

Proposed Guidelines for Loan Terms**I. Proposed Guidelines for Loan Terms, with Specific Terms to be Determined by Request for Applications****1) Two Types of Loans – Loan Recipient Can Choose in its Sole Discretion Either:**

- a. **Product Backed Loan:** Repayment of the loan is predicated on the success of the product being developed.
- b. **Company Backed Loan:** The Loan Recipient is obligated to repay the loan regardless of whether the CIRM-funded product/project results in any revenues.

2) Term of Loans – The term of the loans shall be set from 5 to 7 years in each Request for Applications. The term may be extended, in the sole discretion of the Loan Recipient, up to 10 years provided the Loan recipient is subject to the provisions set forth in paragraph 3 and 4 below.**3) Conditions for Extension of Loan Term****a. Payment of Accrued Interest for 5 year Loan:**

- i. Years 1 -5: interest accrues, no payment due
- ii. Year 6: Recipient owes 25% of unpaid, accrued interest paid out over the 6th year in 4 equal quarterly payments; remaining interest is accrued
- iii. Year 7: Recipient owes 25% of unpaid, accrued interest paid out over the 7th year in 4 equal quarterly payments; remaining interest is accrued
- iv. Year 8: Recipient owes 25% of unpaid, accrued interest paid out over the 8th year in 4 equal quarterly payments, remaining interest is accrued
- v. Year 9: Recipient owes 25% of any unpaid accrued interest paid out over the 9th year in 4 equal payments, remaining interest is accrued.
- vi. Year 10: Recipient owes 25% of unpaid, accrued interest paid out over first 3 quarters in 3 equal payments; Principal and remaining unpaid accrued interest are due at end of year 10

b. Payment of Accrued Interest for 7 year Loan:

- i. Years 1 -7: interest accrues, no payment due
- ii. Year 8: Recipient owes 25% of unpaid, accrued interest paid out over the 8th year in 4 equal quarterly payments; remaining interest is accrued
- iii. Year 9: Recipient owes 25% of unpaid, accrued interest paid out over the 9th year in 4 equal quarterly payments; remaining interest is accrued
- iv. Year 10: Recipient owes 25% of unpaid, accrued interest paid out over first 3 quarters in 3 equal payments; All principal and remaining unpaid accrued interest are due at end of year 10

- c. **Interest Rates:**
 - i. The interest rate for a 5 year loan term shall be Prime plus 1% or LIBOR plus 2%, as determined by the Agency for each specific Request for Application. The interest rate for a 7 year loan shall be Prime plus 2% or LIBOR plus 3.5%.
 - ii. For a five year loan, each additional year of the Loan Term beyond the 5th year, the interest rate of the Loan shall increase as follows: in the sixth year, the interest rate shall increase by 1%, and each year thereafter, the interest rate shall increase by an additional 0.5%. For a seven year loan, each additional year of the Loan Term beyond the 7th year, the interest rate of the Loan shall increase as follows: in the 8th year, the interest rate shall increase by 2% and each year thereafter, the interest rate shall increase by an additional 1%.
 - iii. All of the foregoing subject to the maximum interest rate permitted by law
 - d. **Notice of intent to extend** – must be provided 90 days prior to end of the Loan Term; may be extended on a year by year basis up to 10 years in sole discretion of Loan Recipient, subject to satisfaction of scientific and financial milestones, the absence of an event of acceleration, and compliance with terms of Notice of Loan Award
- 4) **Loan Disbursements** - Funding of the loan will occur at intervals set forth in the Notice of Loan Award and only upon satisfaction of conditions (which may include achievement of milestones) set forth in the Notice of Loan Award. A delay in meeting timelines will not automatically result in acceleration or termination of the loan, but it could result in a delay or suspension in the disbursement of additional funds.
- 5) **Warrants** –
- a. **Company Backed Loans:** lesser of 20% of Loan Recipient’s shares, fully diluted and
 - i. 10% of the Loan Amount- if Loan Recipient shows a profit for previous 2 years
 - ii. 25% of the Loan Amount - if Loan Recipient has BOTH: (a) raised in prior financings since its inception 3x the amount of the total loan amount for the Project ; AND (b) has entered into a contractual arrangement (still in effect) with a biotechnology or pharmaceutical company which requires the payment of licensing revenues or milestone payments predicated on

the success of the funded project (regardless of whether it is a CIRM Funded Project

- iii. 50% of the Loan Amount- if Loan Recipient has met only one of the two requirements set forth above in section 5(a)(ii)
- iv. 75% of the Loan Amount - if none of the criteria set forth above in Section 5(a)(ii) are satisfied

- b. Product Backed Loans:** lesser of 20% of Loan Recipient's shares, fully diluted and
- i) 50% of the Loan Amount - if the Loan Amount is less than 50% of the total funds required to complete the CIRM-Funded Project as defined in the Request for Application (e.g. FDA approval, identification of a development candidate, etc.)
 - ii) 60% of the Loan Amount- if the Loan Amount is less than 75% of the total funds required to complete the CIRM-Funded Project as defined in the Request for Application (e.g. FDA approval, identification of a development candidate, etc.)
 - iii) 100% of the Loan Amount - if the Loan Amount represents more than 75% of the total funds required to complete the CIRM-Funded Project as defined in the Request for Application (e.g. FDA approval, identification of a development candidate, etc.)
 - iv) In each of the above cases, the determination of the total project costs will be calculated using the indirect costs reimbursement rate as set forth in the Grants Administration Policy.

6) Subordination

- a. **Company Backed Loans** – The Loan Administration Policy will not address subordination of Company Backed Loans.
 - b. **Product Backed Loans** – Unless additional debt is used to support the CIRM-Funded Project, CIRM will not subordinate to company-wide debt without the consent of the Finance Subcommittee; such consent may not be unreasonably withheld.
- 7) **Acceleration** – The current acceleration provisions are deleted and replaced with the following: In the event of any change of control, CIRM has the right but not the obligation to accelerate repayment of the Loan .
- 8) **Forgiveness** – In the event that CIRM unilaterally terminates a loan as a result of a failure to achieve a milestone, the Loan Recipient's obligation to repay a Product Backed or Company Backed Loan shall be forgiven except in circumstances where the

Loan Recipient acted in bad faith or failed to exercise all due care and diligence in performing the CIRM-Funded Project within the designated time lines.

II. Other Provisions

- 1) Effect of Current and Future Amendments - Amendments to the LAP will only apply prospectively to loans made following the amendment(s); unless CIRM and Loan Recipient agree otherwise.
- 2) Common vs. Preferred Stock Warrants - Warrants Section 7c is amended to permit warrants of either common or preferred stock, as determined by CIRM in its sole discretion.
- 3) Duplicative Provisions - Eliminate provisions duplicative of those in the GAP or IP regulations.
- 4) Forgiveness/Suspension – Clarify amendments to the LAP relating to forgiveness and suspension will be made.
- 5) Interest - Interest will be compound rather than simple.
- 6) Modification of Loan Terms – Amend LAP to specify that the Finance Committee may modify these loan terms as appropriate for each Request for Applications.