

BEFORE THE
BIOTECH LOAN PROGRAM TASK FORCE
OF THE INDEPENDENT CITIZENS' OVERSIGHT COMMITTEE
TO THE CALIFORNIA INSTITUTE FOR REGENERATIVE MEDICINE
ORGANIZED PURSUANT TO THE
CALIFORNIA STEM CELL RESEARCH AND CURES ACT
REGULAR MEETING

LOCATION: THE LUXE HOTEL
SUNSET BALLROOM
11461 SUNSET BOULEVARD
LOS ANGELES, CALIFORNIA

DATE: TUESDAY, MAY 6, 2008
1:05 P.M.

REPORTER: BETH C. DRAIN, CSR
CSR. NO. 7152

BRS FILE NO.: 81487

BARRISTERS' REPORTING SERVICE

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BARRISTERS' REPORTING SERVICE

1 LOS ANGELES, CALIFORNIA; TUESDAY, MAY 6, 2008

2 1:05 P.M.

3

4 CHAIRMAN ROTH: OKAY. WE'RE GOING TO GET
5 STARTED WITH A ROLL CALL. AND, LYNN, IS THERE
6 SOMEONE --

7 MS. HARWELL: I'M GETTING THE LIST RIGHT
8 NOW.

9 CHAIRMAN ROTH: SHE'S GETTING THE LIST. SO
10 I THINK ON THE PHONE WE HAVE MICHAEL GOLDBERG, AND HE
11 HAS A COUPLE OF PEOPLE THERE, AND OS STEWARD IS GOING
12 TO BE JOINING US BY PHONE. SO WE'LL START ROLL CALL.

13 MS. KING: FLOYD BLOOM.

14 DR. BLOOM: HERE.

15 MS. KING: MARCY FEIT. MICHAEL GOLDBERG.

16 MR. GOLDBERG: HERE.

17 MS. KING: BOB KLEIN.

18 MR. KLEIN: HERE.

19 MS. KING: TED LOVE. ED PENHOET. DUANE
20 ROTH.

21 CHAIRMAN ROTH: HERE.

22 MS. KING: JEFF SHEEHY.

23 MR. SHEEHY: HERE.

24 MS. KING: OSWALD STEWARD.

25 CHAIRMAN ROTH: SO WE EXPECT OS TO BE ON

BARRISTERS' REPORTING SERVICE

1 SHORTLY ON THE PHONE.

2 OKAY. I'M GOING TO START WITH A VERY BRIEF
3 OVERVIEW OF WHAT THE TASK FORCE HAS BEEN SPENDING ITS
4 TIME DOING IN THE LAST FIVE OR FIVE AND A HALF MONTHS.

5 OUR CHARGE WAS TO DEVELOP A POLICY TO GOVERN
6 HOW LOANS WOULD BE ISSUED AND ADMINISTERED WITHIN THE
7 CONTEXT OF PROP 71 OF THE CALIFORNIA INSTITUTE FOR
8 REGENERATIVE MEDICINE. ONCE WE HAVE MADE OUR
9 DETERMINATION OF WHAT THAT POLICY SHOULD BE, IT GOES
10 TO THE FINANCE COMMITTEE, MICHAEL GOLDBERG'S
11 COMMITTEE, FOR REVIEW, AND THEN IT IS PASSED ON TO
12 ICOC FOR FINAL APPROVAL.

13 SO IN THIS VERY ROOM I THINK WE STARTED ON
14 DECEMBER 11TH. WE MET HERE AND HAD OUR FIRST MEETING
15 AND REALLY CAME UP WITH A WORK PLAN THAT WOULD GUIDE
16 ALL OF THE PROCESSES WE WOULD GO THROUGH TO REACH A
17 CONSIDERATION OR CONCLUSION ON THE LOAN PROGRAM.

18 WE AGREED THERE WERE TWO THINGS THAT WE
19 NEEDED HELP WITH. ONE WAS BENCHMARKING, TO DO A GOOD
20 ANALYSIS OF ALL THE OTHER PROGRAMS OUT THERE TO FIND
21 OUT WHAT, IF ANYTHING, WE COULD LEARN FROM THOSE. AND
22 THE SECOND WAS TO CREATE A MODEL THAT WOULD GIVE US
23 SOME IDEA OF WHAT THE VARIOUS RISK PROFILES WOULD LOOK
24 LIKE IN TERMS OF RETURN TO CIRM DOWN THE ROAD.

25 WE ALSO AGREED AT THAT MEETING THAT WE

BARRISTERS' REPORTING SERVICE

1 NEEDED TO MEET WITH STAKEHOLDERS, AND WE IDENTIFIED
2 THREE GROUPS TO MEET WITH. THE FIRST GROUP WE MET
3 WITH IN JANUARY OF THIS YEAR IN SAN FRANCISCO, AND IT
4 FOCUSED ON WORKING WITH FOLLOW-ON SUPPLIERS OF CAPITAL
5 THAT WOULD BE FINANCING WHERE WE HAVE GOTTEN SOMETHING
6 STARTED AND THEY WOULD BE CONTINUING. SO WE MET WITH
7 VENTURE CAPITALISTS AND VENTURE DEBT PEOPLE AT THAT
8 MEETING AND HAD SOME INPUT FROM, I THINK, A BROAD
9 GROUP OF EXPERTS IN THAT AREA. WE HAD SOME LEGAL
10 OPINIONS AND OTHER RECOMMENDATIONS THAT WE WOULD
11 CONSIDER.

12 IN FEBRUARY WE MET IN SAN DIEGO WITH THE
13 INDUSTRY AND LISTENED TO MANY OF THE INDUSTRY'S
14 COMMENTS AND CONSIDERATIONS THAT THEY WOULD LIKE TO
15 SEE INCLUSIVE IN THIS LOAN POLICY.

16 IN MARCH WE MET WITH THE LEGISLATORS.
17 CHAIRMAN KLEIN AND MYSELF MADE THE ROUNDS IN
18 SACRAMENTO AND TALKED ABOUT THE PURPOSE OF THIS LOAN
19 PROGRAM, HOW IT DIFFERED FROM A STANDARD LOAN PROGRAM,
20 AND WHY WE THINK IT'S AN IMPORTANT PART OF WHAT WE
21 HAVE TO OFFER IN TERMS OF GRANTS, BUT IN THIS CASE TO
22 ADVANCE PRODUCTS INTO CLINICAL TRIALS AND EVENTUALLY
23 INTO APPROVAL.

24 SO TODAY WE'RE MEETING WHAT I HOPE TO BE THE
25 FINAL MEETING OF THE TASK FORCE TO MAKE A

BARRISTERS' REPORTING SERVICE

1 RECOMMENDATION TO GO FORWARD WITH THE CONSIDERATIONS
2 WE'VE REACHED TO THE FINANCE SUBCOMMITTEE.

3 WE WILL HAVE A LOOK AT A TERM SHEET TODAY
4 THAT WE'VE DRAFTED BASED ON ALL THE INPUT. WE'LL HAVE
5 A REPORT FROM PRICEWATERHOUSE ON THEIR MODELING AND
6 WHAT THEY'VE COME UP WITH, AND WE'LL HAVE A DISCUSSION
7 ON SOME OF THE CONSIDERATIONS THAT MAY NOT BE
8 COMPLETELY SPELLED OUT, BUT WE HOPE WOULD BE AT THE
9 END OF OUR TWO HOURS HERE TODAY.

10 I'M TRYING TO THINK IF THERE'S ANY OTHER
11 AREAS I WANT TO COMMENT ON. I THINK THERE'S ONE LAST
12 AREA THAT I DO WANT TO COMMENT ON, AND THAT DEALS WITH
13 HOW THE PROGRAM WOULD BE ADMINISTERED. WILL WE HAVE
14 AN INTERNAL GRANTS ADMINISTRATION -- EXCUSE ME -- A
15 LOAN ADMINISTRATION OFFICER WHO WILL BE RESPONSIBLE
16 FOR THAT? AND THOSE KIND OF CONSIDERATIONS, I THINK,
17 ARE REALLY UP TO OUR PRESIDENT AND THE STAFF TO
18 DETERMINE HOW BEST TO HANDLE.

19 THE SECOND RELATED ONE IS THAT IN OUR PLAN
20 THAT WE'VE GIVEN OUR TERM SHEET RECOMMENDATIONS IS
21 THAT THERE WOULD BE A BUSINESS REVIEW. AND THAT
22 BUSINESS REVIEW NEEDS TO BE SPELLED OUT. WHAT EXACTLY
23 ARE WE LOOKING FOR IN TERMS OF A BUSINESS PLAN THAT
24 CAN BE STANDARDIZED, THAT CAN BE REVIEWED, AND NOT
25 INTERFERE WITH THE SCIENTIFIC REVIEW OF THE MERITS OF

BARRISTERS' REPORTING SERVICE

1 THE PROGRAM THROUGH THE RFA PROCESS.

2 SO I THINK THAT WILL TAKE SOME COORDINATION.
3 I'VE STARTED TO DRAFT SOME THOUGHTS ON WHAT THAT
4 TEMPLATE FOR THAT BUSINESS PLAN MIGHT LOOK LIKE, SO
5 IT'S VERY STANDARDIZED, VERY EASY TO UNDERSTAND, AND
6 APPLICANTS WILL KNOW EXACTLY WHAT WE'RE LOOKING FOR SO
7 THAT, IN FACT, CAN BE REVIEWED. AND THINGS LIKE SCOPE
8 OF THE ENTIRE PROGRAM. IF WE'RE SUCCESSFUL HERE, HOW
9 MUCH MORE MONEY IS GOING TO BE NEEDED TO MOVE THIS, IN
10 YOUR ESTIMATION, TO AN FDA APPROVAL SO THAT WE CAN
11 LOOK AT THE ENTIRE PROGRAM AND DETERMINE IF IT'S BEEN
12 WELL THOUGHT OUT AND IS ADEQUATE.

