

Real Life™

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IP & Industry Subcommittee Presentation
December 13, 2022

CIRM
CALIFORNIA'S STEM CELL AGENCY

IP & Industry Subcommittee directed CIRM to evaluate Co-Funding Changes and Warrant Alternative for TRAN Program.

Today's Meeting:

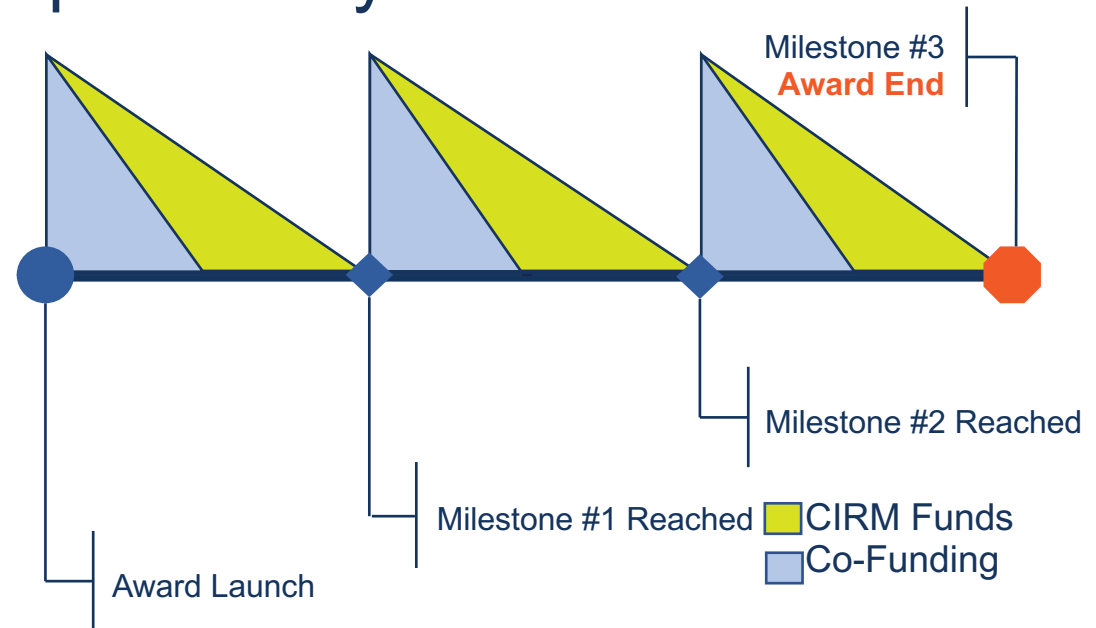
- Current trends in for-profit CIRM awards
- Historic implementation of Warrants in CIRM awards
- Proposal for implementation of warrant-based co-funding option in TRAN, CLIN1 and CLIN2 Programs

- Co-Funding is applied as percentage of total project costs
 - Total Project Costs = CIRM Funds Requested + Awardee Co-Funding

Program	Project Type	Max Award (\$)		Minimum Co-Funding	
		Non-Profit	For-Profit	Non-Profit	For-Profit
TRAN	Therapeutic	\$4M*	\$4M*	N/A	20%
	Diagnostic	\$1.2M*	\$1.2M*		
	Device	\$2M*	\$2M*		
	Tool	\$1M*	\$1M*		
CLIN1	IND/IDE-Enabling	\$6M	\$4M	N/A	20%
CLIN2	First in Human Trial	\$12M	\$8M	N/A	30%
	Subsequent Trials	\$15M	\$15M	40%	40%

*Direct Costs Maximum

- At time of application, applicant must demonstrate:
 - (1) Cash-on-hand equal to 25% of the total co-funding requirement to co-fund first milestone at project start date;
 - (2) Cash-on-hand or committed sources of funding to co-fund the remaining 75% of the co-funding commitment over the project period.
- Awardees are expected to proportionally co-fund each milestone of a CIRM award.



