACHIEVE THE SAME THING. WE WANT TO BASICALLY STRUCTURE  
2 THIS IN A WAY WHERE IT'S COMPATIBLE WITH YOUR CONTINUED  
3 SUPPORT OF THE INDUSTRY AS WELL. COULD YOU JUST KIND OF  
4 AT A HIGH LEVEL MAYBE GIVE US SOME GUIDANCE ON HOW WE CAN  
5 STRUCTURE THINGS THAT WOULD BE MOST COMPATIBLE WITH YOUR  
6 PARTICIPATION, AND WHAT KIND OF TOXIC THINGS THAT WE  
7 MIGHT WANT TO AVOID?

8 MR. BONFIGLIO: SURE. LET ME JUST AT A HIGH  
9 LEVEL SAY IT'S REALLY UNUSUAL FOR BIOTECH COMPANIES TO  
10 FUND THEMSELVES THROUGH LOANS. IT'S NOT THE WAY IT'S  
11 TYPICALLY DONE BECAUSE YOU DON'T HAVE ANYTHING THAT YOU  
12 CAN SECURE THE LOAN AGAINST. IT'S NOT A CAPITAL  
13 INTENSIVE BUSINESS. THIS IS A BUSINESS ABOUT WORK IN A  
14 LAB, AND YOU MAY NEED AN ELECTRON MICROSCOPE AND YOU MAY  
15 NEED SOME EXPENSIVE EQUIPMENT; BUT WHEN YOU NET IT ALL  
16 OUT, IT'S ONLY A COUPLE MILLION BUCKS, NOT ENOUGH TO FUND  
17 A COMPANY. SO IT IS NOT TYPICAL TO HAVE LOAN STRUCTURES  
18 IN PLACE, WHICH IS -- LET ME DISTINGUISH. A PURE LOAN, A  
19 LEASE LINE OR A STRAIGHTFORWARD LOAN FROM A CONVERTIBLE  
20 FINANCING, IT IS VERY TYPICAL FOR VENTURE GUYS TO COME ON  
21 THE FRONT END OF A BUSINESS THAT HAS SOME RISK,  
22 PARTICULARLY IN A RECAP SETTING, AND PROVIDE THE  
23 FINANCING ON A CONVERTIBLE BASIS, MEANING I'M GOING TO  
24 GIVE YOU \$10 MILLION THAT WILL CONVERT TO EQUITY IF YOU  
25 HIT CERTAIN MILESTONES. BUT IF YOU DON'T HIT THOSE

## BARRISTERS' REPORTING SERVICE

1 MILESTONES, THEN IT BECOMES DEBT AND IT'S SECURED AGAINST  
2 EVERYTHING YOU'VE GOT, WHICH IS TYPICALLY YOUR  
3 INTELLECTUAL PROPERTY. THAT IS SOMEWHAT COMMON.

4 DR. GOLDFISCHER: ALTHOUGH I WOULD SAY NOW  
5 PROBABLY AROUND 10 PERCENT OF THE CAPITAL YOU PUT INTO A  
6 COMPANY OVER ITS LIFETIME DOES COME IN THE FORM OF  
7 VENTURE DEBT PROVIDED BY THE SVD GUYS, FOR EXAMPLE, AT A  
8 15 ODD PERCENT RETURN ON CAPITAL. ABOUT 10 PERCENT OF  
9 THE CAPITAL THAT GOES INTO THESE COMPANIES NOW IS OFTEN  
10 IN THE FORM OF A DEBT INSTRUMENT PROVIDED BY A BANK. IT  
11 IS SECURED BY ASSETS.

12 YOUR BASIC POINT IS CORRECT. WE DON'T DO  
13 ANYTHING THAT TRADITIONAL LENDERS WOULD LEND AGAINST. WE  
14 HAVE INTELLECTUAL PROPERTY AND WE'VE GOT NO CASH FLOW, SO  
15 IT'S A SOMEWHAT DIFFERENT BUSINESS.

16 MR. BONFIGLIO: SO THE KIND OF TERMS THAT WOULD  
17 BE TOXIC TO ME, IF I'M LOOKING AT FUNDING A COMPANY AND  
18 IN PART BECAUSE OF WHERE THE INDUSTRY IS AND PART BECAUSE  
19 OF MY BIAS AND WHAT MY FUND IS LOOKING AT, I'M LOOKING AT  
20 MORE EARLY STAGE COMPANIES. WE'RE NOT TYPICALLY -- MY  
21 FUND IS NOT GOING TO BE FUNDING COMPANIES COMING OUT OF  
22 PHASE III, OR WE'RE NOT GOING TO TYPICALLY FUND THE LAST  
23 PART OF THE PHASE III TRIAL. WE'RE LOOKING AT FUNDING  
24 PRE-IND AND GETTING UP THROUGH PHASE II.

25 THE KIND OF TERMS I'M CONCERNED ABOUT OR WOULD

## BARRISTERS' REPORTING SERVICE

1 BE VERY CONCERNED ABOUT IS IF THERE WAS A LOAN OUT IN  
2 FRONT OF ME THAT HAD TO BE REPAID BEFORE I GOT REPAID.  
3 SO PRIORITY IN THE REPAYMENT PROCESS WOULD BE ONE. AND  
4 ANOTHER CONCERN THAT I WOULD HAVE IS SECURITY. IF THERE  
5 IS A LOAN INSTRUMENT OUT THERE THAT IS SECURING THE  
6 INTELLECTUAL PROPERTY OF THE COMPANY, THAT WOULD BE A  
7 REAL ISSUE FOR ME.

8 LET ME ALSO MODIFY THE EARLIER STATEMENT I  
9 MADE. IT IS VERY COMMON TO PROVIDE BRIDGE FINANCING IN  
10 THE FORM OF A LOAN BETWEEN TWO DIFFERENT ROUNDS OF  
11 FINANCING. THAT IS VERY COMMON, AND BRIDGE FINANCING  
12 OFTEN IS SECURED BY THE INTELLECTUAL PROPERTY OF THE  
13 COMPANY, BUT TYPICALLY YOU WOULD ENVISION THE BRIDGE  
14 FINANCING TO LAST FOR NO MORE THAN A COUPLE MONTHS.  
15 YOU'RE JUST TRYING TO GIVE THE COMPANY THE MONEY TO  
16 OPERATE UNTIL YOU CLOSE THE ROUND OF FINANCING THAT  
17 YOU'RE RAISING. AND THAT FINANCING IS TYPICALLY DONE ON  
18 A LOAN BASIS.

19 MR. WASDEN: THIS IS CHRIS WASDEN FROM PWC.  
20 DUANE MENTIONED SOMETHING EARLIER THAT I'D LIKE YOU TO  
21 ADDRESS. AND THAT IS THE THOUGHT THAT IF A COMPANY DID  
22 FAIL AND THE TECHNOLOGY WAS PICKED UP BY SOMEBODY ELSE,  
23 THAT THE LOAN WOULD BE ABLE TO TRAVEL WITH THAT  
24 INTELLECTUAL PROPERTY AND, THEREFORE, HAVE SOME FUTURE  
25 VALUE. COULD YOU ADDRESS HOW YOU THINK YOU MIGHT

## BARRISTERS' REPORTING SERVICE

1       STRUCTURE THAT?

2                   CHAIRMAN ROTH:   LET' S HOLD THAT UNTIL WE GET  
3       INTO THE ACTUAL DISCUSSION, CHRIS.   CHRIS, BY THE WAY, IS  
4       PART OF THIS INVITED GROUP.   HE' S IN NEW YORK AND HE' S  
5       WITH PRICEWATERHOUSECOOPER, SO WE' RE GOING TO GET  
6       COMMENTS FROM HIM LATER.

7                   WHAT I' D LIKE TO DO IS JUST GIVE EACH OF OUR  
8       INVITED GUESTS A CHANCE NOW TO TALK ABOUT THE DOCUMENT  
9       THAT WE RELEASED THAT THEY' VE HAD A CHANCE NOW TO LOOK  
10      AT.   WE' RE GOING TO GO THROUGH THAT, HOPEFULLY, IN AN  
11      ORGANIZED WAY, BUT I WANTED TO GIVE THEM SOME OVERVIEW  
12      OPPORTUNITIES, OVERVIEW THOUGHT OPPORTUNITIES, BEFORE  
13      THAT.

14                  I' D LIKE TO LEAD WITH STEVE BURRILL WHO' S BEEN  
15      KIND ENOUGH TO JOIN US ON THE PHONE FROM NEW YORK WHERE  
16      HE' S TRAVELING.   AND STEVE HAS HAD CONVERSATIONS WITH  
17      SOME OF US ON THE TASK FORCE INDIVIDUALLY AND HAS SOME  
18      THOUGHTS.

19                  THOSE OF YOU THAT MAY NOT KNOW STEVE, HE' S ONE  
20      OF THE -- I' LL CALL HIM ONE OF THE ORIGINALS IN  
21      BIOTECHNOLOGY AND HAS REALLY BEEN A GREAT ASSET TO THE  
22      INDUSTRY.   STEVE, WHY DON' T YOU TAKE A FEW MINUTES AND  
23      GIVE US YOUR THOUGHTS ON THIS PROGRAM.

24                  MR. BURRILL:   THANK YOU FOR THE OPPORTUNITY TO  
25      DO THAT.   I' M SITTING IN A BOARD MEETING.   I PULLED



## BARRISTERS' REPORTING SERVICE

1 MYSELF OUT FOR A FEW MINUTES TO DO THIS, SO I APOLOGIZE  
2 FOR NOT BEING WITH YOU TODAY.

3 I DID HAVE A COUPLE OF KIND OF FOLLOW-UP  
4 COMMENTS. I DIDN'T HEAR ALL OF THE QUESTIONS OR ANSWERS  
5 FOR GREG. BUT FOR THE BENEFIT OF EVERYONE IN THE ROOM,  
6 LET ME JUST SAY A COUPLE THINGS. ONE ABOUT VALUATION. I  
7 THINK THERE WERE SOME QUESTIONS ABOUT HOW COMPANIES ARE  
8 VALUED AND HOW VALUE MIGHT ULTIMATELY STAY WITH THE  
9 TECHNOLOGY. I THINK IT'S IMPORTANT WHEN ONE LOOKS AT  
10 VALUATION, TO UNDERSTAND THAT VALUATION IS ESSENTIALLY A  
11 NEGOTIATED EVENT BETWEEN A WILLING BUYER AND A WILLING  
12 SELLER. AND THERE ARE LOTS OF EVENTS THAT GO ON OUTSIDE  
13 OUR INDUSTRY THAT HAVE A LOT TO DO WITH INDIVIDUAL  
14 TECHNOLOGY VALUATIONS.

15 IN THE YEARS 2000 TO 2002 WE DID IN A VERY  
16 ROBUST FINANCING PERIOD WHERE VALUES WERE PERCEIVED TO BE  
17 HIGH FOLLOWED BY THE .COM CRASH WHICH HAD VIRTUALLY  
18 NOTHING TO DO WITH OUR TECHNOLOGY, BUT THE .COM WORLD,  
19 THAT SORT OF WALL STREET AND THE INDUSTRY, LOST 50  
20 PERCENT OF ITS VALUE IN A SINGLE DAY. SO THERE ARE  
21 THINGS THAT HAVE TO DO WITH STEM CELL TECHNOLOGY THAT  
22 HAVE NOTHING TO DO WITH THE UNDERLYING INTRINSIC VALUE OF  
23 THE TECHNOLOGY AND EVERYTHING TO DO WITH THE WORLD AROUND  
24 IT. SO WE NEED TO BE AWARE OF THAT WHEN ONE LOOKS AT  
25 SECURITY FOR A LOAN.

## BARRISTERS' REPORTING SERVICE

1                   SECONDLY, IF ONE LOOKS AT A LOAN PROGRAM, YOU  
2                   NEED TO LOOK AT PEOPLE LIKE HERTZ. HERTZ IS IN THE  
3                   RENTAL BUSINESS. THEY' LL RENT YOU A CAR AND YOU HAVE TO  
4                   BRING IT BACK AND YOU PAY A SERVICE FEE FOR THE TIME YOU  
5                   HAVE IT. SO TOO IS THE LOAN BUSINESS. WE BASICALLY RENT  
6                   MONEY FROM SOMEBODY WITH THE EXPECTATION THAT THEY GIVE  
7                   IT BACK WITH A SERVICE FEE FOR THE TIME THAT WE HAVE IT.

8                   THE CHALLENGE TO BIOTECH COMPANIES IS THAT THEY  
9                   DO NOT HAVE THE CAPABILITY TO PAY IT BACK. SO IT IS NOT  
10                  GENERALLY -- DEBT CAPITAL IS NOT GENERALLY AVAIL ABLE TO  
11                  BIOTECH OR STEM CELL COMPANIES BECAUSE ALL OF THE CAPITAL  
12                  THEY HAD IS GOING TO BE SPENT ON R&D, WHICH IS, IF YOU  
13                  WILL, A PERISHABLE ASSET; WHEREAS, IT MAY ULTIMATELY  
14                  CREATE SOME VALUE. IN MOST CASES BANKS WON' T LEND  
15                  AGAINST THAT IP BECAUSE THEY HAVE NO WAY OF KNOWING WHAT  
16                  THAT IP IS WORTH AND THEY HAVE NO WAY OF MONETIZING IT.  
17                  SO LOAN PROGRAMS FROM COMMERCIAL ORGANIZATIONS ARE  
18                  GENERALLY NOT AVAIL ABLE. THE LOAN PROGRAM THAT' S BEING  
19                  CONTEMPLATED HERE BY CIRM COULD BE A VERY IMPORTANT  
20                  ASSET.

21                  AND FINALLY, I JUST WANT TO SAY ONE THING ABOUT  
22                  THE COMMENT GREG WAS MAKING ABOUT BRIDGE FINANCING. AND  
23                  I WANT TO MAKE A SIMPLISTIC EXAMPLE. THE CONCERNS THAT  
24                  FINANCIERS HAVE IN THIS INDUSTRY IN BRIDGE FINANCINGS IS  
25                  THAT IT IS A BRIDGE AND NOT A PIER. AND THAT IS TO SAY,

## BARRISTERS' REPORTING SERVICE

1 A PIER GOES OUT TO THE END AND THEN DROPS OFF. AND ONE  
2 OF THE CHALLENGES FOR PROVIDING BRIDGE FINANCING FOR  
3 SOMEONE IS WHAT DO YOU BRIDGE IT TO? IN OTHER WORDS, IS  
4 THERE A FINANCING OR A TRANSACTION THAT YOU'RE JUST  
5 TRYING TO HELP BECAUSE OF A TIMING DIFFERENCE, OR ARE YOU  
6 ACTUALLY PUTTING IN A FINANCING THAT MAY HAVE SOME VERY  
7 REAL RISK?

8 IN THE PROGRAM THAT'S BEING CONTEMPLATED BY  
9 CIRM, I THINK WE BASICALLY ARE GIVING COMPANIES, AS I  
10 UNDERSTAND IT, TWO CHOICES. THEY FUNDAMENTALLY HAVE A  
11 CHOICE OF SOME LEVEL OF A GRANT IF THEY QUALIFY, AND THAT  
12 GRANT WILL BE SUBJECT TO THE TERMS OF THE GRANTS AND THE  
13 IP POLICY OF CIRM, OR THEY CAN TAKE A LOAN, AND THE LOAN  
14 HAS DIFFERENT PROVISIONS, DIFFERENT COVENANTS, AND  
15 DIFFERENT RISKS ASSOCIATED WITH IT. BUT IN THE LOAN  
16 PROGRAM AS IT'S PRESENTLY CONTEMPLATED, IT IS REPAYABLE  
17 EVEN IF NOT SUCCESSFUL.

18 AND AS GREG WAS ALLUDING TO WITH HIS COMMENTS  
19 JUST BEFORE I GOT ON, THE BURDEN A LOAN MAY PLACE ON A  
20 COMPANY IN TERMS OF ITS DOWNSTREAM FINANCABILITY COULD,  
21 IN FACT, BE SIZEABLE. THEREFORE, MOST COMPANIES WOULD  
22 CHOOSE, I WOULD THINK, THE GRANT AS OPPOSED TO THE LOAN  
23 BECAUSE A LOAN MAY VERY WELL REPRESENT A LARGE BARRIER TO  
24 FUTURE FINANCINGS.

25 CHAIRMAN ROTH: OKAY. QUESTIONS FOR STEVE,

## BARRISTERS' REPORTING SERVICE

1 ANYONE? STEVE, THAT'S HELPFUL. WE'LL LET YOU GO BACK TO  
2 YOUR BOARD MEETING UNLESS YOU CAN STAY ON FOR A WHILE.

3 MR. BURRILL: YOU HAVE MY PHONE NUMBER. IF YOU  
4 DO HAVE A QUESTION AND I CAN BE HELPFUL, WHY DON'T YOU  
5 CALL ME AND I'LL BE GLAD TO JUMP ON TO HELP YOU OUT.

6 (MR. BURRILL THEN GIVES HIS CELL PHONE NUMBER, NOT  
7 RECORDED, NOR HEREIN TRANSCRIBED.) IF YOU NEED ME, JUST  
8 GIVE ME A JINGLE.

9 CHAIRMAN ROTH: THE WHOLE STATE OF CALIFORNIA  
10 HAS STEVE'S CELL PHONE. THANKS, STEVE.

11 SO WHAT I'D LIKE TO DO IS JUST CONTINUE ON NOW  
12 WITH OVERVIEW COMMENTS, AND THEN WE'RE GOING TO TAKE THE  
13 DOCUMENT THAT YOU HAVE AND GO INTO SOME SPECIFICS AND  
14 ELICIT YOUR COMMENTS ON EACH OF THE INDIVIDUAL ITEMS. SO  
15 LET ME MOVE NEXT TO CARL. AND, CARL, THANK YOU FOR BEING  
16 HERE.

17 FOR THOSE OF YOU IN THE BAY AREA, YOU KNOW THIS  
18 FIRM VERY WELL ALSO, BAY CITY CAPITAL, AND HE'S MANAGING  
19 DIRECTOR THERE. HE'S ALSO A PHYSICIAN. CARL, WE'RE  
20 INTERESTED IN YOUR THOUGHTS.

21 DR. GOLDFISCHER: THANKS AND THANKS FOR THE  
22 OPPORTUNITY TO BE HERE. I THINK GREG JUST DID JUST A  
23 PHENOMENAL JOB OF ALMOST CONVINCING ME TO GO DO SOMETHING  
24 ELSE. I'M STUCK.

25 BUT FOLLOWING ON THIS, WE SPEND A LOT OF TIME

## BARRISTERS' REPORTING SERVICE

1 ACTUALLY IN THAT VALLEY OF DEATH. WE START COMPANIES ON  
2 A REGULAR BASIS THAT WE DON'T REALLY KNOW WHAT THE  
3 COMMERCIAL APPLICATION MIGHT BE. WE SORT OF THINK IT'S  
4 REALLY INTERESTING SCIENCE, WE LIKE THE WORK, AND WE  
5 THINK IT MAY HAVE SOME COMMERCIAL APPLICABILITY, BUT THE  
6 PATH TO GETTING THERE IS NOT EXACTLY CLEAR.

7 AND SO I THINK ANY FINANCING VEHICLE THAT SORT  
8 OF ENCOURAGES US TO DO THAT HAS A ROLE IN ESTABLISHING  
9 THESE COMPANIES. WE ARE IN THE BUSINESS OF TAKING  
10 INORDINATE RISKS WITH THINGS THAT ARE MOST LIKELY GOING  
11 TO FAIL, BUT THAT'S WHAT WE DO. AND WE SORT OF LIKE  
12 DOING IT. AND SO I THINK THERE IS ACTUALLY A PLACE FOR A  
13 FINANCING VEHICLE THAT MAY BE, IF WE'RE SITTING AROUND A  
14 TABLE THINKING SHOULD WE COMMIT A FEW MILLION DOLLARS TO  
15 THIS IDEA OR NOT, AND THERE'S A PARTNER THAT WE HAVE, A  
16 PARTNER THAT HAS CAPITAL AVAILABLE ON TERMS THAT MAYBE  
17 ENABLE US TO TAKE IT TO THE NEXT STEP EVEN IF THE MONEY,  
18 QUOTE, UNQUOTE, NEEDS TO BE PAID BACK, BUT GIVES US SOME  
19 TIME TO EXPLORE THESE IDEAS IN A WAY WHERE WE ON THE  
20 BUBBLE MIGHT DECIDE NOT TO DO SO.

21 THERE ARE A MYRIAD OF STRUCTURES THAT WILL COME  
22 UP THAT ARE BEING DISCUSSED THAT MIGHT ENABLE THAT OR NOT  
23 BE PROHIBITIVE TO IT. YES, THE MONEY HAS TO BE PAID  
24 BACK. WE GIVE LECTURES ALL THE TIME WHERE WE HAVE PEOPLE  
25 LIKE SILICON VALLEY BANK COME AND SAY, REMEMBER, GUYS,

## BARRISTERS' REPORTING SERVICE

1 THIS IS DEBT. IT DOES HAVE TO BE PAID BACK. IT'S NOT  
2 EQUITY. BUT AS PART OF A MOSAIC OF FINANCING THESE  
3 COMPANIES OVER A PERIOD OF TIME, THERE IS A ROLE FOR THIS  
4 TYPE OF VEHICLE.

5 CHAIRMAN ROTH: GREAT. THANKS FOR THOSE  
6 COMMENTS. LET'S MOVE RIGHT ON DOWN TO JON NORRIS. YOU  
7 JUST MENTIONED SILICON VALLEY BANK AND VENTURE DEBT  
8 FINANCING. THAT'S WHAT YOU GUYS DO A LOT OF. WE'D LOVE  
9 TO HEAR YOUR THOUGHTS.

10 MR. NORRIS: RIGHT. THANKS, FIRST OF ALL, FOR  
11 THE OPPORTUNITY TO SPEAK TODAY. I THINK IT WAS VERY  
12 INTERESTING THAT THE QUESTIONS WE HAD EARLIER RELATING TO  
13 THE ABILITY TO TRY AND FINANCE EARLY STAGE COMPANIES WITH  
14 DEBT, MAYBE IT HELPS TO GIVE A BROAD PERSPECTIVE OF WHEN  
15 SVB LIKES TO GET INVOLVED IN WORKING WITH EARLY STAGE  
16 COMPANIES. TYPICALLY WE WILL GET INVOLVED WHEN THE FIRST  
17 INSTITUTIONAL VENTURE CAPITAL ROUND OF EQUITY FINANCING  
18 GOES INTO THE COMPANY. SO PRIOR TO THAT, WHICH, I THINK,  
19 IS A LOT OF THE VALLEY OF DEATH COMMENTS THAT GREG MADE  
20 IN A LOT OF VERY EARLY WORK IN THE DEVELOPMENT OF  
21 COMPANIES, THE BANK REALLY DOESN'T PLAY.

22 AND REALLY THE REASON BEHIND THAT IS THAT THE  
23 BANK AS A WHOLE, AND I'LL JUST MAYBE SAY FOLKS WHO  
24 PROVIDE DEBT BASED ON VENTURE CAPITAL COMING INTO THE  
25 COMPANY, WE DON'T HAVE THE ABILITY TO UNDERWRITE THE

## BARRISTERS' REPORTING SERVICE

1 TECHNOLOGY AS WELL AS THE VENTURE CAPITAL INDUSTRY DOES.

2 SO TYPICALLY WHAT THOSE PROVIDERS DO IS WE  
3 LEVERAGE THE DUE DILIGENCE THAT THE VENTURE INVESTORS  
4 HAVE PUT INTO THAT COMPANY. AND SO FOR US SEEING A  
5 SERIES A COMPANY RAISE MONEY BY TOP TIER VENTURE  
6 CAPITALISTS GIVES US A SENSE THAT THE VENTURE FOLKS HAVE  
7 DONE THEIR DUE DILIGENCE ON THE COMPANY AND THE  
8 OPPORTUNITY FOR THAT COMPANY TO RAISE THEIR SERIES B  
9 FINANCING IS VERY HIGH. AND TYPICALLY OUR STRUCTURE  
10 TENDS TO BE ABOUT THREE TO FOUR YEARS WORTH OF A LOAN  
11 STRUCTURE FROM THE DRAWDOWN TO THE PAYBACK. AND THAT  
12 TYPICALLY WILL ENCOMPASS YOUR SERIES B ROUND OF  
13 FINANCING.

14 SO A LOT OF TIMES NOW WHAT'S CALLED VENTURE  
15 DEBT IS THE ABILITY FOR THAT COMPANY, ONCE IT RAISES ITS  
16 SERIES A FINANCING, TO LEVERAGE THE EQUITY WITH DEBT TO  
17 HELP PROVIDE ADDITIONAL RUNWAY BETWEEN THE SERIES A AND  
18 THE SERIES B ROUND OF EQUITY. IN ESSENCE, IT PROVIDES  
19 THREE -- LET'S SAY THREE TO SIX EXTRA MONTHS OF CAPITAL  
20 FOR YOU TO HIT MILESTONES THAT HELPS THAT COMPANY TO HIT  
21 A VALUE CREATION END POINT, WHICH ALLOWS THAT COMPANY TO  
22 RAISE THEIR NEXT ROUND OF EQUITY AT A HIGHER VALUATION.  
23 IN ESSENCE, THEY'RE PAYING BACK A LOAN WITH MONEY THAT IS  
24 LESS EXPENSIVE THAN THEIR SERIES A MONEY.

25 AND SO THAT'S REALLY WHERE WE PLAY. I THINK IT

## BARRISTERS' REPORTING SERVICE

1 MAKES A LOT OF SENSE TO DISCUSS HAVING A LOAN VEHICLE FOR  
2 COMPANIES PRIOR TO THAT SERIES A VENTURE FINANCING. I  
3 THINK SOME ISSUES TO KEEP IN MIND IS SECURITY INTEREST  
4 BECAUSE A BANK WILL TAKE A SECURITY INTEREST IN ALL THE  
5 ASSETS WHEN A VENTURE DEBT FACILITY IS PUT INTO PLACE.  
6 INTELLECTUAL PROPERTY IS AN ISSUE THAT SOMETIMES THE  
7 INTELLECTUAL PROPERTY IS PART OF THAT LOAN, SOMETIMES  
8 IT'S NOT. EXCLUSIVE LICENSES IS ALWAYS A BIG ISSUE THAT  
9 COMES UP BECAUSE WE WANT TO MAKE SURE WE KEEP THE  
10 TECHNOLOGY THAT WE'RE LENDING ON WITH THE COMPANY; OR IF  
11 NOT, THEN WE END UP BEING ABLE TO FOLLOW WHERE THAT  
12 TECHNOLOGY GOES BECAUSE WHEN YOU REALLY GET DOWN TO IT,  
13 WE'RE LEVERAGING THE ABILITY OF THAT COMPANY TO CONTINUE  
14 TO GET FINANCING FOR US TO GET PAID BACK. IF A MAJOR  
15 PART OF THAT TECHNOLOGY LEAVES TO GO TO ANOTHER COMPANY,  
16 AND WE'RE NOT ABLE TO FOLLOW THAT WITH OUR LOAN, THEN  
17 WE'RE LOSING ABILITY FOR US TO GET REPAID.

18 CHAIRMAN ROTH: THANKS.

19 DR. GOLDFISCHER: ONE POINT I WANT TO ADD  
20 BECAUSE WE DEAL WITH JON ALMOST EVERY DAY. PART OF THIS  
21 SECURITY THAT THEY HAVE IS THE FACT THAT WE DEAL WITH  
22 THEM EVERY DAY. SO IN ANY PARTICULAR COMPANY, IF WE  
23 STIFF THEM ON THEIR LOAN, THEY'RE GOING TO BE LESS LIKELY  
24 TO DO THIS AGAIN WITH US THE NEXT COMPANY. THESE ARE  
25 NOT -- SINCE THEY'RE NOT CASH FLOW ENTITIES, A LOT OF THE



## BARRISTERS' REPORTING SERVICE

1 SECURITY IS SOMEWHAT EPHEMERAL. IT'S RELATIONSHIP BASED.  
2 IF WE WANT TO KEEP DOING BUSINESS WITH SVB, I GOT TO PAY  
3 THEM BACK, I THINK ANYWAY.

4 MR. NORRIS: IT'S VERY RELATIONSHIP BASED.  
5 THAT'S REALLY WHY, FOR EXAMPLE, SILICON VALLEY BANK'S  
6 BEEN ABLE TO BE AROUND FOR 25 YEARS BECAUSE OUR SOLE  
7 FOCUS REALLY HAS BEEN WORKING WITH THE VENTURE CAPITAL  
8 COMMUNITY AND SERIAL ENTREPRENEURS WHO START COMPANIES  
9 THAT ARE FUNDED BY THOSE FOLKS.

10 CHAIRMAN ROTH: I LOOK FORWARD TO YOUR COMMENTS  
11 WHEN WE GET INTO THE SPECIFIC DISCUSSION ABOUT SECURITY  
12 AND HOW WE CAN LEARN FROM THE EXPERIENCES YOU'VE HAD.

13 LET ME MOVE TO OUR LAST SPEAKER. BEFORE I DO  
14 THAT, TWO MEMBERS OF THE COMMITTEE HAVE JOINED US. JEFF  
15 SHEEHY HAS JOINED US. THANKS FOR BEING HERE, JEFF. AND  
16 CHAIRMAN KLEIN HAS JUST JOINED US. THANKS, BOB.

17 GLEN IS WITH COOLEY GODWARD AND HAS SOME  
18 THOUGHTS AND EXPERIENCE IN TERMS OF OBSERVING FROM A  
19 LEGAL STANDPOINT HOW THIS FINANCING THAT GREG DID SUCH A  
20 GREAT JOB OF GIVING US AN OVERVIEW ON ACTUALLY OCCURS.  
21 AND I THINK IT WILL BE VERY USEFUL TO THE COMMITTEE WHEN  
22 WE GET INTO DISCUSSIONS ABOUT HOW WE MIGHT STRUCTURE OUR  
23 LOAN PROGRAM.

24 MR. SATO: PART OF IT IS I THINK WHAT YOUR GOAL  
25 IS BECAUSE FUNDAMENTALLY IF YOU'RE LOOKING FOR A

## BARRISTERS' REPORTING SERVICE

1 FINANCIAL RETURN, I DON'T THINK THIS IS THE RIGHT AREA TO  
2 INVEST, IF YOU WILL. PEOPLE WILL ALWAYS TAKE GRANTS  
3 VERSUS LOANS GIVEN THE ALTERNATIVE BASED ON THE FACT THAT  
4 THEY ARE NEGATIVE CASH FLOW COMPANIES. AND THEY ARE  
5 REALLY TRYING TO BUILD EARLY STAGE IP.

6 I THINK ONE OF THE THINGS THAT'S PROBABLY  
7 IMPORTANT TO BEAR IN MIND IS THAT VENTURE INVESTORS  
8 TYPICALLY ARE -- YOUR NEXT STAGE OF INVESTORS WILL  
9 PROBABLY NOT INVEST IN YOU TO THE EXTENT THAT THERE'S A  
10 SECURITY INTEREST OUT THERE ON YOUR IP, AND THEY ALSO  
11 FEEL PRETTY STRONGLY THAT THEY DON'T WANT TO USE THE  
12 PROCEEDS FROM THE FUNDING TO ACTUALLY PAY OFF DEBT.

13 WITH THOSE FUNDAMENTAL PRINCIPLES SET OUT  
14 THERE, I THINK THERE IS A NICHE HERE FOR SMALL AMOUNTS.  
15 AND IF THE GOAL IS TO SEED CAPITAL, THEN I THINK THAT, AS  
16 PART OF A COMPONENT OF A PACKAGE, I THINK IT MAKES SENSE  
17 AND CERTAINLY VIABLE IN TERMS OF OFFERINGS.