13 SO THOSE ARE THE THINGS THAT I THINK STILL
14 REMAIN THAT DON'T HAVE TO BE DEALT WITH TODAY, BUT
15 HAVE TO BE COORDINATED WITH THE CIRM STAFF TO MAKE
16 SURE WE GET SOMETHING THAT'S AGREEABLE. LET ME STOP
17 THERE AND SEE IF THERE ARE ANY ADDITIONAL COMMENTS
18 FROM TASK FORCE MEMBERS. BOB.

19 MR. KLEIN: DUANE, JUST FOR CLARIFICATION,
20 MY UNDERSTANDING WAS THAT WHILE THIS COMMITTEE UNDER
21 YOUR CHAIRMANSHIP IS GOING TO DEFINE THE PROGRAM AND
22 ITS MECHANICS AND ITS TERMS, WHEN IT GOES TO THE SIZE
23 OF THE LOAN PORTFOLIO, THAT'S GOING TO BE SOMETHING
24 THAT YOU DELEGATED IN THE LAST COMMITTEE TO THE
25 FINANCE SUBCOMMITTEE; IS THAT CORRECT?

BARRISTERS' REPORTING SERVICE

1 CHAIRMAN ROTH: THE SCOPE, I THINK, OF HOW
2 MUCH MONEY IS GOING TO BE DEDICATED TO THE LOAN
3 PROGRAM AND THINGS THAT WE DON'T WANT TO ESTABLISH AS
4 PART OF THE PERMANENT LOAN PROGRAM, LIKE INTEREST
5 RATES, FOR EXAMPLE, WHICH CAN FLUCTUATE, AND WE MAY
6 DETERMINE THAT THOSE NEED TO BE ADJUSTED, WE'D LIKE
7 NOT TO BE PART OF THE POLICY. SO THOSE WOULD, IN
8 FACT, GO TO MICHAEL GOLDBERG AND THE FINANCE COMMITTEE
9 AND IN CONJUNCTION, I WOULD THINK, WITH THE CIRM STAFF
10 AS PART OF THE STRATEGIC PLAN TO SET.

11 MR. KLEIN: SO AS PART OF THE STRATEGIC PLAN
12 AND BASED UPON THE PORTFOLIO SIZE AND THE RISK
13 CALCULATIONS OF THE PORTFOLIO SIZE WOULD ALSO FEED
14 BACK INTO THE MAXIMUM SIZE OF ANY PARTICULAR LOAN.

15 CHAIRMAN ROTH: CORRECT. WHAT WE TRIED TO
16 DO IS LEAVE AS MUCH FLEXIBILITY TO THE FUTURE AS WE
17 CAN, BUT WE ESTABLISHED THINGS THAT ARE LIKE THE
18 RANGE, THE TERM OF THE LOAN. WE ESTABLISHED THINGS
19 LIKE THE WARRANT POLICY. THOSE ARE GOING TO BE
20 PERMANENT AND PART OF THE POLICY SO EVERYBODY KNOWS
21 WHAT THEY'RE GETTING INTO. THE AMOUNT OF MONEY
22 DEDICATED, THE INDIVIDUAL AMOUNTS THAT YOU CAN APPLY
23 FOR, WILL BE DECIDED ON AN RFA BASIS.

24 SO WITH THAT, I THINK WE HAVE CHRIS WASDEN
25 AND LISA FARR ON THE PHONE. AND I'M GOING TO ASK THEM

BARRISTERS' REPORTING SERVICE

1 TO GIVE US THEIR REPORT. BUT BEFORE I DO THAT, FOR
2 THOSE OF YOU THAT HAVE HAD A CHANCE TO LOOK AT THE
3 REPORTS THAT WERE ISSUED BY THEM, I TRULY BELIEVE THE
4 QUALITY OF THE WORK THEY DID WAS EXTRAORDINARY. THEY
5 HAVE BEEN EXTREMELY RESPONSIVE TO THE REQUESTS OF THE
6 TASK FORCE. AND I JUST WANT TO COMPLIMENT BOTH CHRIS
7 AND LISA FOR DOING AN EXCEPTIONAL JOB AND REALLY
8 CREATING SOME THINGS I THINK HELPED US FEEL VERY
9 COMFORTABLE WITH WHAT WE'RE RECOMMENDING HERE.

10 SO, CHRIS, I'M GOING TO TURN IT OVER TO YOU
11 AND LET YOU WALK US THROUGH YOUR REPORT.

12 MR. WASDEN: THANK YOU, DUANE, FOR THOSE
13 KIND WORDS. I HOPE EVERYONE HAS ACCESS TO THIS
14 REPORT. SO I WILL REFERENCE PAGE NUMBERS SO EVERYONE
15 KNOWS WHICH PAGE I'M ON WHEN I MAKE THE COMMENT, AND
16 WE'LL JUST MARCH THROUGH THE REPORT AND THEN ANSWER
17 QUESTIONS AS THEY COME UP.

18 MR. HARWELL: CHRIS, ARE YOU STARTING WITH
19 THE PHASE III REPORT OR PHASE II?

20 MR. WASDEN: IT'S THE PHASE III REPORT. ALL
21 RIGHT. ON PAGE 2 WE PROVIDE A SUMMARY WHICH IS
22 SIMILAR TO WHAT DUANE JUST PROVIDED AS FAR AS THE
23 PROCESS THAT WE'VE BEEN THROUGH SPECIFICALLY FOCUSED
24 ON THE PWC EFFORTS AND DELIVERABLES. WE REVIEWED
25 DIFFERENT LOAN PROGRAMS AROUND THE COUNTRY. WE THEN

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1 FROM THAT GOT DIRECTION FROM THE COMMITTEE WITH
2 REGARDS TO THE -- TASK FORCE WITH REGARDS TO WHAT SORT
3 OF TERM SHEET WOULD BE APPROPRIATE. WHEN THEN
4 REVIEWED THAT WITH VENTURE CAPITAL FIRMS, VENTURE
5 BANKS, AND PROSPECTIVE BORROWERS TO SEE WHERE THEY HAD
6 CONCERNS, THOUGHTS, AND COMMENTS. WE THEN GOT
7 ADDITIONAL DIRECTION FROM THE TASK FORCE WITH REGARDS
8 TO HOW THAT SHOULD BE MODIFIED SO THAT WE COULD PUT
9 THIS INTO A FINANCIAL MODEL TO SEE WHAT SORT OF
10 FINANCIAL EXPECTATIONS WE COULD HAVE WITH REGARDS TO A
11 LOAN PROGRAM THAT WOULD BE STRUCTURED AND OUTLINED IN
12 THE TERM SHEET THAT WOULD HAVE A LOSS EXPERIENCE
13 SIMILAR TO WHAT A VENTURE CAPITAL FIRM WOULD HAVE WITH
14 LOANS OF SIMILAR TYPE OF RISK CLASS.

15 THE OVERALL ASSUMPTIONS FOR THE LOAN ARE
16 SPELLED OUT UNDER THE SECTION CALLED IN PHASE III. WE
17 ASSUMED THAT WE WOULD HAVE \$500 MILLION TO BE LENT
18 OVER A SEVEN-YEAR TIMEFRAME. THE LOANS WOULD BE MADE
19 TO COMPANIES AT VARIOUS STAGES OF DEVELOPMENT, FROM
20 THE VERY EARLY STAGE DEFINED AS PRECLINICAL TO LATER
21 STAGE. THE LOANS WOULD VARY IN SIZE DEPENDING ON THE
22 NEED AND THE APPROVAL OF THE LOAN GRANTING COMMITTEE.
23 THE TERM WOULD BE BETWEEN SIX AND TEN YEARS. THE
24 INTEREST RATES WOULD BE SIMILAR TO WHAT WE'VE SEEN IN
25 OTHER LOAN PROGRAMS THROUGHOUT THE COUNTRY, WHICH

BARRISTERS' REPORTING SERVICE

1 WOULD BE PRIME PLUS 2 TO 4 PERCENT.

2 THERE WOULD BE WARRANTS ASSOCIATED WITH
3 THESE LOANS WHICH WOULD PROVIDE YOU ADDITIONAL UPSIDE
4 RETURN ON LOANS BASED UPON WHETHER OR NOT THEY WERE
5 RECOURSE OR NONRECOURSE, AND THOSE WOULD BE 10 TO A
6 100 PERCENT. THE LOAN WOULD HAVE A DEFAULT RATE
7 REFLECTIVE OF OTHER VENTURE CAPITAL EXPERIENCE FOR
8 LOANS OR CAPITAL RISK APPROPRIATE FOR THE TYPES OF
9 LOANS THAT WERE MADE. AND THEN THE RETURN ON INTEREST
10 AND PRINCIPAL, THIS IS, OF COURSE, AN ASSUMPTION TO
11 APPRECIATE. THE RETURNS ON INTEREST AND PRINCIPAL OF
12 WARRANTS ARE NOT REINVESTED IN LOANS IN OUR MODEL
13 BECAUSE WE DIDN'T WANT TO GIVE THE COMPOUNDING EVENT
14 OF MAKING A LOAN, GETTING THE MONEY BACK, AND
15 INVESTING ANOTHER LOAN WITH A TEN-YEAR TIMEFRAME. SO
16 WE ASSUMED THAT ALL FUNDS THAT WERE RETURNED THAT WERE
17 NOT WRITTEN OFF BECAUSE OF THE FAILURE OF THE
18 BORROWER, ALL THOSE LOANS ARE ACTUALLY THEN PUT IN
19 CASH AND HELD FOR FUTURE LENDING. SO WE MADE THIS
20 KIND OF A CLEAN ANALYSIS OF LENDING THE MONEY ONCE,
21 GETTING THE MONEY BACK. OKAY.