Proportion of For-Profit Awardees in TRAN/CLIN

Program	Award Approval Date	For-Profit	Total	Percentage
CLIN	Pre 2021	31	74	42%
	2021	1	10	10%
	2022	6	13	46%
TRAN	Pre 2021	4	34	12%
	2021	6	14	43%
	2022	3	9	33%

Stage of Company Financing at Start of CIRM Award:

- TRAN: Seed through Series A/B
- CLIN: Seed through Public (Small/Mid Cap)

- **CIRM's Previous Loan Program included warrant coverage.**
 - Warrant coverage as % of loan
 - Defined warrant terms (term length, shares, exercise price, etc.)
 - Established a process for assigning warrants and transferring funds

Current Co-Funding Requirement & Percentages Remain Unchanged (cash-based co-funding).

- Option to select warrant-based co-funding in application.
- **Warrant-based co-funding option.**
 - Applicant agrees to issue warrants to CIRM in value equal to minimum total project cost co-funding requirement.
 - Applicant may request CIRM funding up to the award maximum.

For-Profit TRAN1 Application*

Total Allowable Direct Project Costs (TRAN1)	Cash-Based Co-Funding		Warrant-Based Co-Funding		
	CIRM Award	Co-Funding Commitment	CIRM Award	Cash Co-Funding	Warrant (# shares x Exercise Price)
\$4.0M	\$3.2M	\$0.8M	\$4.0M	\$0	\$0.8M
\$5.0M	\$4.0M	\$1.0M	\$4.0M	\$1.0M	\$0

Select Historical Award Amounts#

	Award Max	Average CIRM Award	Proportion of Awards at/near Max##	Total Project Costs
TRAN1	\$4M*	\$3.8M*	3/8	\$5.1M
CLIN1	\$4M	\$3.8M	4/5	\$5.3M
CLIN2	\$8M/\$15M	\$6.3M	2/11	\$10.5M

*Direct project costs. #Filtered for for-profit awards that were subject to the listed award caps (2018-2022). ##Threshold of <\$50K from max used for illustrative purposes.

Impact to CIRM

- Enhances ability to support emerging companies and expand portfolio
- Increases award sizes
- Warrants provide potential for financial return but also risk of zero future value
- Increases administrative effort and legal costs

Impact to Applicant/Awardee

- Enables access to CIRM funding
- Allows for demonstration of financial commitment to CIRM-funded project

Impact to CIRM-Funded Project

- No financial impact – Awardee's cash commitment covered by CIRM award (up to award max)

- **Application Submission:** Select warrant-based co-funding
 - Reference CIRM Model Warrant Agreement
- **Award Contracting:** Execute agreement for issuance of all warrants at award start date
- **Warrant Cancellation:**
 - Active Award: Awardee may revert to cash-based co-funding requirement to cancel warrants
 - Post-Award: CIRM will evaluate feasibility of option for payback and warrant cancellation prior to ICOC review of concept plan changes

Brief description of warrant terms*

Warrant Term Length: 10 years

Exercise Price:

- Public company – Average of the closing common share prices of prior 10 trading days from agreement date.
- Private company – Preferred share price in most recent financing round or float until financing event sets preferred share value.

Amount of shares: The amount of shares will be governed by the following formula:

- $[\text{Dollar Amount of CIRM award corresponding to required minimum cash co-funding}] / [\text{Exercise Price}]$

The model agreement will define other terms including but not limited to:

- Ability to sell, transfer or assign warrant to a third party,
- Cashless exercise,
- Adjustments in the event of changes to company equity (exercise price & share adjustments)
- Notices, rules and automated actions governing mergers, change in control, liquidation, IPO, expiration, etc.

- **December 13, 2022 - IP/Industry Subcommittee Review** - If plan is approved for further development by IP/Industry Subcommittee, the following steps will be triggered.
- **March 2023 - Joint Science Subcommittee & IP/Industry Subcommittee Review** – TRAN, CLIN1 and CLIN2 Concept Plan changes (draft Model Warrant Agreement provided as reference).
- **March 2023 - ICOC Review** - TRAN, CLIN1 and CLIN2 Concept Plan changes (draft Model Warrant Agreement provided as reference)