18 CHAIRMAN ROTH: ANY OTHER QUESTIONS, OVERVIEW  
19 QUESTIONS, BEFORE WE GET INTO THE DETAIL FROM THE  
20 COMMITTEE? I THINK WHAT WE'RE GOING TO DO IS TAKE A VERY  
21 SHORT BREAK. THERE ARE BOX LUNCHES FOR THE COMMITTEE AND  
22 OUR GUESTS. FOR THE PUBLIC, THERE ARE SOME SNACKS BACK  
23 THERE, BUT YOU CAN ALSO STOP BY THE RESTAURANT AND GET  
24 SOMETHING QUICK. LET'S TAKE 15 TO 20 MINUTES, AND THEN  
25 WE'LL CONVENE AND GET SPECIFICALLY INTO THE DETAILS OF

## BARRISTERS' REPORTING SERVICE

1 THE WORKING DOCUMENT AND GET YOUR THOUGHTS ON THOSE.

2 (A RECESS WAS TAKEN.)

3 CHAIRMAN ROTH: CAN WE RECONVENE? FOR THOSE OF  
4 YOU ON THE PHONE, WE'RE JUST WAITING FOR OUR PANELISTS TO  
5 RETURN AND WE'LL GET STARTED. ALL RIGHT. WE'RE GOING TO  
6 CALL THE MEETING TO ORDER AGAIN. WHAT I'D LIKE TO DO IN  
7 THE NEXT HOUR OR SO IS GO THROUGH THE DOCUMENT THAT I  
8 MENTIONED SEVERAL TIMES TODAY THAT WAS PREPARED REALLY TO  
9 STIMULATE DISCUSSION ON SOME OF THE ISSUES THAT HAVE COME  
10 UP IN OUR EARLIER CONVERSATION TODAY ABOUT HOW WE  
11 STRUCTURE THE PROGRAM. BUT BEFORE I DO THAT, LET ME  
12 JUST, AGAIN, SO THAT WE'RE ALL ON THE SAME PAGE HERE,  
13 TALK ABOUT THE TASK FORCE RESPONSIBILITY RIGHT NOW IS TO  
14 COME UP WITH A POLICY AND A RECOMMENDATION ABOUT HOW A  
15 LOAN PROGRAM SHOULD BE STRUCTURED. WE'RE PROBABLY NOT  
16 GOING TO BE ABLE TO DEBATE LOANS VERSUS GRANTS AND SCOPE  
17 OF THE LOANS. WHAT WE WANT TO TALK MORE ABOUT IS  
18 SPECIFIC STRUCTURAL ISSUES THAT WE NEED TO INCLUDE IF  
19 WE'RE GOING TO DESIGN SOMETHING THAT CAN MEET THE  
20 REQUIREMENTS OF THE FOLLOW-ON FINANCING AND CONTINUE THIS  
21 GOING.

22 SO MANY OF THE COMMENTS TODAY SO FAR HAVE BEEN  
23 EXCELLENT BECAUSE THEY ZEROED IN ON SOME AREAS OF  
24 CONCERN, SUCH AS SUBORDINATION, THAT WE REALLY NEED TO  
25 TRY TO COME UP WITH. WHAT WE'RE ASKING IS YOUR HELP NOW

## BARRISTERS' REPORTING SERVICE

1 IN THINKING ABOUT, OKAY, IF WE'RE GOING TO HAVE THIS  
2 PROGRAM, HOW SHOULD IT BE STRUCTURED SO THAT IT WOULD NOT  
3 BE OFFENSIVE TO PEOPLE THAT MAY FOLLOW ON IN TERMS OF  
4 FINANCING.

5 THE CONCEPT OVERALL IS, ONE, FUND THE GAPS  
6 WHERE THERE ARE NOT OTHER SOURCES OF CAPITAL AVAILABLE TO  
7 ADVANCE IT; AND, TWO, IF WE'RE SUCCESSFUL WITH THIS  
8 PROGRAM, WE'D LIKE TO RECYCLE THE MONEY. SO THERE IS AN  
9 ALTRUISTIC GOAL OF CIRM, WHICH IS HELP THOSE TODAY WHO  
10 MOST NEED IT; BUT IF WE CAN, HELP PEOPLE IN THE FUTURE IF  
11 THOSE IDEAS GO ON AND ARE SUCCESSFUL AND THE LOANS CAN BE  
12 REPAYED.

13 WITH THAT IN MIND, I'D LIKE TO OPEN THE  
14 CONVERSATION MAYBE WITH THE DOCUMENT AND FIRST JUST MAKE  
15 SURE THERE AREN'T ANY OF THE PREAMBLE OR THE LOAN PROCESS  
16 AREAS THAT ANYBODY HAS THOUGHTS OR COMMENTS ON. THOSE  
17 ARE PRETTY STANDARD.

18 DR. PENHOET: STOP FOR A CLARIFYING NOTE TO  
19 WHAT YOU JUST SAID JUST TO BE CLEAR. THE LOAN PROGRAM,  
20 REPAYMENT OF THE LOANS WILL COME BACK TO CIRM TO BE  
21 REINVESTED IN FURTHER STEM CELL WORK. THE ECONOMIC  
22 RETURNS ASSOCIATED WITH A GRANT WILL GO TO THE GENERAL  
23 FUND OF THE STATE OF CALIFORNIA. I WANTED TO MAKE SURE  
24 EVERYBODY UNDERSTOOD THE DISTINCTION. LOAN REPAYMENTS  
25 COME BACK TO THE AGENCY.

## BARRISTERS' REPORTING SERVICE

1 MR. SIMPSON: AS OPPOSED TO GRANTS WHICH GO TO  
2 THE GENERAL FUND.

3 DR. PENHOET: DEALS ON GRANTS FROM SUCCESSFUL  
4 COMMERCIALIZATION GO TO THE GENERAL FUND.

5 CHAIRMAN ROTH: ROYALTIES AND SO ON. SO THE  
6 PREAMBLE IS REALLY LIFTED FROM OTHER AREAS THAT HAVE BEEN  
7 DISCUSSED AS A BACKGROUND FOR YOUR INFORMATION MOSTLY.  
8 IF THERE ARE ANY ISSUES THERE, WE CAN CERTAINLY TRY TO  
9 ADDRESS THOSE IN THE CONVERSATION.

10 THE SECOND, II, LOAN MAKING PROCESS JUST SAYS  
11 HOW WE WOULD DEAL WITH THESE. UNDERGO A FOUR-PHASE  
12 EVALUATION PRIOR TO FUNDING. AND WE'LL GO INTO THE  
13 SPECIFICS FOR THAT.

14 I HAVE A COMMENT IN TERMS OF LETTER A THAT I'D  
15 LIKE TO MAKE. WE USE THE TERM PART 1 OF THE APPLICATION  
16 WILL DESCRIBE THE SCIENTIFIC RESEARCH PROGRAM. THAT'S  
17 PRETTY GENERIC, AND WE'LL PROBABLY CHANGE THAT TERM  
18 BECAUSE WE WANT TO MAKE SURE WE HAVE A BROAD SCOPE OF  
19 WHAT THAT REVIEW COULD BE. COULD BE A CLINICAL PROGRAM.  
20 IT COULD BE OTHER ELEMENTS THAT WE THINK ARE FUNDING GAPS  
21 IMPEDING PROGRESS IN THIS AREA. SO WE'LL PROBABLY  
22 REDEFINE THAT TERM, BUT FOR NOW I THINK IT'S FINE.

23 ON PAGE 2 WE TALK ABOUT THE BUSINESS/FINANCIAL  
24 FEASIBILITY REVIEW. SO IN ADDITION TO WHATEVER THE CORE  
25 GRANT IS OR CORE LOAN PROGRAM IS LOOKING AT IN TERMS OF

## BARRISTERS' REPORTING SERVICE

1     ADVANCING PRODUCT IDEAS, THE SECOND PART OF THAT IS WHAT  
2     WE'VE CALLED THE BUSINESS/FINANCIAL FEASIBILITY REVIEW.

3             AND I'D LIKE TO START THERE AND OPEN IT UP TO  
4     THE PANELISTS TO MAKE SOME COMMENTS ON THAT SECTION, AND  
5     YOU CAN TAKE IT IN ORDER OR OUT OF ORDER. WE'LL FOLLOW  
6     ALONG. AND THEN ALLOW THE COMMITTEE MEMBERS TO INTERACT  
7     WITH YOU ON THAT. WHO WOULD LIKE TO TAKE A SHOT AT IT?  
8     DON'T BE BASHFUL. JON.

9             MR. NORRIS: SO RELATING TO THE BUSINESS PLAN  
10    FINANCIAL FEASIBILITY SIDE OF THINGS, I THINK WHAT  
11    DEFINITELY WOULD BE IMPORTANT FOR YOUR UNDERSTANDING IS  
12    TO REALLY GET AN UNDERSTANDING, NOT ONLY OF THE OVERALL  
13    BUDGET, BUT HOW IT'S PUT INTO PLAY, WHAT'S THE TIMING,  
14    AND WHAT ARE THE MILESTONES THAT REALLY ARE THE SUCCESS  
15    MILESTONES IN THE SENSE OF WHAT MILESTONES GETS YOU TO  
16    VENTURE FUNDING? BECAUSE IN THE END, THAT'S WHAT IS MOST  
17    LIKELY GOING TO PAY BACK THE STATE AS WELL AS BE ABLE TO  
18    BRING THE VENTURE MOVING FORWARD.

19            AND I THINK REALLY HAVING AN UNDERSTANDING OF  
20    THAT, HAVING SOMEBODY BE ABLE TO CREATE A BALANCE SHEET  
21    AND AN INCOME STATEMENT AND A CASH FLOW, EVEN A VERY  
22    SIMPLIFIED FORM OF THAT, WOULD BE SOMETHING THAT YOU  
23    WOULD PROBABLY WANT TO HAVE AS A PART OF THE PROCESS JUST  
24    SO YOU UNDERSTAND WHAT ARE THE TIMING CONSIDERATIONS TO  
25    HITTING THOSE VALUE INFLECTION MILESTONES. THE MORE

## BARRISTERS' REPORTING SERVICE

1 SIMPLIFIED YOU HAVE THAT SECTION, THE LESS YOU REALLY  
2 UNDERSTAND WHAT THIS MONEY IS GOING FOR AND WHAT THE  
3 THOUGHT PROCESS IS OF THE COMPANY MOVING THAT TECHNOLOGY  
4 FORWARD.

5 CHAIRMAN ROTH: JON IS BRINGING UP AN IMPORTANT  
6 POINT. IN THE DOCUMENT WE ACTUALLY DEAL WITH MILESTONES  
7 IN TWO PLACES. WHAT HE'S TALKING ABOUT ARE OVERALL  
8 BUSINESS MILESTONES, AND I THINK THAT'S PROBABLY A VERY  
9 APPROPRIATE QUESTION TO ASK APPLICANTS. HOW DO YOU  
10 INTEND TO FINANCE YOUR BUSINESS ON AN ONGOING BASIS? SO  
11 WE AT LEAST UNDERSTAND IF THEY'RE AIMING FOR VENTURE  
12 CAPITAL OR AIMING FOR VENTURE DEBT OR WHATEVER ASPECTS.  
13 OTHER COMMENTS?

14 DR. GOLDFISCHER: YOU'RE REALLY -- IT GETS BACK  
15 TO WHAT GREG SAID IN ONE OF HIS POINTS WAS WE HAVE THIS  
16 EXPERIENCE WITH THE GREATEST SCIENTIST IN THE WORLD.  
17 IT'S NOT THAT THEY'RE BAD BUSINESS PEOPLE, BUT THEY JUST  
18 DON'T THINK ABOUT IT IN RETURN ON CAPITAL. THAT'S JUST  
19 NOT HOW THEY'VE DONE WHAT THEY DO, AND THEY'RE ALSO  
20 PEOPLE AT THE LEVEL OF SCIENCE THAT TEND TO COME UP WITH  
21 THESE DISCOVERIES ARE REALLY NOT USED TO PEOPLE SAYING NO  
22 TO THEM AND TURNING THEM DONE. AND THE ACCOUNTABILITY AT  
23 THAT LEVEL IS SORT OF -- THEY'RE RESEARCHERS, RIGHT. HOW  
24 DO YOU COMBINE THAT LEVEL OF SCIENTIFIC CREATIVITY WITH  
25 SOME MODICUM, AT LEAST, OF BUSINESS ACCOUNTABILITY

## BARRISTERS' REPORTING SERVICE

1 BECAUSE YOU ARE LENDING MONEY, SO YOU WANT TO BE LENDING  
2 IT TO PEOPLE WHO AT LEAST -- AT LEAST SOMEONE IN THAT  
3 ORGANIZATION HAS THAT KIND OF EXPERIENCE BASE AND  
4 UNDERSTANDS THE BUSINESS SIDE OF THE PROJECT.

5 MR. KLEIN: I THINK IT'S A VERY IMPORTANT  
6 POINT, THAT PART OF THE ANALYSIS REALLY HAS TO LOOK AT  
7 MANAGEMENT CAPACITY. NOW, THEY MAY BE PART OF AN  
8 ACCELERATOR MODEL WHERE THEY SHARE MANAGEMENT CAPACITY  
9 WITH A NUMBER OF DIFFERENT GROUPS, OR THEY MAY HAVE  
10 SUFFICIENT SCALE TO GET MANAGEMENT CAPACITY THEMSELVES.  
11 THE MANAGEMENT SIDE OF IT IS PROBABLY THE MOST IMPORTANT  
12 BECAUSE IF WE WANT TO HAVE A REASONABLY HIGH PERCENTAGE  
13 PAYBACK, WE'RE GOING HAVE TO HAVE SOME REAL QUALITY  
14 EXPERIENCE IN MANAGEMENT.

15 IF YOU WERE TO DIFFERENTIATE FOR ME OUR ROLE AS  
16 VERSUS SILICON VALLEY BANK'S ROLE, WE'RE HOPING TO GO IN  
17 THIS AREA AND KICK-START IT BY LOANS, NOT WHERE THE  
18 MANAGEMENT IS BAD, BUT IN AREAS WHERE THE AREA OF  
19 DISCOVERY AND THE PROOF OF LONG-TERM PRODUCT FEASIBILITY  
20 IS NOT YET WELL ENOUGH ESTABLISHED FOR SILICON VALLEY  
21 BANK TO BE IN THE AREA OR AT LEAST NOT WITHOUT MAYBE  
22 SOMEONE LIKE US GOING IN FOR THE FIRST FEW YEARS. SO  
23 SILICON VALLEY BANK MIGHT COME ON THREE OR FOUR YEARS  
24 INTO IT AFTER THEY'VE GONE DOWNSTREAM AND GOTTEN SOME OF  
25 THE MAJOR MILESTONES OUT OF THE WAY, BUT WE'RE TRYING TO



## BARRISTERS' REPORTING SERVICE

1 TAKE THE FRONT END OF THAT PROCESS. REGARDLESS OF WHERE  
2 WE ARE IN THE PROCESS, WE'RE GOING TO NEED SOME PRETTY  
3 HIGH QUALITY MANAGEMENT BECAUSE IT'S PARTICULARLY  
4 CHALLENGING THAT WE'RE IN A PIONEERING FIELD.

5 DR. GOLDFISCHER: I THINK WHAT YOU MAY BE  
6 GETTING TOWARDS IS ARE YOU TRYING TO BE AN ADJUNCT NOT TO  
7 A WONDERFUL RESEARCHER WITH AN IDEA, BUT WE OFTEN SEE  
8 PROJECTS, WE'LL CALL IT, THAT ATTACH THE WONDERFUL  
9 RESEARCHER OR A COUPLE OF SUCCESSFUL INDIVIDUALS. SO WE  
10 ARE BROUGHT THINGS BY PEOPLE WHO ARE PRETTY GOOD BUSINESS  
11 PEOPLE OR ANGEL INVESTORS, GOOD WORD FOR IT, AND THERE'S  
12 SOME MONEY THAT'S GONE INTO IT. BUT THERE IS -- SOMEBODY  
13 AROUND THIS PROJECT IS SORT OF A BUSINESS PERSON. I  
14 THINK IT FEELS LIKE YOU'RE SORT OF TRYING TO FIT IN  
15 SOMEWHERE IN THAT MIX OF NOT JUST A PURE PROJECT  
16 FINANCING BY A SCIENTIST, BUT THERE'S SOME IDEA THAT  
17 SOMEONE THINKS THERE'S SOME COMMERCIAL APPLIABILITY,  
18 MAYBE IT'S COME TO PEOPLE LIKE US, MAYBE NOT, BUT AROUND  
19 IS SOMEONE WHO CAN ADDRESS THE ISSUES THAT YOU ARE  
20 TALKING ABOUT.

21 MR. BONFIGLIO: I WOULD CAUTION YOU NOT TO GET  
22 TOO FAR DOWN THE ROAD AND EXPECTING TO HAVE SENIOR  
23 MANAGEMENT WITH BUSINESS EXPERIENCE IN THE COMPANY AS A  
24 CRITERIA, AS A THRESHOLD CRITERIA, FOR THE FINANCING  
25 BECAUSE YOU'RE JUST NOT GOING TO FIND THAT IN A LOT OF

## BARRISTERS' REPORTING SERVICE

1 THE COMPANIES IN THE EARLY STAGE. IN THAT VALLEY OF  
2 DEATH, THE BUSINESS IS BEING BUILT BY THE FOUNDERS WHO  
3 ARE TYPICALLY SCIENTIFIC FOUNDERS, AS CARL QUITE  
4 CORRECTLY POINTED OUT, ARE USUALLY VERY BRILLIANT  
5 SCIENTISTS, BUT NOT THE BEST BUSINESS GUYS. THEY MAY  
6 HAVE GONE AND GOTTEN SEED FINANCING AND THEY MAY HAVE  
7 FRIENDS AND FAMILY FINANCING OR OTHER COLLEAGUES IN THEIR  
8 BUSINESS SCHOOL OR WHEREVER THAT CAN HELP THEM PUT  
9 TOGETHER A BUSINESS PLAN.

10 AND JON'S POINT ABOUT MAKING SURE YOU HAVE SOME  
11 MILESTONES IS REALLY WELL TAKEN, BUT I WOULDN'T LINK  
12 MILESTONES TO HAVING SENIOR MANAGEMENT RESIDENT IN THE  
13 COMPANY BECAUSE YOU WILL TAKE OUT OF THE BOX A HUGE CHUNK  
14 OF THE COMPANIES THAT WOULD NEED THIS FINANCING. THEY  
15 WON'T HAVE IT RESIDENT ON THE TEAM.

16 MR. KLEIN: GREG, THEY MAY NOT HAVE SENIOR  
17 MANAGEMENT, BUT THEY CERTAINLY COULD GO INTO AN  
18 ACCELERATOR MODEL WHERE THEY'RE SHARING MANAGEMENT AMONG  
19 A NUMBER OF PROJECTS AS AN ACCELERATOR MODEL. LIKE THE  
20 ONE IN SEATTLE, FOR EXAMPLE, WILL TAKE IN STRAIGHT  
21 SCIENTIFIC GROUPS AND REALLY PROVIDE SOME OVERSIGHT, SOME  
22 FINANCIAL MANAGEMENT, SOME DEVELOPMENT EXPERTISE THAT  
23 WOULD BE VERY HELPFUL. BUT IT'S CERTAINLY POSSIBLE THAT  
24 WE HAVE SOME PEOPLE WITH SOME MANAGEMENT EXPERIENCE WHO  
25 YOU WOULDN'T CONSIDER SENIOR MANAGEMENT. THEY DON'T HAVE

## BARRISTERS' REPORTING SERVICE

1 A RECORD OF BRINGING ONE OR TWO OR THREE COMPANIES TO  
2 SUCCESSFUL FRUITION, BUT THEY DEFINITELY HAVE A  
3 MANAGEMENT AND FINANCIAL BACKGROUND TO PROVIDE SOME  
4 STRUCTURE TO THE PROCESS.

5 MS. FEIT: WELL, THE PRESENTATION WAS REALLY  
6 HELPFUL TO ME BECAUSE IT APPEARS THAT WHERE CIRM WILL BE  
7 WORKING IS IN A PORTION OF THE VALLEY OF THE DEATH. IT  
8 SOUNDS LIKE YOU ALL COME IN WHEN IT'S ALL SAFE TO COME  
9 IN, AND THAT'S A GOOD TIME.

10 DR. GOLDFISCHER: COME SPEND A WEEK IN OUR  
11 OFFICE.

12 MS. FEIT: THAT'S A GREAT THING. BUT IT SEEMS  
13 TO ME THAT CIRM'S ABILITY TO DECIDE WHEN WE SHOULD  
14 FINANCE ANY RESEARCH IS GOING TO BE BASED ON THE RESEARCH  
15 ITSELF BECAUSE WHAT I HEARD TODAY IS THERE REALLY ISN'T A  
16 CASH FLOW, THERE'S VERY LITTLE EQUITY AVAILABLE. SO  
17 TYPICAL THINGS THAT PEOPLE WILL FINANCE FOR REASONS  
18 AREN'T THERE, BUT WHAT IS THERE IS THE RESEARCH. I THINK  
19 CIRM DOES HAVE THE ABILITY TO EVALUATE THE RESEARCH.

20 IF IT'S A RESEARCHER WHO HAD ALREADY APPLIED  
21 FOR A GRANT THROUGH CIRM OR SOMEBODY ELSE AND IS AT A  
22 POINT WHO'S SAYING I NEED THIS MUCH MORE AND THEN I CAN  
23 GO TO CLINICAL TRIALS, I THINK AT THAT POINT THE  
24 EVALUATION OF THE RESEARCH, WHAT HAS HAPPENED, THE  
25 EFFICACY, AND CERTAINLY THE TALENT THAT'S BEEN AVAILABLE

## BARRISTERS' REPORTING SERVICE

1 TO CIRM TO MAKE THOSE EVALUATIONS IS IMMENSE.

2 SO I THINK FROM THAT PERSPECTIVE I DON'T THINK  
3 WE'RE GOING TO BE ABLE TO BUILD IN CREDITWORTHINESS,  
4 ASSETS. THAT JUST ISN'T GOING TO WORK BECAUSE WE CLEARLY  
5 ARE WORKING IN THAT PERIOD THAT THEY'RE REFERRING TO AS  
6 THE VALLEY OF DEATH.

7 AND SO I THINK THAT THE QUALITY OF HOW FAR THE  
8 RESEARCH HAS GONE, THE EFFICACY OF IT, AND EVEN AN  
9 OPINION ON THE VALUE OF IT GOING FORWARD IS WHAT CIRM'S  
10 GOING TO BE HANGING THEIR HAT ON TO GIVE A LOAN.

11 MR. NORRIS: JUST TO BUILD ON THAT AS WELL, I  
12 THINK WHEN YOU DO LOOK AT, LET'S SAY, NO. 2, CREDIT  
13 EVALUATION, THE ODDS OF ANY OF THE COMPANIES THAT ARE  
14 GOING TO BE APPLYING FOR THESE LOANS TO HAVE ANYTHING TO  
15 HANG YOUR HAT ON IN TERMS OF ANY INFORMATION ABOUT THE  
16 COMPANY, ASSUMING THAT THE MAJORITY OF THESE COMPANIES  
17 ARE PROBABLY JUST VERY RECENTLY INCORPORATED, AND THERE'S  
18 NO INFORMATION THERE. SO I THINK THAT'S WHERE SECTION  
19 NO. 4 REALLY COMES INTO PLAY WHERE YOU'RE TRYING TO  
20 UNDERSTAND THEIR BUSINESS PLAN BECAUSE REALLY  
21 CREDITWORTHINESS IS PROBABLY NOT GOING TO BE A  
22 CONSIDERATION FOR WHETHER THEY SHOULD QUALIFY.

23 DR. GOLDFISCHER: YOUR EARLIER POINT ABOUT THE  
24 PEOPLE INVOLVED IN THIS HAVING THE BASIC SKILLS TO CREATE  
25 A BUSINESS PLAN WITH A P & L AND SOME MILESTONES TO PASS

## BARRISTERS' REPORTING SERVICE

1 SOME KIND OF REASONABLE SMELL TEST DOES SEEM TO BE  
2 PRETTY --

3 MR. NORRIS: WHAT'S NICE ABOUT THAT IS THAT  
4 THERE ARE LOTS OF CONSULTING CFO COMPANIES AND LOTS OF  
5 FOLKS IN THE FINANCE INDUSTRY THAT ARE ABLE TO SPEND  
6 MAYBE TWO OR THREE HOURS A WEEK WITH A COMPANY TO GET  
7 THEIR FINANCES IN A REASONABLE ENOUGH ORDER SO THAT  
8 SOMEBODY CAN LOOK AT THAT AND UNDERSTAND THEIR PATHWAY  
9 FORWARD.

10 CHAIRMAN ROTH: LET ME JUST SUMMARIZE. I WANT  
11 TO CAPTURE THIS BECAUSE I THINK IT'S REALLY IMPORTANT.  
12 WHAT IS BEING SAID IS THAT WE'RE PROBABLY NOT IN MANY  
13 CASES GOING TO HAVE A FULLY DEVELOPED MANAGEMENT TEAM  
14 THAT HAS EXPERIENCE. THERE MAY BE PEOPLE AROUND THE  
15 PRINCIPALS WHO HAVE SUCH EXPERIENCE. THERE ARE A LARGE  
16 NUMBER OF ORGANIZATIONS THROUGHOUT THE STATE, INCLUDING  
17 ONE I WORK WITH EVERY DAY, CONNECT, WHICH DOES THIS TYPE  
18 OF HELP FOR SCIENCE-BASED COMPANIES EVERY DAY. OCTANE IN  
19 ORANGE COUNTY AND THERE ARE OTHERS. STANFORD HAS  
20 SOMETHING IN THAT AREA. BUT I THINK YOU CAN GET THIS  
21 INFORMATION, BUT THE INFORMATION ITSELF IS WHAT'S  
22 PROBABLY GOING TO BE IMPORTANT. HOW WILL THIS LOAN  
23 ENABLE THIS IDEA TO PROGRESS? AND WHAT WOULD BE THE  
24 FOLLOW-ON FINANCING PLAN IF SUCCESSFUL?

25 AND TO CAPTURE THAT IN TERMS OF WHAT ARE YOUR

## BARRISTERS' REPORTING SERVICE

1 KEY FINANCIAL MILESTONES GOING FORWARD IS, I THINK, WHAT  
2 YOU'RE RECOMMENDING.

3 DR. GOLDFISCHER: MAYBE THERE'S SOMETHING THAT  
4 YOU WERE TALKING ABOUT, BOB. ALEXANDRIA WOULD LOVE TO DO  
5 MORE ACCELERATORS. THEY HAVE SPACE ALL OVER CALIFORNIA.  
6 BUT SOMEONE WOULD HAVE TO GO TO THEM WITH A PLAN IN  
7 EFFECT OF REBUILDING WHAT'S IN SEATTLE OR A VERSION OF  
8 IT, WHETHER IT'S IN SAN DIEGO OR AROUND HERE. AND MAYBE  
9 WHAT YOU ARE DOING HERE KIND OF HELPS STIMULATE OR CAUSE  
10 SOMEONE TO ACTUALLY SAY, WELL, MAYBE WE CAN GO IN AND PUT  
11 A LITTLE INCUBATOR, GO GET SOME SPACE FROM ALEXANDRIA WHO  
12 MIGHT BE WILLING TO COMMIT SOME CAPITAL TO THE WHOLE  
13 THING. IT'S NOT IMPOSSIBLE.

14 MR. KLEIN: CERTAINLY THAT WOULD BE A GREAT  
15 OUTCOME. OFTENTIMES IF THERE'S FINANCING AVAILABLE, YOU  
16 NOW MADE IT FEASIBLE FOR THESE NEW BUSINESS MODELS TO BE  
17 EXPANDED INTO THAT SPACE.

18 AND IN TERMS OF DUANE'S POINT ON WHAT'S THE  
19 DOWNSTREAM PLAN, THE EXIT PLAN, THERE'S TWO DIFFERENT  
20 POINTS THAT I THINK COME TO MY ATTENTION. ONE IS SOMEONE  
21 LIKE SILICON VALLEY BANK MAY SAY, LOOK, WE'LL HELP YOU  
22 WORK OUT A BUSINESS PLAN, BUT UNTIL YOU GET TO THIS THIRD  
23 MILESTONE, WE'RE NOT GOING TO LEND YOU ANY MONEY. BUT  
24 WITH THIS BUSINESS PLAN, IF CIRM WILL DO A LOAN TO COVER  
25 YOU THROUGH THOSE THREE MILESTONES, WE'D SERIOUSLY

## BARRISTERS' REPORTING SERVICE

1 CONSIDER MAKING A LOAN AT THAT POINT. SO THE BANK  
2 PERSONNEL CAN PROVIDE SOME FRONT-END GUIDANCE THAT COULD  
3 BE PART OF A PACKAGE THAT LET'S US HAVE A LONGER TERM  
4 DEVELOPMENT SCENARIO FOR THE COMPANY.

5 THE OTHER POINT TOO IN TERMS OF THE POINT  
6 RAISED EARLIER ABOUT VENTURE CAPITAL IS GOING TO HAVE A  
7 PROBLEM WITH THESE LOANS, NOT WANTING TO ENTER IF, IN  
8 FACT, THEIR PROCEEDS HAVE TO PAY BACK THIS LOAN. THERE'S  
9 A COMPROMISE ALONG THAT PATH SO THAT POTENTIALLY THIS IS  
10 A SUBORDINATED DEBENTURE THAT SPECIFICALLY UP FRONT UNDER  
11 THE BUSINESS PLAN IS SUBORDINATED TO, YOU KNOW, A  
12 SIGNIFICANT CAPITAL ROUND; BUT IT SAYS IF YOU GET TO  
13 MILESTONE FIVE AND ARE BRINGING IN A SECOND CAPITAL  
14 ROUND, AT THAT POINT YOU SHOULD BE MATURE ENOUGH THAT YOU  
15 CAN PAY US BACK.

16 SO YOU COULD SUBORDINATE SPECIFICALLY IN YOUR  
17 BUSINESS PLAN TO ONE OR TWO CAPITAL ROUNDS, BUT BY THE  
18 SECOND OR THIRD CAPITAL ROUND, AS APPROPRIATE, THEN IT  
19 MAY BE APPROPRIATE TO PUT INTO THAT BUSINESS PLAN TO GET  
20 PAID BACK AT THAT POINT.

21 MR. NORRIS: JUST ONE OTHER THING TO BUILD OFF  
22 OF WHAT ROBERT SAID RELATING TO THE ABILITY OF THE BANK  
23 TO HELP THESE EARLY STAGE COMPANIES. WHAT'S NICE ABOUT  
24 SILICON VALLEY BANK AND OTHER BANKS IS THAT IT'S NOT FOR  
25 US JUST ABOUT LOANS. IT'S ABOUT WORKING WITH COMPANIES,

## BARRISTERS' REPORTING SERVICE

1       HELPING OPEN UP ACCOUNTS, AND HELPING THOSE COMPANIES  
2       QUALIFY FOR VENTURE FUNDING. AND THAT'S A MAJOR PART OF  
3       WHAT WE DO. AND SO THERE ARE A LOT OF QUALIFIED FOLKS  
4       OUT THERE THAT ARE LOOKING TO HELP THESE COMPANIES. IF  
5       IT'S HELPING THEM MODIFY THE BUSINESS PLAN OR UNDERSTAND  
6       WHAT THE MAJOR MILESTONE THAT THEY NEED TO WORK ON AND  
7       ACTUALLY BE ABLE TO PUT TOGETHER AN EXECUTIVE SUMMARY OR  
8       BUSINESS PLAN OR AN APPLICATION FOR A LOAN LIKE THIS,  
9       THERE ARE A LOT OF PEOPLE OUT THERE THAT ARE WILLING TO  
10      PUT FORTH THE EFFORT FOR THESE EARLY STAGE COMPANIES. I  
11      THINK SILICON VALLEY AS WELL AS SAN DIEGO AND BOSTON ARE  
12      THREE AREAS WHERE THERE'S A LOT OF THOSE FOLKS.

13                 CHAIRMAN ROTH: SO LET ME GET A COMMENT FROM  
14      ALAN. I'M SORRY WE DIDN'T HAVE ROOM AT THE TABLE FOR  
15      ALAN.