22 THE SUMMARY IS -- AFTER I FINISH THE
23 PLATFORM, I'LL STOP IF PEOPLE HAVE SOME QUESTIONS ON
24 THIS PAGE. THE SUMMARY REVIEW OF MAKING LOANS UNDER
25 THESE TERMS WE'VE IDENTIFIED AND OUTLINED ARE THAT THE

BARRISTERS' REPORTING SERVICE

1 PROGRAM WOULD BE SUSTAINABLE; THAT IS, THAT IT COULD
2 GENERATE MORE CAPITAL THAN IT LENDS OVER TIME AND
3 COULD END UP HAVING A LOAN PROGRAM THAT STARTS OUT
4 WITH A HALF A BILLION DOLLARS AND COULD BE BETWEEN 600
5 MILLION AND \$1 BILLION WITHIN TEN YEARS.

6 ANY QUESTIONS ON THAT BEFORE I GO TO A
7 SENSITIVITY ANALYSIS ON THE NEXT PAGE?

8 CHAIRMAN ROTH: SOMEBODY JUST JOINED?

9 DR. STEWARD: OS STEWARD.

10 CHAIRMAN ROTH: HI, OS. WE'RE GOING THROUGH
11 THE PRICEWATERHOUSE DOCUMENT AT THE PRESENT TIME, AND
12 WE'RE ON PAGE 3.

13 MR. WASDEN: ON PAGE 3 WHAT WE HAVE HERE IS
14 A SENSITIVITY ANALYSIS SO THAT WE CAN ALL SEE THE
15 RELEVANT SENSITIVITY OF THE VARIOUS VARIABLES THAT WE
16 PREVIOUSLY IDENTIFIED WITH REGARD TO RETURN OF THE
17 LOAN PORTFOLIO. SO WE HAVE A STARTING VALUE OF A HALF
18 BILLION DOLLARS THAT'S LENT OUT UNDER THE TERMS WE
19 DESCRIBED. THE INTEREST RATE OF 2 PERCENT, SO AS LONG
20 AS YOU LENT MONEY ON THESE TERMS WE DESCRIBED WITH
21 JUST LOANS WITH AN INTEREST RATE AND YOU LENT THAT
22 MONEY OUT OVER TEN YEARS, THAT WOULD INCREASE THE SIZE
23 OF YOUR LOAN PORTFOLIO TO ROUGHLY 600 MILLION. IF YOU
24 WERE TO INCREASE THE INTEREST RATE TO 4 PERCENT, THAT
25 WOULD ADD AN ADDITIONAL 62 MILLION TO THAT PORTFOLIO.

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1 IF ALL THE LOANS WERE THEN -- ALSO IN ADDITION TO
2 THAT, YOU HAVE 10 PERCENT WARRANT COVERAGE, THAT WOULD
3 INCREASE THE LOAN AMOUNT -- THE PORTFOLIO AMOUNT TO 62
4 MILLION, AN ADDITIONAL 62. AND IF YOU HAVE 40 PERCENT
5 OF THOSE LOANS THAT HAD 10 PERCENT WARRANT COVERAGE
6 AND 60 PERCENT WITH A 100 PERCENT WARRANT COVERAGE,
7 THAT WOULD INCREASE THE TOTAL PROCEEDS AT THE END OF
8 TEN YEARS BY 35 MILLION. THIS IS HOW YOU GET TO THE
9 NUMBER THAT WE PUT ON THE PREVIOUS PAGE OF 600 MILLION
10 TO A BILLION DOLLARS.

11 FOR THE 600 MILLION, THE LOW END, WHICH IS
12 THE 500 PLUS 98, AND THE ONE BILLION IS THE HIGH END
13 WHERE YOU WOULD HAVE A PORTFOLIO OF LOANS THAT WERE
14 PRICED AT PRIME PLUS 4 PERCENT. 40 WITH 10 PERCENT
15 WARRANT COVERAGE AND WOULD BE RECOURSE. 50 PERCENT
16 WOULD BE 100 PERCENT WARRANT COVERAGE WITH
17 NONRECOURSE, AND THE LOANS WOULD BE A MIX OF SIX-YEAR
18 LOANS AND TEN-YEAR LOANS AT A 30/70 MIX. AND THIS
19 ASSUMES -- WE CAN GO OVER THE MORE DETAILED LOAN LOSS
20 EXPERIENCE, BUT IT ASSUMES THAT YOU HAVE VERY HIGH
21 LEVELS OF LOAN LOSSES AMONG THE MORE RISKY LOANS AND
22 LOWER LEVELS OF LOSSES AMONG LESS RISKY LOANS.

23 CHAIRMAN ROTH: CHRIS, LET'S TAKE A TIMEOUT
24 THERE AND SEE IF THERE ARE ANY TASK FORCE MEMBERS THAT
25 WOULD LIKE TO ASK QUESTIONS OR HAVE COMMENTS ON THE

BARRISTERS' REPORTING SERVICE

1 MODELING SO FAR.

2 MR. KLEIN: WE'RE NOT AT THE POINT YET WHERE
3 THE MODELING QUESTION GOES TO THE LOAN TERM. WE'RE
4 JUST DEALING WITH INTEREST RATES AND WARRANTS.

5 CHAIRMAN ROTH: THIS IS ALL BASED ON A
6 TEN-YEAR ASSUMPTION.

7 MR. KLEIN: I THINK HE'S GETTING TO SECTION
8 2 OF THE SENSITIVITIES ON TERM, WHICH I DON'T THINK
9 HE'S COVERED YET; IS THAT RIGHT?

10 CHAIRMAN ROTH: THAT'S CORRECT.

11 MR. KLEIN: I'LL HOLD MY QUESTION.

12 CHAIRMAN ROTH: THIS IS THE BASE CASE,
13 CHRIS, THAT WE WENT THROUGH THAT SHOWS YOU WHERE THE
14 SENSITIVITIES ARE. THE CONCLUSION I REACH FROM THIS,
15 AND I THINK IT IS CLEAR, IS THAT THE WARRANTS MATTER A
16 LOT IN THIS MODEL. I THINK THAT WILL BE CONSISTENT
17 THROUGHOUT.

18 ANY OTHER QUESTIONS? MICHAEL, ANYBODY ON
19 THE PHONE? LET'S MOVE ON, CHRIS.

20 MR. WASDEN: GOING TO THE NEXT SECTION, WHAT
21 WE DO ARE SOME SIMPLE SENSITIVITIES JUST SO YOU CAN
22 SEE THE MAGNITUDE OF THE DIFFERENT VARIABLES AS WE
23 CHANGE THE CASES THAT WE DISCUSSED.

24 THE FIRST SENSITIVITY WE DO IS ONE BASED
25 UPON INTEREST RATE, AND YOU SEE THAT YOUR INTEREST

BARRISTERS' REPORTING SERVICE

1 RATES MAKE ABOUT A \$30 MILLION DIFFERENCE FOR EVERY 1
2 PERCENT INTEREST RATE INCREASE. IT'S NOT A LARGE
3 DRIVER OF THE INCREASE IN VALUE THAT WE SEE. OKAY.

4 PAGE 6 WE LOOK AT THE DIFFERENCE THAT TERM
5 MAKES BY HAVING A TEN-YEAR TERM VERSUS A SIX-YEAR
6 TERM, AND THAT'S NOT A BIG DIFFERENCE. AGAIN, I
7 MENTIONED EARLIER THAT WE ARE NOT REINVESTING THE
8 FUNDS INTO ADDITIONAL LOANS. THAT COULD HAVE SOME
9 EFFECT, BUT PERHAPS NOT MUCH OF AN EFFECT BECAUSE, YOU
10 KNOW, IF YOU RAISE THAT TO A SIX-YEAR LOAN, AT THE END
11 OF SIX YEARS ONE THAT WAS REPAID INTO ANOTHER LOAN OF
12 FOUR YEARS, IT WOULD BE SIMILAR TO HAVING HAD A
13 TEN-YEAR LOAN TO BEGIN WITH.

14 MR. KLEIN: SO THIS IS BOB KLEIN. MY
15 QUESTION HERE IS THAT ON PAGE 6 YOU'VE TESTED FOR
16 TOTAL ASSETS. BUT IF OUR REAL GOAL HERE IS THE TOTAL
17 AMOUNT OF LOANS WE'VE FUNDED, THAT IS A VERY DIFFERENT
18 TEST THAN TOTAL ASSETS. SO IF AFTER SIX YEARS YOU
19 WERE ABLE TO FUND A WHOLE NEW ROUND OF LOANS, WHILE
20 THE ASSETS WERE ALMOST IDENTICAL AT THE END OF TEN
21 YEARS, THE TOTAL VOLUME OF LOAN TRANSACTIONS DONE
22 COULD BE RADICALLY DIFFERENT.

