

Real Life™

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CIRM
CALIFORNIA'S STEM CELL AGENCY

Program	Minimum Co-Funding	
	Non-Profit	For-Profit
TRAN	N/A	20%
CLIN1	N/A	20%
CLIN2 (First in Human)	N/A	30%
CLIN2 (Succeeding Trials)	40%	40%

What was the intent of the existing co-funding requirements?

- For-Profits: Demonstrate commitment to the proposed project
- Non-Profits: To have an industry partner for phase 2 and later clinical trials

Why are changes being proposed to the existing co-funding requirement?

- Currently, clinical progress of unpartnered academic programs has stalled after first in human studies if the program is unable to raise the 40% required co-funding.
- Currently, if a non-profit applicant has a for-profit partner, the partner is not required to co-fund the CIRM award.
- For-Profits are operating in a challenging economic environment, and are at a relative disadvantage to non-profits for CIRM award levels.

Program	Minimum Co-Funding	
	Non-Profit (Unpartnered)	For-Profit Applicant OR For-Profit Partner* of Non-Profit Applicant
TRAN	N/A	Cash (20%) or Warrants
CLIN1	N/A	Cash (20%) or Warrants
CLIN2 (FIH)	N/A	Cash (30%) or Warrants
CLIN2 (Post-FIH)	N/A	Cash (40%) or Warrants

*Partner - an organization that in exchange for the right to the opportunity for a future financial return has entered into an agreement with the applicant organization relating to the commercialization of the proposed project.

- 40% co-funding requirement is not an incentive for industry partners and is slowing clinical progress.
 - If already partnered, co-funding requirement applies.
- Revenue sharing requirement would provide return to the state if program is successfully commercialized.
 - \$15M CLIN2 award results in 1.5% royalty on revenue up to \$135M/10 years.
- Loan Conversion would, at a minimum, return principal to CIRM.

- For-Profit awardee commits warrants instead of capital.
- Awardee retains capital for operational needs and value creation.
- CIRM commits a higher award amount (up to award cap) to maintain overall financial support of the CIRM-funded project.

Total Project Cost	Award Limit	Cash-Based Co-Funding (Current)		Warrant-Based Co-Funding		
		CIRM Award	Awardee Co-Funding Commitment	CIRM Award	Awardee Cash Co-Funding	Awardee Warrant Coverage
\$4.0M TRAN1	\$4M*	\$3.2M	\$0.8M	\$4.0M	\$0	\$0.8M
\$5.0M TRAN1	\$4M*	\$4.0M	\$1.0M	\$4.0M	\$1.0M	\$0
\$8.0M CLIN2	\$8M	\$5.6M	\$2.4M	\$8.0M	\$0	\$2.4M

*Direct Project Cost Limit

- Warrants – Gives holder the right to purchase shares of company stock. Warrants are exercised by the holder at set exercise price within set amount of time to convert to shares of company stock.
- **CIRM previously required warrants as part of Loan Program.**
 - Company **issued** warrants to CIRM.
 - CIRM held the warrants until it's decision to exercise them.
 - CIRM **exercised** the warrants and assigned the stock shares to a CIRM fund held at San Francisco Foundation.
 - The Foundation was instructed to **liquidate** the stock shares and **transfer** the proceeds from the fund to CIRM.

- **Applicant elects warrant-based co-funding option at time of application.**
 - CIRM term sheet, FAQ and other reference materials will be posted with PAs
 - Applicant may combine warrant-based and cash-based co-funding
- **Warrants must be issued at award start.**
- **There will be no mechanism for “buying back” warrants during or after award period.**

Applicant type	Private Company (has not issued preferred shares)	Private Company (has issued preferred shares)	Public Company
Security Type	Common Stock	Preferred Stock	Common Stock
Number of Shares	1 share / \$1 CIRM Co-Funding	[CIRM Co-Funding] / [Preferred Share Price*]	[CIRM Co-Funding] / [Average closing price**]
Exercise Price	\$0.01		
Warrant Term	10 years		
Optionality	Conversion to preferred stock warrant at next financing	N/A	N/A

*The price per share in the most recent equity financing as of the Issue Date.

**Average of closing bid and asked prices of the common stock for the 10-trading day period ending 5 trading days prior to the date of exercise.

- **Application eligibility requirements:**
 - 180 days of solvency from submission date
 - Ability to commit co-funding and contingency funding

- **Award reporting requirements:**
 - Indicate amount spent on co-funding
 - Evidence of ability to co-fund next milestone

Warrant-Based Co-Funding: Application Eligibility and Award Requirements

Applicant Type	Private Company (has not issued preferred shares)	Private Company (has issued preferred shares)	Public Company
Application Eligibility	Fundraising Plan	<ul style="list-style-type: none"> Fundraising History Lead investor letter of support for CIRM project 	N/A
Award Start	Issue Warrants to CIRM		
Award Period	<ul style="list-style-type: none"> Awardee notifies CIRM of preferred share issuance. CIRM BD Team will utilize Industry Alliance Program to assist company's fundraising. 	N/A	N/A

This table only describes additional requirements for selecting warrant-based co-funding option. All other standard application, application eligibility and award requirements apply.

Issuance of Warrant & Compliance Monitoring – Managed by CIRM Team with support from outside counsel

Exercise of Warrant, Liquidation of Shares & Transfer of Proceeds to CIRM – Managed by CIRM team and facilitated by CIRM Fund (account) at a California community foundation

- Process Flow
 1. Awardee issues warrants to CIRM at award start
 2. CIRM holds warrants until its decision to exercise or until automatic exercise is triggered by company event (change in control, IPO, expiration of warrant term)
 3. Warrant exercise converts warrants into company stock shares that are assigned to and held by CIRM Fund
 4. Per CIRM instructions, Community Foundation liquidates shares of company stock and transfers cash proceeds from CIRM Fund to CIRM