16                 DR. TROUNSON: I'M HERE LEARNING. I APPRECIATE  
17      THE KIND OF RISKS BECAUSE I THINK CIRM IS GOING TO TAKE  
18      FRONT-END RISKS IN SUPPORT OF EARLY DEVELOPING COMPANIES.  
19      AND I DON'T SEE HOW YOU CAN ACTUALLY AVOID IT. SO YOU  
20      NEED AS GOOD ADVICE AS YOU CAN GET. BUT I DON'T THINK  
21      THAT'S THE ONLY COMMERCIAL INTEREST THAT WE MIGHT HAVE,  
22      AND I'D BE INTERESTED AS TO HOW THE COMMITTEE SAW THIS.

23                 GREG TALKED ABOUT THOSE SERVICE INDUSTRIES  
24      WHICH ARE NOT REALLY ALL THAT VC ATTRACTIVE BECAUSE THEIR  
25      MARGINS ARE SMALLER THAN THE RETURN. BUT THEY MAY BE



## BARRISTERS' REPORTING SERVICE

1 VERY GOOD PLACES FOR CIRM TO BE INVOLVED IN BECAUSE THEY  
2 MAY PROVIDE SERVICE TO ACTUALLY GET THE PIPELINE MOVING  
3 OR MOVING IT ALONG, OR EVEN LEVERAGING SOME MONEY THAT'S  
4 AVAILABLE IN ORDER TO GET A REDIRECTION OF ATTEMPTING TO  
5 ACCOMMODATE OUR STEM CELL INTERESTS.

6 SO I THINK THAT THERE'S A BROADER OPPORTUNITY  
7 HERE, AND I THINK WHATEVER IT IS WE'RE GOING TO CLEARLY  
8 GET GOOD ADVICE, BUT WE COULD ACTUALLY ALSO BE WORKING IN  
9 AREAS WHERE THE RISK IS MUCH LOWER THAN THE VERY EARLY  
10 START-UP COMPANIES.

11 CHAIRMAN ROTH: I THINK THAT'S AN EXCELLENT  
12 COMMENT, ALAN. WE HEARD THAT FROM SEVERAL PEOPLE,  
13 INCLUDING GREG, ABOUT WHERE ARE THE FUNDING GAPS? THIS  
14 IS A LITTLE OFF TOPIC, BUT AN IMPORTANT ONE PROBABLY TO  
15 GET SOME THOUGHTS FROM THESE EXPERTS ON. IF WE'RE DOING  
16 THE LOAN PROGRAM TODAY AND WE'RE PUTTING AN RFA OUT, ONE  
17 OF THEM IS OBVIOUSLY THE VALLEY OF DEATH, THAT EARLY  
18 STAGE BETWEEN THE LAST GRANT YOU CAN GET AND BEFORE ANY  
19 CAPITAL WILL REALLY COME IN OF SIGNIFICANCE AND INVEST.

20 ANOTHER ONE IS RESOURCES FOR THOSE IDEAS. IF  
21 YOU HAVE TWO FACULTY WITH AN IDEA AND IT'S A GOOD ONE AND  
22 THE IP LOOKS GOOD AND THEY NEED TO ADVANCE IT, IT'S ONE  
23 THING TO HAVE THE MONEY. IT'S ANOTHER THING TO HAVE THE  
24 INFRASTRUCTURE AVAILABLE TO YOU TO ACTUALLY DO IT.  
25 REMEMBER, IT HAS TO BE IN THE STATE OF CALIFORNIA

## BARRISTERS' REPORTING SERVICE

1       INFRASTRUCTURE.

2                   MR. BONFIGLIO: WELL, IF YOU'RE REFERRING TO  
3       THE INCUBATOR MODEL, IT'S A GREAT IDEA. IF YOU COULD GET  
4       ALEXANDRIA OR WHOMEVER TO STEP UP AND PUT TOGETHER AN  
5       INCUBATOR, WORK WITH YOU TO PUT TOGETHER AN INCUBATOR, I  
6       THINK THAT WOULD BE PHENOMENAL. THAT WOULD SOLVE SOME OF  
7       THE PROBLEMS WE'RE TALKING ABOUT.

8                   IN TERMS OF REPAYING THE LOAN UPON -- THE  
9       TRIGGER FOR REPAYMENT OF A LOAN BE THE SUBSEQUENT ROUND  
10      OF FINANCING, THAT'S A PROBLEM, I THINK. IT DEPENDS,  
11      HONESTLY, ON HOW MUCH THE LOAN IS AND HOW BIG THE ROUND  
12      OF FINANCING IS. IF YOU'VE GOT A MILLION-DOLLAR LOAN OUT  
13      AND YOU'RE DOING A \$5 MILLION ROUND OF FINANCING, THEY  
14      HAVE TO TAKE ONE MILLION, 20 PERCENT OF THE MONEY, THAT  
15      YOU'RE COMING INTO THAT FINANCING AND TURN AROUND AND  
16      WRITE THAT CHECK BACK TO SOMEBODY ELSE, THAT'S GOING TO  
17      MAKE GUYS LIKE ME SAY I DON'T THINK SO. THAT'S MORE  
18      FINANCIAL RISK THAN I WANT TO TAKE.

19                  I THINK THE TRIGGER FOR REPAYMENT OF THESE  
20      LOANS, IF YOU WANT TO MAKE IT AS PALATABLE AS POSSIBLE  
21      FOR THE VENTURE COMMUNITY, OUGHT TO BE SOMETHING THAT'S  
22      TIED MORE TO THE OVERALL FINANCIAL HEALTH OF THE COMPANY  
23      AND THE VALUATION. SO THE IDEAL TRIGGER WOULD BE ON A  
24      SALE OR M&A. JUST MAKE THE LOAN AND REALIZE YOU'RE GOING  
25      TO BE IN THE COMPANY JUST LIKE THE VENTURE GUYS UNTIL THE

## BARRISTERS' REPORTING SERVICE

1 COMPANY HAS EXITED. AND THEN WHEN YOU DO AN M&A  
2 TRANSACTION, THEN YOU'RE REPAID JUST AS THE VENTURE GUYS  
3 GET THEIR RETURNS. SO TO SOME EXTENT YOU STAND IN THE  
4 SAME FOOTING WITH THE VENTURE COMMUNITY.

5 DR. LOVE: WOULD YOU INCLUDE AN IPO IN THAT AS  
6 WELL?

7 MR. BONFIGLIO: ABSOLUTELY. REALIZE I DO THAT  
8 RECOGNIZING THAT, FOR MOST BIOTECH COMPANIES, AN IPO IS  
9 NOT AN EXIT FOR THE VENTURE GUYS. IT'S A FINANCING  
10 EVENT. BUT ADD AN IPO, THE STATE SHOULD BE REPAID  
11 BECAUSE THERE WILL BE CAPITAL AVAILABLE THAT COULD GO ON  
12 TO PAY THAT OFF.

13 CHAIRMAN ROTH: MAYBE WE SHOULD MOVE THAT  
14 DISCUSSION TO WHEN WE GET ON THE NEXT PAGE IN TERMS OF  
15 TERM, WHICH WE'VE PUT AT FIVE TO SEVEN, AND TALK ABOUT  
16 ALTERNATIVES TO TERM.

17 MR. BONFIGLIO: BACK TO THE FIRST POINT, I  
18 THINK YOU NEED TO SEPARATE AN ABILITY TO THINK ABOUT YOUR  
19 BUSINESS, THINK ABOUT YOUR COMPANY IN BUSINESS TERMS,  
20 MEANING FUNDING TO MILESTONES, FUNDING TO GOALS AND  
21 OBJECTIVES, AGAINST HAVING A CEO WHO COMES OUT OF THE  
22 STANFORD BUSINESS SCHOOL OR CAL BUSINESS SCHOOL OR  
23 SOMEBODY OF THAT NATURE. I MEAN YOU'RE JUST NOT GOING TO  
24 FIND THAT MANY CEO'S OF THAT TYPE SITTING IN SMALL  
25 COMPANIES. WHAT YOU'RE GOING TO HAVE IS A SCIENTIFIC

## BARRISTERS' REPORTING SERVICE

1 FOUNDER WHO CAN REACH OUT TO HIS CLOSE COLLEAGUE OR TO A  
2 CONSULTANT TO HELP HIM DO THE BUSINESS PLAN.

3 I THINK YOU NEED TO REQUIRE HIM TO GO THROUGH  
4 THAT EXERCISE SO HE'S THINKING ABOUT HIS COMPANY IN TERMS  
5 OF BUSINESS AND SO THAT YOU HAVE SOME CERTAINTY THAT THIS  
6 FUNDING WILL GET YOU SOMEWHERE AND IT WON'T BE JUST  
7 FUNDING INTO NOTHING. BUT I WOULD NOT PUT IN A  
8 REQUIREMENT THAT HAVE YOU HAVE RESIDENT ON THE TEAM A CEO  
9 WHO HAS THAT KIND OF BUSINESS BACKGROUND BECAUSE YOU'RE  
10 HONESTLY JUST NOT GOING TO SEE IT.

11 MR. KLEIN: I DON'T THINK WE'RE TALKING HIRING  
12 EXPENSIVE PEOPLE UP FRONT. I THINK WE'RE TALKING ABOUT  
13 IN THE CONSULTING ROLE, ADVISORY ROLE. BUT HOW WOULD YOU  
14 FEEL ABOUT -- THERE'S GOING TO BE OBVIOUSLY LOANS TO  
15 DIFFERENT SEGMENTS IN THIS RISK PROFILE. SOME OF THESE  
16 LOANS ARE GOING TO GO FURTHER DOWNSTREAM WHERE IT'S  
17 GOTTEN TO THE POINT WHERE THE RISK IS MITIGATED ENOUGH  
18 YOU CAN GET -- WHERE IF YOU COME IN, YOU MAY COME IN  
19 CONCURRENT WITH THE MAJOR VENTURE CAPITAL ROUND WHERE THE  
20 VENTURE CAPITAL IS NOT WILLING TO PUT UP 10 MILLION INTO  
21 THIS, BUT THEY'LL PUT FOUR MILLION. SO YOU MAY COME IN  
22 CONCURRENTLY AND THEN MAKE IT FEASIBLE AT AN EARLIER  
23 STAGE TO GET THE VENTURE CAPITAL IN BECAUSE WITH FOUR  
24 MILLION IN, THEY CAN SPREAD RISK OVER A BROADER  
25 PORTFOLIO. AND AT THAT RISK LEVEL, IT'S TOLERABLE. WE

## BARRISTERS' REPORTING SERVICE

1 GET LEVERAGE AND THE COMPANY MOVES FASTER.

2 MR. BONFIGLIO: THAT SCENARIO WILL PLAY OUT  
3 MORE OFTEN THAN NOT, HONESTLY, BOB. TYPICALLY WHEN WE  
4 LOOK AT COMPANIES THAT ARE FUNDABLE, THEY HAVE MORE THAN  
5 ONE THERAPEUTIC APPLICATION THAT THEY CAN APPLY THEIR  
6 TECHNOLOGY AGAINST. THEY'RE TYPICALLY ASKING FOR FUNDING  
7 FOR THEIR DOMINANT, THEIR LEAD PRODUCT, THEIR LEAD  
8 THERAPEUTIC APPLICATION. IT HELPS ME REDUCE MY RISK IF I  
9 KNOW THAT THERE'S ANOTHER THERAPEUTIC APPLICATION THEY  
10 CAN PURSUE AT THE SAME TIME, SO YOU CAN ENVISION A  
11 SCENARIO WHERE I'M ON THE BUBBLE. I MIGHT OR MIGHT NOT  
12 FUND THIS COMPANY; BUT IF I KNOW THE COMPANY CAN GET A  
13 CIRM LOAN TO FUND THE CLINICAL PROGRAM AROUND THEIR  
14 SECOND THERAPEUTIC APPLICATION, WHICH REDUCES MY RISK,  
15 BECAUSE IF THE FIRST ONE FAILS, I'VE GOT A FALLBACK, THEN  
16 I JUMP IN AND FUND BECAUSE I KNOW TECHNOLOGY RISK, SOME  
17 OF THE BUSINESS RISK HAS BEEN WORKED OUT, AND THAT IS A  
18 LITTLE BIT MORE MATURE COMPANY THAN THE ONE IN THE VALLEY  
19 OF DEATH, BUT ONE THAT EQUALLY NEEDS THE FUNDING BECAUSE  
20 THEY'RE NOT GOING TO GET FUNDING UNLESS YOU ARE THE  
21 BUBBLE EVENT, YOU GET THE VENTURE COMMUNITY OFF THE  
22 BUBBLE.

23 DR. TROUNSON: WOULD CIRM BE ABLE TO ACCESS THE  
24 DATA, THE INFORMATION, THAT THE VC WAS HELPING TO MAKE  
25 THAT DECISION BECAUSE IF THERE WAS, IT WOULD ALSO HELP US

## BARRISTERS' REPORTING SERVICE

1 IN THE DECISION-MAKING. IS THAT FEASIBLE?

2 MR. BONFIGLIO: WELL, TYPICALLY AT SOME POINT  
3 IN THE PROCESS WHEN YOU'RE SYNDICATING A ROUND OF  
4 FINANCING, THE FUNDS WILL SHARE SOME OR ALL OF THEIR DUE  
5 DILIGENCE DATA. MOST FIRMS CONSIDER THEIR DUE DILIGENCE  
6 DATA TO BE SOMEWHAT PROPRIETARY, BUT THERE IS SOME  
7 INFORMATION SHARING ACROSS THE BOARD. CARL, WHAT POINT  
8 DO YOU SHARE YOUR DUE DILIGENCE DATA?

9 MR. KLEIN: IT CAN BE PROPRIETARY AT CIRM. WE  
10 HAVE THE ABILITY TO PROTECT PROPRIETARY INFORMATION  
11 SPECIFICALLY.

12 DR. GOLDFISCHER: WE HAVE THIS. WE DO THIS ALL  
13 THE TIME WITH THE BANK. THEY DO DUE DILIGENCE ON THE  
14 COMPANY. THEY ASK US FOR CERTAIN COMMITMENTS. WE HAVE  
15 SOME VERSIONS OF THAT THAT WE DO ON A PRETTY REGULAR  
16 BASIS.

17 MR. BONFIGLIO: IF YOU WERE GOING TO ASK FOR  
18 THAT DATA, THOUGH, ALAN, YOU'D HAVE TO MAKE SURE THAT THE  
19 CONFIDENTIALITY OF THE DATA WAS PROTECTED.

20 DR. TROUNSON: I UNDERSTAND THAT.

21 DR. LOVE: BECAUSE WE'VE GOT THESE REALLY SMART  
22 FINANCIAL GUYS HERE, I THINK IT'S IMPORTANT AT LEAST TO  
23 ASK ONE PRETTY HIGH LEVEL QUESTION. THAT IS, I'M A  
24 SCIENCE MEDICINE GUY BY TRAINING, KIND OF PICKED UP A  
25 LITTLE BUSINESS ALONG THE WAY, BUT FUNDAMENTALLY I'VE

## BARRISTERS' REPORTING SERVICE

1 BEEN JUST SOMEBODY WHO AVOIDS DEBT LIKE CRAZY. AND, IN  
2 FACT, I DON'T WANT TO TAKE ANY DEBT UNTIL I CAN SEE  
3 PRODUCT REVENUES REASONABLY CLOSE ON THE HORIZON. THAT  
4 POSITION IS HELD BY A LOT OF CEO'S RUNNING COMPANIES KIND  
5 OF ALONG THE LINES I'M RUNNING. WE'RE AT THE OTHER  
6 EXTREME.

7 AND FUNDAMENTALLY WITH LOANS YOU EITHER WANT  
8 THERE TO BE A VERY HIGH CHANCE OF THEM BEING PAID BACK,  
9 YOU CAN SET A REASONABLE INTEREST RATE; OR IF YOU THINK  
10 THERE'S A LOT OF RISK, YOU SET A REALLY HIGH RATE AND YOU  
11 TRY TO GIVE SECURITY AROUND IT TO GIVE YOURSELVES KIND OF  
12 A SECOND OPPORTUNITY TO GET REPAID. I GUESS WHAT I'M  
13 GETTING AT IS HOW COULD WE STRUCTURE THIS LOAN PROGRAM TO  
14 MAKE IT MORE ATTRACTIVE THAN A GRANT? BECAUSE A GRANT IS  
15 SOMETHING THAT IF YOU DO IT UP FRONT, YOU ARE SAYING THIS  
16 IS HIGH RISK, WE KNOW IT, BUT WE THINK IT'S A GREAT  
17 OPPORTUNITY; BUT IF IT FLAMES OUT, YOU KNOW, NO WIN, NO  
18 OBLIGATION. AND A LOAN, THIS OBLIGATION IS THERE, AND  
19 WE'RE TRYING TO REALLY FIGURE OUT HOW TO MAKE IT WORK.

20 SO I'M REALLY TRYING TO FIGURE OUT ARE WE  
21 TRYING TO FIT A SQUARE PEG INTO A ROUND HOLE, OR IS THERE  
22 A WAY REALLY WE CAN MAKE SURE THIS IS TRULY COMPETITIVE  
23 WITH GRANTS?

24 DR. GOLDFISCHER: LET ME TRY AND ANSWER IT THIS  
25 WAY. SO WE HAVE AT ANY GIVEN MOMENT TWO OR THREE

## BARRISTERS' REPORTING SERVICE

1 PROJECTS THAT WE DO INTERNALLY, SO WE'RE WORKING OUT OF  
2 \$500 MILLION OF INVESTABLE CAPITAL. SO WE'VE DECIDED WE  
3 CAN TAKE A MILLION TO \$2 MILLION PER PROJECT TO ITS PURE  
4 AT RISK CAPITAL TO LET US SPEND A LOT OF TIME SOMETIMES  
5 EXPLORING A SCIENTIFIC IDEA WITH AN APPROACH TO A DISEASE  
6 TO SEE IF WE CAN BUILD A, QUOTE, UNQUOTE, COMPANY AROUND  
7 IT. WE JUST COMMIT UP TO A CERTAIN AMOUNT OF MONEY OUT  
8 OF OUR FUND.

9 SO WE OFTEN HAVE DISCUSSIONS, OKAY, SO \$2  
10 MILLION BUYS US X, BUT \$5 MILLION WOULD BUY US Y OR \$3  
11 MILLION. SO IN THE SCENARIO LIKE THAT, AN ENTITY LIKE  
12 THIS THAT IS IN THIS AREA, YOU SAY, OKAY, WE GO TO YOU  
13 GUYS AND WE SAY, THIS IS SORT OF WHAT WE'RE THINKING  
14 ABOUT. WE ARE COMFORTABLE EXPLORING THIS IDEA FOR UP TO  
15 TWO AND A HALF; BUT IF WE HAD AN EXTRA MILLION FROM  
16 SOMEBODY THAT WAS COMING ALONGSIDE OF US, WE MIGHT BE  
17 ABLE TO GET A LITTLE FURTHER, BE ABLE TO PROVE THE  
18 CONCEPT A LITTLE MORE, MIGHT OR MIGHT NOT WORK, THERE'S  
19 RISK ASSOCIATED WITH IT.

20 SO I HAVE THESE DISCUSSIONS ACTUALLY PRETTY  
21 REGULARLY, FOR EXAMPLE, WITH THE ALEXANDRIA GUYS, WHO  
22 SAY, OKAY, IF YOU PUT THIS IDEA IN MY SPACE, THEN THEY  
23 HAVE SOME VENTURE FUND THAT COMES ALONGSIDE THAT MAYBE  
24 WHAT YOU'RE BEGINNING TO DO IS YOU'RE BEGINNING TO PATCH  
25 TOGETHER PIECES OF MONEY FOR EARLY STAGE IDEAS; AND WHEN



## BARRISTERS' REPORTING SERVICE

1 YOU PUT THEM ALTOGETHER, INSTEAD OF IT BEING A  
2 HALF-A-MILLION-DOLLAR PROJECT, MAYBE YOU WIND UP WITH  
3 THREE OR \$4 MILLION AROUND THE IDEA THAT CARRIES IT  
4 ACTUALLY FOR A COUPLE YEARS AND MAYBE GIVES YOU A BETTER  
5 SHOT AT GETTING SOMETHING THAT GOES TO THE BIGGER B ROUND  
6 THAT PEOPLE GET PAID BACK AND STEP IT UP.

7 DR. LOVE: WHY IS IT MORE ATTRACTIVE THAT I'M  
8 GIVING AN EXTRA ONE OR \$2 MILLION IN THE FORM OF A LOAN  
9 VERSUS A GRANT? WHAT AM I DOING WITH A LOAN THAT MAKES  
10 IT MORE ATTRACTIVE THAN A GRANT?

11 MR. BONFIGLIO: I THINK YOU'VE GOT TO MODEL IT  
12 OUT, TED. YOU'RE TALKING ABOUT DIFFERENT FINANCIAL  
13 PACKAGES. VENTURE CAPITAL IS ONE FINANCIAL PACKAGE;  
14 VENTURE DEBT IS ANOTHER VEHICLE. A GRANT IS ONE VEHICLE,  
15 AND A LOAN FROM YOU GUYS WOULD BEING A FOURTH VEHICLE TO  
16 PUT IN THIS, ANOTHER ARROW IN THE QUIVER. AS ED SAID AT  
17 THE START, THIS IS A DIFFERENT MODEL, A DIFFERENT  
18 REPAYMENT MODEL, A DIFFERENT SET OF OBLIGATIONS THAN YOU  
19 TAKE ON WITH A GRANT.

20 CERTAINLY WHAT I WOULD DO, WE TEND TO BE PRETTY  
21 ANALYTIC IN THE WAY WE APPROACH THIS, WE'D MODEL IT OUT.  
22 IF I TAKE THE MONEY AS A LOAN AND IT'S GOT A REPAYMENT  
23 RATE OF 8 PERCENT, WHAT'S MY CONSEQUENCE? WHAT IS THE  
24 NET PRESENT VALUE OF THAT MONEY RIGHT NOW, ASSUMING I'VE  
25 GOT A FIVE-YEAR PAYOUT DOWNSTREAM AND I'M GOING TO BE

## BARRISTERS' REPORTING SERVICE

1 ABLE TO PAY OUT? ONCE I PAY OUT, I'M NOW FREE OF ALL MY  
2 OBLIGATIONS VERSUS THE GRANT WHERE I HAVE ONGOING  
3 OBLIGATIONS IN TERMS OF THE PRICING OF MY PRODUCT, WHERE  
4 I HAVE TO SELL IT, WHO I HAVE TO GIVE IT TO, ETC. SO  
5 THERE'S DIFFERENT PACKAGES, DIFFERENT FINANCIAL VEHICLES,  
6 AND YOU GOT TO MODEL THEM OUT. SOME OF THEM WILL BE  
7 APPROPRIATE FOR SOME COMPANIES.

8 CHAIRMAN ROTH: I THINK IT'S THE INTELLECTUAL  
9 PROPERTY POLICY THAT HAS TO BE FOLLOWED WITH THE GRANTS  
10 THAT WOULD BE DIFFERENT THAN THE POLICIES THAT ARE GOING  
11 TO FOLLOW THIS LOAN PROGRAM.

12 MR. BONFIGLIO: YEAH, BECAUSE YOU'RE PAYING THE  
13 MONEY BACK.

14 DR. PENHOET: THIS CONVERSATION IS EVOLVING.  
15 IT'S PRETTY CLEAR WE'VE BEGUN TALKING ABOUT LOANING MONEY  
16 TO FUND COMPANIES. THAT'S WHAT THIS CONVERSATION IS NOW  
17 ALL ABOUT. AS IT WAS ORIGINALLY ENVISIONED IN THE FIRST  
18 PLACE, IT WAS ACTUALLY TO FUND SPECIFIC PROJECTS WHICH  
19 WILL BE COMPETED ON A SCIENTIFIC BASIS OR THE PROJECT.  
20 SO WE'RE NOW DISCUSSING A VERY DIFFERENT MODEL OF FUNDING  
21 COMPANIES VERSUS FUNDING PROJECTS. AND THE VALUATION  
22 PROCESS, WE DON'T HAVE TODAY A SCIENTIFIC REVIEW GROUP  
23 THAT'S CAPABLE OF EVALUATING COMPANIES. THEIR JOB IS TO  
24 EVALUATE SPECIFIC RESEARCH PROJECTS.

25 SO IT'S DIFFERENT. IN THAT SENSE, IF WE

## BARRISTERS' REPORTING SERVICE

1 CONTINUE DOWN THIS PATH AND WE ARE ESSENTIALLY VENTURING  
2 WITH THE VENTURE GUYS FUNDING COMPANIES, THAT'S A  
3 DIFFERENT MODEL.

4 DR. GOLDFISCHER: YOU SET YOURSELVES UP. WHAT  
5 KIND OF ENTITY DO YOU WANT TO BE?

6 MR. KLEIN: THERE'S A CONTINUUM HERE, I THINK,  
7 ED, BECAUSE WE'VE ANTICIPATED -- IT DOESN'T MATTER  
8 WHETHER THE SCIENCE THAT WE'RE GOING TO LOAN TO ADVANCE  
9 IS IN A COMPANY OR IS CREATING A COMPANY. WE'RE STILL  
10 GOING TO HAVE TO GO THROUGH SOME PEER REVIEW TO ANALYZE  
11 THE QUALITY OF THIS AND THE CAPACITY OF THIS TO  
12 CONTRIBUTE TO THE MISSION.

13 BUT, SECONDLY, TO THE EXTENT THAT THIS IS IN A  
14 MAJOR COMPANY, THEY'RE PROBABLY GOING TO NOT NEED OUR  
15 HELP EXCEPT -- EVEN WITH SIGNIFICANT COMPANIES, THEY CAN  
16 GET INTO A SITUATION WITH THESE NEW THERAPEUTICS WHERE  
17 THE FDA REQUIREMENTS ARE SO STRONG AND ONEROUS IN THE  
18 FRONT END, THAT IT'S VERY DIFFICULT FOR THEM TO GET  
19 DOWNSTREAM WITH A CLINICAL TRIAL OR A PHASE I OR A PHASE  
20 II. THEY MAY NEED SOME LOANS IN THAT SPACE. THERE'S A  
21 LONG CONTINUUM HERE WHERE THERE MAY BE SOME SIGNIFICANT  
22 NEEDS.

23 AND ALSO, TED, IN TERMS OF YOUR POINT, WE MAY  
24 DECIDE THAT WE CAN PUT OUT MILLION-DOLLAR GRANTS; BUT IF  
25 IT'S A LOAN, WE CAN PUT OUT THREE MILLION. NOW, THERE'S

## BARRISTERS' REPORTING SERVICE

1 AN OBVIOUS WAY THAT THE LOAN IS, THEREFORE, HIGHLY  
2 PREFERABLE BECAUSE WITH THREE MILLION WITH THE VENTURE  
3 CAPITAL FUNDS, MAYBE THEY CAN DO THE APPLICATION ONE AND  
4 APPLICATION TWO, REDUCE THEIR RISK, AND THEY CAN'T DO IT  
5 WITH A MILLION. IT JUST DOESN'T GET THEM THERE.

6 SO WE COULD THEORETICALLY AFFORD TO PUT OUT  
7 MORE MONEY WITH A LOAN PROGRAM. NOW, THIS LOAN PROGRAM,  
8 I PERSONALLY THINK WE NEED TO HAVE OUR EYES OPEN AND LOOK  
9 AT 30 PERCENT OR 40 PERCENT LOSS RATE ON IT; BUT THEN,  
10 AGAIN, THE INTEREST INCOME SHOULD BE ABLE TO OFFSET SO  
11 THAT ESSENTIALLY ON SEVEN-YEAR CYCLES WE HAVE ENOUGH  
12 COMING BACK OUT OF INTEREST THAT WE'RE AT LEAST ROLLING  
13 OVER OUR CAPITAL, INCLUDING INTEREST THAT OFFSETS LOSS OF  
14 CAPITAL. AND IF WE CAN DO THAT, WE CAN LOAN  
15 SIGNIFICANTLY LARGER AMOUNTS, HAVE A BROADER PORTFOLIO  
16 DISTRIBUTION, AND OVER A PERIOD OF 15 YEARS, \$500 MILLION  
17 IN A PROGRAM LIKE THIS WHERE YOU CAN JUST RECOVER CAPITAL  
18 WOULD PUT OUT -- OVER 21 YEARS WOULD PUT OUT \$1.5 BILLION  
19 INSTEAD OF 500 MILLION IN A GRANT PROGRAM.

20 SO THERE'S SIGNIFICANT BENEFITS TO US IN  
21 SCALING UP WHAT WE CAN DO ON THESE PROGRAMS AND HOW  
22 BROADLY WE CAN FUND A PORTFOLIO IF WE CAN RECOVER CAPITAL  
23 AND INTEREST ON MOST OF THE PORTFOLIO.

24 CHAIRMAN ROTH: JEFF'S BEEN WAITING, THEN WE'LL  
25 GO TO MARCY.

## BARRISTERS' REPORTING SERVICE

1           MR. SHEEHY: I KIND OF THINK THAT WE'RE COMING  
2 BACK TO SOME OF THE ISSUES THAT WE'VE TALKED ABOUT THAT  
3 CAME UP IN THE IP ISSUE AND REALLY IS VERY SIMILAR TO  
4 FACILITIES AS WELL IS THAT I REALLY DON'T THINK WE HAVE  
5 THE CAPACITY TO EVALUATE AND MANAGE THESE KINDS OF  
6 THINGS, AND WE NEED TO LOOK AT POTENTIALLY LOOKING AT  
7 PARTNERS. I WAS INTRIGUED BY THE IDEA THAT THE COMMENT  
8 THAT WAS COMING OUT WAS THAT YOU WORK WITH THIS ONE AND  
9 YOU WORK WITH THIS ONE AND YOU CAN PUT TOGETHER A TEAM,  
10 AND YOUR \$2 MILLION IS SUDDENLY LEVERAGED TO SIX OR \$8  
11 MILLION.

12           AND, YOU KNOW, THAT'S BASICALLY WHAT WE'VE DONE  
13 WITH FACILITIES. WE CANNOT BUY A BUILDING. WE CAN'T  
14 EVEN MAYBE BUY HALF A BUILDING. BUT IF WE PUT OUR MONEY  
15 OUT, THEN THE UNIVERSITIES ARE GOING TO LEVERAGE THAT TO  
16 BUILD A NEW BUILDING WHERE THE RESEARCH WILL TAKE PLACE.  
17 IN THE SAME WAY OUR IP RULES, WE'RE NOT MANAGING ANY IP  
18 BECAUSE WE DON'T HAVE THE CAPACITY TO MANAGE IP. WE, IN  
19 FACT, HAVE PARTNERED WITH THE UNIVERSITIES. THEIR  
20 TECHNOLOGY OFFICES ARE THE ONES THAT ARE ACTUALLY  
21 MANAGING AND KEEPING TRACK OF THE IP THAT GETS CREATED,  
22 AND WE TRUST THEM TO COME BACK TO US.

23           AND I WONDER -- IT SEEMS THAT WE'RE TRYING TO  
24 DO A LOT OF STUFF VERY BROADLY. AND I WONDER IF IT MAKES  
25 SENSE TO THINK ABOUT REALLY LOOKING AT FOLKS LIKE SOME OF

## BARRISTERS' REPORTING SERVICE

1 THE PEOPLE HERE WHO CLEARLY KNOW WHAT THEY' RE DOING AND  
2 WE' D HAVE A MUCH BETTER CHANCE OF GETTING A RETURN THAN  
3 IF WE TRY TO DO IT ON OUR OWN, AND THINKING ABOUT WHAT  
4 KIND OF COLLABORATIONS CAN WE CREATE THAT MIGHT, YOU  
5 KNOW, REALLY GET SOME COMPANIES GOING, GET SOME SCIENCE  
6 OUT INTO PEOPLE' S HANDS. LIKE DR. TROUNSON SAID, THERE' S  
7 SOME REAL OPPORTUNITIES THAT THEY MIGHT BE ABLE TO POINT  
8 US TO WHICH ARE JUST -- I' M SURE PEOPLE COME TO THEM WITH  
9 THE SERVICE-TYPE MODEL, AND THEY SAY THERE' S NO  
10 OPPORTUNITY HERE FOR US. THEY COULD FEED THOSE INTO US,  
11 AND WE COULD ACTUALLY MAKE A DIFFERENCE IN A PATIENT' S  
12 LIFE IN A MUCH SHORTER TIMEFRAME FOR OUR MISSION.

