TERM SHEET

Convertible Promissory Note Financing
By
The California Institute of Regenerative Medicine

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This Term Sheet sets forth the principal terms and conditions of a proposed convertible promissory note financing by the California Institute of Regenerative Medicine ("CIRM"). The financing will be offered to one successful applicant for CIRM funding (the "Company"). The successful applicant will have the opportunity (but will not be required) to obtain technology licenses from licensors of CIRM-funded projects.

Under the subject financing program, the approved applicant is expected to own 100% of the equity of the Company. CIRM's interest in the Company will be in the form of convertible promissory notes based on the amount of its advances. These notes will include Company-favorable discounts on repayment or conversion, as more specifically described herein. Because CIRM may not hold securities, CIRM will be permitted to sell the notes to third parties prior to conversion. The Company will be responsible for performing its own analysis of the tax impacts of the transactions.

Although the terms herein are subject to the execution of a definitive financing agreement ("Financing Agreement") between CIRM and the Company, they have been approved by a subcommittee of CIRM's Board, the Independent Citizens' Oversight Committee, and may not be materially modified. The Financing Agreement will govern the overall relationship between CIRM and the Company and include the form of the convertible notes. The Financing Agreement will include representations and warranties, conditions to effectiveness and conditions to draws, covenants, and other terms and conditions customary for a transaction of this type.

Certain capitalized terms used in this Term Sheet are defined on Appendix A.

Convertible Notes

Type of Security	Convertible Promissory Notes of the Company (the "Notes").
Ranking and Seniority	Unsecured debt of the Company. CIRM may from time to time subordinate this debt to other debts of the Company.
Amount of Financing	Three Notes with aggregate principal of $75 million, each individual Note having aggregate principal of $25 million. All advances under the Financing Agreement will be made under the First Note (until an aggregate of $25 million has been advanced), then under the Second Note (until an additional $25 million has been advanced), and finally under the Third Note (until the final $25 million has been advanced).
Interest Rate	Compound interest will accrue on an annual basis at the rate of 4.5% per annum based on a 365 day year. Interest will be payable on the Maturity Date of the Notes.

Term As more specifically provided herein, outstanding principal and interest under all Notes will be due and payable five (5) years after the initial advance under the First Note (the "Maturity Date").

Enforcement The Notes will include standard provisions for acceleration and enforcement in the event of (a) payment default or other material default, (b) criminal, scientific, or financial misconduct by the Company, (c) bankruptcy and (d) the occurrence of Liquidity Event (each, an "Acceleration Event").

Repayment Upon an Acceleration Event other than a Liquidity Event, the entire amount of principal and interest then outstanding under the Notes will immediately become due and payable.

Upon the Maturity Date, CIRM or its transferee (the "Note holder" may either (a) require repayment of 50% of the principal plus all interest then outstanding under the Notes (the "Discounted Amount") or (b) convert the Notes in accordance with the terms set forth in ***Conversion*** and ***Equity Kicker***.

Timing of Repayment If the Note holder requires repayment of the Notes in whole or in part, the Company will pay one-half of the Discounted Amount on the Maturity Date and one-half six (6) months after the Maturity Date.

Prepayment The Company may not prepay any Note in whole or in part except upon the prior written consent of the Note holder, which may be withheld in its sole discretion.

Conversion The Note holder may convert a Note at any time after a Note has been fully funded. The Note holder may also convert one or more Notes, whether or not fully funded, upon the Maturity Date or the date of a Qualified Financing or Liquidity Event. Any conversion shall be in the sole discretion of the note holder. All conversion calculations will be on a fully diluted basis.

Upon conversion after full funding of a Note or on the Maturity Date, the Discounted Amount will convert into shares of common stock of the Company, at the price per share determined in the most recent valuation of the Company in an arms' length transaction (or a new valuation by an independent appraiser if the Note holder so elects), subject to a per share discount of 20%.

Upon conversion upon a Qualified Financing, the Discounted Amount will convert into shares of Equity Securities of the Company, at a price per share determined by the Qualified Financing, subject to a per share discount of 20%.

Upon conversion upon a Liquidity Event, the Discounted Amount will convert into shares of common stock of the Company, at the price per share determined in the Liquidity Event, subject to a per share discount of 20%.

Equity Kicker

In addition to the above conversion rights, the Note holder will be entitled to receive additional common stock (or Equity Securities in the case of conversion in connection with a Qualified Financing), determined on a pro rata basis, as follows:

- First Note: A number of shares equal to 0.20% of the Company's fully-diluted capitalization per million dollars of principal advanced under this Note;
- Second Note: A number of shares equal to 0.13% of the Company's fully-diluted capitalization per million dollars of principal advanced under this Note; and
- Third Note: A number of shares equal to 0.07% of the Company's fully-diluted capitalization per million dollars of principal advanced under this Note.

Alternatives Upon Liquidity Event

Upon the occurrence of a Liquidity Event, with respect to both fully funded and partially funded Notes, the Note holder shall have the option to either (a) accelerate the Discounted Amount under the Notes on the terms set forth in ***Enforcement*** or (b) convert the Discounted Amount under the Notes into common stock of the Company on the terms set forth in ***Conversion*** and ***Equity Kicker***.