23 IF I LOOK AT PAGE 10, WHICH YOU HAVE FROM
24 YOUR PHASE II REPORT, AND I LOOK AT LOAN REPAYMENTS,
25 IF I LOOK AT YEARS FIVE, SIX, AND SEVEN, I SEE A HEAVY

BARRISTERS' REPORTING SERVICE

1 CONCENTRATION OF REPAYMENTS IN THOSE YEARS. IN FACT,
2 IT'S THE PREDOMINANT TIME PERIOD FOR REPAYMENTS.

3 SO THAT IF WE WERE TO SET A LOAN TERM,
4 PERHAPS IT MIGHT VARY BY TYPE, I MEAN, POTENTIALLY;
5 BUT IF YOU HAD A FIVE- TO SEVEN-YEAR TERM FOR MOST
6 LOANS AND A TEN-YEAR TERM FOR OTHERS, YOU MIGHT GET
7 QUITE A VERY HIGH ROLLOVER, MAYBE 70 PERCENT OF THE
8 LOANS, WHICH WOULD SUBSTANTIALLY ENHANCE OUR PRINCIPAL
9 OBJECTIVE, WHICH IS TO MAKE SURE WE'RE OPTIMIZING THE
10 TOTAL NUMBER OF CLINICAL TRIALS OR TRANSLATIONAL
11 MEDICINE FUNDED.

12 MR. WASDEN: THAT CONCEPT, I THINK, IS
13 ACCURATE, WHICH IS ACCELERATION. SO YOU ARE REALLY
14 ACCELERATING THE SPEED WITH WHICH THE MONEY COMES IN,
15 IT'S DISBURSED, IT'S RECALLED, AND THEN REDISBURSED
16 AGAIN. IN OUR MODEL WE'VE ASSUMED ABOUT 183 LOANS ARE
17 MADE OVER THE COURSE OF THE TEN-YEAR TIMEFRAME.
18 AGAIN, WE'RE NOT RECYCLING THE MONEY IN OUR MODEL.
19 ALL MONEY THAT'S REPAYED GOES INTO CASH AND IS HELD
20 THERE THROUGH THE TEN-YEAR ANALYSIS.

21 CHAIRMAN ROTH: WITHOUT ANY INTEREST RATE OR
22 ANYTHING ATTRIBUTED TO IT.

23 MR. WASDEN: RIGHT. RIGHT.

24 CHAIRMAN ROTH: SO I THINK THAT WHAT THAT
25 SAYS, BOB, IS THAT WITH THIS MODEL YOU ARE GOING TO

BARRISTERS' REPORTING SERVICE

1 HAVE MONEY TO REINVEST. IT'S JUST NOT MODELED.

2 MR. KLEIN: RIGHT. WHICH IS VERY
3 ENCOURAGING. IT'S EXTREMELY ENCOURAGING, IN FACT, TO
4 SEE THE FREQUENCY EXPECTED OF LOAN REPAYMENTS.

5 AND THEN THE RELATED QUESTION THAT WOULD
6 ARISE, DUANE, WOULD BE WHAT'S THE EFFECT ON THE
7 BORROWERS OF HAVING EITHER A SHORTER TERM OR HAVING
8 INCREASED WARRANTS AS THEY GO DOWNSTREAM TO
9 INCENTIVIZE REPAYMENT IN THIS WINDOW. SO
10 THEORETICALLY, FOR EXAMPLE, YOU KNOW, YOU MIGHT HAVE A
11 REAL INCENTIVE SO THAT IF YOU GO PAST YOUR SIX, YOUR
12 WARRANTS GO UP ANOTHER 30 PERCENT, AND PAST YEAR SEVEN
13 ANOTHER 20 PERCENT IN ORDER TO INCENTIVIZE THIS
14 NATURAL CYCLE OF REPAYMENTS SO WE CAN ENHANCE OUR
15 VOLUME.

16 I DON'T KNOW, DUANE, WHAT YOU THINK ABOUT
17 THAT.

18 CHAIRMAN ROTH: MY RESPONSE TO THAT WOULD BE
19 THAT I THINK THAT THE WARRANT POLICY THAT WE'RE
20 RECOMMENDING, 10 PERCENT WARRANT COVERAGE ON THE
21 AMOUNT OF THE LOAN ON A RECOURSE LOAN, AND ON A
22 NONRECOURSE A HUNDRED PERCENT COVERAGE ON THE AMOUNT
23 OF THE LOAN. AND IF IT'S MILESTONE DRIVEN, IT'S
24 ALWAYS BASED ON THE LAST FINANCING THAT WAS DONE. SO
25 IF YOU HAVE A \$5 MILLION LOAN, THREE MILESTONES, THE

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1 FIRST MILLION IS BASED ON THE LAST FINANCING YOU DID.
2 IF YOU DO ANOTHER FINANCING IN BETWEEN AND THE
3 VALUATION CHANGES OF THE ENTERPRISE, YOU WOULD THEN
4 GET THE NEXT TWO MILLION. IF THE NEXT MILESTONE IS
5 TWO MILLION, YOU WOULD GET THAT ONE AT THE NEW WARRANT
6 COVERAGE COST. BUT EVENTUALLY YOU COVER ALL FIVE
7 MILLION AT A HUNDRED PERCENT.

8 WHEN WE GET TO THIS, I THINK WHAT WE'VE
9 TRIED TO DO IS ENCOURAGE EARLY REPAYMENT OF THE
10 TEN-YEAR LOANS IF YOU CHOOSE THAT. AND ON THE
11 SIX-YEAR LOANS, YOU HAVE THE FLEXIBILITY TO DO THAT.
12 WE'RE GETTING A LITTLE BIT AHEAD. I WANT TO COME BACK
13 TO THAT BECAUSE THAT'S A VERY IMPORTANT POINT THAT BOB
14 IS ASKING ABOUT, AND WE NEED TO TALK ABOUT IT AND GET
15 MAYBE SOME INPUT FROM SOME MEMBERS OF THE PUBLIC THAT
16 ARE HERE ON THAT AS WELL.

17 OKAY. YOU WANT TO GO BACK TO PAGE 6.

18 MR. WASDEN: LET'S DO THAT. IN FACT, WE CAN
19 ADVANCE TO PAGE 7, WHICH IS A SIMILAR APPROACH TO
20 DOING SENSITIVITY WITH WARRANTS. SO WE START WITH A
21 CASE WHERE THERE ARE NO WARRANTS FOR ANY OF THE LOANS
22 OVER THE TEN-YEAR PERIOD. NOW WE GENERATE NEARLY \$600
23 MILLION OF ASSETS AT THE END OF THE TEN-YEAR PERIOD.
24 WE THEN ASSUMED TO DO A SENSITIVITY OF ALL LOANS THAT
25 WERE 10 PERCENT WARRANT COVERAGE, AND THEN WE DO A

BARRISTERS' REPORTING SERVICE

1 SENSITIVITY WHERE WE LOOK AT DIFFERENT MIXES OF
2 WARRANT COVERAGE. SO WE HAVE 40 PERCENT WOULD BE A
3 10-PERCENT WARRANT COVERAGE, 50 PERCENT WOULD BE A
4 50-PERCENT, WE DO ANOTHER AT 50-PERCENT WARRANT
5 COVERAGE FOR ALL THE LOANS, AND THEN WE HAVE THE BASE
6 CASE WHICH WE DISCUSSED FOR THE SECOND PAGE, WHICH IS
7 THE 40 PERCENT AT 10 PERCENT AND 60 PERCENT AT A
8 HUNDRED, AND THEN WE DO A FINAL SENSITIVITY SAYING
9 WHAT IF ALL THE LOANS HAD A HUNDRED PERCENT WARRANT
10 COVERAGE. AND UNDER THAT FINAL SCENARIO, ASSUMING ALL
11 OTHER VARIABLES WERE HELD CONSTANT, IT WOULD PROVIDE
12 \$1.2 BILLION OF TOTAL ASSETS AT THE END OF THE
13 TEN-YEAR PERIOD.

14 CHAIRMAN ROTH: OKAY.

15 MR. KLEIN: DUANE, QUESTION FOR YOU.
16 UNDERSTANDING THAT ON A MILESTONE-DRIVEN LOAN, AS EACH
17 AMOUNT FUNDS, THE WARRANTS ARISE AT THAT TIME, WOULD
18 IT BE USEFUL, THOUGH, TO HAVE A MINIMUM WARRANT
19 COVERAGE ON THE WHOLE LOAN THAT, EVEN IF THE LATER
20 PORTIONS OF THE LOAN ARE NOT TAKEN DOWN BECAUSE THEY
21 HAVE A REAL BREAKTHROUGH AND THEY GET A MASSIVE
22 FUNDING, IN ORDER TO DISINCENTIVIZE UNNECESSARY
23 COMMITMENTS OF OUR PORTFOLIO AND HAVING PEOPLE ONLY
24 ASK FOR COMMITMENTS THAT THEY REALLY THINK THEY'RE
25 GOING TO NEED TO FUND.