13 I' M NOT THAT OBSESSED ABOUT GETTING PAID BACK.  
14 I HEAR A LOT OF TALK ABOUT GETTING PAID BACK, BUT THAT' S  
15 NOT OUR PRIMARY MISSION TO MY MIND. OUR PRIMARY MISSION  
16 IS TO MAKE A DIFFERENCE IN A PATIENT' S LIFE. SO GETTING  
17 A COMPANY UP AND MOVING THAT LOOKS LIKE -- ENOUGH  
18 COMPANIES UP AND MOVING THAT WE' RE LIKELY GOING TO GET A  
19 PRODUCT OUT, HELPING IN SOME OF THESE AREAS WHERE THERE' S  
20 NO REAL INVESTMENT LIKE THE SERVICE MODEL BECAUSE I DO  
21 THINK THAT THAT' S GOING TO BE A MAJOR FACTOR IS THESE  
22 THERAPIES BECAUSE TO A LARGE DEGREE RIGHT NOW WE' RE AT A  
23 POINT WHERE PEOPLE HAVE TO DELIVER THEM, AND THAT' S THE  
24 BIGGEST PIECE OF IT.

25 I WONDER IS THERE A WAY THAT WE CAN KIND OF

## BARRISTERS' REPORTING SERVICE

1 STOP THINKING ABOUT TRYING TO DO THIS ALL ON OUR OWN AND  
2 START THINKING ABOUT WHO ARE OUR PARTNERS, HOW CAN WE GET  
3 PARTNERS IN HERE? THAT'S JUST --

4 CHAIRMAN ROTH: I'LL LET BOB ADDRESS THAT IN A  
5 MINUTE. MARCY.

6 MS. FEIT: JUST TO TAG ON, THAT'S EXACTLY WHERE  
7 I WAS GOING WITH THIS BECAUSE MY CONCERN IS THAT WE WOULD  
8 PUT OUT SO MUCH MONEY IN SOME OF THESE LOANS, THAT WE  
9 WOULD PROHIBIT, THEN, THE VENTURE CAPITAL PEOPLE FROM  
10 WANTING TO COME IN BECAUSE OF JUST WHAT GREG SAID. I  
11 DON'T WANT TO BE SUBORDINATED INTO SOMETHING THAT'S GOING  
12 TO TAKE AWAY A THIRD OR A FIFTH OF THE MONEY THAT I'M  
13 PUTTING UP FOR MY FUND.

14 SO I'M JUST CONCERNED ABOUT THAT, THAT WE WOULD  
15 BE -- IF WE PUT OUT \$5 MILLION OR \$3 MILLION, EVEN THOUGH  
16 THE EFFICACY IS VERY PROMISING, DOES THAT THEN PUT A WALL  
17 FOR VENTURE CAPITAL PEOPLE TO COME IN?

18 MR. BONFIGLIO: IT DOES IF YOU STAND IN FRONT  
19 OF ME, BUT HONESTLY MONEY BUYS TECHNOLOGY RISK REDUCTION.  
20 THAT'S REALLY WHAT YOU GET WITH MONEY IN A BIOTECH  
21 SETTING. THE MORE MONEY THAT GOES IN, THE MORE  
22 TECHNOLOGY RISK IS WORKED OUT, THE MORE BUSINESS RISK IS  
23 WORKED OUT, THE MORE ATTRACTIVE THE COMPANY LOOKS TO ME  
24 AS AN INVESTOR. SO HAVING MORE MONEY IN THE COMPANY IS A  
25 GOOD THING. IT'S ONLY A BAD THING IF IT STANDS IN FRONT

## BARRISTERS' REPORTING SERVICE

1 OF MY RETURN. SO IF YOU STRUCTURE THE LOAN IN A WAY THAT  
2 IT IS SUBORDINATED, THEN IT'S A WONDERFUL THING. AND  
3 WHAT YOU GET FROM IT IS THE MONEY GETS RECYCLED. IT  
4 COMES BACK IN AS OPPOSED TO A GRANT.

5 I THINK YOU COULD DO THIS IN A WAY THAT'S A  
6 WIN-WIN FOR EVERYBODY THAT WILL NOT PREVENT THE VENTURE  
7 COMMUNITY FROM COMING IN AND FINANCING, AND, IN FACT,  
8 WOULD MAKE COMPANIES MUCH MORE ATTRACTIVE, WHICH WILL  
9 ACCELERATE THE TIME TO MARKET AND GET THESE THERAPIES OUT  
10 INTO THE COMMUNITY. BUT TWO KEYS FROM MY PERSPECTIVE,  
11 THE LOANS HAVE TO BE SUBORDINATED; AND, TWO, YOU CAN'T  
12 TIE UP THE INTELLECTUAL PROPERTY. IF YOU TRY TO TIE UP  
13 THE INTELLECTUAL PROPERTY AS SECURITY, THAT'S GOING TO BE  
14 A REAL PROBLEM DOWNSTREAM.

15 CHAIRMAN ROTH: BECAUSE WE HAVE A TIMEFRAME, WE  
16 HAVE A LOT TO DISCUSS, I'M GOING TO ASK BOB TO ADDRESS  
17 JEFF'S COMMENT BECAUSE I THINK WE PROBABLY HAVE ISSUES OF  
18 BEING ABLE TO JUST FARM THE MONEY OUT, SO TO SPEAK.

19 MR. KLEIN: JEFF, ONE MODEL THAT WE COULD  
20 FOLLOW, PURSUANT TO YOUR SUGGESTION, IS IF YOU LOOK IN  
21 THE HOUSING AREA, AFFORDABLE HOUSING AREA, THE FEDERAL  
22 NATIONAL MORTGAGE ASSOCIATION HAS DELEGATED UNDERWRITERS  
23 THAT IT APPROVES. SO WE COULD DO THE SCIENTIFIC REVIEW,  
24 BUT HAVE A DELEGATED UNDERWRITER WHO ESSENTIALLY CAN, IN  
25 FACT, BE IN A RISK SHARING POSITION OR A NONRISK SHARING



## BARRISTERS' REPORTING SERVICE

1 UNDERWRITER THAT IS A TEAM LIKE YOU WOULD HAVE IN AN  
2 ACCELERATOR WHO WOULD, IN FACT, DO THE FINANCIAL  
3 UNDERWRITING ON A CONTRACT BASIS WITH OR WITHOUT RISK  
4 SHARING. AND UNDER A RISK SHARING ARRANGEMENT, FOR  
5 EXAMPLE, THAT DELEGATED UNDERWRITER MIGHT GET A PART OF  
6 THE UPSIDE ON THE REPAYMENT OF THE LOAN, INCLUDING A PART  
7 OF THE INTEREST REVENUES.

8 SO YOU MIGHT REALLY ACCELERATE THIS PROGRAM AND  
9 HAVE A HIGHER LEVEL OF EXPERTISE BY COPYING THAT SYSTEM  
10 AND APPLYING IT HERE.

11 CHAIRMAN ROTH: OKAY. SO I'M GOING TO  
12 SUMMARIZE SO FAR SOME OF THE THINGS WE'VE TALKED ABOUT  
13 AND MOVE, THEN, TO THE NEXT SECTION, WHICH IS TERRIBLY  
14 IMPORTANT WE GET YOUR INPUT ON, AND THE FINAL SECTION,  
15 THE COVENANTS.

16 BUT IN TERMS OF THE EVALUATION, THE THINGS  
17 WE'RE REQUESTING, THE BACKGROUND EVALUATION, I ASSUME  
18 NOBODY HAS A PROBLEM WITH US DOING OUR DUE DILIGENCE  
19 THERE.

20 THE CREDITWORTHINESS OR THE CREDIT CHECK IS  
21 REALLY TO FIND OUT DOES THIS COMPANY HAVE A BUNCH OF PAST  
22 DUE BILLS THAT ARE SITTING OUT THERE, JUST SOMETHING THAT  
23 TELLS US WE'RE NOT GOING TO LOAN A MILLION DOLLARS AND  
24 HALF OF IT GOES TO PAY LAWYERS, ACCOUNTANTS, AND RENT.

25 DR. GOLDFISCHER: OH, WELL, IT WILL.

## BARRISTERS' REPORTING SERVICE

1 MR. BONFIGLIO: THAT IS GOING TO BE THE STATE  
2 OF A BUNCH OF COMPANIES.

3 CHAIRMAN ROTH: BUT WE NEED TO KNOW THAT IF IT  
4 HASN'T BEEN DISCLOSED. IF THEY DISCLOSE IT, I THINK IT'S  
5 FINE.

6 DR. GOLDFISCHER: THAT GETS TO WHAT THE P & L  
7 LOOKS LIKE.

8 CHAIRMAN ROTH: BUT I THINK YOU KEEP IN MIND  
9 ED'S COMMENT, THAT THIS IS REALLY DESIGNED TO MOVE  
10 PRODUCTS ALONG OR TO FUND GAPS IN PRODUCT DEVELOPMENT  
11 THAT ALAN IS SPEAKING TO AND OTHERS AS OPPOSED TO FUNDING  
12 COMPANIES OR SO ON. IF THAT CHANGES, THAT NEEDS A WHOLE  
13 NEW SET OF THINKING THAT WE GO INTO, WHICH WE CAN DO, BUT  
14 PROBABLY NOT TODAY.

15 THE THIRD ISSUE HERE IS LITIGATION ASSESSMENT.  
16 WE FELT THAT THAT WAS IMPORTANT THAT WE KNOW IF THERE'S  
17 ANY LITIGATION WITH THE COMPANY.

18 MR. SATO: COULD I JUST WEIGH IN ON THAT  
19 BECAUSE MOST EARLY STAGE COMPANIES DON'T HAVE LITIGATION  
20 BECAUSE OF CLINICAL RESEARCH EXEMPTION OR THE FACT THAT,  
21 UNLESS THERE'S MISAPPROPRIATION, THERE WILL NOT BE  
22 LITIGATION AT AN EARLY STAGE COMPANY AS A GENERAL RULE.  
23 AND MAYBE MORE IMPORTANTLY HERE IS THAT OTHER PART, THE  
24 RISK OF FUTURE LITIGATION. TO THE EXTENT THAT THERE'S AN  
25 FTO ANALYSIS OR ANY OTHER ATTORNEY-CLIENT PRIVILEGED

## BARRISTERS' REPORTING SERVICE

1 CONVERSATION, THAT I WOULD STRONGLY ADVISE ANY COMPANY OR  
2 MANAGEMENT TEAM NOT TO SHARE BECAUSE THEN YOU HAVE  
3 SIGNIFICANT PRIVILEGE RISK.

4 SO I THINK IT'S A NICE GOAL, BUT FROM A LEGAL  
5 PERSPECTIVE, THOSE ARE THINGS THAT I WOULD ONLY SHARE  
6 COUNSEL TO COUNSEL AND NOT AS PART OF THE EXERCISE IN ANY  
7 EVENT.

8 CHAIRMAN ROTH: SO IT WOULD BE VERY HELPFUL TO  
9 THE COMMITTEE IF YOU WOULD GIVE SOME THOUGHT TO HOW WE  
10 MIGHT ADDRESS LITIGATION RISK AND THE KINDS OF THINGS WE  
11 SHOULD LOOK AT.

12 THE FOURTH ONE IS THE BUSINESS PLAN AND  
13 FINANCIAL FEASIBILITY. I THINK WE GOT SOME GREAT INPUT  
14 TODAY ABOUT WHAT WE NEED IN THAT REGARD. AND I REALLY  
15 APPRECIATE THE ADVISORS' COMMENTS ON THAT.

16 DR. MURPHY: I THINK THE NOTION THAT ALL OF  
17 THIS WOULD BE EVALUATED BY CIRM STAFF IS REALLY  
18 OVERSHOOTING. AS YOU KNOW, WE'RE LIMITED TO 50 PEOPLE IN  
19 THE ORGANIZATION. WE WOULD NEED TO HAVE REAL  
20 PARTNERSHIPS SOMEWHERE TO BE ABLE TO DO THIS IN A WAY  
21 THAT THESE GUYS WOULD BUY INTO AS PARTNERS. I SUSPECT  
22 THAT CANNOT BE DONE IN-HOUSE, AT LEAST WITH OUR PRESENT  
23 STRUCTURE.

24 CHAIRMAN ROTH: I WOULD POINT YOU TO THE FIRST  
25 PARAGRAPH ABOVE THIS WHERE WE TALK ABOUT THAT THE LOAN

## BARRISTERS' REPORTING SERVICE

1 APPLICATION, THE REVIEW OF THIS LOAN APPLICATION, WE'RE  
2 TALKING ABOUT THESE FOUR CRITERIA WOULD BE DONE BY  
3 CONSULTANTS OR OTHERS OUTSIDE THE AGENCY. WE DO NOT  
4 EXPECT TO HAVE THAT EXPERTISE IN-HOUSE. BUT THERE WOULD  
5 BE ON AN RFA, SOMEBODY WOULD HAVE TO GO THROUGH AND CHECK  
6 THE BOXES ON THESE FOUR TO MAKE SURE THE INFORMATION IS  
7 AVAILABLE, AND IT WOULD BE DONE BY AN OUTSIDE GROUP THAT  
8 CIRM WOULD DECIDE.

9 OKAY. FLIPPING THE PAGE, THERE'S JUST ONE  
10 LITTLE THING AT THE TOP OF THE PAGE THAT YOU CAN GIVE US  
11 YOUR QUICK THOUGHTS ON. THERE'S TWO OPTIONS HERE. IF  
12 THERE'S A REVIEW BY AN OUTSIDE GROUP, AND IT COMES BACK  
13 AND SAYS, YOU KNOW, THERE ARE DEFECTS IN ITEM NO. 4, THE  
14 BUSINESS PLAN IS NOT CLEAR AND SO, SHOULD WE GIVE THE  
15 APPLICANTS A CHANCE TO ADDRESS THOSE DEFECTS, OR SHOULD  
16 WE JUST SAY, SORRY, THAT WAS THE RFA AND GO ON?

17 MR. BONFIGLIO: FROM MY PERSPECTIVE, THIS IS A  
18 REAL EASY QUESTION BECAUSE, AGAIN, MY EXPERIENCE IS THE  
19 GUYS AT THE LEVEL THAT YOU'RE GOING TO BE DEALING WITH  
20 ARE BRILLIANT SCIENTISTS, AND THEY MAY BE GOOD AT WRITING  
21 GRANTS, BUT THEY DON'T TYPICALLY HAVE THE BUSINESS  
22 JUDGMENT TO ANSWER ALL THE QUESTIONS THAT YOU WANT, TO  
23 THINK THROUGH THE ISSUES THAT YOU ARE IDENTIFYING HERE.  
24 AND, YEAH, THEY'LL WORK WITH CONSULTANTS, BUT THERE'S NO  
25 REASON, IN MY VIEW, TO TURN DOWN A LEGITIMATE PROJECT

## BARRISTERS' REPORTING SERVICE

1 THAT COULD PROVIDE AN EFFECTIVE THERAPY SIMPLY BECAUSE  
2 THE GUY STUBS HIS TOE ON THE RFA PROCESS. IF YOU'VE  
3 IDENTIFIED PROBLEMS IN THE PROCESS, GIVE THEM A CHANCE TO  
4 FIX THEM.

5 CHAIRMAN ROTH: OTHERS AGREE. THERE SEEMS TO  
6 BE CONCURRENCE WITH THAT.

7 THE NEXT SECTION DEALS WITH THE SCIENTIFIC  
8 GRANTS WORKING GROUP. AND WE DESCRIBED THE PROCESS AS IT  
9 EXISTS TODAY. I THINK IT'S CLEAR, IF WE'RE GOING TO  
10 EVALUATE PRODUCTS AND PRODUCT ADVANCEMENT, WE'RE GOING TO  
11 NEED POTENTIALLY DIFFERENT KINDS OF REVIEWERS, RICH AND  
12 ALAN, THAN WE HAVE NOW, BUT THOSE SHOULD READILY EXIST  
13 OUTSIDE THE STATE OF CALIFORNIA. WE GET SOME PEOPLE IN  
14 AND YOU SHARE THAT.

15 DR. TROUNSON: ABSOLUTELY.

16 CHAIRMAN ROTH: OKAY. SO THEN WE MOVE DOWN TO  
17 THE REVIEW PROCESS, THE CIRM LOAN CONTRACTING. ANY  
18 COMMENTS ON THOSE, LOAN CONTRACTING? OKAY.

19 LET'S MOVE, THEN, TO TERMS OF THE DEBT AND  
20 START WITH BULLET NO. 1 THAT WE'RE SEEKING INPUT IS WHAT  
21 WE BEGAN TO HAVE CONVERSATION ON, THE DEBT TERMS.

22 MR. KLEIN: IN TERMS OF THE LOAN CONTRACTING AS  
23 WELL, AGAIN, JEFF SHEEHY'S COMMENT, WE COULD HAVE A  
24 DELEGATED UNDERWRITING GROUP THAT BECOMES THE  
25 COORDINATING OFFICER OR THE COORDINATING FIRM THAT, JUST

## BARRISTERS' REPORTING SERVICE

1 AS IN THE REAL ESTATE FIELD, THE DELEGATED UNDERWRITERS  
2 EVALUATE THE APPRAISALS, THE MARKET STUDIES, THE TOXICITY  
3 REPORTS, ETC. IN THIS FIELD THE DELEGATED UNDERWRITER, A  
4 BANK, FOR EXAMPLE, SILICON VALLEY BANK, COULD BE A  
5 DELEGATED UNDERWRITER WHO COULD AGREE TO SERVICE THIS FOR  
6 US.

7 WE STILL HAVE AN INTERNAL CONTACT PERSON, BUT  
8 ON DELEGATED UNDERWRITING BASIS, THEY CAN HANDLE A LOT --  
9 A MUCH BROADER PORTFOLIO.

10 CHAIRMAN ROTH: CAN THEY BE WITHIN THE STATE OF  
11 CALIFORNIA, OR THEY HAVE TO BE OUTSIDE?

12 MR. KLEIN: THE DELEGATED UNDERWRITER? YOU'D  
13 WANT THEM IN THE STATE BECAUSE ALL THE WORK IS GOING TO  
14 BE IN THE STATE, SO YOU'RE GOING TO WANT OVERSIGHT.

15 CHAIRMAN ROTH: I JUST WAS REFERRING TO THE  
16 REVIEW ITSELF. THE REVIEW ITSELF, I THINK, HAS TO BE  
17 OUTSIDE THE STATE, THE SCIENTIFIC REVIEW. THE PRODUCT  
18 REVIEW HAS TO BE DONE OUTSIDE.

19 MR. KLEIN: YOU MEAN WITH REVIEWERS WHO COME IN  
20 THE STATE TO SIT ON A REVIEW PANEL, BUT COME FROM OUTSIDE  
21 THE STATE?

22 MR. BONFIGLIO: CAN I ASK A QUESTION ON THE  
23 CIRM LOAN CONTRACTING? THERE'S A PHRASE HERE THAT SAYS  
24 YOU ARE GOING TO HAVE EXPERTS IN THE RELEVANT THERAPY  
25 DEVELOPMENT THAT ARE GOING TO DETERMINE THE MILESTONES

## BARRISTERS' REPORTING SERVICE

1 AND WHETHER THEY' RE EFFECTIVE. THAT SOUNDS TO ME LIKE A  
2 DUPLICATION OF THE WORK THAT' S BEING DONE BY THE  
3 SCIENTIFIC GRANT WORKING GROUP. AND IT ALSO SOUNDS LIKE  
4 IF YOU PUT THREE OF THESE PIECES OF THE PUZZLE TOGETHER,  
5 YOU' RE TALKING A REVIEW PROCESS THAT' S GOING TO TAKE YOU  
6 A YEAR.

7 CHAIRMAN ROTH: GREG, I THINK I CAN EXPLAIN THE  
8 INTENT HERE IS THAT THE LOAN ITSELF MAY BE STRUCTURED AS  
9 THREE MILLION, BUT IT' S MILESTONE DRIVEN. SO IT MAY BE  
10 UPON APPROVAL OF YOUR IND, YOU GET ANOTHER MILLION  
11 DOLLARS. SOMEBODY WOULD RESPOND TO THAT AND SAY WE HAVE  
12 THE PROOF THAT WAS REQUIRED. YOU CAN NOW RELEASE THE  
13 FUNDS FOR THE NEXT PHASE. SO THE IDEA IS THAT JUST  
14 BECAUSE YOU WANT A \$3 MILLION LOAN, THAT LOAN WILL BE  
15 MILESTONE DRIVEN, AND WE' LL IDENTIFY THOSE IN THE RFA  
16 PROCESS, AND THEN SOMEBODY HAS TO FOLLOW UP.

17 MR. BONFIGLIO: THIS LAST STEP THAT YOU' RE  
18 DESCRIBING IS POST LOAN ABOUT THE DISTRIBUTION OF THE  
19 FUNDS TO DETERMINE WHETHER OR NOT YOU MET THE MILESTONE.  
20 OKAY.

21 CHAIRMAN ROTH: IN TERMS OF THAT, LET' S OPEN  
22 THE DISCUSSION WITH THE DEBT STRUCTURE. AND THIS DEALS  
23 WITH THE TERM AND SOME OF THE COMMENTS THAT WE WERE  
24 HAVING BEFORE ABOUT HOW THAT TERM MIGHT ALSO BE  
25 ACCOMPANIED BY SOME OTHER CRITERIA. THOUGHTS ON THE

## BARRISTERS' REPORTING SERVICE

1 TIMEFRAME?

2 MR. NORRIS: I WAS GOING TO DEFER TO YOU  
3 BECAUSE I THINK YOU MADE A GREAT POINT RELATING TO HAVING  
4 SOME SORT OF LIQUIDITY EVENT, BE IT M&A OR AN IPO OR SALE  
5 OF THE COMPANY. IF THAT TRIGGERS THE REPAYMENT, I THINK  
6 THAT THAT CERTAINLY CURES A LOT OF ILLS FROM ADDITIONAL  
7 LENDERS WANTING TO COME IN AND HELP TO SUPPORT THE  
8 COMPANY THAT BECOMES VENTURE FUNDED AND CONTINUES TO MOVE  
9 FORWARD. I THINK THAT MAKES A LOT OF SENSE VERSUS HAVING  
10 A BULLET SORT OF LOAN, THAT EVERYTHING COMES DUE IN FIVE  
11 OR SEVEN YEARS, AND YOU HAVE THIS BIG LUMP SUM THAT YOU  
12 HAVE TO REPAY AND YOU'RE NOT QUITE SURE WHERE YOU'RE  
13 GOING TO BE FIVE OR SEVEN YEARS FROM NOW. YOU MIGHT BE  
14 THREE OR FOUR MONTHS AWAY FROM A VERY BIG VALUE CREATION  
15 MILESTONE, AND THEN YOU'VE CREATED A BIG ISSUE FOR THE  
16 COMPANY AND THE INVESTORS.

17 MR. BONFIGLIO: WHAT YOU DON'T WANT TO DO WITH  
18 THE PROGRAM IS PUT IN PLACE A CAPITAL STRUCTURE, IMPOSE A  
19 CAPITAL STRUCTURE ON A COMPANY THAT PREVENTS FUTURE  
20 FINANCING. AND FIVE TO SEVEN YEARS MAY SOUND LIKE A LONG  
21 TIME, BUT IN THE LIFE CYCLE OF A BIOTECH COMPANY FROM  
22 RESEARCH TO PRODUCT, IT'S NOT. IT'S RIGHT IN THE MIDDLE  
23 OF THE WINDOW ACTUALLY.

24 SO I WOULD ENCOURAGE YOU TO THINK STRONGLY  
25 ABOUT HAVING THE TRIGGER EVENT BE AN M&A OR EXIT



## BARRISTERS' REPORTING SERVICE

1 TRANSACTION WHERE CASH IS PAID, NOT NECESSARILY BECAUSE  
2 YOU HAVE REVENUES. MOST OF THE COMPANIES ARE NOT GOING  
3 TO HIT REVENUES BEFORE THEY GET PAID. THEY' LL DO AN M&A  
4 TRANSACTION OR THEY' LL GO PUBLIC. NOW YOU' VE GOT FREE  
5 CASH THAT CAN REPAY THE LOAN. AND WHAT I' M ARGUING FOR  
6 IS THAT YOU PUT THESE LOANS ON EQUAL FOOTING WITH THE  
7 VENTURE FINANCING THAT' S BEING DONE WITH THE COMPANY  
8 BECAUSE THE VENTURE GUYS ARE NOT GETTING PAID OFF TILL  
9 THERE' S AN EXIT EITHER.

10 DR. TROUNSON: I THINK THAT IS A VERY GOOD  
11 POINT, BUT I WONDER IF I CAN ASK BOB. IS CIRM' S  
12 LONGEVITY ONLY GUARANTEED FOR TEN YEARS? DO WE HAVE AN  
13 ISSUE HERE THAT WE REALLY CAN' T GO BEYOND THE ENDPOINT?

14 MR. KLEIN: SURE. VERY HELPFUL COMMENT, DR.  
15 TROUNSON. THE TEN YEARS IS MERELY A SHORTENED KIND OF  
16 SIMPLE MESSAGING THAT THE MEDIA PICKED UP. THERE' S NO  
17 PLACE IN THE INITIATIVE THAT IT' S LIMITED TO TEN YEARS.  
18 DOESN' T EXIST.

19 THE INITIATIVE IS WRITTEN SO THAT IF WE HAD  
20 SOMETHING LIKE LITIGATION, IT DOESN' T MEAN THAT WE' VE  
21 LOST TWO YEARS OF OUR LIFE OR TWO AND A HALF YEARS OF OUR  
22 LIFE. WE HAVE A MAXIMUM WE CAN PUT OUT IN ANY ONE YEAR  
23 OF COMMITTED -- I SHOULD SAY THERE' S A MAXIMUM BOND SALES  
24 IN ANY ONE YEAR OF \$350 MILLION. WE HAVE DISCUSSED AT A  
25 STABILIZED LEVEL IT COULD AVERAGE 300 MILLION. THREE

## BARRISTERS' REPORTING SERVICE

1 HUNDRED MILLION TIMES TEN IS 3 BILLION. THAT'S WHERE  
2 PEOPLE COME UP WITH TEN YEARS. BUT, IN FACT, WHAT WAS  
3 INITIALLY SUBMITTED TO LEGISLATIVE ANALYST WAS A LIFE  
4 SPAN OF ABOUT 13 OR 14 YEARS, BUT, IN FACT, IT TRAILS  
5 DOWN AT THE END BECAUSE YOU ARE GOING TO RUN OUT OF MONEY  
6 UNLESS YOUR LOAN PROGRAM IS BRINGING BACK REPAYMENTS IN  
7 THAT TIME PERIOD WHERE YOU COULD THEN SUSTAIN ACTIVITY.

8 SO WE HAVE A SET AMOUNT OF MONEY. THE QUESTION  
9 IS HOW WELL CAN WE STEWARD THAT MONEY. OUR GRANT MONEY  
10 WILL LIKELY BE GONE IN THE FIRST TEN YEARS. THE LOAN  
11 MONEY COULD KEEP THIS PROGRAM GOING OUT THERE 15, 17  
12 YEARS.

13 NOW, WITH THE CALIFORNIA HOUSING FINANCE  
14 AGENCY, IT PERFORMED WELL IN THE FIRST TEN YEARS, IN THE  
15 FIRST FIVE YEARS OF ITS LIFE. AND ACTUALLY THE STATE  
16 LEGISLATURE CAME BACK AND SAW PERFORMANCE, ADVANCED MORE  
17 FUNDING. SO WHAT STARTED OUT AS \$500 MILLION, THE BOND  
18 ALLOCATIONS HAVE EXCEEDED 25 BILLION AT THIS POINT. IN  
19 THEORY, IF WE'RE PERFORMING WELL FOR THE STATE AFTER TEN  
20 YEARS, THE STATE CITIZENS AND THE LEGISLATURE CAN LOOK AT  
21 THIS AND SAY WE SHOULD PROVIDE MORE FUNDS OR WE  
22 SHOULDN'T.

23 SO THIS IS BASED AS A PERFORMANCE-BASED  
24 ACCOUNTABLE ORGANIZATION THAT HAS TO SHOW A CERTAIN  
25 FUNCTIONAL PERFORMANCE AND DELIVERY TO PATIENTS. BUT, IN

## BARRISTERS' REPORTING SERVICE

1 FACT, WITH THE LOAN PROCEEDS COMING BACK THROUGH IF THERE  
2 IS A LOAN PROGRAM, IT COULD EASILY OPERATE OUT 13, 14,  
3 15, 17 YEARS.

4 CHAIRMAN ROTH: OKAY. BACK TO THE TERMS. THE  
5 LONGER THE BETTER IN TERMS OF FIXED TERMS. AND YOUR  
6 ENCOURAGEMENT WOULD BE FOR US TO EXPLORE OTHER WAYS TO  
7 TIE THE REPAYMENT TO TRANSACTIONS AND TRY TO ADDRESS  
8 THAT.

9 MR. BONFIGLIO: TRIGGER EVENTS OUGHT TO BE TIED  
10 TO -- FOR REPAYMENT OF THE LOAN OUGHT TO BE TIED TO CASH  
11 COMING IN IN EXCHANGE FOR THE COMPANY HAVING DONE AN M&A  
12 TRANSACTION OR AN IPO. IF YOU PUT ME IN AND SAY I'M  
13 LOOKING AT FINANCING A COMPANY, I KNOW IT'S THREE YEARS  
14 INTO A FIVE-YEAR CYCLE ON A NOTE THAT GOT \$10 MILLION,  
15 SAY, I'M LOOKING TO FUND THE COMPANY AND BUILD INTO THE  
16 MODEL MY CASH GOING BACK TO YOU, THAT MAKES IT A LOT MORE  
17 DIFFICULT FOR ME. YOU ALSO DON'T WANT TO FIND YOURSELF  
18 IN COMPETITION WITH SILICON VALLEY BANK. SO IF YOU MAKE  
19 THE LOAN PAYMENT TOO NARROW, THEN YOU'RE COMPETING WITH  
20 THEM ESSENTIALLY.

21 CHAIRMAN ROTH: CHRIS, IN NEW YORK.

22 MR. WASDEN: I'M HERE.

23 CHAIRMAN ROTH: CHRIS, DO YOU HAVE SOME  
24 THOUGHTS ON THE TERM FROM YOUR OTHER EXPERIENCE WITH  
25 WORKING WITH OTHER AGENCIES THAT HAVE DONE LOANS?

## BARRISTERS' REPORTING SERVICE

1           MR. WASDEN:  YEAH.  I THINK THAT TEN YEARS IS  
2           SOMETHING THAT THE PEOPLE ARE LOOKING AT SO THAT THERE'S  
3           A LONG -- A LARGE ENOUGH WINDOW.  AS YOU HEARD EARLIER,  
4           AS YOU KNOW, MOST OF THESE THERAPEUTICS ARE TAKING THEM  
5           10 TO 15 YEARS TO HIT SOME SORT OF A LIQUIDITY EVENT  
6           MILESTONE.  AND YOU DON'T WANT TO HAVE IT TOO SHORT SUCH  
7           THAT IT CAUSES A COMPANY TO HIT A WALL.

8           CHAIRMAN ROTH:  CAN YOU GIVE US SOME EXAMPLES  
9           OF OTHER ORGANIZATIONS THAT ARE DOING TEN YEARS?

10          MR. WASDEN:  SO THE STATE OF TEXAS IS ONE  
11          EXAMPLE WHERE THEY'RE DOING TEN YEARS.  I HAVE TO LOOK AT  
12          SOME OF THE OTHER STATES, BUT THAT'S ONE OF THE LARGER  
13          MORE ACTIVE PROGRAMS.

