

CIRM Warrant Program Update

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Original Co-Funding Warrant Structure

Under the original program design, applicants could satisfy required co-funding through warrants issued to CIRM in lieu of cash. **Under state law, CIRM cannot hold any equity.**

Core Structure

- CIRM receives a stock warrant equal to the Waived Co-Funding Amount
- Shares determined by: $\text{Waived Co-Funding Amount} \div \text{Reference Price}$

Reference Price Determination

- **Preferred financing exists** - CIRM receives Preferred Warrant; Reference Price = price per share of most recent preferred stock financing.
- **Public company** - CIRM receives Common Warrant; Reference Price = the average of closing bid/asked prices or the closing price for the 10-trading day period ending 5 trading days prior to the Issue Date.
- **No preferred financing** - CIRM receives Common Warrant; Reference Price = Default \$1.00 per share subject to adjustment.

Key Warrant Terms

- Exercise price: \$0.01/share
- 10-year term
- Anti-dilution protections
- Automatic exercise upon IPO or acquisition

Implementation Challenge

Many early-stage applicants have not yet completed a priced equity financing, making it difficult to determine the Reference Price required under the original warrant structure.

This required use of the \$1.00 default reference price, which created several issues:

- Arbitrary valuation assumptions
- Potential distortion of ownership percentages
- Uncertainty for future investors

To address the valuation challenges faced by early-stage applicants, we are proposing the Warrant Program introduce a SAFE/Warrant structure.

NOTE: This change would only apply to Companies where:

1. A public market does not exist for its common stock; and
2. No shares of preferred stock have been issued.

Updated Structure – Early-Stage Companies

To address the valuation challenges faced by early-stage applicants, we are proposing the Warrant Program introduce a SAFE/Warrant structure.

SAFE: Simple Agreement for Future Equity

Step 1 — SAFE/Warrant Agreement

- CIRM receives a SAFE convertible into warrants equal to the waived co-funding amount.

Step 2 — Preferred Financing Occurs

- The SAFE converts into a Preferred Stock Warrant.

Key Economics

- Warrant shares determined based on the preferred financing price
- Warrant structured to provide CIRM with the economic equivalent of a 20% discount to new investors
- Side letter providing for Information Rights
- Most Favored Nation Clause

Key Advantages of Updated Structure

Improves Early-Stage Accessibility

- Allows startups without priced equity rounds to participate in the program.

Aligns with Venture Market Practices

- Uses SAFE pricing mechanics, which are widely used in early-stage financings.

Preserves CIRM's Upside Participation

- CIRM ultimately receives warrants in both scenarios, maintaining consistent participation rights.

Reduces Valuation Friction

- Avoids the need to assign arbitrary early-stage valuations.

Summary

The updated structure:

- Maintains CIRM's ability to capture value
- Preserves CIRM's warrant-based upside participation
- Simplifies participation for early-stage companies by deferring valuation until a real financing occurs
- Aligns the program with current venture financing practices

Thank You!

Please visit us at:
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Questions?