BARRISTERS' REPORTING SERVICE

1 CHAIRMAN ROTH: WELL, I WOULD HOPE THE
2 SCIENTIFIC REVIEW WOULD GET AT THAT ISSUE. IF
3 SOMEBODY IS ASKING FOR FAR MORE THAN THEY BELIEVE IS
4 WARRANTED, THEN I WOULD HOPE THAT THAT WOULD ADDRESS
5 IT. MY CONCERN ABOUT HAVING THINGS THAT VARY IS
6 SOMEBODY HAS GOT TO ADMINISTER THAT. AND I'M TRYING
7 TO MAKE SURE WE KEEP IT AS SIMPLE AS WE POSSIBLY CAN
8 AND AS FAIR AS WE POSSIBLY CAN FOR EVERYONE.

9 IF THEY TAKE THEIR MILLION DOLLARS AT THAT
10 VALUATION, THEY HAD A TOTAL APPROVAL OF FIVE MILLION,
11 THEY DO SOMETHING THAT AFFECTS THE VALUE OF THE NEXT
12 TWO MILLION, THEN THAT'S WHERE OUR NEW WARRANTS ARE
13 SET, BUT THEY CONTINUE TO PRESS THROUGH UNTIL WE'VE
14 GOT FULL WARRANT COVERAGE.

15 MR. KLEIN: SURE. BUT IF, FOR EXAMPLE,
16 LET'S SAY THAT EVEN REASONABLY THEY SAY THEY'RE GOING
17 TO NEED \$7 MILLION, AND THEY GO THROUGH THREE MILLION,
18 AND ALL OF A SUDDEN THEY HAVE SOME BIG BREAKTHROUGH,
19 WE WILL HAVE TIED UP THE OTHER FOR MILLION THAT WE
20 WOULD HAVE NOT BEEN ABLE TO PUT OUT IN PORTFOLIO
21 LOANS. SO EVEN THOUGH THEY NEVER TOOK THOSE DOWN,
22 SHOULDN'T WE HAVE A 10-PERCENT FUNDING OR SOME LOW
23 LEVEL OF FUNDING ON THE FUNDS THAT WEREN'T TAKEN DOWN
24 BECAUSE THERE'S AN OPPORTUNITY COST FOR THE STATE?

25 CHAIRMAN ROTH: LET'S HOLD THAT UNTIL WE GET

BARRISTERS' REPORTING SERVICE

1 INTO A DISCUSSION AND BRING THAT UP AS ONE OF THE
2 POSSIBLE VARIABLES THAT WE COULD ADD TO THE WARRANT
3 COVERAGE.

4 MR. KLEIN: OKAY.

5 CHAIRMAN ROTH: ANYBODY ELSE, QUESTIONS?
6 OKAY. CHRIS.

7 MR. WASDEN: SO THAT TAKES US THROUGH OUR
8 PRIMARY SENSITIVITY ANALYSIS. ON PAGE 8 WE JUST NOW
9 COMPARE THESE VARIOUS THINGS WE WALKED THROUGH TO GIVE
10 YOU THE ORDER OF MAGNITUDE OF WHAT WE'RE TALKING ABOUT
11 HERE WHERE YOU START WITH THE STARTING ASSETS OF 500
12 MILLION, THE BASE CASE THAT WE SHOWED, WHICH TAKES YOU
13 TO 660 MILLION OF TOTAL ASSETS, THE MIDRANGE, WHICH IS
14 REALLY BASED UPON THE VARIABLE OF THE PORTFOLIO MIX
15 THAT THE TASK FORCE ANTICIPATED, WHICH WAS THIS 40/60
16 WARRANT COVERAGE AT 30/70 TERM ISSUE, WHICH IS THE ONE
17 BILLION. AND THEN THE EXTREME CASE, IF YOU HAVE A
18 HUNDRED PERCENT WARRANT COVERAGE ON ALL THE LOANS, IT
19 TAKES YOU UP TO 1.2, ALMOST \$1.3 BILLION BASICALLY.
20 OKAY?

21 CHAIRMAN ROTH: OKAY.

22 MR. WASDEN: THAT'S THE SUMMARY OF ALL THE
23 DIFFERENT SENSITIVITIES THAT WE'VE RUN. THE REST OF
24 THE INFORMATION IS MUCH MORE DETAILED AND GRANULAR. I
25 DON'T KNOW HOW MUCH OF THIS YOU WANT US TO GO THROUGH,

BARRISTERS' REPORTING SERVICE

1 SO I'LL HIT THE HIGH POINTS AND THEN ANSWER ANY MORE
2 DETAILED QUESTIONS IF ANYONE HAS THEM.

3 CHAIRMAN ROTH: SO IN PARTICULAR, CHRIS, I'D
4 LIKE YOU TO FOCUS ON WHAT YOUR ASSUMPTIONS ARE ON THE
5 DEFAULT RATES.

6 MR. WASDEN: SURE. LET'S GO TO PAGE 10. SO
7 PAGE 10 IS THE SUMMARY OF THE KEY VARIABLES THAT DRIVE
8 THE MODEL. WE HAVE AN ASSUMPTION WITH REGARDS TO MIX
9 OF THE PORTFOLIO, WHICH IS THAT 10 PERCENT OF THE
10 PORTFOLIO WOULD BE ON THE MOST RISKY EARLY STAGE LOANS
11 WE CALL PRECLINICAL. 15 PERCENT WOULD BE 1A, 30
12 PERCENT 1B, 45 PERCENT 2A. BY THAT, YOU WILL SEE IN
13 THE NEXT COLUMN THE DOLLARS THAT WOULD BE ALLOCATED
14 TOWARDS EACH CLASS OF LOAN.

15 WE ASSUME THAT ALL LOANS WOULD ACTUALLY BE
16 MADE WITHIN SEVEN YEARS, AND THEN WE'VE GOT A SCHEDULE
17 UNDER WHICH THOSE LOANS ARE ALLOCATED WHICH IS PRO
18 RATA ONE-SEVENTH PER YEAR FOR SEVEN YEARS. THE
19 AVERAGE LOAN SIZE IS SHOWN HERE ONE, TWO, THREE, AND
20 FIVE. THERE ARE NO LIMITS OR RESTRICTIONS THAT HAVE
21 BEEN IDENTIFIED BY THE TASK FORCE. AND THEY CAN BE 5
22 MILLION OR 10 MILLION. FOR OUR MODELING PURPOSES, WE
23 ASSUME BASED ON THESE FIVE CATEGORIES.

24 WHICH THEN ENABLED US TO DETERMINE HOW MANY
25 OF EACH TYPE OF LOAN. YOU CAN SEE A BETTER BALANCE.

BARRISTERS' REPORTING SERVICE

1 WE'RE DOING ROUGHLY ABOUT 50 LOANS OF EACH TYPE OVER
2 THE TEN-YEAR TIME PERIOD. WE THEN HAVE SOME
3 ASSUMPTIONS WITH REGARDS TO PREMONEY VALUATION OF EACH
4 COMPANY THAT WOULD BORROW MONEY, WHICH WE NEED FOR OUR
5 WARRANT COVERAGE CALCULATIONS. SO IF YOU'RE BORROWING
6 A MILLION DOLLARS, WE'RE ASSUMING YOU HAVE A PREMONEY
7 VALUATION OF \$3 MILLION, WHICH IS VERY REASONABLE
8 BASED UPON THE DISCUSSIONS WE'VE HAD WITH THE VENTURE
9 COMMUNITY.

10 WE ASSUME AT THE LIQUIDITY EVENT, THE RETURN
11 ON THE WARRANT COVERAGE OR ON THE EQUITY WOULD BE
12 THREE TIMES THE INITIAL VALUE. SO THAT AT LIQUIDITY,
13 IF YOU HAVE A \$3 MILLION PREMONEY, THE VALUE OF THE
14 COMPANY WOULD BE NINE MILLION. OKAY.

15 THE INTEREST RATE WOULD BE PRIME PLUS 2 OR 4
16 PERCENT. AND SO THAT NUMBER VARIES BASED UPON THE
17 SCENARIO WE'RE DOING. THE TERM OF THE LOANS WILL BE
18 SIX OR TEN AS WE DISCUSSED EARLIER, AND THERE ARE NO
19 PREPAYMENT PENALTIES TO A COMPANY THAT WANTS TO PREPAY
20 EARLIER. THAT'S ZERO.

21 THE DEFAULT RATE TOWARDS THE CENTER OF THE
22 TABLE, THIS WAS BASED UPON DISCUSSION WITH VENTURE
23 CAPITALISTS AS WELL AS VENTURE BANKS. WE ASSUMED THAT
24 HALF OF ALL THE PRECLINICAL LOANS WOULD GO BAD. WHEN
25 WE SAY GO BAD, IN OUR ASSUMPTIONS WE ASSUMED NO

BARRISTERS' REPORTING SERVICE

1 RECOVERY WHEN A LOAN GOES BAD. IT'S A COMPLETE
2 WRITE-OFF. OKAY. OFTENTIMES, AND DUANE HAS A LOT OF
3 EXPERIENCE WITH THIS, IT'S NOT A TOTAL WRITE-OFF. FOR
4 OUR MODELING PURPOSES, WE ASSUME THAT ANY TIME A LOAN
5 GOES BAD, IT'S A COMPLETE WRITE-OFF. SO HALF OF ALL
6 PRECLINICAL LOANS GO BAD WITHIN FIVE YEARS, 40 PERCENT
7 OF ALL 1A'S GO BAD WITHIN SIX YEARS, 30 PERCENT OF
8 1B'S WITHIN SEVEN, AND THEN 20 PERCENT OF 2A WITHIN
9 EIGHT.