14          MR. KLEIN:  THERE'S A BALANCING HERE.  AND NO  
15          ONE IS GOING TO GET EVERYTHING THEY WANT.  SO WHEREAS  
16          FROM THE IDEAL WORLD, FROM THE CAPITAL SIDE, THE  
17          LIQUIDITY EVENT MIGHT BE THE RIGHT SOLUTION.  IF WE'RE AT  
18          SEVEN YEARS AND WE HAVE A FACT PATTERN WHERE THE VENTURE  
19          CAPITAL INTERESTS CARRY IT FURTHER, THEY'RE GOING TO GET  
20          A BETTER VALUATION BECAUSE THEY'RE GOING TO TRY AND DO AN  
21          IPO OR SOMETHING OF THAT KIND.  WE REALLY NEED TO GET  
22          OUT.  WE REALLY NEED TO THINK ABOUT THIS TERM BECAUSE ONE  
23          OF THE BIGGEST VALUES TO US IS THAT IF WE CAN CREATE A  
24          STRUCTURE WHERE WE GET FULL OR PARTIAL RECOVERY IN THE  
25          FIVE- TO SEVEN-YEAR TERM BECAUSE WE NEED TO ROLL IT INTO

## BARRISTERS' REPORTING SERVICE

1 MORE PROGRAM FUNDS.

2 SO IT IS A BALANCING ACT, AND IT'S VERY CLEAR,  
3 I THINK, THOUGH, THAT YOU DON'T WANT TO PRECIPITATE OR  
4 PREVENT -- PRECIPITATE A FAILURE OR PREVENT A VENTURE  
5 CAPITAL ROUND FROM COMING IN. SO YOU NEED TO BE PRETTY  
6 FLEXIBLE ABOUT SUBORDINATION. AND IF YOU GET OUT TO  
7 SEVEN YEARS AND IT'S CLEAR THERE'S MORE CAPITAL THAT WILL  
8 COME IN, BUT YOU NEED TO SUBORDINATE AND YOU MIGHT HAVE  
9 AN ADDITIONAL REVIEW FOR AN EXTENSION, I THINK IN THIS  
10 FIELD A LOT OF BANKS EXTEND A LOT OF LOANS, BUT YOU NEED  
11 TO HAVE SOME GUIDANCE HERE ON WHAT ARE THE TERMS AND  
12 WHAT'S THE BASIS.

13 IF IT'S JUST THAT YOU ARE BUILDING VALUE IN THE  
14 COMPANY TO WAIT FOR AN IPO, THAT MAY NOT BE THE  
15 EXPLANATION THAT MEANS YOU DEFER FOR THE LIQUIDITY EVENT.

16 MR. WASDEN: THERE'S TWO WAYS TO ADDRESS THIS.  
17 THE ONE THAT WAS JUST SUGGESTED IS THAT YOU COULD  
18 OBVIOUSLY EXTEND THE LOAN. THE OTHER THAT WE TALKED  
19 ABOUT IS THAT YOU COULD HAVE A TEN-YEAR TERM AND YOU  
20 COULD ACTUALLY FORCE ACCELERATION BASED UPON EVENTS.

21 IF YOU LOOK AT A NEW INVESTOR COMING IN LIKE A  
22 VENTURE CAPITAL FIRM, THEY WOULD MUCH RATHER ENTER INTO A  
23 TRANSACTION WHERE IT HAS A TEN-YEAR TERM WITH FORCED  
24 ACCELERATION SINCE AT CERTAIN MILESTONES OR A HIT, THEY  
25 GET REPAYED RATHER THAN HAVE TO TRUST THAT THE LENDER WILL

**BARRISTERS' REPORTING SERVICE**

1 BE WILLING TO EXTEND TERMS IN CERTAIN SITUATIONS.

2 CHAIRMAN ROTH: SO THERE SEEMS TO BE A LOT OF  
3 HEAD NODDING GOING ON.

4 MR. BONFIGLIO: I AGREE WITH THAT.

5 DR. GOLDFISCHER: I AGREE WITH THAT. YOU KNOW,  
6 YOU CAN THINK OF CHANGE OF CONTROLS, SO IPO OR AN M&A  
7 TRANSACTION. I THINK A LONGER TERM WITH THAT COVENANT  
8 MAKES -- SEEMS PRETTY REASONABLE.

9 CHAIRMAN ROTH: SO WE'RE GOING TO MOVE TO THE  
10 NEXT ONE, BUT ON ALL OF THESE I'M GOING TO ASK YOU TO,  
11 WHEN YOU GO AWAY, THINK ABOUT THESE, SEND TO LYNN YOUR  
12 THOUGHTS ON HOW WE MIGHT WORD THIS THAT WOULD MEET THE  
13 REQUIREMENTS.

14 MR. NORRIS: JUST ONE POINT OF CAUTION FROM THE  
15 LENDER PERSPECTIVE IS THAT WHEN A COMPANY IS VENTURE  
16 FUNDED AND IS LAYERING DEBT ON TOP, REALLY MAJORITY OF  
17 THE TIME WHEN WE LOOK AT THESE DEALS, IT'S ALL ABOUT CASH  
18 BURN AND HOW MUCH CASH THE COMPANY HAS LEFT, HOW MANY  
19 MONTHS OF CASH, WHERE DOES THAT GET THEM. HAVING  
20 SOMETHING COME DUE DURING THAT TIME PERIOD, WHICH WOULD  
21 BE A BIG CASH OUTLAY FOR THE COMPANY, WILL DEFINITELY  
22 AFFECT OUR ABILITY TO MAKE THOSE LOANS AND THE AMOUNT  
23 THAT WE CAN MAKE IN THOSE LOANS. JUST A POINT OF CAUTION  
24 ON THAT IF THERE'S NO CASH INFUSION THAT'S COMING ALONG  
25 IN CONCERT WITH THAT.

**BARRISTERS' REPORTING SERVICE**

1                   CHAIRMAN ROTH:   OKAY.   IN TERMS OF INTEREST  
2   RATES, YOUR THOUGHTS ON WHAT KIND OF RATES THESE LOANS  
3   WOULD CARRY.

4                   MR. NORRIS:   YOU KNOW, YOU CAN LOOK AT DOING  
5   THINGS ON BOTH A FLOATING SIDE AS WELL AS A FIXED SIDE.  
6   I WOULD PROBABLY RECOMMEND SOME SORT OF FLOATING RATE  
7   BASED ON PRIME BECAUSE THAT'S JUST EASY TO FOLLOW.   I  
8   THINK THERE CAN BE A BIG SWAY IN INTEREST RATES IF WE'RE  
9   TALKING TEN-YEAR PERIODS OR EVEN FIVE-YEAR PERIODS.   AND  
10   SO IT MIGHT MAKE SENSE TO HAVE SOMETHING THAT IS FLOATING  
11   BASED ON PRIME THAT YOU CAN FIGURE OUT AMOUNTS FROM  
12   THERE.

13                  CHAIRMAN ROTH:   JUST TO BE CLEAR, YOU'RE NOT  
14   SUGGESTING PRIME.   I WANT TO MAKE SURE EVERYBODY  
15   UNDERSTANDS.   THESE ARE GOING TO CARRY HIGHER INTEREST  
16   RATES.

17                  MR. NORRIS:   I CAN GIVE YOU A LITTLE BIT OF  
18   FEEDBACK IN TERMS OF WHAT -- IF WE WERE TO LOOK AT DOING  
19   A SMALL LOAN TO A SERIES A-BACKED COMPANY, TYPICALLY THE  
20   INTEREST RATES ARE SOMEWHERE BETWEEN, YOU KNOW, PRIME  
21   PLUS ONE TO PRIME PLUS FOUR, SOMETHING IN THAT.

22                  MR. KLEIN:   WITH STOCK OPTIONS?

23                  MR. NORRIS:   AND THAT INCLUDES WARRANTS IN THAT  
24   DEAL.

25                  MR. KLEIN:   PLUS WARRANTS.   SO ON YOUR PRO

**BARRISTERS' REPORTING SERVICE**

1       FORMA, WHAT ARE YOU ASSUMING YOUR ALL-IN YIELD IS?

2                 DR. GOLDFISCHER: IT'S A CLOSELY HELD SECRET.

3       I'LL ANSWER IT. WE CALCULATE THEM GETTING MIDTEENS  
4       RETURNS. THAT'S WHAT WE CALCULATE.

5                 MR. KLEIN: I WOULD ASSUME IT'S 12 PLUS RETURN.

6                 CHAIRMAN ROTH: THOUGHTS ON THAT WOULD ALSO BE  
7       VERY HELPFUL.

8                 DR. GOLDFISCHER: YOU CONVINCED US YOU DON'T  
9       WANT TO TIE THIS TO LIBOR ANYMORE.

10                MR. KLEIN: UNLIKE A BANK, WE DON'T HAVE A  
11       DEPOSIT COST THAT'S INCREASING OVER TIME. SO WE CAN DO A  
12       FIXED RATE THAT MAY, IN FACT, BE A RISK MITIGATOR RATHER  
13       THAN A FLOATING RATE. WITH THE WAY CHINA IS UNLOADING  
14       TREASURIES, FIXED RATE MIGHT APPEAR PRETTY ATTRACTIVE IN  
15       FOUR OR FIVE YEARS.

16                CHAIRMAN ROTH: JUST ALSO A POINT OF CLARITY,  
17       INTEREST RATES WOULD BE ACCRUED. THE INTEREST WOULD NOT  
18       BE PAID ANNUALLY. IT WOULD ACCRUE WITH THE LOAN.

19                MR. NORRIS: IS THERE ANY SORT OF DISCUSSION  
20       RELATED TO TAKING WARRANTS IN THE COMPANY TO OFFSET THE  
21       RISK?

22                CHAIRMAN ROTH: MY UNDERSTANDING IS THE STATE  
23       OF CALIFORNIA CANNOT EXCEPT EQUITY. IT CANNOT HOLD  
24       EQUITY, BUT LET BOB TALK ABOUT HOW.

25                MR. KLEIN: JAMES IS NOT IN HERE, IS HE? WE



## BARRISTERS' REPORTING SERVICE

1 CAN'T OWN -- STATE OF CALIFORNIA CAN'T OWN STOCK. IT'S A  
2 CONSTITUTIONAL ISSUE. BUT WE'RE IN RESEARCH AS TO  
3 WHETHER WE CAN OWN STOCK OPTIONS WHICH WE COULD THEN SELL  
4 OR WARRANTS OR OTHER STRUCTURES. BUT POTENTIALLY A STOCK  
5 OPTION THAT WE CAN'T EXERCISE, BUT WE COULD SELL, IS  
6 POSSIBLE, BUT WE JUST DON'T HAVE THE DUE DILIGENCE DONE  
7 ON THE LEGAL SIDE TO GIVE US COMFORT YET.

8 MR. SIMPSON: I THINK YOU'RE CORRECT, THAT SOME  
9 FORM OF WARRANTS CAN WORK.

10 MR. KLEIN: I JUST WANT TO BE VERY CAREFUL.

11 CHAIRMAN ROTH: SO WE NEED TO INVESTIGATE THAT  
12 MORE FROM A LEGAL STANDPOINT.

13 DR. GOLDFISCHER: BECAUSE YOU'RE GOING TO DO A  
14 BUNCH OF THESE TRANSACTIONS. ACCUMULATING WARRANTS IN  
15 THESE COMPANIES, ONE WOULD GUESS IF YOU CHOOSE REASONABLY  
16 WELL, A COUPLE OF THOSE THINGS ARE GOING TO WIND UP BEING  
17 PRETTY VALUABLE.

18 CHAIRMAN ROTH: OTHER THOUGHTS THERE?  
19 SUBORDINATION, SOMETHING THAT'S BEEN DISCUSSED MANY TIMES  
20 ALREADY TODAY, BUT LET'S ACTUALLY TALK ABOUT  
21 SUBORDINATION.

22 MR. NORRIS: CLEARLY AN UNSECURED LOAN WOULD BE  
23 THE BEST OPTION FROM ANOTHER BANK COMING ON TOP OF THAT  
24 DEBT AT A LATER TIME. BUT I THINK IF THERE'S ANY SORT OF  
25 SECURITY INTEREST ATTACHED TO IT, TYPICALLY A FINANCE

## BARRISTERS' REPORTING SERVICE

1       INSTITUTION THAT WOULD PROVIDE DEBT TO A VENTURE DEBT  
2       COMPANY WOULD REQUIRE THE DEBT THAT WE'RE CONTEMPLATING  
3       HERE TO BE TOTALLY SUBORDINATED THROUGH A DOCUMENT THAT  
4       IS A PRETTY BOILERPLATE DOCUMENT THAT MOST FINANCIAL  
5       INSTITUTIONS HAVE.

6                AND I THINK REALLY THE ONE ISSUE COMES DOWN TO  
7       INTELLECTUAL PROPERTY. I THINK THAT THAT'S AN ISSUE THAT  
8       IN A SENSE, IF THE FINANCING INSTITUTION THAT COMES ON  
9       BOARD AFTERWARDS DOESN'T TAKE THE IP, WHICH DOES HAPPEN  
10      IN SOME SITUATIONS, THAT'S JUST SOMETHING THAT THE  
11      FINANCIAL INSTITUTION HAS TO LOOK AT LATER IF THERE'S A  
12      SITUATION WHERE THERE'S SOME SORT OF VALUE ASSIGNED TO  
13      THE IP THAT'S GOING TO BE DISTRIBUTED TO EVERYONE WHO'S  
14      LAYING ANY SORT OF CLAIM TO THE COMPANY IN, LET'S SAY, A  
15      BANKRUPTCY SITUATION BECAUSE THAT WOULD BE SOME  
16      COLLATERAL WE WOULD HAVE TO SHARE. BUT I DON'T THINK  
17      THAT THAT WOULD BE AN OVERRIDING ISSUE FOR THOSE  
18      FINANCING INSTITUTIONS, JUST SOMETHING THAT WE TAKE INTO  
19      CONSIDERATION.

20               CHAIRMAN ROTH: OTHER THOUGHTS?

21               MR. BONFIGLIO: OBVIOUSLY THE INTEREST AND  
22      BUSINESS MODEL OF THE BANK IS DIFFERENT THAN THE INTEREST  
23      AND BUSINESS MODEL OF THE VENTURE GUYS LOOKING AT THE  
24      DEAL. FROM MY PERSPECTIVE, AND I WANT TO HEAR CARL'S  
25      THOUGHTS ON THIS AS WELL, SUBORDINATION IS CRITICAL. IF

## BARRISTERS' REPORTING SERVICE

1 THIS MONEY DOES NOT SIT DOWN BELOW OUR MONEY, THEN I  
2 CAN'T MODEL OUT MY RETURN. I CAN MODEL IT OUT, BUT IT  
3 TAKES A BIG HOLE OUT OF IT. SO SUBORDINATION IS  
4 ABSOLUTELY CRITICAL.

5 IN TERMS OF SECURITY, IF YOU SECURE THIS  
6 AGAINST THE IP OF THE COMPANY, IT MAKES IT MUCH, MUCH  
7 LESS ATTRACTIVE FOR ME TO COME IN AND FINANCE THAT  
8 BUSINESS.

9 CHAIRMAN ROTH: CHRIS, ANY THOUGHTS ON THAT,  
10 SUBORDINATION?

11 MR. WASDEN: I ABSOLUTELY AGREE. I THINK THAT  
12 ONE OF THE THINGS WE NEED TO UNDERSTAND IS THAT THE  
13 SUBORDINATION CAN ACTUALLY MAKE THE COMPANY MORE  
14 ATTRACTIVE IN THE FINANCING OPPORTUNITY FOR EITHER A  
15 SENIOR LENDER OR FOR THE VENTURE FIRM.

16 MR. BONFIGLIO: THAT'S ABSOLUTELY RIGHT. YOU  
17 GO FROM A NEGATIVE TO A POSITIVE.

18 MR. WASDEN: ABSOLUTELY. SO I THINK THAT THIS  
19 IS, AGAIN, SOMETHING THAT'S ACTUALLY A VERY ATTRACTIVE  
20 ELEMENT BY DOING THE SUBORDINATION. IF YOU LOOK AT  
21 ECONOMIC DEVELOPMENT ORGANIZATIONS IN DIFFERENT STATES  
22 THAT PROVIDE THIS SORT OF DEBT FINANCING, THEY DO IT ON A  
23 SUBORDINATED BASIS TO A SENIOR LENDER.

24 MR. KLEIN: IN TERMS OF THE QUESTION OF WHETHER  
25 THERE'S A SECURITY INTEREST IN THE IP, WE NEED TO --

## BARRISTERS' REPORTING SERVICE

1 CERTAINLY WHATEVER THE SECURITY INTERESTS ARE IN THIS  
2 COMPANY, YOU'VE GOT TO SUBORDINATE THEM. THAT'S NOT THE  
3 QUESTION. BUT THERE HAVE TO BE LOAN COVENANTS THAT DEAL  
4 WITH THE FACT THAT YOU CAN'T HYPOTHECATE THIS IP AND  
5 PLEDGE IT FOR OTHER PROJECTS OR OTHER COMPANIES, THAT YOU  
6 CAN'T TAKE THIS IP AND SELL OFF PART OF IT TO FINANCE  
7 SOME OTHER VENTURE. THERE'S GOING TO HAVE TO BE  
8 COVENANTS THAT EFFECTIVELY CREATE A SECURITY VALUE IN  
9 THIS. ALTHOUGH IT'S EFFECTIVELY THE SENIOR LENDERS AND  
10 VENTURE CAPITALISTS HAVE A PRIORITY RIGHT TO ALL THIS IP,  
11 YOU'RE EFFECTIVELY NEEDING TO CONTROL THE USE OF THIS IP  
12 TO KEEP IT FOCUSED, ITS TOTAL ASSET VALUE IN THIS COMPANY  
13 AND IN THIS VENTURE.

14 MR. BONFIGLIO: THAT'S A VERY DIFFERENT RISK  
15 ASSESSMENT FROM MY PERSPECTIVE WHEN I COME IN LOOKING AT  
16 THOSE KIND OF COVENANTS. I CAN DEAL WITH THOSE COVENANTS  
17 BECAUSE, HONESTLY, WE BUILD THOSE COVENANTS INTO OUR  
18 FINANCINGS. SO THAT'S SOMETHING I'M REAL FAMILIAR WITH,  
19 AND I DON'T THINK THAT'S AS MUCH OF AN ISSUE, BOB. I  
20 THINK IF YOU TAKE A SECURITY INTEREST IN THE IP, THAT'S A  
21 VERY TOUGH ONE.

22 MR. SATO: THE SO-CALLED NEGATIVE BUDGETS ARE  
23 FAIRLY CONVENTIONAL IN VENTURE DEBT, SO I DON'T EXPECT  
24 THAT TO BE A PROBLEM FOR COMPANIES.

25 I DO HAVE A QUESTION, HOWEVER, TO THE EXTENT

**BARRISTERS' REPORTING SERVICE**

1 THAT THERE IS A DEFAULT, WHAT IS YOUR WILLINGNESS TO SUE?  
2 BECAUSE THIS ONLY MATTERS IF YOU' RE WILLING TO BRING  
3 LITIGATION.

4 CHAIRMAN ROTH: SO THIS AGENCY HAS BEEN SUED  
5 REPEATEDLY.

6 MR. SATO: THIS PROBABLY GOES TO THE COVENANTS.  
7 AND SO PART OF IT IS GOING TO BE WHAT' S THE PERCEPTION  
8 THERE ABOUT CIRM' S WILLINGNESS TO BRING LITIGATION?

9 CHAIRMAN ROTH: AGAIN, HAVING BEEN THROUGH THE  
10 OTHER SIDE OF THIS AND BEING SUED SO MANY TIMES OVER SO  
11 MANY TRIVIAL ISSUES, I THINK WHEN WE GET TO THAT POINT,  
12 WE' RE GOING TO HAVE TO REALLY FIGURE OUT IS THIS  
13 SOMETHING THAT WE WOULD ACTUALLY LITIGATE. AND IT WOULD  
14 HAVE TO, IN MY MIND, BE A SIGNIFICANT BREACH, EGREGIOUS  
15 UNWILLINGNESS TO MEET THE TERMS.

16 I THINK IN TERMS OF -- I GO BACK TO WHAT I SAID  
17 AT THE LAST MEETING. THERE ARE TWO WAYS WE CAN DO THIS.  
18 WE CAN STRUCTURE A LOAN PROGRAM THAT INDUSTRY OR THE  
19 PEOPLE DEVELOPING PRODUCTS FIND ATTRACTIVE AND WILL  
20 ACTUALLY TAKE ADVANTAGE OF, OR WE CAN JUST DO IT ALL IN  
21 GRANTS. BUT WE PREFER TO DO IT, FOR REASONS BOB HAS  
22 ARTICULATED, A PORTION OF THIS WE WOULD PREFER TO DO AS  
23 LOANS; AND IF WE COULD STRUCTURE SOMETHING ATTRACTIVE, WE  
24 WILL DO THAT.

25 MR. KLEIN: IN TERMS OF LITIGATION, I THINK YOU

## BARRISTERS' REPORTING SERVICE

1 HAVE TO BE PREPARED TO LITIGATE, BUT YOU REALLY, UNDER  
2 THE DELEGATED UNDERWRITER OR DELEGATED AGENT PROCESS, TO  
3 HAVE THEM IN A RISK SHARING POSITION WHERE THEY EXECUTE  
4 ON ENFORCEMENT RATHER THAN THIS AGENCY. WE DON'T HAVE  
5 THE STAFF TO DEAL WITH THIS. SO WE'RE GOING TO HAVE TO  
6 LOOK AT THAT FUNCTION, BUT WE'RE GOING TO HAVE TO HAVE  
7 ENFORCEMENT FOR THESE LOAN COVENANTS TO MEAN ANYTHING.

8 CHAIRMAN ROTH: WE'VE REALLY ADDRESSED IN THE  
9 SAME CONVERSATION SUBORDINATION AND SECURITY UNLESS  
10 SOMEBODY HAS A SPECIFIC COMMENT ON SECURITY OR QUESTIONS  
11 FROM THE TASK FORCE.

12 MILESTONES, I THINK I DESCRIBED THAT EARLIER,  
13 BUT PERHAPS WE COULD SPEND A LITTLE BIT OF TIME ON THAT.  
14 I'M NOT SURE IT'S APPROPRIATE THAT THAT BE IN THIS  
15 SECTION BECAUSE WE DISCUSSED THE KINDS OF MILESTONES  
16 WE'RE TALKING ABOUT PREVIOUSLY FOR MAKING THE LOANS.  
17 THIS WOULD BE MILESTONES AND BENCHMARKS FOR PAYMENTS. SO  
18 THAT'S WHERE WE'D LIKE TO HEAR ABOUT ACCELERATED PAYMENT  
19 TRIGGERS. WHAT WOULD TRIGGER AN ACCELERATED PAYMENT OF A  
20 LOAN?

21 DR. GOLDFISCHER: I THINK CHANGE OF CONTROL  
22 DEFINED AS AN M&A OR AN IPO. IF THIS THING GOES PUBLIC,  
23 THEY'RE GOING TO PAY THIS OFF AS USE OF PROCEEDS. IT  
24 HAPPENS ALL THE TIME.

25 CHAIRMAN ROTH: SO THINGS LIKE THAT IS WHAT

**BARRISTERS' REPORTING SERVICE**

1 WE' D LIKE TO HEAR FROM YOU, IPO.

2 DR. GOLDFISCHER: HOWEVER YOU WANT TO.

3 CHAIRMAN ROTH: DESCRIBE CHANGE OF CONTROL.

4 MR. BONFIGLIO: FUNDAMENTALLY IT'S A LIQUIDITY  
5 EVENT. SO WHETHER IT'S AN M&A TRANSACTION, IT'S AN OUT  
6 LICENSING OF THE TECHNOLOGY BECAUSE REALIZE YOU CAN  
7 GENERATE SUBSTANTIAL REVENUES BY OUT LICENSING THE  
8 TECHNOLOGY AND NOT BE ACQUIRED AND NOT GO PUBLIC. BUT A  
9 LIQUIDITY EVENT, THEY FALL IN THREE BUCKETS: M&A, OUT  
10 LICENSING, AND AN IPO.

11 DR. GOLDFISCHER: IT'S ALL COST OF CAPITAL, SO  
12 AT SOME POINT YOU'RE HOPING THAT YOU BECOME AN  
13 EXPENSIVE -- THE MORE EXPENSIVE COST OF CAPITAL THAN  
14 OTHER THINGS THE COMPANY CAN DO AND, THEREFORE, IT  
15 BECOMES ATTRACTIVE TO PAY IT OFF.

16 CHAIRMAN ROTH: AGAIN, THOUGHTS ON THAT --

17 DR. GOLDFISCHER: THOSE ARE THE KIND OF EVENTS  
18 THAT WILL MAKE IT ATTRACTIVE TO PAY IT OFF.

19 MR. KLEIN: THAT'S AN IMPORTANT COMMENT BECAUSE  
20 AT A CERTAIN POINT, IF THEY HAVE ENOUGH VITALITY THAT  
21 THEY CAN GET MAJOR SECOND LEVEL BANK DEBT THAT'S  
22 SIGNIFICANT AND YOU BECOME A MINOR PORTION OF THE  
23 CAPITAL, YOU DO WANT TO -- YOU POTENTIALLY WANT TO HAVE A  
24 STEP-UP IN THE LOAN TERMS TO INCENTIVIZE PAYOFF, AND YOU  
25 WANT THE PRIVATE SECTOR LOAN CAPITAL TO TAKE OVER. SO

## BARRISTERS' REPORTING SERVICE

1 THAT YOU MIGHT BUILD AN INCENTIVE SYSTEM IN BECAUSE YOU  
2 WANT SILICON VALLEY BANK TO COME IN AND TAKE YOU OUT WITH  
3 THEIR CAPITAL, BUT THAT MEANS THAT AT SOME POINT YOU'LL  
4 HAVE A STEP-UP IN YOUR RATES SO THAT YOU ARE MORE  
5 EXPENSIVE DOWNSTREAM THAN THEY ARE.

6 DR. GOLDFISCHER: EVEN IF YOU DON'T HAVE IT,  
7 WHATEVER YOUR NUMBER IS, RIGHT, IT'S GOING TO BE HOW MUCH  
8 IT COSTS YOU TO DO SO. AS YOU WERE SAYING, IF YOU GET A  
9 BIG PARTNERSHIP THAT TAKES A LOT OF RISK OFF, YOU'RE  
10 GOING TO PAY THIS OFF. THAT'S JUST NORMAL COST OF  
11 BUSINESS.

12 MS. FEIT: IS THERE --

13 DR. GOLDFISCHER: IT'S ALSO WHERE YOUR WARRANTS  
14 ARE GOING TO BE IF YOU CAN TAKE THEM. THAT'S WHERE YOU  
15 START, AND THAT'S WHERE YOU REALLY JUICE THE RETURNS OF  
16 THIS THING. IT'S NOT THE 10 TO 12 PERCENT OR WHATEVER  
17 YOU'RE GOING TO GET ON IT AND X'ING OUT THE LOSSES. IT'S  
18 THE WARRANTS THAT ARE GOING TO DRIVE THE RETURNS ON THIS.

19 MS. FEIT: IS THERE EVER A TIME WHERE A CHANGE  
20 OF OWNERSHIP MIGHT OCCUR, BUT NOT NECESSARILY AN INFUSION  
21 OF LIQUIDITY? SO JUST A PLAIN CHANGE OF OWNERSHIP MAY BE  
22 A TRIGGERING EVENT.

23 DR. GOLDFISCHER: WE'RE NOT DEFINING IT AS YOU  
24 DO A B ROUND AND BRING IN 40 MILLION NEW DOLLARS,  
25 ALTHOUGH THAT MIGHT BE A SITUATION WHERE EVENTUALLY



## BARRISTERS' REPORTING SERVICE

1 EVERYBODY AROUND THE TABLE MIGHT DECIDE THIS IS BETTER  
2 PAPER TO GET RID OF, BUT YOU WOULDN'T NECESSARILY WANT  
3 THAT TYPE OF EVENT TO FORCE A PAYING OFF OF THE DEBT  
4 BECAUSE YOU DON'T KNOW WHAT THE CIRCUMSTANCES ARE.

5 MS. FEIT: WHAT I'M THINKING OF IS JUST A  
6 CHANGE OF OWNERSHIP WHERE, SAY, YOU HAVE A PROJECT IN ONE  
7 INSTITUTION OR THE INSTITUTION IS ABSORBED BY ANOTHER,  
8 NOT NECESSARILY A LIQUIDITY EVENT, BUT A CHANGE OF  
9 OWNERSHIP EVENT, SO THAT SHOULD TRIGGER A PAYOUT. I  
10 THINK JUST THAT ALONE, JUST THE OWNERSHIP CHANGE, BY  
11 ITSELF BECAUSE I ACTUALLY --

12 DR. GOLDFISCHER: I'M NOT SURE I UNDERSTAND.

13 MS. FEIT: IS IT ASSUMED, THEN, IF COMPANY X OR  
14 INSTITUTION X IS ABSORBED BY INSTITUTION Y, THAT THERE'S  
15 A LIQUIDITY INVOLVED? IS THAT AN ASSUMPTION?

16 MR. BONFIGLIO: IF YOU'RE TALKING AT THE  
17 COMPANY LEVEL, ONE OF THE THINGS YOU'RE DESCRIBING WILL  
18 HAPPEN IN THE NATURAL COURSE TO THE ECOSYSTEM. THE 300  
19 COMPANIES THAT I IDENTIFIED UP THERE, IT'S PROBABLY 400  
20 AS WE'RE SPEAKING, BUT THOSE COMPANIES ARE CHARACTERIZED  
21 AS SMALL SHOPS WITH FOUR TO FIVE TO SIX EMPLOYEES EACH  
22 WORKING ON AN INDIVIDUAL PIECE OF TECHNOLOGY THAT  
23 HONESTLY PROBABLY WILL NEVER STAND ALONE.

24 SO THE INDUSTRY IS GOING TO HAVE A SHAKE-OUT AT  
25 SOME POINT IN THE NEXT THREE, FIVE, HOWEVER MANY YEARS,

## BARRISTERS' REPORTING SERVICE

1 WHERE A BUNCH OF THOSE COMPANIES ARE GOING TO GET ROLLED  
2 TOGETHER. A ROLL-UP CAN BE A CHANGE OF CONTROL AND ONE  
3 YOU DON'T HAVE TRIGGERING THE LOAN OBLIGATIONS BECAUSE  
4 WHEN YOU ROLL A COUPLE OF COMPANIES TOGETHER, TYPICALLY  
5 YOU'RE TAKING TWO BUSINESSES THAT ARE BARELY SURVIVING,  
6 PUTTING THEM TOGETHER TO FORM A MORE COMPELLING VALUE  
7 PROPOSITION. AND IF YOU HAVE TO REPAY THE LOAN AS PART  
8 OF THAT PROCESS, THEN YOU'VE GOT AN ISSUE.

9 MS. FEIT: THAT IS SOME OF WHAT I'M THINKING  
10 OF, BUT IT COMES IN TERMS OF THE OWNERSHIP STRUCTURE  
11 CHANGES. SO IS THAT A TRIGGER EVENT TO CALL IN THE LOAN,  
12 OR IS THAT A TRIGGER EVENT TO MAKE SURE THERE'S A  
13 COVENANT THAT SAYS THIS LOAN STAYS IN PERPETUITY BECAUSE  
14 IT'S STILL A LOAN REGARDLESS OF THE NAME CHANGE OR THE  
15 OWNERSHIP?

16 DR. GOLDFISCHER: WHAT YOU MIGHT WANT MAYBE IS  
17 A REASSESSMENT OF THE BUSINESS. YOU MIGHT -- IF YOU  
18 DON'T CALL IT -- IF YOU FORCE TWO OF THESE THINGS  
19 TOGETHER, YOU MIGHT WANT TO HAVE THAT TRIGGER SOME  
20 COVENANT.

21 MR. WASDEN: OFTENTIMES YOU ACTUALLY WANT TO  
22 HAVE THE OPPORTUNITY TO CALL IT IN, NOT BECAUSE YOU WILL,  
23 BUT BECAUSE YOU WANT TO BE BROUGHT TO THE TABLE IN THAT  
24 CHANGE-OF-CONTROL EVENT TO MAKE SURE THAT YOUR POSITION  
25 IS SECURE.