Disbursements and Co-Funding Requirements

Request for Draws

The Company will provide a written request for disbursements under the Notes on a quarterly basis in accordance with CIRM requirements.

Each draw request will include (1) a summary report on the current status of the stem cell project, (2) documentation evidencing the specific expenditures for which the Company is seeking reimbursement from CIRM, (3) evidence of sufficient available funds for the Company to operate as a going concern for at least the next six months following the date of the draw, (4) certifications with respect to compliance with laws, CIRM regulations and requirements and all other terms of Financing Agreement and Notes; (5) substantiation, in reasonable detail, that the Company has previously expended its own funds (the "Co-Funding") in an aggregate amount exceeding all prior draws under the Notes plus the amount of the requested draw. CIRM will make payment within ten (10) business days of the receipt of each quarterly draw request..

Use of Funds

Advances under the Notes will be used solely for stem cell research approved by CIRM in accordance with applicable regulations and requirements.

Co-Funding

The Company will be required to contribute to its stem cell enterprise amounts equal to or greater than the amounts funded by CIRM under the Notes. The co-funded amounts may be utilized for a broad range of costs (including actual overhead costs) in furtherance of the Company's approved enterprise.

Cessation of Funding	CIRM will have no obligation to make further advances under the Notes during the pendency of an event of default, from or after a Liquidity Event, upon or after the Maturity Date, or upon or after conversion of the Notes.
	Other Financing Agreement Terms
Transferability	CIRM has the right to transfer any Note or Notes that have been fully funded to a third party, without the Company's consent, subject only to the ***Right of First Offer***. Certain competitors of the Company may be identified in the Financing Agreement as prohibited transferees of CIRM's rights. The Company may not transfer or assign its rights or obligations under the Financing Agreement or the Notes without CIRM's prior written consent, which may be withheld in its sole discretion.
Right of First Offer	In the event that CIRM wishes to transfer one or more Notes to any third party, it shall provide notice to the Company setting forth the terms and conditions of the proposed sale ("ROFO Notice"). The Company may elect in writing to purchase the subject Notes on the terms set forth in the ROFO Notice within fifteen (15) days from the date of the ROFO Notice. If the Company does not elect to purchase the Notes within the Company's fifteen (15) day acceptance period, CIRM will be free to transfer the Notes to any third party (other than a prohibited transferee) on terms no less favorable than those set forth in the ROFO Notice.
Covenants	The Company will operate pursuant to an approved stem cell business plan and budget and will not change the scope of its stem cell business, without CIRM prior approval, which will not be unreasonably withheld. Greater than 50% of the Company's employees must be based in California at all times while any Note is outstanding. The Company will submit to CIRM (1) annual budget forecasts and quarterly progress reports, (2) annual and quarterly financial statements, and (3) copies of all tax returns. The Company will also provide CIRM and its representatives reasonable access to the management and books and records of the Company. The Company will comply with all applicable laws, including all CIRM regulations, including Scientific and Medical Accountability Regulations (Cal. Code Regs., tit. 17, § 100010 et seq.) and CIRM's Intellectual Property Regulations (Cal. Code Regs., tit. 17, § 100600 et seq.) in connection with its activities, including the Company's licensing of CIRM funded technologies or inventions.
Conditions	Prior to initial and subsequent advances under the Notes, CIRM's Grants Working Group must review and approve projects to be funded by said advances. The Financing Agreement will also require the satisfaction of conditions to draws similar to those utilized in commercial revolving credit facilities.

Consent Rights	The Company will not make dividends or distributions, voluntarily enter bankruptcy or liquidate or dissolve without the Note holder's prior written consent, which will not be unreasonably withheld. In addition to these consent rights, after transfer of the Note to a third party, the Note holder will have preemptive rights to participate in future Company financings on a pro rata basis.
Technology Licensing	Technology licensing matters will be addressed through CIRM licensing documentation that will be independent from the Financing Agreement. The Company will provide claw-back rights to licensors of CIRM-funded projects if the Company does not take reasonable steps to develop said projects.
Expenses	CIRM and the Company will each bear its own fees and expenses incurred in the transactions contemplated by this Term Sheet.
Governing Law	The foregoing provisions shall be governed by the laws of the State of California (without regard to its conflict of laws principals).
Jurisdiction and Venue	Jurisdiction and venue for all disputes will be in the state or federal courts located in San Francisco, California.

APPENDIX A

Certain Definitions

"Equity Securities" means the preferred stock or other form of security to be issued by the Company in a Qualified Financing.

"IPO" means any offering of the Company's common stock pursuant to a registration statement filed in accordance with the Securities Act of 1933, as amended, in an aggregate amount of $25,000,000 or more.

"Liquidity Event" means any of the following: (i) the sale of all or substantially all the assets of the Company, (ii) any merger, consolidation or acquisition of the Company with, by or into another corporation, entity or person; or any change in the ownership of more than fifty percent (50%) of the voting capital stock of the Company in one or more related transactions, (iii) the winding up, dissolution or liquidation of the Company, or (iv) an IPO.

"Qualified Financing" shall mean a preferred stock financing resulting in aggregate proceeds to the Company of at least $5,000,000 (excluding conversion of any existing debt) in a single transaction or series of related transactions.