10 THE REASON THAT THE TIMING IS DIFFERENT IS
11 BECAUSE AS YOU GET COMPANIES IN LATER STAGES OF
12 DEVELOPMENT THAT BORROW LARGER SUMS, THEY TEND TO BE
13 LESS RISKY THAN THE EARLIER COMPANIES, AND SO THEY
14 TEND TO TAKE LONGER TO FAIL WHEN THEY DO FAIL.

15 THE FINAL THING ON THIS PAGE, THEN I'LL OPEN
16 THAT UP TO SOME QUESTIONS AS WELL, IS THE LOAN
17 REPAYMENT SCHEDULE. THIS LOAN REPAYMENT IS BASICALLY
18 BASED UPON WHAT WE ESTIMATE WOULD BE THE LIQUIDITY
19 EVENTS FOR THESE DIFFERENT TYPES OF LOANS. SO IF
20 SOMEONE BUYS THE COMPANY AND THAT GENERATES CASH THAT
21 THEN CAN BE USED TO PAY OFF THE LOAN AND ACHIEVE VALUE
22 THROUGH THE WARRANTS.

23 AND SO WE THEN OF ALL THOSE LOANS THAT ARE
24 NOT WRITTEN OFF, 10 PERCENT OF THOSE THAT ARE NOT
25 WRITTEN OFF WOULD MATURE IN FIVE YEARS AND 10 PERCENT

BARRISTERS' REPORTING SERVICE

1 AT SIX AND SO FORTH AND SO ON. SO THIS IS ONLY THE
2 LIQUIDITY EVENTS ASSOCIATED WITH THOSE LOANS THAT ARE
3 NOT COMPLETELY WRITTEN OFF.

4 THAT'S THE BASIC FRAMEWORK FOR THE MODEL AND
5 HOW IT WORKS. I'D BE HAPPY TO ANSWER ANY QUESTIONS
6 PEOPLE MIGHT HAVE.

7 CHAIRMAN ROTH: SO ANY QUESTIONS FROM THE
8 TASK FORCE ON THE ASSUMPTIONS THAT THEY USED IN THE
9 MODEL?

10 DR. BLOOM: HOW HARD WOULD IT BE FOR YOU TO
11 MODEL IN THE RETURN, REINVESTMENT, AND THEN
12 REDISTRIBUTION?

13 MR. WASDEN: WE WOULD HAVE TO ADD SOME
14 ADDITIONAL FLEXIBILITY AND CAPABILITY IN IT. FOR
15 PURPOSES FOR THIS EXERCISE WERE REALLY NOT TO SHOW HOW
16 GOOD IT COULD BE, BUT TO SHOW WHAT WE CONSIDER TO BE
17 MORE OF A CONSERVATIVE CASE. IF WE DIDN'T REINVEST
18 THE MONEY, IF WE DIDN'T HAVE ALL THESE GOOD THINGS
19 GOING FOR THE LOANS AND THE LOAN PROGRAM AND WHATNOT,
20 AND HAD WHAT WOULD BE CONSIDERED KIND OF REASONABLE
21 AND CONSERVATIVE ASSUMPTIONS, WOULD THE PROGRAM BE
22 SUSTAINABLE? THAT'S WHY WE MODELED IT THIS WAY. IT'S
23 CLEARLY POSSIBLE TO MODEL UPSIDES AND HOW GOOD IT
24 WOULD BE.

25 CHAIRMAN ROTH: I THINK, FLOYD, THAT GETS AT

BARRISTERS' REPORTING SERVICE

1 THIS IS A STATIC MODEL. IT ASSUMES NONE OF THAT IS
2 GOING TO HAPPEN. I WOULD VIEW THAT MORE AS THE UPSIDE
3 TO MITIGATE MAYBE WE'RE WRONG ABOUT THE FAILURE RATE
4 OR WE'RE WRONG ABOUT THE --

5 DR. BLOOM: I UNDERSTAND THOSE ASSUMPTIONS.
6 I'M JUST WONDERING WHETHER IF THE GOALS ARE TWO, ONE
7 IS TO PROTECT THE ASSETS AND THE SECOND IS TO FUND --
8 IF THE GOAL IS BOTH TO PROTECT THE ASSETS AND TO
9 INCREASE THE NUMBER OF LOANS WE COULD MAKE OVER THE
10 PERIOD OF FUNDING, THEN AT LEAST TO HAVE SOMETHING
11 THAT WOULD, EVEN IF IT WAS A CONSERVATIVE MODEL, COULD
12 ESTIMATE HOW TO ACHIEVE THAT SECOND GOAL AS WELL.

13 CHAIRMAN ROTH: CHRIS, DID YOU FOLLOW THAT?

14 MR. WASDEN: YEAH. YEAH. SO WE'D NEED TO
15 MAKE -- THERE'S A LOT OF VARIABLES THAT IMPACT
16 OBVIOUSLY. ONE IS WHAT I THINK BOB HAD MENTIONED
17 EARLIER THAT HAS TO DO WITH LOAN SIZE, WHICH MEANS HOW
18 MANY LOANS AND MIX OF THE PORTFOLIO. SO WE'D HAVE TO
19 ALL DISCUSS REALLY THE IMPACT OF THOSE SORT OF
20 ASSUMPTIONS ON ALL OF THE VARIABLES WITHIN THE MODEL
21 TO SEE HOW WE WOULD LIKE TO LOOK AT THE SCENARIO.

22 CHAIRMAN ROTH: IT WOULD BE A DYNAMIC MODEL
23 VERSUS THIS. WE CAN CERTAINLY TAKE A LOOK AT THAT
24 AND, I THINK, FIGURE OUT HOW MUCH MONEY WOULD BE
25 AVAILABLE ON AN ANNUAL BASIS THAT WE COULD REINVEST.

BARRISTERS' REPORTING SERVICE

1 THIS ASSUMES YOU'RE GOING TO MAKE A 180 LOANS OVER TEN
2 YEARS AND EVERYTHING IS STATIC. OTHER QUESTIONS?

3 MR. KLEIN: FIRST OF ALL, THERE MAY BE MORE
4 QUESTIONS FROM PEOPLE THAT ARE NOT HERE, AND I'D
5 CERTAINLY DEFER FOR THEIR QUESTIONS.

6 CHAIRMAN ROTH: MICHAEL?

7 MR. GOLDBERG: I JUST WANTED TO GET BACK TO
8 THE POINT THAT YOU MADE EARLIER, DUANE, ABOUT KEEPING
9 THIS AS STRAIGHTFORWARD AND SIMPLE AS POSSIBLE WITH AS
10 FEW TWISTS AND TURNS AND COMPLEXITIES AS CAN BE
11 POSSIBLE.

12 I THINK ONE OF THE IMPORTANT THINGS THAT
13 WE'RE GOING TO HAVE TO DO IS EDUCATE PEOPLE AS TO HOW
14 THIS PROGRAM WORKS SO THAT THEY CAN DROP IT INTO THEIR
15 OWN COMPANY PLANNING. AND THE EXECUTIVES OF THE
16 COMPANIES ARE GOING TO HAVE TO TAKE THESE PROPOSALS
17 BACK TO THEIR MANAGEMENT AND TO THEIR BOARDS OF
18 DIRECTORS. AND THE MORE STRAIGHTFORWARD IT IS, WE CAN
19 DO THIS OR THAT, WE CAN THIS OR THIS IN TERMS OF TWO
20 CHOICES OF WARRANT COVERAGE, TWO CHOICES OF RECOURSE
21 OR NONRECOURSE. I REALLY THINK THAT'S ABOUT AS FAR AS
22 WE SHOULD GO. I RESPECTFULLY DISAGREE WITH PUTTING IN
23 AN INCENTIVE OR DISINCENTIVE TO PENALIZE SOMEBODY FOR
24 PERHAPS THIS FORECAST OF WHAT THEIR LOAN REQUIREMENT
25 WAS OR THAT THE WORLD CHANGED IN THE COURSE OF THE

BARRISTERS' REPORTING SERVICE

1 EXECUTION OF THEIR PROGRAM.

2 CHAIRMAN ROTH: OKAY. ANY OTHER TASK FORCE?

3 MR. KLEIN: IN TERMS OF THE DEFAULT, YOU'VE
4 SAID TO US THAT THE 50 PERCENT, FOR EXAMPLE, OF
5 PRECLINICAL THAT'S SHOWN IN DEFAULT, THE 40 PERCENT OF
6 THE 1A, THE 30 PERCENT OF THE 1B, ETC., THAT THERE CAN
7 BE DEFAULTS WHERE YOU DO HAVE SOME RECOVERY. YOU'RE
8 NOT GOING TO RECOVER YOUR INTEREST, BUT YOU MAY HAVE A
9 PARTIAL CAPITAL RECOVERY.