**BARRISTERS' REPORTING SERVICE**

1 DR. STEWARD: IT JUST OCCURS TO ME TO ASK. IT  
2 SEEMS THAT IN SOME OF THESE CASES, IT MIGHT BE THE  
3 ROLLING UP OF THE CALIFORNIA-BASED AND THE  
4 NON-CALIFORNIA-BASED COMPANY WHICH WOULD, BY OBLIGATION,  
5 TRIGGER A REPAYMENT EVENT, I GUESS. HOW WOULD THAT --

6 MR. KLEIN: IF THE FUNDS HAVE BEEN EXPENDED IN  
7 CALIFORNIA ALREADY -- THE FUNDS CANNOT BE EXPENDED  
8 OUTSIDE OF CALIFORNIA. BUT IF THE FUNDS HAVE ALREADY  
9 BEEN EXPENDED IN CALIFORNIA, I'LL ASK OUR COUNSEL TO  
10 REVIEW THAT FACT PATTERN.

11 IN TERMS OF THESE SPECIFIC EVENTS, THE RIGHT TO  
12 LOOK AT IT IS AN APPROPRIATE STATEMENT BECAUSE YOU CAN  
13 HAVE TWO COMPANIES MERGE, AND THE SCIENTIFIC IDEA THAT  
14 YOU FUNDED IS NOW NOT THE ONE THEY'RE GOING TO CARRY  
15 FORWARD WITH. AND SO THAT'S AN APPROPRIATE TIME TO LOOK  
16 AT WHETHER THOSE FUNDS SHOULD REMAIN WITH THAT MERGED  
17 ENTITY. I THINK THAT'S A REASONABLE COVENANT TO HAVE FOR  
18 OVERSIGHT.

19 CHAIRMAN ROTH: JUST THE ABILITY TO LOOK AT IT.

20 MR. KLEIN: TO LOOK AT IT.

21 DR. STEWARD: BY LOOKING AT IT, YOU MEAN WE  
22 COULD CALL THE LOAN.

23 CHAIRMAN ROTH: I THINK WE DON'T WANT TO  
24 FORCE -- IN MARCY'S SCENARIO, FORCE REPAYMENT OF THE  
25 LOAN. WE SIMPLY WANT TO MAKE SURE THE LOAN FOLLOWS THE

## BARRISTERS' REPORTING SERVICE

1 NEW COMPANY AND IT REMAINS AN OBLIGATION THERE. AND  
2 UNDER CERTAIN CIRCUMSTANCES, YOU MAY, IN FACT, WANT TO  
3 TRIGGER REPAYMENT. BUT WE NEED TO BE CAREFUL WITH THOSE,  
4 I THINK, IN TERMS OF HOW THOSE ARE WRITTEN, OR THAT,  
5 AGAIN, GETS IN THE WAY OF ADVANCING AN IDEA BECAUSE  
6 SUDDENLY THERE'S A TWO OR \$3 MILLION PAYMENT THAT HAS TO  
7 GO BEFORE YOU PUT TWO OR THREE MILLION NEW DOLLARS IN TO  
8 ADVANCE IT.

9 MR. SATO: CAN I JUST GET A CLARIFICATION ON  
10 THE FUNDS EXPENDED IN CALIFORNIA? JUST FUNDS EXPENDED TO  
11 SUPPORT OPERATIONS IN CALIFORNIA? OBVIOUSLY THERE ARE  
12 MANY MORE CLINICAL SITES ACROSS THE NATION THAN THERE ARE  
13 IN EUROPE AND THAN THERE ARE IN THE STATE OF CALIFORNIA.  
14 I JUST WANT TO BE SURE WE'RE TALKING ABOUT SUPPORTING  
15 OPERATIONS.

16 CHAIRMAN ROTH: GLEN, THAT QUESTION HAS COME UP  
17 REPEATEDLY, AND I THINK WE'RE LOOKING AT IT TO DETERMINE  
18 WHAT SERVICES CAN BE ACQUIRED OUTSIDE OF THE STATE. THE  
19 ENTITY HAS TO BE IN THE STATE AND MOST OF THE EXPENSES,  
20 BUT, AGAIN, THE THINKING THERE WAS PRIMARILY GRANTS, AND  
21 WE HADN'T CONSIDERED WHAT HAPPENS WHEN YOU DO, FOR  
22 EXAMPLE, FUND A CLINICAL TRIAL THAT MAY BE LOCATED  
23 INTERNATIONALLY. AND THAT'S ONE THAT WE HAVE TO LOOK AT.

24 MR. KLEIN: I THINK THAT I'M VERY INTERESTED IN  
25 THE LEGAL ANALYSIS ON THIS GIVEN, AS SUPPLEMENTING WHAT

## BARRISTERS' REPORTING SERVICE

1 WE'VE ALREADY LOOKED AT, THE FACT PATTERN IS SOMEWHAT  
2 DIFFERENT, BUT YOU COULD WELL HAVE A SITUATION WHERE YOU  
3 HAVE A CLINICAL TRIAL OUTSIDE OF THE STATE, BUT YOU HAVE  
4 SOME SIGNIFICANT COST IN THE STATE. AND SO ON AN  
5 ALLOCATION BASIS, YOU USE THE FUNDS FROM THIS LOAN TO  
6 COVER THE COST IN THE STATE AND THE OTHER FUNDS, WHETHER  
7 VENTURE CAPITAL OR OTHERWISE, GO TO THE CLINICAL TRIAL.  
8 BUT WE'RE GOING TO NEED TO LOOK CLOSELY AT THIS.

9 CHAIRMAN ROTH: YOU'RE ALLOWED UNDER THE WAY  
10 IT'S WRITTEN TO HAVE SERVICES THAT YOU PAY FOR THAT MIGHT  
11 COME FROM VENDORS OUTSIDE OF THE STATE. THAT'S THE TERM.  
12 BUT I THINK IT'S PROBABLY SOMETHING WE'LL HAVE TO DEAL  
13 WITH IN GENERAL FOR WHETHER WE DO GRANTS OR LOANS.  
14 THAT'S AN ISSUE.

15 MR. KLEIN: SERVICES AND EQUIPMENT AND A NUMBER  
16 OF OTHER THINGS.

17 CHAIRMAN ROTH: OKAY. THE LAST SECTION THAT WE  
18 WOULD LIKE YOUR INPUT ON DEALS WITH WHAT WE'VE CALLED THE  
19 COVENANTS, BUT THESE ARE TERMS AND CONDITIONS THAT ARE  
20 EMBEDDED IN PART IN PROP 71 IN TERMS OF ACCESS,  
21 AFFORDABILITY, PUBLICITY, THINGS LIKE THAT. I'M GOING TO  
22 ASK OUR COLLEAGUE ED PENHOET HERE, WHO REALLY HEADED UP  
23 ALL THE IP WORK ON BOTH THE NOT-FOR-PROFIT AND  
24 FOR-PROFIT, TO HELP ME WITH THIS BECAUSE HE HAD AN AWFUL  
25 LOT TO DO WITH HOW THIS ENDED UP.

## BARRISTERS' REPORTING SERVICE

1           LET ME START BY JUST GIVING AN OVERVIEW.  
2           AFFORDABILITY AND ACCESS WERE TWO TERMS THAT WE REALLY  
3           HAD TO WRESTLE WITH. WE DETERMINED THAT THEY WERE REALLY  
4           TIED TOGETHER, AND THAT ACCESS IS REALLY WHAT WE WANT.  
5           WE WANT ACCESS FOR NEW DIAGNOSTICS AND THERAPEUTICS TO BE  
6           AVAILABLE TO EVERY PATIENT THAT NEEDS THEM IN THE STATE  
7           OF CALIFORNIA.

8           AFFORDABILITY IS A VERY SUBJECTIVE TERM.  
9           WHAT'S AFFORDABLE TO ONE PERSON IS COMPLETELY DIFFERENT  
10          THAN AFFORDABLE IF YOU HAVE CANCER. CANCER, YOU TEND TO  
11          VIEW AFFORDABILITY VERY DIFFERENTLY THAN YOU DO IF YOU  
12          ARE TALKING IN THE THIRD PARTY.

13          SO WHAT WE ENDED UP WITH IS REALLY FOCUSING ON  
14          ACCESS AND TRYING TO PUT INTO THE POLICY THAT THOSE THAT  
15          TAKE MONEY, WHETHER GRANTS OR LOANS, FROM THE STATE OF  
16          CALIFORNIA WILL AGREE TO PROVIDE ACCESS TO THESE PRODUCTS  
17          WHEN THEY BECOME COMMERCIALIZED. AND SO THERE ARE A  
18          NUMBER OF WAYS WE ADDRESS THAT. ONE, YOU HAVE TO ABIDE  
19          BY ANY CURRENT REGULATION OBVIOUSLY WHEN YOU LAUNCH THE  
20          PRODUCT. SO IF MEDICAID HAS A CERTAIN REQUIREMENT, YOU  
21          HAVE TO MEET THAT. IF MEDICARE HAS A REQUIREMENT, YOU  
22          HAVE TO MEET THAT. IF THIRD-PARTY INSURERS HAVE  
23          REQUIREMENTS, YOU HAVE TO MEET ALL LAWS THAT WOULD BE IN  
24          PLACE AT THAT TIME OR PROGRAMS LIKE CALIFORNIA RX IF THAT  
25          EVER GETS FUNDED. IF YOU ARE GOING TO PARTICIPATE IN THE

## BARRISTERS' REPORTING SERVICE

1 STATE OF CALIFORNIA AND SELL YOUR PRODUCTS HERE, YOU  
2 WOULD, IN THEORY, HAVE TO BUY INTO CALIFORNIA RX.

3 BUT PROBABLY THE MOST IMPORTANT ASPECT OF THIS  
4 IS TO MAKE SURE THAT THE COMPANIES THAT COMMERCIALIZE THE  
5 PRODUCT SEND TO CIRM THEIR PATIENT ACCESS PROGRAM THAT  
6 IS, QUOTE, INDUSTRY STANDARD AT THAT POINT IN TIME. SO  
7 TODAY WE COULD PROBABLY DEFINE INDUSTRY STANDARD GIVEN  
8 THE SIZE OF THE COMPANY, THE SCOPE OF THE PRODUCT, AND  
9 WHAT THEY OFFER FOR THE PEOPLE WHO FALL OUTSIDE OF ALL  
10 THESE OTHER PROGRAMS, INCLUDING DISEASE ASSOCIATIONS WHO  
11 MAKE FUNDS AVAILABLE TO PAY FOR SOME OF THESE THERAPIES.  
12 SO YOU CAN TAKE A TOTAL UNIVERSE AND SAY THERE'S GOING TO  
13 BE A FEW PEOPLE AT THE END OF THE DAY WHO CAN'T AFFORD  
14 THE PRODUCT. THEY'RE UNDERINSURED OR UNINSURED, AND WHAT  
15 DO THE COMPANIES DO THAT PROVIDE THESE THERAPIES TO MAKE  
16 SURE THAT ACCESS IS THERE?

17 THAT'S WHAT WE'RE REQUIRING UNDER THE CURRENT  
18 FOR-PROFIT IP POLICY. WE WANT TO SEE THAT AT THAT POINT  
19 IN TIME AND IT HAS TO BE APPROPRIATE FOR WHAT'S THEN.  
20 LET ME STOP.

21 MR. SATO: JUST A QUICK QUESTION. THIS WOULD  
22 APPLY EVEN IF THE LOAN HAD BEEN REPAID. SO IF YOU ACCESS  
23 THE LOAN PROGRAM, YOU WOULD HAVE THIS CONTINUING  
24 OBLIGATION.

25 DR. PENHOET: AT THE MOMENT THIS POLICY ONLY

## BARRISTERS' REPORTING SERVICE

1 REFERS TO DRUGS. WE'RE TRYING TO NOW BRING UP THE ISSUE  
2 OF WHAT, IF ANY, OF THESE THINGS WOULD APPLY TO LOANS AND  
3 UNDER WHAT CIRCUMSTANCES AND REPAYMENT TERMS, ETC. IN  
4 THE GRANT CASE, IT GOES FOR THE LIFETIME OF THE PRODUCT  
5 ESSENTIALLY THAT'S FUNDED WITH THAT GRANT.

6 MR. SATO: GOING BACK TO TED'S ORIGINAL  
7 QUESTION ABOUT WHAT WOULD MAKE A LOAN MORE ATTRACTIVE, TO  
8 BE ABLE TO ELIMINATE ALL OF THESE REQUIREMENTS CERTAINLY  
9 WOULD MAKE THE LOAN MORE ATTRACTIVE OVER THE LONG RUN  
10 WHEN YOU GET TO COMMERCIALIZATION.

11 CHAIRMAN ROTH: WE'RE INTERESTED IN THOSE  
12 THOUGHTS. JUST SO YOU UNDERSTAND, THE POLICY THAT IS IN  
13 THE FOR-PROFIT IP ESSENTIALLY DOES THIS. IT SAYS THAT  
14 YOU WILL AT THE TIME OF COMMERCIALIZATION PROVIDE  
15 WHATEVER IS, QUOTE, AN INDUSTRY STANDARD FOR A COMPANY OF  
16 YOUR SIZE AND SCOPE IN A PRODUCT AREA TO CLIRM AND SAY  
17 THIS IS HOW WE INTEND TO MAKE SURE THERE'S ACCESS TO OUR  
18 NEW THERAPY OR OUR NEW DIAGNOSTIC AT THAT POINT IN TIME.  
19 SO WE'RE NOT ASKING ANYTHING THAT WOULD BE OUTSIDE OF  
20 COMMON OPERATING PROCEDURES AT THAT POINT.

21 NO. 2 DEALS WITH PUBLICATIONS. WE HAD A LOT OF  
22 DISCUSSION WITH INDUSTRY ABOUT THIS. WE THINK WE ENDED  
23 UP WITH A VERY GOOD PUBLICATION REQUIREMENT. IT SAYS IF  
24 YOU CHOOSE TO PUBLISH, YOU WILL MAKE AVAILABLE TOOLS OR  
25 REAGENTS THAT ARE IN THAT PUBLICATION TO OTHERS IN THE



## BARRISTERS' REPORTING SERVICE

1 STATE, MUCH LIKE THE NONPROFITS DO, EXCEPT IF IT  
2 INTERFERES WITH ANY OF YOUR BUSINESS PRACTICES. FIRST  
3 YOU HAVE TO DECIDE TO PUBLISH. THAT'S YOUR DECISION.  
4 SECOND, YOU CAN THEN SAY WE'RE GOING TO PUBLISH, BUT  
5 WE'RE NOT GOING TO DO THIS BECAUSE IT DIRECTLY CONFLICTS  
6 WITH OUR ABILITY TO COMMERCIALIZE THE PRODUCT FOR  
7 WHATEVER REASON. AND YOU CAN READ. THERE ARE SEVERAL  
8 OTHER WAYS YOU CAN ADDRESS THE BIOMATERIALS PUBLICATION.

9 MR. KLEIN: MAYBE ED SHOULD GO INTO HOW THEY'RE  
10 MADE AVAILABLE BECAUSE IT'S NOT FREE. MAYBE SOME OF THAT  
11 INFORMATION WILL BE VALUABLE.

12 DR. PENHOET: WELL, PEOPLE CAN RECOVER THEIR  
13 COST OF PROVIDING A BIOMEDICAL MATERIAL TO A THIRD PARTY,  
14 BUT THAT'S ESSENTIALLY IT. BUT IF THEY'RE GOING TO  
15 COMMERCIALIZE THE PRODUCT AND MAKE IT BROADLY AVAILABLE  
16 COMMERCIALY, THEY DON'T HAVE TO PROVIDE IT FREE TO  
17 RESEARCHERS. THAT'S WHAT DUANE WAS JUST REFERRING TO.

18 CHAIRMAN ROTH: IT SAYS OTHERWISE CREATE AN  
19 ONEROUS FINANCIAL HARDSHIP. THAT IS THERE. SO THERE'S  
20 SEVERAL WAYS YOU WOULD SAY THIS INTERFERES WITH MY  
21 BUSINESS. AND I DON'T WANT TO DO THIS. YOU PROVIDE THAT  
22 TO CIRM, GIVE THE REASON, AND THEY WOULD ACCEPT IT.

23 THE LAST ONE THAT I THINK IS APPROPRIATE TO  
24 HAVE A DISCUSSION ABOUT IS PRESS-RELATED REQUIREMENTS,  
25 PRESS RELEASE REQUIREMENTS. THAT SAYS IF YOU ARE GOING

## BARRISTERS' REPORTING SERVICE

1 TO REFERENCE CIRM, IN OTHER WORDS LEVERAGE THE NAME, THAT  
2 YOU RECEIVED A GRANT OR YOU RECEIVED A LOAN, THAT YOU  
3 WILL GIVE US NOTICE OF THAT, LET US COMMENT ON IT BEFORE  
4 IT GOES OUT.

5 THEN THERE ARE TWO LISTED BELOW THAT WE DO NOT  
6 THINK ARE APPROPRIATE, BUT WE THREW THEM IN BECAUSE  
7 THEY'RE PART OF THE REQUIREMENTS FOR THE GRANT PROCESS.  
8 ASSUMPTION FOR LICENSING, THAT'S AN IP ISSUE, LICENSING  
9 TO THIRD PARTIES. IF YOU RECEIVED A GRANT AND YOU GO ON  
10 AND LICENSE THE TECHNOLOGY TO A THIRD PARTY, I DON'T  
11 THINK IT APPLIES.

12 AND THEN THERE'S THE MARCH-IN REQUIREMENT,  
13 WHICH WE DO NOT THINK SHOULD APPLY IN THIS CASE. THERE  
14 IS OVERARCHING MARCH-IN RIGHTS THAT CONGRESS HAS OR THE  
15 PRESIDENT HAS IN NATIONAL EMERGENCIES AND THINGS LIKE  
16 THAT. THIS ONE DEALT SPECIFICALLY WITH MARCH-IN RIGHTS  
17 IN CALIFORNIA; IS THAT CORRECT, ED?

18 DR. PENHOET: (NODS.)

19 CHAIRMAN ROTH: OKAY. SO WE'D LIKE TO OPEN IT  
20 UP, THEN, FOR DISCUSSION ABOUT THE ACCESS AND  
21 APPROPRIATENESS OF THOSE BEING IN THIS AS PART OF IT AND  
22 WHAT YOU MIGHT BE ABLE TO LIVE WITH AND WHAT YOU THINK  
23 WOULD CLEARLY BE A DISINCENTIVE.

24 DR. PENHOET: COULD I RETURN TO THE COMMENT I  
25 MADE EARLIER THOUGH? IT'S NOT CLEAR TO ME YET WHETHER

## BARRISTERS' REPORTING SERVICE

1 WE'RE TALKING ABOUT FUNDING COMPANIES OR PROJECTS. WE'VE  
2 COMMINGLED THE TWO THINGS MANY TIMES TODAY. AND IF WE  
3 ARE GOING TO PROVIDE LOANS TO COMPANIES, THEN THEY'LL  
4 DO -- IT WILL BE ON THE BASIS OF WHAT THEY CAN CONTRIBUTE  
5 TO THE FURTHERANCE OF REGENERATIVE MEDICINE, ETC., BUT  
6 THEY WILL USE THAT MONEY, I PRESUME, AS THEY WOULD USE  
7 OTHER SOURCES OF FUNDS. SILICON VALLEY BANK OR A VENTURE  
8 CAPITALIST DOESN'T SAY, YES, WE'RE PROVIDING THIS FUNDING  
9 TO THIS PROJECT, BUT SUBJECT TO BOARD OF DIRECTORS, YOU  
10 CAN CHANGE PROJECTS AND DO A NUMBER OF THINGS WITH THE  
11 MONEY.

12 THERE ARE ORGANIZATIONS THAT DO  
13 PROJECT-SPECIFIC FINANCING. THERE'S A COMPANY CALLED  
14 SYMPHONY, FOR EXAMPLE, THAT FUNDS CLINICAL TRIALS,  
15 SPECIFIC PRODUCT, SPECIFIC CLINICAL TRIAL AND JUDGE THAT  
16 SCIENCE.

17 AND I THINK MANY OF THESE THINGS HERE PRESUME  
18 WE FUNDED A RESEARCH PROJECT. THAT'S WHAT THE GRANT  
19 PROGRAM IS ALL ABOUT. SO IT'S PROJECT FINANCING. AND IF  
20 WE ARE ALSO GOING TO CONTEMPLATE COMPANY FINANCING WITH  
21 THESE LOAN FUNDS, WHICH IS A DIFFERENT BEAST, IT WOULD  
22 COME WITH A DIFFERENT SET OF REQUIREMENTS, I ASSUME. AND  
23 I'M STILL UNCLEAR ABOUT WHICH OF THOSE TWO.

24 WE HAVE CERTAINLY TALKED A LOT ABOUT --  
25 ORIGINALLY WE TALKED ABOUT THE LOANS PRIMARILY AS AN

## BARRISTERS' REPORTING SERVICE

1 ALTERNATIVE TO GRANTS FOR PROJECT FINANCING. BUT I THINK  
2 WE'VE HEARD A LOT OF DISCUSSION THAT PROVIDING LOANS TO  
3 COMPANIES, AS SILICON VALLEY BANK DOES, OR IN PARTNERSHIP  
4 IF THEY PUT UP -- IF WE PUT UP FOUR MILLION AND THEY PUT  
5 UP FOUR MILLION, WE'D DO THIS TOGETHER. THEN IT'S MUCH  
6 MORE COMPANY FINANCING THAN IT IS PROJECT FINANCING.

7 I THINK THAT THOSE TWO, YOU'D HAVE VERY  
8 DIFFERENT SET OF RULES, I SUSPECT, IF YOU WERE BASICALLY  
9 PLAYING THE ROLE OF VENTURE CAPITALIST WITH LOANS VERSUS  
10 PROJECT FINANCING, WHICH IS SPECIFIC PROJECTS.

11 CHAIRMAN ROTH: I AGREE COMPLETELY WITH THAT  
12 LAST STATEMENT, THAT IF WE GO THAT WAY, THAT'S PROBABLY A  
13 DIFFERENT POLICY THAN THE ONE WE'VE BEEN WORKING ON. THE  
14 ONE WE'VE BEEN WORKING ON ESSENTIALLY PULLS A LOT FROM  
15 WHAT'S BEEN DONE UNDER THE GRANT PROGRAM AND MOVES IT  
16 OVER TO A LOAN, BUT IT'S PROJECT SPECIFIC WHERE THE  
17 PROJECT WOULD BE ANALYZED, NOT THE CONCEPT OF A COMPANY  
18 OR COMMINGLING. THAT COULD BE DONE, I GUESS, BUT I THINK  
19 WOULD BE A COMPLETE --

20 DR. GOLDFISCHER: AT THIS STAGE IT GETS A  
21 LITTLE GRAY SOMETIMES.

22 DR. PENHOET: I KNOW. THAT'S WHY I WANTED TO  
23 STRESS THAT WE EVOLVED IN THIS MEETING WE'VE HAD TODAY  
24 AND HAS CERTAINLY STARTED TO TALK ABOUT JOINT VENTURING,  
25 SETTING UP ACCELERATORS, ALL THOSE KINDS OF THINGS ON

## BARRISTERS' REPORTING SERVICE

1 COMPANY FINANCING. THEY ARE NOT PROJECT FINANCING FOR  
2 THE MOST PART.

3 MR. KLEIN: WELL, THE ACCELERATOR MODEL,  
4 THOUGH, THEY GET INTO THE ACCELERATOR WITH A  
5 PROJECT-SPECIFIC THERAPY 1, THERAPY 2 FOCUS. SO MAYBE  
6 THEY'D APPLY TO US AND SAY THIS IS THERAPY APPLICATION 1,  
7 THERAPY APPLICATION 2. WE'RE FUNDING THE MONEY FOR THE  
8 DEVELOPMENT OF THOSE THERAPIES IN THIS COMPANY.

9 NOW, THAT MAY BE THE ENTIRE COMPANY, BUT I  
10 THINK WE'VE BEEN FOCUSED ON PROJECT-SPECIFIC FUNDING  
11 WHICH ESSENTIALLY BECOMES A COMPANY FUNDING OF THOSE  
12 PROJECTS IN MANY CASES.

13 CHAIRMAN ROTH: AND YOU HAVE TO REMEMBER WE'RE  
14 SET UP ON THE RFA PROCESS. AND FOR US TO HAVE TIMING TO  
15 REACT TO A FINANCING, YOU KNOW, THE ODDS THAT WE'RE GOING  
16 TO HAVE SUCH A PROGRAM AT THE TIME YOU ACTUALLY NEED IT  
17 AND NEGOTIATE IT WOULD BE A VERY DIFFERENT PROGRAM. I  
18 THINK WE COULD DEFINE TODAY AN RFA THAT WOULD TALK ABOUT  
19 FUNDING VALLEY OF THE DEATH, FOR LACK OF A BETTER TERM,  
20 PROJECTS. AND SO THAT WE CAN GET OUR ARMS AROUND IT, WE  
21 COULD READ AND EVALUATE WHETHER THAT PROJECT IS WORTHY OF  
22 THE LOAN PROGRAM. BUT TO DO THAT IN A MORE ALL  
23 ENCOMPASSING WAY AS PART OF THE LEVERAGE FINANCING,  
24 THAT'S PRETTY TRICKY TO WRITE THE RFA'S TO GET A NUMBER  
25 OF APPLICANTS IN. THEY HAVE TO LINE UP THE ADDITIONAL

## BARRISTERS' REPORTING SERVICE

1 FUNDING, HAVE IT SIT THERE UNTIL WE GET OUR APPROVAL.

2 DR. GOLDFISCHER: IT'S HARD, THOUGH. WHEN YOU  
3 START THREE MILLION BUCKS AND STUFF, YOU'RE GETTING INTO  
4 COMPANIES OR GETTING TO AN ENTITY, A PROJECT ENTITY, THAT  
5 HAS A CORPORATE STRUCTURE AROUND IT. YOU CAN CALL IT --  
6 I DON'T KNOW WHAT YOU CALL THAT. SOMEWHERE IN THE  
7 MIDDLE. CALL IT WHATEVER YOU WANT TO CALL IT ACTUALLY.

8 DR. PENHOET: IF WE STAYED WITH THE SIMPLE  
9 MODEL, WHICH IS FUNDING RESEARCH PROJECTS ONE AT A TIME.  
10 WE FUND THEM. THEN, YOU KNOW, I THINK THE COLD REALITY  
11 IS ANYONE DECIDING WHETHER THEY WOULD TAKE A GRANT VERSUS  
12 A LOAN, THE ONLY TRADING BAIT WE HAVE TO ENCOURAGE THEM  
13 TO TAKE A LOAN RATHER THAN A GRANT IS PROBABLY THIS SET  
14 OF REQUIREMENTS ON THIS BACK PAGE. I DON'T KNOW HOW ELSE  
15 TO SAY IT EXCEPT IN PLAIN ENGLISH.

16 CHAIRMAN ROTH: ED, THE IP POLICY, IN SOME  
17 CASES PEOPLE MAY BE CONCERNED ABOUT THEIR ABILITY TO WORK  
18 IN THE IP POLICY BECAUSE OF SOME --

19 DR. PENHOET: SO THEY CAN CHOOSE. IF THAT WAS  
20 THE TRADING CURRENCY, IT MIGHT NOT BE A POPULAR OUTCOME  
21 OF THIS MEETING, BUT IF THAT'S THE ONLY INDUCEMENT WE  
22 HAVE FOR SOMEBODY TO ACTUALLY TAKE A LOAN THAT THEY MUST  
23 PAY BACK VERSUS A GRANT THAT THEY GET WITHOUT ANY PAYBACK  
24 TERMS EXCEPT THE LONG-TERM PAYBACK TERMS, WHICH ARE STILL  
25 THERE IN THE GRANT PROGRAM. THERE IS AN ECONOMIC RETURN,

## BARRISTERS' REPORTING SERVICE

1 BUT BASED ONLY ON SUCCESS.

2 DR. GOLDFISCHER: THE QUESTION I HAVE, AND I  
3 HEAR WHAT YOU ARE SAYING, IS THAT SINCE YOU ARE TRYING TO  
4 GET A LOAN PAID BACK ON A PROJECT, IT'S GOT TO BECOME A  
5 COMPANY, MOST LIKELY.

6 MR. KLEIN: THAT'S RIGHT. IF YOU'RE GOING TO  
7 GET A COMPANY BUSINESS PLAN BECAUSE THAT IS THE EXIT,  
8 THAT'S THE EXIT PROGRAM.

9 DR. GOLDFISCHER: A LOT OF THINGS YOU'RE ASKING  
10 FOR HERE, BUSINESS PLANS, FINANCIAL, THAT SORT OF GETS  
11 YOU INTO COMPANIES.

12 MR. KLEIN: BUT IT'S STILL A PROJECT-BASED  
13 FINANCING OF A COMPANY. SO YOU'RE FINANCING -- YOU'RE  
14 NOT FINANCING -- THE COMPANY MAY HAVE SOME OTHER  
15 INITIATIVE OUT THERE, BUT THE CASH FLOWS AND SOURCES AND  
16 USES ON THIS SPECIFIC PROJECT IS WHAT YOU'RE FINANCING.

17 DR. GOLDFISCHER: IT'S NOT SO BAD REALLY.  
18 LET'S SAY IF YOUR AIM -- IF THE AIM OF THIS IS TO  
19 DRIVE --

20 DR. PENHOET: I CAN CREATE A VALUE JUDGMENT IN  
21 MY OWN MIND WHICH IS BAD OR NOT BAD.

22 DR. GOLDFISCHER: I'M JUST SAYING IF THE AIM OF  
23 THIS IS TO DRIVE DEVELOPMENT IN THE TECHNOLOGICAL SPACE,  
24 WHETHER THE ENTITY -- THAT'S WHAT YOU WANT TO DO. SO IF  
25 SOMEONE IS SETTING UP AN ENTITY AND THIS BECOMES PART OF

## BARRISTERS' REPORTING SERVICE

1 THAT ENTITY AND A SIGNIFICANT PART OF IT, IT'S ACHIEVING  
2 YOUR PURPOSES, RIGHT.

3 DR. PENHOET: SURE.

4 DR. LOVE: IN SOME WAYS IT'S DIVERSIFICATION.  
5 YOU COULD EASILY SEE A SITUATION WHERE YOU FUND A  
6 PROJECT, THAT PROJECT DOES NOT FAIL, YET THE COMPANY,  
7 THROUGH SOMETHING THAT HAPPENS IN BIOTECHNOLOGY ALL THE  
8 TIME, DOES OTHER THINGS, BECOMES VERY SUCCESSFUL, YOUR  
9 WARRANTS, IF WE'RE ABLE TO TAKE THEM, ACTUALLY BECOME  
10 VERY VALUABLE. THAT WOULD NOT BE A PARTICULARLY UNLIKELY  
11 EVENT POTENTIALLY EVEN IF THE PROJECT FAILED.

12 MR. BONFIGLIO: YOU'RE NOT GOING TO GIVE  
13 WARRANTS IN A PROJECT, SO BY NECESSITY AS SOON AS YOU  
14 START TALKING IN THOSE TERMS, YOU'RE TALKING A COMPANY.  
15 YOU'RE TALKING ABOUT PROJECT FINANCE WITHIN A COMPANY, AS  
16 BOB SAID.

17 CHAIRMAN ROTH: THAT'S PROBABLY WHERE WE'RE AT.

18 MR. SHEEHY: MY ONLY QUESTION IS WHY DON'T THEY  
19 DO AN RFA, FIRST OF ALL, FOR PARTNERS, AND THEN YOU  
20 START. ONCE YOU'VE IDENTIFIED YOUR PARTNERS, YOU LET  
21 THEM SUBMIT PROJECTS. I WOULD STAY WITH THE COMPANY  
22 FORMATION NOTION BECAUSE I DO THINK WE'LL HAVE INCREDIBLE  
23 POLITICAL PROBLEMS IF WE KICK OUT ALL THIS STUFF. BUT  
24 THE IP IS ALREADY THERE IN A COMPANY. THIS IS REALLY  
25 BUILT AROUND IP POLICY, NOT THE CREATION OF IP AND



## BARRISTERS' REPORTING SERVICE

1 CAPTURING THE VALUE THAT'S CREATED THERE WITH OUR  
2 DOLLARS, BUT THE IP HAS ALREADY BEEN CREATED FOR THE MOST  
3 PART. BUT WHY DON'T WE MAKE OUR FIRST STAGE TO IDENTIFY  
4 PARTNERS?

