

## Addendum A

### CIRM Loan Program: External Financial/Business Review

#### Introduction

The Loan Task Force has discussed using delegated underwriters to conduct a financial/business review of loan applicants. The Finance Committee will present this concept to the ICOC for its consideration (initial approval) at the ICOC's September 25, 2008 meeting. To permit ample time for discussion and public comment, however, the Finance Committee anticipates asking the ICOC to take final action (final approval) on this proposal at the ICOC's December 2008 meeting.

#### Rationale

Proposition 71 imposes a limit of 50 staff members on CIRM. Given the scope and urgency of its mission, CIRM has focused its efforts on hiring the best scientific staff and administrative personnel to carry out the agency's diverse functions. CIRM's staff, however, does not have the internal expertise or capacity to manage all of the financial components of a loan program. The Finance Subcommittee therefore proposes to externalize these tasks; however, CIRM would retain ultimate control over the loan program. To ensure that CIRM obtains this expertise at the best value to California taxpayers, CIRM intends to issue a request for proposals to select two to three delegated underwriters while staff develops a Loan Administration Policy for the ICOC's consideration.<sup>1</sup> The Loan Administration Policy will set forth the detailed rules and requirements, both scientific and financial, applicable to loan recipients.

#### Proposal

The successful contractor (or contractors) would be expected to perform the following financial functions:

- **Financial Due Diligence:** The contractor would conduct due diligence of the business plan and financial status of all applicants for whom the Scientific and Medical Research Funding Working Group ("Grants Working Group") recommended funding or recommended funding if funds are available. This review would occur after the Grants Working Group meeting but before the ICOC's consideration of the applications. (This review would not apply to applicants whose applications had not been recommended for funding, unless the ICOC moved such an application into the funding category.) The due diligence would include a review of the applicant entity's business plan and the credit history and litigation of record for both the applicant entity and the principals of

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<sup>1</sup> Because this is a start-up program, it is important to have at least two delegated underwriters at the outset. This would permit CIRM to learn from their different approaches and to refine our best practices. Furthermore, it would permit CIRM to transfer future transactions to another delegated underwriter if the relationship with one of the contractors is unsuccessful.

the entity. If, for example, the applicant's business plan does not include all of the expenses that would normally be necessary to achieve all of the milestones, then the applicant would be asked to add those estimated costs to the budget and to identify additional potential sources of funds to cover those costs.

- **Financial Underwriting Review:** The contractor will confirm the status of current capitalization and plans for obtaining future capital; will analyze the applicant's cash flow plans; and will confirm the lack of any major contingent liabilities, liens, or obligations against the applicant entity, beyond those that could be managed pursuant to the business plan.
- **Structuring of Loan and Documentation of Loan Agreement:** The contractor will fulfill and/or direct all financial and legal recordings, security agreements, and documentation, under CIRM oversight. The contractor will negotiate and draft the financial components of the loan agreement, subject to the review and approval of CIRM's General Counsel and ICOC Board Counsel. The loan agreement will include prepayment provisions, covenants regarding additional debt, default provisions, and other provisions to protect CIRM, including without limitation, suspension of future advances for scientific or financial non-performance of the milestones. (Grant agreements will also include scientific milestone requirements with termination provisions for non-performance.)
- **Loan Administration:** The contractor will monitor compliance with financial milestones (including checking the status of the loan recipient's capitalization and obtaining CIRM approval before disbursing additional funds) and administer the financial components of the loan agreement, including management and exercise of warrants, reporting, and ensuring compliance with the financial components of the loan agreement.
- **Disbursement and Collection:** The contractor will disburse loan proceeds based on financial and scientific milestones after obtaining CIRM's notification of achievement of the scientific milestones and after documenting the performance under the financial milestones, with CIRM concurrence and direction. The contractor will also collect interest, loan repayments, and the proceeds of the sale of warrants on behalf of CIRM.
- **Further Information Regarding Function of Delegated Underwriters:** The attached PowerPoint slides provide further information about the functions that could be provided by delegated underwriters.