10 ON A PORTFOLIO BASIS IS THERE ANY GUIDANCE
11 GENERALLY AS TO PERCENTAGE OF RECOVERY FROM LOANS THAT
12 DEFAULT?

13 CHAIRMAN ROTH: WELL, THAT WOULD ONLY BE
14 TRUE OF THE NONRECOURSE LOANS. I'M NOT SURE I SAID
15 THAT RIGHT. IF THE LOAN IS NONRECOURSE, A DEFAULT'S A
16 DEFAULT, AND THEY'RE JUST SAYING WE'RE NOT MOVING THIS
17 PROGRAM AHEAD, PERIOD. SO THAT'S OVER. WE DON'T HAVE
18 ANYTHING TO GET BACK; WE'RE NOT ENTITLED TO ANYTHING
19 BECAUSE THEY TOOK A NONRECOURSE. WE ARE ENTITLED TO
20 KEEP THE WARRANTS. AND IF THE COMPANY GOES ON AND HAS
21 VALUE IN SOME OTHER PRODUCT, WE'LL BENEFIT FROM THAT.

22 IF IT'S A RECOURSE LOAN, THAT MEANS THE
23 COMPANY WENT BANKRUPT. THE COMPANY WENT OUT OF
24 BUSINESS.

25 MR. KLEIN: WELL, THE DISCUSSION OR THE

BARRISTERS' REPORTING SERVICE

1 PRESENTATION WAS THAT FROM SOME OF THESE THAT ARE IN
2 DEFAULT, THERE COULD WELL BE SOME RECOVERY. CERTAINLY
3 YOU CAN HAVE A NONRECOURSE LOAN THAT'S IN DEFAULT, BUT
4 ANOTHER COMPANY THREE YEARS LATER COMES AND BUYS THAT
5 DEFAULTED IP, AND SO THERE'S A 30-PERCENT RECOVERY. I
6 MEAN THERE'S NUMEROUS UNLIMITED KIND OF OPTIONS ACROSS
7 THE SPECTRUM OF THOSE KINDS OF FACT PATTERNS
8 OCCURRING.

9 SO MY QUESTION IS, ONE, CAN YOU JUST
10 GENERALLY DESCRIBE THE NATURE OF SOME OF THOSE
11 RECOVERIES CONCEPTUALLY, AND THEN TELL US WHETHER OR
12 NOT THERE'S A WAY TO ARRIVE AT A REASONABLE RANGE OF
13 POTENTIAL RECOVERIES?

14 CHAIRMAN ROTH: BOB, I'LL TAKE A SHOT AT
15 ANSWERING HOW WE'VE TRIED TO DEAL WITH THAT. IT'S
16 ACTUALLY IN OUR DOCUMENT THAT WE'RE GOING TO GO TO
17 NEXT IN TERMS OF OUR THOUGHT ON THAT. THAT IF
18 SOMEBODY TAKES OVER THE IP, THEN THE LOAN WOULD FOLLOW
19 THE IP, SAME TERMS AND CONDITIONS. THIS MODEL ASSUMES
20 THAT EVERYTHING IS OUT THE WINDOW ON HALF OF THE
21 PRECLINICAL IDEAS. THERE'S ZERO RECOVERY. AND I
22 THINK THAT'S PROBABLY A REASONABLE BET, THAT, YOU
23 KNOW, HALF OF THE THINGS THAT ARE IN THE PRECLINICAL
24 STAGE NEVER GET TO THE CLINIC. I WOULD SAY THAT'S
25 PROBABLY ACCURATE. AND IF IT'S A NONRECOURSE LOAN, I

BARRISTERS' REPORTING SERVICE

1 THINK THAT'S DONE. IF, HOWEVER, THAT IP IS IMPORTANT
2 AND GOES TO SOMEBODY ELSE, WE'RE ATTACHING TO THAT IP,
3 AND THAT WOULD GIVE US THE CHANCE TO RECOVER.

4 SO IT'S AN IMPORTANT POINT, THAT THE HALF
5 THAT WE DO GET WE FEEL PRETTY GOOD ABOUT. THE HALF WE
6 DON'T WE'RE JUST SAYING IT WOULD BE COMPLETELY WRITTEN
7 OFF. AND THEN IT GOES DOWN, YOU KNOW, PRETTY
8 DRAMATICALLY IN TERMS OF THE PERCENT THAT FAILED FROM
9 THERE. I WOULD BE COMFORTABLE THAT THESE WOULD BE
10 WHAT I WOULD CALL TRUE AND ULTIMATE FAILURES.
11 ANYTHING ELSE WE SHOULD GET ALL OR MOST OF THE MONEY
12 BACK. WARRANTS WOULD BE THE ONLY PART THAT I WOULD
13 SAY WE SHOULD CONTINUE TO ADD VALUE.

14 MR. KLEIN: MY QUESTION IS THAT I GUESS IT
15 WAS CHRIS THAT WAS PRESENTING; IS THAT RIGHT?

16 MR. WASDEN: YES.

17 MR. KLEIN: CHRIS, IS WHAT DUANE JUST
18 ARTICULATED THE ASSUMPTION YOU HAD IN THE DEFAULT RATE
19 BECAUSE THE REASON I'M ASKING THE QUESTION, DUANE'S
20 POSITION IS OBVIOUSLY A VERY GOOD, SOLID, CONSERVATIVE
21 POSITION, BUT YOU INFERRED IN YOUR DISCUSSION, I THINK
22 YOUR WORDS WAS THAT DUANE WAS AWARE THAT WHERE YOU
23 SHOW A DEFAULT, THAT THERE MAY BE PARTIAL RECOVERIES
24 IN YOUR PRESENTATION. SO DID YOU HAVE A DIFFERENT
25 ASSUMPTION OF THE NATURE OF THE DEFAULT, OR IS THIS A

BARRISTERS' REPORTING SERVICE

1 CASE WHERE THE DEFAULT RATES YOU USED WERE ASSUMED TO
2 BE, AS DUANE SAID, A HUNDRED PERCENT ELIMINATIONS OF
3 ANY ASSETS? OR OUT OF CONSERVATISM, DID YOU JUST
4 ASSUME THAT THERE WASN'T ANY RECOVERY WHERE ON A
5 PRACTICAL BASIS THERE WOULD BE SOME? I'M JUST TRYING
6 TO UNDERSTAND THE NATURE AND DEPTH OF CONSERVATISM.

7 MR. WASDEN: SO LET ME KIND OF ATTACK ALL
8 THOSE POSITIONS.

9 THE FIRST IS THAT DUANE HAS A LOT OF
10 EXPERIENCE WITH COMPANIES THAT ARE IN STAGES, AND HE'S
11 MADE SOME COMMENTS AT PREVIOUS PUBLIC MEETINGS WITH
12 REGARDS TO THE FACT THAT YOU DON'T WRITE EVERYTHING
13 OFF. OFTENTIMES THERE'S IP THAT CAN BE RESOLD AND SO
14 YOU CAN RECOVER SOMETHING. WE DIDN'T GET INTO THE
15 SUBTLETIES BECAUSE EVERY DEAL IS DIFFERENT. EVEN WHEN
16 WE ASKED THE VENTURE CAPS AND THE VENTURE BANKS IF
17 THEY CAN GIVE US THE RULES OF THUMB WITH REGARDS TO
18 THAT, THEY WERE HESITANT TO REALLY SAY IT'S THIS WAY
19 OR THAT WAY OR THESE ARE THE AVERAGES OR WHATNOT.

20 SO ALTHOUGH WE ACCEPTED THOSE THINGS HAPPEN,
21 AND THEY HAPPEN OFTEN, WE DIDN'T USE ANY BALLPARK OR
22 RULE OF THUMB MEASURES WITH REGARD TO WHAT RECOVERY
23 CAN BE ON EARLY STAGE COMPANIES THAT HAVE NOTHING BUT
24 INTELLECTUAL PROPERTY TO SELL. SO WE SAID THAT IF THE
25 COMPANIES -- IF THE PROJECT FAILED OR THE COMPANY

BARRISTERS' REPORTING SERVICE

1 FAILS, IT WOULD BE A COMPLETE WRITE-OFF, WHICH WAS A
2 MORE CONSERVATIVE ASSUMPTION, AND THAT'S WHERE THE
3 MODEL IS.

4 MR. KLEIN: THANK YOU.

5 CHAIRMAN ROTH: CHRIS, YOU WANT TO CONTINUE
6 ON?

7 MR. WASDEN: SURE. ON PAGE 11 WE PROVIDE A
8 SUMMARY OF THE TERM SHEET. THIS IS A SUMMARY OF THE
9 ASSUMPTIONS OF THE MODEL, WHICH I WENT OVER VERBALLY
10 ALREADY. LET'S GO ON TO -- I'M GOING TO SKIP FORWARD
11 TO -- I THINK WE'RE ACTUALLY DONE.

12 THE LAST THING IS AS WE WENT THROUGH THE
13 INTERVIEW PROCESS WITH THE VENTURE COMMUNITY AND WITH
14 THE BANKS AND WITH THE BORROWERS, THEY WERE ALL VERY
15 POSITIVE WITH REGARD TO THIS BEING A GOOD IDEA. THEY
16 THOUGHT IT WOULD BE SUCCESSFUL. AND THE PRIMARY ISSUE
17 THAT THEY WANTED THE TASK FORCE AND THE COMMITTEE TO
18 FOCUS ON AS THEY MOVE FORWARD WOULD BE THE TERMS UNDER
19 WHICH REPAYMENTS WOULD BE ACCELERATED.