5 MR. KLEIN: WHAT YOU'RE SAYING WE CAN HAVE --

6 MR. SHEEHY: AN RFA FOR PARTNERS, AND IT WOULD  
7 BE A LIMITED NUMBER OF PARTNERS, AND THEN A SUBMISSION  
8 WITHIN THAT GROUP OF PROJECTS THAT WE WOULD AGREE TO  
9 PARTNER ON BECAUSE THE KEY TO THIS IS OUR PARTNERS IN MY  
10 MIND. IT'S NOT THE PROJECTS. IT'S WHO'S GOING TO WORK  
11 WITH US TO MAKE THESE PROJECTS WORK. THE INDIVIDUAL  
12 PROJECT IS NOT GOING TO BE AS IMPORTANT AS WHO WE DO IT  
13 WITH IN MY MIND IN THE ULTIMATE BECAUSE WE CANNOT DO IT.

14 I AGREE WITH DR. MURPHY. WE'RE GOING TO BE --  
15 WHAT IS GOING TO BE OUR PROCESS FOR FINDING THESE  
16 UNDERWRITERS YOU'RE TALKING ABOUT OR WHATEVER? THE FIRST  
17 STAGE TO ME IS TO FIND OUT WHO YOU ARE GOING TO DO THIS  
18 WITH.

19 MR. KLEIN: SO YOU'RE SAYING YOU DO AN RFP FOR  
20 DELEGATED UNDERWRITERS AND PROGRAM ADMINISTRATORS.  
21 SILICON VALLEY BANK OR SOME OTHER GROUP COULD SUBMIT A  
22 PROPOSAL, JUST LIKE FANNIE MAE DELEGATED UNDERWRITERS, TO  
23 PROVIDE THESE SERVICES WITHIN THE SCOPE OF THE RFP FOR  
24 DOING THE BUSINESS DUE DILIGENCE AND DOING THE OVERSIGHT  
25 AND DOING RISK SHARE OR NOT RISK SHARE.

## BARRISTERS' REPORTING SERVICE

1 MR. SHEEHY: IF THAT MAKES SENSE. MAYBE IT  
2 DOESN' T.

3 MR. KLEIN: THAT' S ONE POSSIBLE MODEL. I' D  
4 LIKE TO ASK, I MEAN IF THEY' RE CALIFORNIA COMPANIES, WHY  
5 COULDN' T THEY, DESPITE THE FACT THIS IS A LOAN VERSUS A  
6 GRANT, WHY COULDN' T THEY LIVE WITH CALRX; AND IF THEY' RE  
7 A CALIFORNIA COMPANY, WON' T THEY BE SUBJECT TO CALRX  
8 ANYWAY?

9 CHAIRMAN ROTH: THAT' S THE PROPOSAL IS THAT  
10 WE' D KEEP INDUSTRY STANDARD AT THE TIME OF  
11 COMMERCIALIZATION, SO YOU' RE REALLY AGREEING. IF IT WERE  
12 TODAY, YOU' D HAVE TO PROBABLY SUBMIT AN ACCESS PROGRAM TO  
13 COVER UNDERINSURED AND UNINSURED, BUT VIRTUALLY EVERY  
14 COMPANY DOES THAT. IT WON' T HAVE TO BE GENENTECH STYLE.  
15 IT' D HAVE TO BE A NEW COMPANY WITH MAYBE THEIR FIRST  
16 PRODUCT STYLE, BUT IT WOULD HAVE TO BE A REQUIREMENT.

17 MR. BONFIGLIO: YOU' RE ASKING WHETHER THE  
18 COMPANIES THAT RECEIVE THE LOANS WOULD BE WILLING TO  
19 COMPLY WITH THE LAW AT THE TIME THE PRODUCT REACHED THE  
20 MARKET. THAT SEEMS PRETTY STRAIGHTFORWARD.

21 CHAIRMAN ROTH: IT IS. IN MANY CASES THAT IS  
22 THE CASE, BUT IN ADDITION, OTHER INDUSTRY STANDARD IS  
23 REALLY WHAT I' M TRYING TO WORK IN. INDUSTRY DOES PLAY A  
24 ROLE, AND ED AND OTHERS PIONEERED THAT ROLE BY MAKING  
25 SURE THAT COMPANIES GOT PRODUCTS.

## BARRISTERS' REPORTING SERVICE

1 MR. KLEIN: AND THE OTHER SIDE OF THAT IS  
2 THEY' RE NOT GOING TO MOVE OUT OF THE STATE TO ESCAPE THE  
3 LAW. SO THEY UNDERSTAND UP FRONT THAT IF THEY AGREE TO  
4 THIS, THE CALRX PROGRAM, THEY' RE PART OF IT UNDER THIS  
5 PROGRAM.

6 CHAIRMAN ROTH: OTHER THOUGHTS?

7 MR. BONFIGLIO: SO IF YOU GO TOO MUCH FURTHER  
8 DOWN THE ROAD WITH ALL THESE OTHER ISSUES THAT ARE NOW  
9 TIED TO GRANTS, YOU GET ED' S POINT IN SPADES. YOU' VE GOT  
10 THE ISSUE OF WHY WOULD I TAKE A LOAN WHEN THE GRANT HAS  
11 THE SAME REQUIREMENTS AND I DON' T HAVE TO REPAY IT? SO I  
12 THINK WHAT YOU NEED TO THINK ABOUT IN TERMS OF MAKING  
13 THIS ATTRACTIVE, YOU' RE OFFERING TO THE COMPANY AN  
14 ALTERNATIVE. SIGN UP FOR THIS WHOLE SET OF RESTRICTIVE  
15 COVENANTS AND GET A GRANT, OR SIGN UP FOR A LOAN AND  
16 REPAY THE MONEY.

17 CHAIRMAN ROTH: OTHERS THAT HAVE THOUGHTS ON  
18 THAT? WE' LL HAVE PUBLIC COMMENT IN A MINUTE, AND WE NEED  
19 TO HEAR FROM THE PUBLIC ON SOME OF THESE ISSUES, BUT THAT  
20 IS ONE THAT I' M SURE THERE WILL BE CONSIDERATION FOR.

21 THE PUBLICATION-RELATED BIOMATERIALS DOES NOT  
22 SEEM TO BE A PROBLEM WITH INDUSTRY. I THINK WE' VE  
23 ADDRESSED MOST OF THOSE.

24 AND A PRESS RELEASE, I THINK, IS PRETTY  
25 STRAIGHTFORWARD. IS THERE AGREEMENT THAT THIRD PARTIES

## BARRISTERS' REPORTING SERVICE

1 IS NOT APPROPRIATE HERE, AND I CAN'T UNDERSTAND WHY, BUT  
2 WE JUST THREW IT IN THERE SO WE WERE INCLUSIVE. THERE IS  
3 NO THIRD-PARTY LICENSING. THIS IS NOT -- THAT'S IN THE  
4 IP. MARCH-IN RIGHTS, SIMILAR.

5 MR. BONFIGLIO: YEAH.

6 CHAIRMAN ROTH: THAT WOULD NOT BE PART OF THIS.

7 MR. KLEIN: THOSE ARE TWO GOOD REASONS TO TAKE  
8 A LOAN, IF IT'S, IN FACT, APPROPRIATE.

9 IN TERMS OF THIS ISSUE OF UNINSURED  
10 CALIFORNIANS, SO WE ADDRESS THAT, OBVIOUSLY THERE'S  
11 LISTED HERE -- THERE'S A LOT OF COVERAGE PROGRAMS IN  
12 PLACE, INCLUDING IN CALIFORNIA, CALIFORNIA CHILDREN'S  
13 SERVICES, ETC. BUT WHAT'S YOUR VIEW ABOUT US BEING ABLE  
14 TO USE THAT PROVISION WHICH WE DEVELOPED UNDER THE IP  
15 POLICY?

16 MR. BONFIGLIO: I DON'T KNOW THE FULL SCOPE OF  
17 THE PROGRAM, SO IT'S HARD FOR ME TO GIVE YOU, AT LEAST  
18 FOR ME, AN INFORMED VIEW ON HOW IT WOULD IMPACT THE  
19 FINANCING ALTERNATIVES DOWNSTREAM. IF IT'S A CONTAINED  
20 PROGRAM AND DOESN'T TAKE A BIG CHUNK OUT OF THE MARKET  
21 SHARE FOR THE PRODUCT WHEN IT REACHES THE MARKET, THEN I  
22 THINK IT'S CONTAINABLE. IT'S A RISK THAT YOU GOT TO  
23 MANAGE, AND I DON'T KNOW THE FULL EXTENT OF THE RISK, SO  
24 IT'S HARD FOR ME TO GIVE YOU A FULL ASSESSMENT OF WHAT  
25 THE IMPACT WOULD BE.

## BARRISTERS' REPORTING SERVICE

1                   YOU ARE ASKING THAT A PORTION OF THE MARKET  
2                   THAT YOU' D BE SELLING INTO BE REMOVED AND PRICED AT A  
3                   LEVEL WHERE YOU PROBABLY ARE NOT GOING TO GET THE MARGINS  
4                   TO JUSTIFY 93-PERCENT FAILURE RATE YOU' RE FACING WHEN YOU  
5                   GET IN ON THE FRONT END. BUT I DON' T KNOW.

6                   DR. PENHOET: MOST COMPANIES HAVE THESE  
7                   PROGRAMS TODAY, SO IT' S ALMOST BECOME A STANDARD.

8                   CHAIRMAN ROTH: THAT' S WHY I SAID IF WE DO IT  
9                   TODAY, IT' S A STANDARD, BUT WE DIDN' T WANT TO PUT THAT  
10                  STANDARD IN BECAUSE WE DON' T KNOW TEN YEARS DOWN THE ROAD  
11                  WHAT THE STANDARD IS GOING TO BE. WHATEVER IT IS, AND  
12                  WE' LL KNOW AND YOU' LL SUBMIT THAT TO US AND SAY THIS IS  
13                  HOW WE' RE GOING TO ADDRESS ACCESS.

14                 MR. BONFIGLIO: THAT GUIDING PRINCIPLE, I DON' T  
15                 THINK, IS A PROBLEM. AT LEAST IT WOULDN' T BE A PROBLEM  
16                 FOR US.

17                 CHAIRMAN ROTH: OKAY. ANY OTHER COMMENTS  
18                 BEFORE WE OPEN IT TO THE PUBLIC FOR COMMENTS? SO LET' S  
19                 TAKE PUBLIC COMMENT. IF YOU' D COME FORWARD AND IDENTIFY  
20                 YOURSELF SO PEOPLE ON THE PHONE KNOW WHO' S ON.

21                 MR. LASH: I' M ALEX LASH. I COVER BIOTECH FOR  
22                 THE DEAL. TO A POINT THAT SOMEONE MADE, I CAN' T  
23                 REMEMBER, ABOUT LOCATION. AND IF A COMPANY TAKES A LOAN  
24                 AND THEN IT' S PROJECT-SPECIFIC OR WHAT HAVE YOU, WOULDN' T  
25                 THAT THEN -- THAT MONEY HAS TO BE SPENT WITHIN

## BARRISTERS' REPORTING SERVICE

1 CALIFORNIA. WOULDN' T THAT TIE THE HANDS OF OWNERSHIP FOR  
2 POSSIBLE M&A? I GUESS IT WAS GREG WHO SAID THAT THERE' S  
3 GOING TO BE A HUGE ROLL-UP, HUGE CONSOLIDATION IN THE  
4 NEXT FEW YEARS. WOULDN' T THAT BE A DISINCENTIVE TO TAKE  
5 THE LOAN IF YOU THEN WOULDN' T BE ABLE TO DO SOME OR M&A  
6 WITH A COMPANY OUTSIDE OF CALIFORNIA, MOVE THE COMPANY  
7 OUTSIDE OF CALIFORNIA?

8 DR. PENHOET: PROJECT-SPECIFIC FINANCING, THE  
9 REQUIREMENT IS THAT THE MONEY BE SPENT IN CALIFORNIA.  
10 THE OWNERSHIP OF THE ENTITY THAT' S SPENDING THE MONEY IN  
11 CALIFORNIA CAN BE ANYWHERE IN THE WORLD. IT' S NOT AN  
12 OWNERSHIP ISSUE. IT' S WHERE THE MONEY IS SPENT. SO THE  
13 MONEY WOULD STILL HAVE TO BE SPENT IN CALIFORNIA.

14 MR. LASH: SO YOU COULDN' T MOVE THOSE  
15 RESOURCES, THOSE PERSONNEL OUTSIDE OF THE STATE?

16 DR. PENHOET: NOT AND WORK ON THAT PROJECT, BUT  
17 IT WOULD MUDDY THE WATER IF WE DO COMPANY FINANCING.  
18 WE' RE NOT PROJECT SPECIFIC. YOU KNOW THE COMPLICATION OF  
19 THAT.

20 MR. KLEIN: YOU CAN MOVE ANY PORTION OF THOSE  
21 PERSONNEL OUTSIDE THE STATE. THE PROBLEM IS YOU CAN' T  
22 MOVE THE MONEY SO THAT AS LONG AS YOU' RE EXPENDING MONEY,  
23 YOU KNOW, YOU GO FROM ONE PHASE TO THE PROJECT THERAPY  
24 DEVELOPMENT TO ANOTHER PHASE, IT' S JUST THAT THE  
25 PERSONNEL THAT YOU ARE SPENDING MONEY ON WITH STATE FUNDS

## BARRISTERS' REPORTING SERVICE

1 HAVE TO BE IN CALIFORNIA. SO THE COMPANY MAY HAVE A LOT  
2 OF PERSONNEL THAT ARE MOBILE AND WORK ON PROJECTS AROUND  
3 THE WORLD; BUT TO THE EXTENT WE'RE GOING TO PAY THEM FOR  
4 EFFORTS WITH THIS MONEY, THAT WORK HAS TO BE DONE IN  
5 CALIFORNIA.

6 CHAIRMAN ROTH: AND THE CONCEPT WOULD BE THAT  
7 SOME OF THIS MONEY WILL HAVE ALREADY BEEN SPENT AT THAT  
8 POINT IN TIME.

9 SECOND, IN THE WORST-CASE SCENARIO WHERE THE  
10 NEW COMPANY BUYS THE TECHNOLOGY AND TAKES IT OUT OF THE  
11 STATE, IT'S MILESTONE DRIVEN, SO ONLY A PORTION OF THE  
12 MILESTONE PAYMENT, THE TOTAL MILESTONE PAYMENTS, WOULD  
13 HAVE BEEN MADE, AND THAT WOULD BE TRIGGER REVIEW.

14 DR. GOLDFISCHER: WHEN YOU MERGE COMPANIES,  
15 THERE'S ALL KINDS OF THINGS THAT YOU HAVE TO DEAL WITH,  
16 RIGHT? SO IF THIS LOAN PROJECT FINANCING HAS BECOME SOME  
17 SORT OF ESTABLISHED COMPANY, THAT IS, DOING THINGS, AND  
18 THEY DECIDE FOR THEIR REASONS TO MERGE IT WITH ANOTHER  
19 ENTITY THAT'S OUT OF STATE, THEN THE BUSINESS ISSUE THAT  
20 THEY'LL HAVE TO SIT AROUND A TABLE AND DECIDE IS DO THEY  
21 WANT TO PAY THIS OFF OR CONTINUE TO COMPLY WITH THE  
22 REQUIREMENTS OF THE LOAN. IT HAPPENS IN EVERY MERGER.

23 MR. LASH: SO IN THE GRAND SCHEME OF THINGS,  
24 THIS WOULD PROBABLY NOT BE A BIG IMPEDIMENT.

25 DR. GOLDFISCHER: I DON'T THINK SO.

## BARRISTERS' REPORTING SERVICE

1 MR. BONFIGLIO: I DON'T THINK SO.

2 CHAIRMAN ROTH: OTHER PUBLIC COMMENT?

3 DR. GOLDFISCHER: AGAIN, THE OTHER PART OF THAT  
4 IS THE WORK THAT YOU ARE SORT OF FINANCING, HOWEVER YOU  
5 WANT TO DESCRIBE IT, IS PROBABLY DERIVED FROM PEOPLE IN  
6 THE STATE. AND ACCESS TO THE SCIENTISTS IS IMPORTANT AT  
7 THE WHOLE LEVEL. THIS MOST LIKELY WOULD BE MOST  
8 OPERATIVE.

9 MR. BONFIGLIO: ALTHOUGH REALIZE ONE OF THE  
10 THINGS, IF YOU'RE TALKING ABOUT PROJECT FINANCING EVEN  
11 WITHIN A COMPANY AND YOU'RE BRINGING THERAPEUTICS TO THE  
12 MARKET, YOU'RE TALKING ABOUT FINANCING TECHNOLOGY THROUGH  
13 THE CLINICAL PROGRAM. ONE OF THE CHALLENGES YOU'RE GOING  
14 TO HAVE, WORST-CASE SCENARIO, JUST AN EXTREME CASE WHERE  
15 YOU'VE FUNDED THE ENTIRE CLINICAL PROGRAM, IT MAY NOT BE  
16 POSSIBLE FOR YOU TO DO THE PATIENT ENROLLMENT SOLELY IN  
17 CALIFORNIA. YOU MAY NEED TO REACH OUTSIDE THE STATE TO  
18 FIND PATIENTS WHO WILL FILL THE PROGRAM FOR YOU. YOU  
19 NEED TO FACTOR THAT INTO YOUR THINKING.

20 CHAIRMAN ROTH: THAT'S A GREAT POINT. AND BOB  
21 ADDRESSED THIS EARLIER, AND THERE'S A COUPLE OF THINGS.  
22 ONE, WE NEED A LEGAL INTERPRETATION OF WHETHER WE, IN  
23 FACT, CAN SUPPORT THINGS LIKE CLINICAL TRIALS OUTSIDE AS  
24 A SERVICE, MEETING THAT DEFINITION. THAT'S ONGOING.

25 THE SECOND IS THAT IF THE TOTAL CLINICAL



## BARRISTERS' REPORTING SERVICE

1 PROGRAM COST 10 MILLION AND WE PROVIDE TWO, THE COMPANY  
2 COULD SHOW THAT TWO OF THAT WAS SPENT IN CALIFORNIA,  
3 EIGHT OF IT SPENT OUTSIDE, THAT WOULD MEET THE  
4 REQUIREMENT.

5 MR. SIMPSON: JOHN SIMPSON FROM THE FOUNDATION  
6 FOR TAXPAYER AND CONSUMER RIGHTS. I'M STILL SOMEWHAT  
7 AGNOSTIC ABOUT THE WHOLE PROGRAM HERE. I HAVEN'T YET  
8 SEEN THAT THERE'S A DEMONSTRATED NEED ON THE PART OF  
9 COMPANIES THAT THEY'RE ASKING FOR THIS. AND I WONDER  
10 WHETHER THIS IS REALLY BEING DRIVEN BY A DESIRE TO KIND  
11 OF RECYCLE MONEY, IF THAT'S THE PRIMARY THING. I'M NOT  
12 SURE.

13 THE OTHER COUPLE OF POINTS I WANT TO MAKE  
14 QUICKLY, IT DOES SEEM TO ME THAT THE REGIONAL FUNDS FOR  
15 THIS PROGRAM WOULD BE YOUR MOST EXPENSIVE MONEY BECAUSE I  
16 THINK THE BONDS THAT YOU WOULD SELL COULD NOT POSSIBLY BE  
17 TAX EXEMPTS BECAUSE THEY'RE GOING TO FUND LOANS WHICH ARE  
18 PROFIT MAKING, ETC., ETC. AND I THINK THAT ALL YOUR  
19 BONDS ARE GOING TO HAVE TO BE TAXABLE BONDS, WHICH MAKES  
20 THEM MORE EXPENSIVE WHEN THEY GET PAID BACK AND ALL THAT  
21 STUFF. THAT MAY BE A FACTOR TO CONSIDER.

22 I'M TROUBLED BY WHAT WOULD APPEAR TO BE THE  
23 POSSIBILITY OF LETTING COMPANIES OFF ON THE IP COVENANTS,  
24 WHICH I THOUGHT WERE VERY WELL THOUGHT OUT. AND ALL  
25 STAKEHOLDERS TOOK A LOT OF EFFORT OVER TWO YEARS OR SO TO

## BARRISTERS' REPORTING SERVICE

1 COME UP WITH THOSE, AND THEY SEEM TO ME TO BE EMINENTLY  
2 FAIR TO ALL SIDES BECAUSE, AS IT'S OFTEN BEEN SAID, NO  
3 ONE'S COMPLETELY HAPPY WITH THEM, MYSELF AND BIOTECH AND  
4 SO ON. BUT THEY'RE THERE AND THERE WAS A LONG PROCESS  
5 THAT DID IT. SO THAT'S PUZZLING.

6 THE OTHER THING I THINK TOO THAT REALLY NEEDS  
7 FURTHER THOUGHT IS THE ACTUAL COST OF ADMINISTERING THE  
8 PROGRAM. YOU CAN'T DO IT IN-HOUSE. YOU DON'T HAVE THE  
9 PEOPLE FOR THAT. AND DELEGATED UNDERWRITERS COULD WORK,  
10 BUT THERE'S GOT TO BE A SUBSTANTIAL COST TO THAT. AND IT  
11 COULD BE THAT YOU ARE GOING TO END UP WITH A LOT OF MONEY  
12 GOING TO GET MONEY OUT THE DOOR. SO ALL OF THOSE THINGS  
13 TOGETHER STILL JUST LEAVE ME KIND OF SCRATCHING MY HEAD  
14 AND VERY AGNOSTIC AND LOOKING FORWARD TO MORE SESSIONS IN  
15 ALL OF THIS. I REALLY WOULD LIKE TO HEAR FROM COMPANIES  
16 SAYING YES, YES, WE WOULD DO SOMETHING WITH THIS MONEY  
17 THAT WE WOULDN'T OTHERWISE.

18 AND THE OTHER THING IN THE PROCESS, I MEAN IT'S  
19 NOT CLEAR TO ME, DO YOU PUT OUT AN RFA FOR SCIENCE AS YOU  
20 HAVE DONE RECENTLY, OPEN THEM UP TO NONPROFITS AND  
21 FOR-PROFITS? AND COMPANIES ARE APPLYING. THERE WAS A  
22 FEAR THEY WOULDN'T, BUT IN BOTH ROUNDS YOU'VE GOTTEN  
23 SUBSTANTIAL NUMBER OF COMPANIES APPLYING FOR GRANTS OR  
24 SAYING THAT THEY WOULD. BUT YOU PUT AN RFA OUT FOR THE  
25 SCIENCE, AND THEN YOU JUDGE IT ON THE SCIENCE, AND THEN

## BARRISTERS' REPORTING SERVICE

1 SAY DO YOU WANT TO GO GRANT OR DO YOU WANT TO GO LOAN, OR  
2 DO YOU LINE THEM UP FIRST, OR DO YOU ONLY DO RFA'S FOR  
3 LOANS FOR SPECIFIC PROJECTS? THOSE ARE ALL ISSUES I  
4 THINK YOU NEED TO WRESTLE WITH.

5 CHAIRMAN ROTH: THANKS. ANYBODY WANT TO MAKE  
6 SOME QUICK RESPONSES THERE IN TERMS OF --

7 MR. BONFIGLIO: FROM MY PERSPECTIVE, I HAD A  
8 BRIEF DISCUSSION WITH ED ABOUT THIS AT THE BREAK, MONEY  
9 REDUCES RISKS IN BIOTECH COMPANIES. IF THERE'S AN  
10 ADDITIONAL SOURCE OF FINANCING AVAILABLE WITH THE MONEY I  
11 COULD PUT IN, IT HELPS ME REDUCE THE RISK, IT HELPS ME  
12 MITIGATE THE RISK, AND MAKES THE TRANSACTION MORE  
13 ATTRACTIVE. SO IF YOU CAN PUT THIS IN PLACE IN A WAY  
14 THAT PROVIDES INCENTIVES INDEPENDENT OF THE GRANT  
15 PROGRAM, IT'S A VERY POSITIVE THING. AND IT ALSO, FROM  
16 MY PERSPECTIVE, I WOULD LOVE TO SEE MONEY COME BACK IN TO  
17 CIRM BECAUSE I WOULD LIKE TO SEE THE ORGANIZATION HAVE  
18 THE ABILITY TO FUND MORE COMPANIES. I WANT MORE SHOTS ON  
19 GOAL.

20 I THINK OUR CHANCE AS A SOCIETY OF ADVANCING  
21 THERAPIES TO THE BEDSIDE REQUIRES THAT WE HAVE LOTS OF  
22 COMPANIES IN PLAY. THE MORE MONEY THAT YOU HAVE  
23 AVAILABLE, THE MORE FINANCING ALTERNATIVES THAT ARE  
24 AVAILABLE, THE GREATER THE CHANCE YOU ARE GOING TO GET AN  
25 EFFECTIVE THERAPY OUT INTO THE MARKET. SO FOR ME THIS IS

## BARRISTERS' REPORTING SERVICE

1 A GREAT THING.

2 CHAIRMAN ROTH: JUST TO SUMMARIZE, THE IDEA  
3 HERE IS REALLY TO PUT TOGETHER A POLICY THAT SAYS HERE'S  
4 WHAT YOU ARE GOING TO BUY INTO UNDER THE LOAN PROGRAM.  
5 THE FLEXIBILITY OF CIRM AND ICOC TO DETERMINE, THEY MAY  
6 PUT, AS BOB SAID, AN OPPORTUNITY WHERE YOU CAN APPLY FOR  
7 LOANS OR GRANTS. YOU CHOOSE UP FRONT. THERE'S 20  
8 MILLION AVAILABLE IN GRANTS AND THERE'S 70 AVAILABLE IN  
9 LOANS, SO CHOOSE WHICH SIDE YOU WANT TO GO. THERE'S  
10 GOING TO BE MORE MONEY IN LOANS, OR YOU CAN PUT SOMETHING  
11 OUT THAT'S ALL LOANS, OR YOU COULD PUT SOMETHING OUT  
12 THAT'S COMPLETELY FLEXIBLE. THE IDEA THAT THEY WOULD  
13 HAVE, ICOC, CIRM, WILL HAVE THAT FLEXIBILITY IS BUILT  
14 INTO THE ASSUMPTIONS THAT WE'RE DOING HERE. WE DON'T  
15 KNOW WHAT THAT'S GOING TO BE. BUT IF THEY DO TAKE A  
16 LOAN, THEN WE WANT THEM TO FOLLOW THIS POLICY.

17 MR. REED: DON REED. MARK TWAIN FUNDED THE  
18 FIRST TYPEWRITER, AND IT WAS AN ADVANCEMENT OF SCIENCE  
19 AND IT WAS VERY HELPFUL, BUT THE PRODUCT ITSELF DID NOT  
20 WORK OUT. HE LOST EVERYTHING. WHAT IF A MOM-AND-POP  
21 COMPANY COMES UP WITH A GOOD IDEA, IF AN ORGANIZATION  
22 JUST HAD A SMALL BREAKTHROUGH, IT'S A WAY TO SEPARATE  
23 STEM CELLS BY THE ELECTRICAL POTENTIAL OF EACH CELL.  
24 NOW, IT MAY BE A GREAT ADVANCE OF SCIENCE, BUT IT MAY NOT  
25 WORK AS A PRODUCT. WHAT IF A COMPANY BORROWS THE MONEY

**BARRISTERS' REPORTING SERVICE**

1 AND THEY TRY THEIR BEST, BUT THEY FAIL? DOES THAT MEAN  
2 THAT THEY LOST EVERYTHING AND IT'S THE LUCK OF THE DRAW?  
3 IT'S BORROW FROM A BANK AND YOU LOSE YOUR HOUSE? IS THAT  
4 HOW IT WORKS?

5 DR. PENHOET: YEAH.

6 CHAIRMAN ROTH: I DON'T THINK YOU LOSE YOUR  
7 HOUSE BECAUSE THE LOAN HERE, AGAIN, IS SUBORDINATED; AND  
8 IF THE COMPANY GOES OUT OF BUSINESS, THE LOAN IS GOING TO  
9 BE WRITTEN OFF. BOB MADE THE COMMENT THAT IF WE LOOKED  
10 AT SOMETHING LIKE 30 PERCENT OF ALL THE LOANS WE MAKE IN  
11 THIS SPACE WILL NEVER GET REPAYED, BUT 70 PERCENT WOULD  
12 AND THERE'S A RETURN ON THOSE AT SOME LEVEL, THAT'S THE  
13 IDEA THAT WE WOULD TRY TO RECYCLE THE MONEY.

14 MR. REED: BUT I'M SAYING WHAT IF THERE WAS AN  
15 ADVANCEMENT OF THE SCIENCE, ALTHOUGH THE PRODUCT ITSELF  
16 DID NOT WORK OUT. WOULD THAT --

17 MR. KLEIN: WELL, THE STATE BENEFITS. WHAT YOU  
18 ARE SAYING IS EVEN IF THE LOAN DOESN'T GET REPAYED, WE MAY  
19 GET KNOWLEDGE OUT OF THE RESEARCH THAT REALLY ADVANCES  
20 THERAPEUTICS, WHICH IS A BENEFIT TO ALL CALIFORNIANS. SO  
21 THERE'S CLEARLY THE POSSIBILITY, EVEN IN EXPERIMENTS THAT  
22 FAIL, THAT KNOWLEDGE CAN BE VERY HELPFUL IN DIRECTING  
23 FUTURE RESEARCH. SO CALIFORNIA BENEFITS EVEN IF THE LOAN  
24 ISN'T REPAYED.

25 THE ANSWER, THOUGH, TO THE PRIOR QUESTIONS,

## BARRISTERS' REPORTING SERVICE

1       THERE WERE SEVERAL QUESTIONS JOHN SIMPSON POSED, THE  
2       INITIATIVE IS WRITTEN WITH TAX-EXEMPT AND TAXABLE  
3       AUTHORITY FOR A REASON, FOR A NUMBER OF REASONS. THIS IS  
4       ONE OF THOSE REASONS WHERE TAXABLE BONDS WOULD BE USED.  
5       AND TAXABLE BONDS, DEPENDING UPON RELATIONSHIP OF MUNIS  
6       TO TREASURIES, THAT RANGE, MUNICIPALS OVER BONDS CAN BE  
7       FAIRLY VARIABLE. BUT LOOKING AT A LONG-TERM STUDY, THE  
8       TREASURER'S OFFICE WAS LOOKING AT THIS BEING A HALF OR  
9       THREE-QUARTERS OF A PERCENT OVER TIME. AND HALF OR  
10      THREE-QUARTERS OF A PERCENT IN BORROWING COST AS COMPARED  
11      TO SEVEN YEARS LATER HAVING INTEREST SUFFICIENT TO COVER  
12      AT LEAST YOUR CAPITAL LOSS, SO YOU'RE GETTING A HUNDRED  
13      PERCENT OF THE FUNDS BACK, IS A VERY SMALL COST  
14      DIFFERENTIAL IN ORDER TO RECOVER A VERY LARGE AMOUNT OF  
15      PROGRAM CAPITAL THAT CAN GO OUT AND EXTEND THE SCIENCE.

16                I THINK A VERY IMPORTANT POINT WAS MADE BY GREG  
17      WHEN HE SAID LOOK AT IT ON A PORTFOLIO BASIS. THE  
18      BROADER WE CAN EXPAND THIS PORTFOLIO, THE GREATER OUR  
19      POTENTIAL FOR REALLY HAVING THERAPEUTIC SUCCESS. IF YOU  
20      LOOK AT THE NIH PORTFOLIO, YOU DON'T KNOW WHICH GRANT'S  
21      GOING TO BE SUCCESSFUL; BUT IF WE HAVE MORE MONEY AND CAN  
22      RECYCLE THAT MONEY AND, THEREFORE, BROADEN THE SCOPE OF  
23      THERAPIES THAT WE TRY AND ADVANCE, WE HAVE A MUCH GREATER  
24      POSSIBILITY OF YIELD TO SOCIETY.

25                DR. PENHOET: I WOULD POINT OUT, THOUGH, THAT

## BARRISTERS' REPORTING SERVICE

1 PROJECT FINANCING IS MORE MUCH RISKY THAN COMPANY  
2 FINANCING. THERE ARE SEVERAL OF US AROUND THIS TABLE WHO  
3 ARE VENTURE CAPITALISTS. AND I WOULD SAY AT LEAST HALF  
4 THE COMPANIES WE INVEST IN DON'T MAKE A SUCCESS OF THEIR  
5 FIRST PROJECT, BUT SOME OTHER PROJECT EMERGES WITH A GOOD  
6 MANAGEMENT TEAM. SO PROJECT FINANCING IS QUITE A BIT  
7 MORE RISKY.

8 CHAIRMAN ROTH: ED, THE SAME THING WOULD APPLY.  
9 I MEAN THE COMPANY MAY HAVE MULTIPLE THINGS GOING ON.  
10 THEY STILL AGREE TO REPAY THIS LOAN REGARDLESS.

11 DR. LOVE: DO THESE COVENANTS ONLY APPLY TO  
12 WHAT WE FUNDED IN THE PROJECT? IN OTHER WORDS, IF THE  
13 COMPANY TAKES A LOAN, THE PROJECT FAILS, THAT TECHNOLOGY  
14 IS GONE, BUT YOU DO SOMETHING TOTALLY DIFFERENT, NONE OF  
15 THIS APPLIES?

16 CHAIRMAN ROTH: GREAT POINT.

17 MR. KLEIN: VERY IMPORTANT POINT.

18 MR. CALDWELL: MY NAME IS BILL CALDWELL, AND  
19 I'M THE CHAIRMAN AND CEO OF ADVANCED CELL TECHNOLOGY. TO  
20 A QUESTION HERE, I THINK A LOT OF COMPANIES ARE LOOKING  
21 AT THIS PROGRAM RIGHT NOW AND ASSESSING IT.

22 I HAD A COUPLE QUESTIONS, AND I HAVE A FAIRLY  
23 LARGE CONFUSION. MY BACKGROUND, I WAS AN INVESTMENT  
24 BANKER AT ONE POINT. SO I HAVE THAT AT LEAST IN THE '80S  
25 WHEN WE WERE GOING THROUGH SOME OTHER TECHNOLOGY CHANGES

## BARRISTERS' REPORTING SERVICE

1 IN THE BIOTECH AREA.

2 LET ME MAKE THE POINT OF THE CONFUSION, AND I  
3 THINK ED RAISED IT. AND THAT IS, IT WOULD SEEM THAT YOU  
4 ARE TALKING ABOUT LOANS ALL ACROSS THE BOARD. YOU'RE  
5 TALKING ABOUT LOANS TO NONPROFITS. YOU'RE TALKING ABOUT  
6 LOANS IN THE PROFIT CONTEXT FOR NEWLY FORMED COMPANIES,  
7 FOR COMPANIES THAT ARE IN SOME SORT OF WHAT GREG  
8 DESCRIBED AS THE VALLEY OF DEATH OR SOMETHING ALONG THAT  
9 LINE, BUT THERE'S A TRANSITIONAL STAGE WHERE YOU MAYBE  
10 COME OUT OF THE VALLEY OF DEATH, BUT YOU'RE TRYING TO DO  
11 YOUR PRECLINICALS. AND WITH THIS FDA, BY THE WAY, IT  
12 TAKES A LONG TIME AND A LOT OF MONEY TO GET JUST OUT OF  
13 THE SCIENCE, BUT INTO THE PRECLINICAL SPACE. THEN YOU'VE  
14 GOT THE PHASE OF PHASE I WHERE A LOT OF THE VENTURE  
15 CAPITALISTS STILL DON'T PLAY. THEN YOU GET INTO THE  
16 PHASE II WHERE THEY WILL PLAY, AND THEN YOU GET INTO  
17 WHERE MAYBE BIG PHARMA AND SOME OF THE OTHERS WILL PLAY.  
18 AND ALL ALONG THAT ROAD THERE'S NEED FOR CAPITAL BY  
19 COMPANIES.

20 SO THE QUESTION I HAVE, I GUESS THE OBSERVATION  
21 I HAVE IS I THINK YOU'RE GOING TO HAVE TO DIVIDE YOUR  
22 PORTFOLIO INTO DIFFERENT STAGES. YOU'RE GOING TO HAVE TO  
23 DIVIDE YOUR PORTFOLIO INTO A NONPROFIT LOAN CATEGORY, AN  
24 EARLY STAGE CATEGORY, A TRANSLATIONAL STAGE CATEGORY, AND  
25 THEN A CLINICAL CATEGORY. AND IN EACH STAGE IT WILL BE



## BARRISTERS' REPORTING SERVICE

1 DIFFERENT. FOR EXAMPLE, I THINK THE POINT THAT WAS MADE  
2 EARLIER, WHEN YOU START FUNDING INCUBATING COMPANIES,  
3 YOU'RE BASICALLY SAYING IT'S A GRANT OR IT'S AN EQUITY  
4 PIECE. YOU CAN CALL IT WHAT YOU WANT. YOU CAN CALL IT A  
5 LOAN. BUT, GREG, IF YOU BELIEVE IN WHAT GREG HAS TOLD  
6 YOU, MOST OF THESE THINGS WON'T SUCCEED AT THAT EARLY  
7 STAGE.

8 SO MOST OF THOSE KINDS OF LOANS ARE GOING TO  
9 HAVE HIGH RISK, AND YOU ARE GOING TO HAVE TO HAVE SOME  
10 ASSOCIATION WITH IT. IF YOU ARE FUNDING A CLINICAL  
11 PROGRAM WHERE THERE IS A NEED, THERE'S GOING TO BE A  
12 RELATIVELY SHORTER TIMEFRAME THAT YOU'LL BE ABLE TO  
13 DETERMINE WHETHER THAT PROGRAM IS GOING TO BE SUCCESSFUL,  
14 AND THERE SHOULD BE MORE REQUIREMENTS RELATED TO THAT.

15 AND, OH, BY THE WAY, TO THE POINT THAT WAS  
16 MADE, YES, CLINICAL PROGRAMS SOMETIMES ARE ONE SITE AT  
17 THE FIRST PHASE I TRIAL, BUT PHASE II HAS MULTIPLE SITES  
18 THROUGHOUT THE COUNTRY. YOU SHOULD DEMAND THAT A SITE,  
19 IF YOU ARE LOANING, A SITE SHOULD BE HERE IN CALIFORNIA.  
20 WE'RE IN A PHASE II. WE ARE LOOKING AT TWO SITES HERE IN  
21 CALIFORNIA. I'M INTERESTED IN THE LOAN FOR FUNDING THAT  
22 PROGRAM DOWN ONE OF THOSE TWO SITES. ALL I CAN TELL YOU  
23 IS THAT I THINK YOU'RE GOING TO NEED TO STAGE THIS, AND  
24 AT EACH STAGE THERE'S GOING TO BE A DIFFERENT KIND OF  
25 CRITERIA THAT YOU'RE GOING TO WANT TO EMPLOY.

## BARRISTERS' REPORTING SERVICE

1           THE LAST THING THAT I WANTED TO SAY, AND THIS  
2           IS THE REASON I WAS HERE AT THE BEGINNING, BECAUSE ED'S  
3           POINT WAS SOMETHING THAT REALLY CONFUSED ME BECAUSE IF  
4           YOU FUND A PROJECT UNDER THE GRANT CONCEPT, YOU'RE  
5           FUNDING AN INVESTIGATOR. IF THAT INVESTIGATOR LEAVES TO  
6           GO TO ANOTHER SITUATION, EITHER THE GRANT GOES AND YOU  
7           HAVE AN APPROVAL PROCESS, OR SOMETHING HAPPENS AND IT  
8           STOPS AND YOU TERMINATE IT. WITH A COMPANY, IF YOU FUND  
9           AN INVESTIGATOR AND THAT INVESTIGATOR GOES SOMEWHERE  
10          ELSE, YOU'VE PLACED A HUGE AMOUNT OF, IF YOU WILL SAY,  
11          POWER OR SOMETHING TO THAT INDIVIDUAL PERSON. THAT'S  
12          UNACCEPTABLE. I CAN'T -- I CAN'T DO YOUR GRANTS OR YOUR  
13          LOAN PROCESS IF YOU ARE GOING TO EMPOWER MY EMPLOYEE TO  
14          BE ABLE TO WALK AWAY WITH THE GRANT. AND THAT'S A  
15          PROBLEM. SO I THINK YOU NEED TO THINK THROUGH SOME OF  
16          THAT AS WELL.

17                 CHAIRMAN ROTH: BILL, JUST INITIALLY, THE  
18          CONCEPT IS THE LOAN IN THIS CASE GOES TO THE COMPANY, NOT  
19          TO THE INVESTIGATOR.

20                 MR. CALDWELL: THERE STILL WAS A CONFUSION. I  
21          WAS CONFUSED, BUT I NOW UNDERSTAND. THAT WOULD BE A REAL  
22          PROBLEM FOR A COMPANY.

23                 CHAIRMAN ROTH: IN TERMS OF THE SCOPE THAT  
24          WE'RE TALKING ABOUT, WE WOULD NOT EXPECT THAT WE WOULD  
25          HAVE AN ALL ENCOMPASSING RFA FOR LOANS, THAT WE WOULD, IN

## BARRISTERS' REPORTING SERVICE

1 FACT, TRY TO FIND THE MOST URGENT GAPS IN FUNDING, AND  
2 THAT WILL CHANGE OVER TIME, AND GET THE RFA'S GOING  
3 THERE. SO THE INPUT TO THE CIRM STAFF ON WHERE ARE THE  
4 GAPS IS SOMETHING THAT WE'LL RELY ON INDUSTRY, THE  
5 VENTURE COMMUNITY, AND OTHERS TO HELP US DEFINE.

6 MR. CALDWELL: DUANE, AS YOU KNOW, IN LOANS  
7 THAT YOU GET, FOR EXAMPLE, AT THE NIH, THEY'RE PHASED.  
8 YOU GET A FIRST PHASE, THEN YOU GET THE SECOND PHASE,  
9 WHICH IS LARGER, AND THEN YOU GET THE THIRD PHASE. I  
10 ASSUME OVER TIME THAT'S WHAT YOU ARE GOING TO BE DOING  
11 HERE FOR THE GRANT SIDE OF IT.

12 CHAIRMAN ROTH: LOAN SIDE OF IT TOO.

13 MR. CALDWELL: THE GRANT. ALL RIGHT. BUT FOR  
14 THE GRANT SIDE, THAT'S THE KIND OF CONCEPT THAT YOU HAVE.  
15 THE LOAN, TO ME, IS A DIFFERENT KIND OF BALL GAME. IT  
16 SHOULD BE FUNDED AT A SPECIFIC STAGE FOR THE COMPANY TO  
17 ADDRESS THAT COMPANY'S TRANSITION INTO ANOTHER STAGE.  
18 RIGHT NOW MOST OF THE LOANS THAT YOU SEE IN THIS INDUSTRY  
19 ARE GOING FOR -- MOST OF THE GRANTS ARE GOING FOR BASIC  
20 SCIENCE. AND THAT'S GREAT. BUT I CAN GO TO  
21 MASSACHUSETTS WHERE WE HAVE OPERATIONS, OR I CAN GO DOWN  
22 AND COLLABORATE IN TEXAS WHERE WE HAVE DONE, OR WE CAN BE  
23 HERE IN CALIFORNIA. WHICH, BY THE WAY, WHEN I BECAME CEO  
24 IN JANUARY OF '05, I MOVED THE COMPANY HEADQUARTERS TO  
25 THE STATE TO TAKE ADVANTAGE OF THE PROGRAM. AND WE'RE

## BARRISTERS' REPORTING SERVICE

1 STILL WAITING. AND I'M STILL HOPEFUL THAT WE'RE GOING TO  
2 BE ABLE TO PARTICIPATE IN THIS.

3 BUT MY POINT IS IS THAT AS I LOOK AT THOSE  
4 VARIOUS STATES AND THEIR PROGRAMS AND WHAT THEY'RE  
5 MANDATING, I DON'T SEE THAT I HAVE TO HAVE -- I HAVE  
6 SECURITY RELATED TO IT. THE PROGRAM THAT YOU'RE RELATING  
7 HERE IS SOMETHING THAT'S VERY ATTRACTIVE TO US, BUT  
8 NOBODY IS FUNDING THE TRANSLATION AT THIS STAGE. AND  
9 THAT'S WHERE THE MONEY NEEDS TO GO. TRANSLATING THE  
10 SCIENCE INTO THE CLINIC, THAT'S WHAT WE NEED.

11 CHAIRMAN ROTH: SO THAT IS WHAT WE HOPE TO DO  
12 IN FEBRUARY IS REALLY ZERO IN ON WHERE THE GAPS ARE TODAY  
13 AND RECOGNIZE THAT THIS WILL CHANGE OVER THE TEN YEARS OR  
14 15 YEARS WE'RE AROUND. SO HAVING REALLY CONSTANT  
15 INTERACTION WITH INDUSTRY ABOUT WHERE THE GAPS ARE  
16 BECAUSE THEY WILL CHANGE AS THINGS ADVANCE. WE NEED TO  
17 BE WITH THOSE.

18 MS. GHIO: DUANE, THIS IS TERRIE GHIO  
19 REPRESENTING INVITROGEN. CAN I MAKE A COMMENT?

20 CHAIRMAN ROTH: YES. GO AHEAD, TERRIE.

21 MS. GHIO: WELL, FIRST OFF, I WANTED TO LET THE  
22 GROUP KNOW THAT INVITROGEN HAS A DESIRE TO PARTICIPATE IN  
23 THIS ONLINE DISCUSSION. UNFORTUNATELY, GIVEN THE FACT  
24 THAT THE DOCUMENT THAT WE'RE REVIEWING TODAY WAS ONLY  
25 MADE AVAILABLE YESTERDAY MORNING, THERE WAS VERY LITTLE

## BARRISTERS' REPORTING SERVICE

1 TIME FOR US TO PREPARE AND UNDERSTAND SOME OF THE GOALS.  
2 AND SO FOR FEBRUARY' S MEETING, ACCESS, EARLIER ACCESS, TO  
3 THE DOCUMENTS FOR THE STAKEHOLDERS WOULD BE REALLY  
4 APPRECIATED.

5 CHAIRMAN ROTH: TERRIE, IT' S GOING TO BE THE  
6 SAME DOCUMENT, SO YOU HAVE IT.

7 MS. GHIO: AND THEN AS FAR AS SCHEDULING,  
8 SCHEDULE IT AS SOON AS POSSIBLE. AND WE TO THANK YOU FOR  
9 AGREEING TO SCHEDULE IT DOWN HERE IN SAN DIEGO SO THAT  
10 SOME OF OUR SENIOR MANAGEMENT AND SCIENTISTS MAY  
11 PARTICIPATE.

12 BUT I HAVE ONE COMMENT ON THE CONTENT OF  
13 TODAY' S DISCUSSION. AND THAT IS, ONE OF THE THINGS I  
14 WANT TO MAKE SURE IS MOST OF THE DISCUSSION UP TO NOW HAS  
15 FOCUSED AROUND THERAPEUTIC PRODUCTS, AND WANTED TO MAKE  
16 SURE THAT LOANS TO COMPANIES FOR THE DEVELOPMENT OF  
17 CRITICAL RESEARCH TOOLS ARE NOT PERCEIVED TO BE EXCLUDED  
18 BY MAKING THE TERMS OR MILESTONES TO THERAPEUTIC PRODUCTS  
19 ONLY. AND THAT' S JUST ONE COMMENT. I THINK WE' LL SPEND  
20 MORE TIME ELABORATING ON THAT IN THE FEBRUARY MEETING.

21 AND THEN IN ADDITION, TO ANSWER MR. SIMPSON' S  
22 QUESTION, YES. YES. AS WE FURTHER DEVELOP THIS PROGRAM,  
23 THERE IS TRULY THE POTENTIAL THAT BIOTECH INDUSTRY MAY  
24 INDEED DO SOMETHING HERE IN CALIFORNIA THAT WOULD NOT  
25 OTHERWISE BE DONE.

## BARRISTERS' REPORTING SERVICE

1 CHAIRMAN ROTH: THANK YOU. BOB.

2 MR. KLEIN: THE COMMENT RELATED TO THE PRIOR  
3 SPEAKER IS THAT WE MAY FROM THE INPUT OF INDUSTRY AND THE  
4 INPUT IN OUR INTERFACE WITH LEGISLATORS AND OTHER CIVIC  
5 LEADERS FIND THAT ONE OF THE BEST PLACES, ONE OF THE BEST  
6 PLACES WE CAN START IS WHERE CAN WE HAVE THE BIGGEST  
7 IMPACT BECAUSE THE PUBLIC NEEDS TO SEE IMPACT ACTUALLY  
8 MOVING THERAPEUTICS. SO WE LOOK FOR THESE CRITICAL GAPS;  
9 BUT IF SOME OF THE FUNDS GO TO THAT AREA WHERE WE'RE  
10 REALLY IN THE TRANSLATIONAL STAGE, TRYING TO GET TO STAGE  
11 ONE, THAT WE COULD HAVE IN A FOUR- OR FIVE-YEAR PERIOD  
12 SOME REAL TANGIBLE IMPACT FROM THAT PORTFOLIO, IT WOULD  
13 BE VERY VALUABLE FEEDBACK TO THE STATE SO THAT THEY CAN  
14 UNDERSTAND THAT WE'RE MOVING THERAPIES THAT ARE REAL.

15 AND THAT INCLUDES, WHILE I USE THE WORD  
16 "THERAPIES," DIAGNOSTIC TOOLS. IT MAY BE THAT SOME OF  
17 YOUR LOWER RISK EARLY RETURNS ARE IN TOXICITY TESTING AS  
18 A DIAGNOSTIC. AND THAT WE CAN CONTRIBUTE IN MOVING  
19 SOMETHING THERE, THAT MIGHT BE QUITE VALUABLE IN MOVING  
20 THE REST OF THE RESEARCH AS A LEAD-TIME FACTOR. BUT YOU  
21 CAN HAVE A MIXED PORTFOLIO THAT HAS SOME LATER STAGE  
22 DEVELOPMENT THAT MAY BE LOWER RISK AND SOME EARLY STAGE  
23 THAT'S VERY HIGH RISK.

24 CHAIRMAN ROTH: OKAY. WE HAVE ONE MORE PUBLIC  
25 COMMENT AND THEN WE'RE GOING TO CLOSE BECAUSE WE'VE KEPT

## BARRISTERS' REPORTING SERVICE

1 OUR PANELISTS 30 MINUTES BEYOND OUR PROMISED TIME.

2 MS. KHAN: MY NAME IS KATIE KHAN, AND I RUN AN  
3 INDEPENDENT CONSULTING BUSINESS. I WORK A LOT WITH SMALL  
4 BIOTECH START-UPS AND MEDIUM SIZE AND LARGE BIOTECHS.  
5 AND THERE IS DEFINITELY INTEREST IN APPLYING FOR THESE  
6 LOANS FROM ALL DIFFERENT SIZES OF ORGANIZATIONS.

7 SO MY QUESTION IS AS, YOU KNOW, ME AND MY  
8 CLIENTS ARE LOOKING THROUGH THIS DOCUMENT THAT YOU  
9 DISTRIBUTED. THE QUESTION IS IS THERE REALLY A ONE SIZE  
10 FITS ALL? IT SEEMS LIKE THERE MIGHT NEED TO BE A TIERED  
11 APPROACH. FOR EXAMPLE, AND SOME OF THIS I THINK JON  
12 BROUGHT SOME OF THIS UP, SO SOME OF THE ELIGIBILITY  
13 REQUIREMENTS, YOU KNOW, THE DUNS AND BRADSTREET ANALYSIS  
14 OF A REALLY SMALL BIOTECH, THAT'S NOT RELEVANT, RIGHT.

15 SO I GUESS THE QUESTION IS, NO. 1, IS IT GOING  
16 TO BE TARGETED? DO YOU IMAGINE THAT YOUR INITIAL RFA'S  
17 OR YOUR INITIAL LOAN PROGRAM WILL BE TARGETED TO A  
18 SPECIFIC SIZE COMPANY OR BUSINESS? AND IF THAT'S THE  
19 CASE, THEN, YOU KNOW, DO YOU PLAN ON TARGETING THE TERMS  
20 AND CONDITIONS TO THAT TYPE OF BUSINESS? SO THAT'S THE  
21 FIRST QUESTION.

22 SECOND QUESTION IS JUST MORE OF A COMMENT. IT  
23 CAME UP WHEN YOU WERE MENTIONING THE PARTNERSHIPS. AND  
24 ALSO GLEN, HE'S OUT OF THE ROOM NOW, BUT HE HAD MENTIONED  
25 THAT, FOR EXAMPLE, THE LITIGATION. THERE'S A LOT OF

## BARRISTERS' REPORTING SERVICE

1 PRIVILEGED INFORMATION THAT COMPANIES ARE NOT GOING TO  
2 WANT TO GIVE TO REVIEWERS. I WONDER IF IN A PARTNERSHIP  
3 SITUATION, THAT WOULD ALSO BE A SCENARIO, LIKELY  
4 SCENARIO, WHERE, YOU KNOW, IF A VENTURE CAPITAL FIRM OR A  
5 BANK IS PARTNERING AND YOU'RE ASKING THESE SMALL START-UP  
6 COMPANIES, YOU KNOW, TO GIVE UP BASICALLY ALL OF THEIR  
7 PROPRIETARY INFORMATION TO A BANK PARTNER OR A VENTURE  
8 CAPITAL PARTNER THAT MIGHT BE COMPETING, SO I GUESS  
9 THAT'S SORT OF JUST A QUESTION. YOU KNOW, WHAT  
10 SAFEGUARDS MIGHT YOU PUT IN PLACE TO PROTECT AGAINST THAT  
11 TYPE OF SCENARIO?

12 CHAIRMAN ROTH: I'LL TAKE A QUICK CRACK AT YOUR  
13 FIRST QUESTION IN TERMS OF TARGETED. I THINK THAT'S,  
14 AGAIN, BACK TO THE RFA PROCESS. AND TO SET THAT CRITERIA  
15 IS REALLY DONE BY CIRM STAFF. RECOMMENDATION IS MADE,  
16 THEN, TO THE ICOC BEFORE AN RFA WOULD GO OUT. SO WE'RE  
17 VERY INTERESTED IN HEARING FROM THE PUBLIC AT LARGE ABOUT  
18 WHERE THESE FUNDING GAPS ARE AND WHERE THEY'RE MOST  
19 ACUTE.

20 THE SECOND PART OF THAT QUESTION, MAYBE ONE OF  
21 YOU GUYS WOULD LIKE TO TAKE A SHOT AT THAT.

22 MR. BONFIGLIO: CARL MADE THIS POINT EARLIER.  
23 I THINK YOU'VE GOT SERIOUS PRIVILEGE ISSUES IF YOU'RE  
24 LOOKING AT LEGAL ANALYSIS AROUND INTELLECTUAL PROPERTY.  
25 ALL OF US DO THAT KIND OF ANALYSIS BEFORE WE MAKE AN



## BARRISTERS' REPORTING SERVICE

1 INVESTMENT. YOU'VE GOT TO DETERMINE WHETHER THERE ARE  
2 BARRIERS TO ENTRY. YOU'VE GOT TO DETERMINE WHETHER  
3 YOU'RE GOING TO INFRI NGE. SO YOU NEED A FREEDOM TO  
4 OPERATE OPINION, AND YOU NEED TO HAVE SOME ANALYSIS OF  
5 THE BARRIERS TO ENTRY THAT YOU CAN PRESENT ONCE YOU'VE  
6 INVESTED THE CAPITAL AND PUT YOUR PRODUCT IN THE MARKET.  
7 BUT THE WAY YOU HANDLE THAT IS BY HAVING COMMUNICATIONS  
8 BETWEEN COUNSEL. SO THE CIRM NEEDS TO HAVE A LEGAL STAFF  
9 THAT MY LEGAL STAFF COULD COMMUNICATE TO SO THAT WE CAN  
10 PROTECT THE PRIVILEGE.

11 I WOULD NEVER SHARE THAT INFORMATION  
12 DOWNSTREAM. IT WOULD, FRANKLY, BREACH MY FIDUCIARY  
13 OBLIGATIONS TO THE COMPANY IF I DID IT BECAUSE IF THEY  
14 GET IN LITIGATION, I'VE NOW EXPOSED THE THINGS. YOU CAN  
15 HANDLE IT THROUGH LAWYER-TO-LAWYER COMMUNICATIONS.

16 MS. KHAN: JUST SORT OF A FOLLOW-ON TO THAT. I  
17 THINK IN THE DOCUMENT, MY COMPUTER IS RUNNING OUT OF  
18 BATTERIES, BUT IN THE DOCUMENT THERE'S AN ICOC REVIEW  
19 WHERE IT WAS -- THE IDEA, I THINK THE CONCEPT WAS TO SORT  
20 OF TEASE APART SOMETHING THAT MIGHT BE PROPRIETARY,  
21 SOMETHING THAT'S NOT PROPRIETARY. I DON'T JUST KNOW IF  
22 THAT'S PRACTICAL.

23 CHAIRMAN ROTH: I DON'T THINK THAT THAT'S  
24 INTENDED IN THERE.

25 MR. KLEIN: TWO THINGS. ONE, IT WON'T BE CIRM

## BARRISTERS' REPORTING SERVICE

1 LEGAL STAFF BECAUSE THIS IS A BROAD SPECTRUM OF  
2 INTELLECTUAL PROPERTY. SO JUST AS MORRISON AND FORESTER  
3 REPRESENTS UNIVERSITY OF CALIFORNIA, WE WOULD GO TO THE  
4 SPECIALIZED COUNSEL AS AN EXTERNAL CONTRACT WHO IS EXPERT  
5 IN THAT PARTICULAR FIELD WHO WOULD THEN TALK TO THE  
6 COUNSEL FOR THE COMPANY. SO IT WOULD BE PRIVILEGED  
7 COMMUNICATION.

8 WHAT WAS YOUR SECOND POINT? ON THE PROPRIETARY  
9 NATURE. IN OUR SCIENTIFIC PROCESS, IN THE GRANT PROCESS,  
10 WE HAVE PROPRIETARY INFORMATION CONSTANTLY IN EVERY GRANT  
11 CYCLE. AND SPECIFICALLY THE STATUTE GIVES US THE ABILITY  
12 TO PROTECT THAT PROPRIETARY INFORMATION. SO IT IS  
13 HANDLED -- HOPEFULLY, AS THIS PROGRAM IS LAUNCHED, THERE  
14 WILL BE AN ESTABLISHED REPUTATION OF THE ORGANIZATION OF  
15 HAVING PROTECTED PROPRIETARY INFORMATION QUITE  
16 SUCCESSFULLY AND SERIOUSLY, SO THERE WILL BE A CONFIDENCE  
17 LEVEL THAT IT WILL REMAIN UNDER THE COMPLETE CONTROL OF  
18 THE ENTITY THAT'S ADVANCING THE PROPOSAL.

19 ON THE CREDIT SIDE, IF YOU'VE GOT TWO LEADS TO  
20 THE PROPOSAL, TWO INDIVIDUALS, YOU MIGHT DO A CREDIT  
21 REPORT ON THEM INDIVIDUALLY BECAUSE YOU DON'T HAVE ONE ON  
22 THE COMPANY AT ALL. SO THE INTENT IS TO GET TO THE  
23 APPLICABLE LEVEL WITH THE RELEVANT DATA, NOT A  
24 ONE-SIZE-FITS-ALL APPROACH.

25 CHAIRMAN ROTH: OKAY. I WANT TO FIRST ANNOUNCE

## BARRISTERS' REPORTING SERVICE

1 THAT THE POWERPOINT THAT GREG STARTED THE MORNING OFF AT  
2 11 O' CLOCK WITH IS NOW ON THE CIRM WEBSITE. THAT'S  
3 TECHNOLOGY AT WORK, SO YOU CAN GO THERE.

4 MR. BONFIGLIO: CAN I ASK THAT YOU PUT THAT UP  
5 IN PDF FORMAT? I REALLY -- IF WE COULD AMEND THAT TO LET  
6 ME PUT IT IN A PDF AND GET IT TO YOU. I REALLY DON'T  
7 WANT IT UP THERE IN A POWERPOINT FORMAT BECAUSE PEOPLE  
8 WILL COPY, CHANGE IT, AND THEN IT COMES BACK AS MY WORK,  
9 AND IT'S NOT MY WORK.

10 CHAIRMAN ROTH: WE' LL MAKE SURE IT GOES PDF.

11 MR. BONFIGLIO: THANK YOU. SO PLEASE TAKE IT  
12 DOWN RIGHT NOW AND LET ME GIVE YOU A PDF FILE.

13 CHAIRMAN ROTH: SECOND, I WANT ON BEHALF OF THE  
14 COMMITTEE JUST TO THANK EACH AND EVERY ONE OF YOU FOR  
15 INVALUABLE COMMENTS TODAY. THEY WERE JUST TERRIFIC AND  
16 HELPED US REALLY START TO CRYSTALLIZE WHAT THIS PROGRAM  
17 MIGHT LOOK LIKE. SO THANK YOU ALL.

18 (APPLAUSE.)

19 DR. TROUNSON: I THANK YOU AND THE PANELISTS,  
20 THE COMMITTEE, AND THE PUBLIC FOR A VERY INFORMATIVE  
21 SESSION. I'VE COME A LONG WAY. I HAVE BEEN INVOLVED  
22 WITH COMMERCIALIZATION OF COMPANIES IN THE SPACE, SO I  
23 JUST THOUGHT THE CONVERSATION AND THE QUESTIONS WERE  
24 TERRIFIC AND VERY, VERY HELPFUL FOR US IN MANAGEMENT.  
25 AND SO IT'S A GREAT PROCESS. THANKS FOR DOING IT IN THE

**BARRISTERS' REPORTING SERVICE**

1 WAY YOU DID IT.

2 CHAIRMAN ROTH: SO WE' LL BE RECONVENING IN SAN  
3 DIEGO. WE' LL TRY TO GET THAT DATE TO YOU AS SOON AS  
4 POSSIBLE. AND THAT WILL BE WITH COMPANIES TO GET THEIR  
5 INPUT BEFORE WE GO TO THE ICOC IN MARCH. THANK YOU.

6 (THE MEETING WAS THEN ADJOURNED AT 02:36  
7 P. M. )

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REPORTER' S CERTIFICATE

I, BETH C. DRAIN, A CERTIFIED SHORTHAND REPORTER IN AND FOR THE STATE OF CALIFORNIA, HEREBY CERTIFY THAT THE FOREGOING TRANSCRIPT OF THE PROCEEDINGS BEFORE THE BIOTECH LOAN TASK FORCE OF THE INDEPENDENT CITIZEN' S OVERSIGHT COMMITTEE OF THE CALIFORNIA INSTITUTE FOR REGENERATIVE MEDICINE IN THE MATTER OF ITS REGULAR MEETING HELD AT THE LOCATION INDICATED BELOW

CROWNE PLAZA HOTEL  
1177 AIRPORT BOULEVARD  
BURLINGAME, CALIFORNIA  
ON  
JANUARY 16, 2008

WAS HELD AS HEREIN APPEARS AND THAT THIS IS THE ORIGINAL TRANSCRIPT THEREOF AND THAT THE STATEMENTS THAT APPEAR IN THIS TRANSCRIPT WERE REPORTED STENOGRAPHICALLY BY ME AND TRANSCRIBED BY ME. I ALSO CERTIFY THAT THIS TRANSCRIPT IS A TRUE AND ACCURATE RECORD OF THE PROCEEDING.



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