20 SO OBVIOUSLY REPAYMENTS ARE MADE WHEN THE
21 COMPANY IS SOLD AND IT'S LIQUIDATED. BUT THE TASK
22 FORCE POSITION IS THERE WOULD BE OTHER SITUATIONS IN
23 WHICH PAYMENTS COULD BE ACCELERATED. AND THEY THOUGHT
24 THAT THOSE ISSUES WERE VERY IMPORTANT AND SHOULD BE
25 REALLY THOUGHT THROUGH WELL SO THAT IT DIDN'T PUT

BARRISTERS' REPORTING SERVICE

1 COMPANIES IN UNNECESSARY BINDS OR BURDEN AT CRITICAL
2 FINANCING POINTS IN THEIR LIFE.

3 CHAIRMAN ROTH: OKAY. OTHER QUESTIONS IN
4 GENERAL ON THE MODEL THAT WAS PRESENTED FROM TASK
5 FORCE MEMBERS? COMMENTS? LET'S OPEN IT TO THE PUBLIC
6 TO SEE IF THERE'S ANY QUESTIONS FROM THE PUBLIC ON THE
7 MODELING AND THE ASSUMPTIONS THEREIN. NO ONE HERE.
8 MICHAEL?

9 MR. GOLDBERG: NOBODY AT THIS SITE.

10 CHAIRMAN ROTH: SO WHAT I WANT TO MOVE TO
11 NEXT IS THE DRAFT DOCUMENT THAT WE'VE PREPARED THAT'S
12 TITLED "THE ICOC LOAN TASK FORCE DRAFT POLICY
13 COMPONENTS, MAY 6, 2008, LOS ANGELES."

14 WHAT I'D LIKE TO DO IS YOU CAN PERUSE THE
15 BACKGROUND INFORMATION THAT WAS PROVIDED, BUT START
16 WITH ROMAN NUMERAL II, THE TERM OF THE DEBT. AND IN
17 THERE IN THAT SECTION WE HAVE TALKED ABOUT HOW WE
18 WOULD GO ABOUT HANDLING THIS THROUGH THE RFA PROCESS
19 IN TERMS OF ISSUES LIKE THE AMOUNT OF MONEY THAT EACH
20 INDIVIDUAL GRANT APPLICANT COULD APPLY FOR, THE SCOPE
21 OF THE TOTAL AMOUNT THAT WOULD BE AVAILABLE, THE
22 INTEREST RATE, AND ALL OF THE ISSUES THAT WE DON'T
23 THINK BELONG IN THE POLICY ITSELF, BUT WERE USED AS
24 PART OF OUR BACKGROUND THINKING WHEN WE PREPARED
25 THINGS LIKE THE MODEL THAT WE JUST WENT THROUGH.

BARRISTERS' REPORTING SERVICE

1 SO IT JUST GIVES YOU A GENERAL BALLPARK OF
2 THE ASSUMPTIONS THAT CHRIS JUST WENT THROUGH THAT WE
3 USED IN FORMING THIS.

4 WE THEN GO ON TO THE TERM SHEET ITSELF, AND
5 THEREIN LIES THE MOST IMPORTANT PARTS OF THE POLICY
6 DOCUMENT. IN FACT, IT WILL BE THE POLICY DOCUMENT PER
7 OUR RECOMMENDATION.

8 SO THE FIRST IS DISBURSEMENT. AND THE
9 CONCEPT HERE IS THAT THEY WOULD, IN FACT, BE MILESTONE
10 DRIVEN OR COULD BE MILESTONE DRIVEN AT THE OPTION OF
11 WHATEVER THE RFA IS ABOUT. SO THE RFA, FOR EXAMPLE,
12 COULD INCLUDE EVERYTHING FROM PRECLINICAL PHASE TO
13 PHASE 2A IN ONE RFA, AND APPLICANTS COULD ACTUALLY
14 APPLY FOR THREE MILESTONES OVER THE COURSE OF THE
15 TIMEFRAME THEY THINK THEY WOULD NEED THOSE. THEY
16 WOULD INFORM US OF EXACTLY WHAT THOSE MILESTONES ARE
17 AND WHEN THEY WOULD BE KNOWN, AND THAT WOULD BE PART
18 OF THE APPLICATION. AND THEN THE WAY WE'VE STRUCTURED
19 THIS, THE WARRANTS WOULD FOLLOW THOSE MILESTONES.

20 THE FIRST CONCEPT HERE IS THAT THERE WILL BE
21 MILESTONES ALLOWED. THAT WILL GIVE US AN OPPORTUNITY
22 TO HAVE A LARGE RANGE OF APPLICATIONS AS OPPOSED TO
23 WE'RE JUST DOING PRECLINICAL OR JUST DOING PHASE 1 OR
24 PHASE 2. MANY OF THE CONVERSATIONS WE HAD WITH THE
25 INDUSTRY AND OTHERS WAS AROUND THIS CONCEPT OF YOU

BARRISTERS' REPORTING SERVICE

1 WON'T BE READY WHEN WE'RE READY. AND THIS IS OUR
2 ATTEMPT TO DEAL WITH THAT TO SAY ONCE YOU'RE APPROVED,
3 IF YOU KEEP MAKING PROGRESS, YOU CAN KEEP PULLING DOWN
4 OUR LOANS. SO THAT'S THE FIRST POLICY THAT WE HAVE IS
5 IT WOULD BE MILESTONE DRIVEN IF, IN FACT, THE RFA
6 CALLED FOR THAT.

7 I'M GOING TO RUN THROUGH THESE VERY QUICKLY
8 AND CONTINUE TO GET THE BACKGROUND, AND WE CAN COME
9 BACK TO IT. THE TERM OF THE LOAN CAN EITHER BE A
10 SIX-YEAR OR A TEN-YEAR LOAN. AND THE RATIONALE BEHIND
11 THAT IS WHEN WE TALK TO PEOPLE, THERE'S A LOT OF
12 CONCERN ABOUT FIVE YEARS BEING TOO SHORT, AND THAT
13 THEY FAVORED TEN YEARS AS A WAY OF REALLY BEING ABLE
14 TO TAKE ADVANTAGE OF FOLLOW-ON FINANCING AND OTHER
15 PARAMETERS.

16 SO AS WE MOVE THROUGH THIS, YOU WILL SEE THE
17 RATIONALE, THAT WE'RE GOING TO ALLOW PEOPLE TO CHOOSE
18 A SIX-YEAR OR A TEN-YEAR TERM. THE TEN-YEAR TERM,
19 HOWEVER, AND THIS SEEMED TO BE AGREEABLE TO THE PEOPLE
20 THAT WANTED A LONGER TERM, WAS THAT THERE WOULD BE
21 EARLY REPAYMENT TRIGGERS. AND THOSE TRIGGERS WHEN
22 REACHED WOULD CALL THE LOAN IN. SO WE'LL GET TO THAT.
23 THE SIX-YEAR WOULD NOT HAVE EARLY TRIGGERS EXCEPT ONE,
24 WHICH IS CHANGE OF CONTROL, WHICH WE'LL DISCUSS IN
25 JUST A MINUTE.

BARRISTERS' REPORTING SERVICE

1 IF YOU GO TO THE NEXT PAGE, YOU'VE ALREADY
2 HEARD THE DISCUSSION. AND THIS, AGAIN, CAME OUT OF A
3 LOT OF INPUT FROM VARIOUS PARTIES, THAT THEY WOULD
4 LIKE BOTH THE OPTION OF A RECOURSE LOAN, WHICH MEANS
5 THAT THE COMPANY OWES THE LOAN REGARDLESS IF THE
6 PRODUCT FAILS OR NOT, OR A NONRECOURSE LOAN, WHICH WAS
7 A LOAN ON THE PRODUCT ITSELF. AND IF THAT PRODUCT
8 FAILS, THEN THEY NO LONGER OWE CIRM ANYTHING EXCEPT
9 THAT WITH THOSE TWO AND THE NEXT ONE DEALS WITH THE
10 WARRANTS ARE DIFFERENT.

11 SO THE WARRANT COVERAGE ON A RECOURSE LOAN
12 IS SMALL, 10 PERCENT OF THE LOAN AMOUNT. AND ON THE
13 NONRECOURSE LOANS, A HUNDRED PERCENT ON THE LOAN
14 AMOUNT.

15 JUST TO CLARIFY, THE STRIKE PRICE WAS
16 ANOTHER ISSUE THAT WAS DISCUSSED. IT WOULD BE SET AT
17 THE LAST FINANCING THAT THE COMPANY DID. EVEN IF IT
18 WAS -- IT WOULD BE SET AT THE LAST FINANCING THE
19 COMPANY DID. EVEN IT'S A START-UP COMPANY, THERE'S A
20 VALUATION MOST OFTEN THAT CAN BE ASSIGNED TO THAT. SO
21 THAT DEALS WITH THE STRIKE PRICE, THAT IT WOULD BE AT
22 THE LAST TIME.

23 SO IN TERMS OF PAYMENT ACCELERATION
24 TRIGGERS, THE SIX-YEAR LOAN HAS TWO TRIGGERS: CHANGE
25 OF CONTROL, WHICH MEANS THERE WAS A MERGER OR AN

BARRISTERS' REPORTING SERVICE

1 ACQUISITION, IN WHICH CASE THE TOTAL PROCEEDS, THE
2 TOTAL VALUATION OF THE MERGED COMPANY WOULD BE \$100
3 MILLION OR GREATER. THE SECOND IS THAT THE COMPANY
4 DOES AN IPO AT \$20 MILLION OR GREATER. SO THEY HAVE
5 INITIAL PUBLIC OFFERING, THEY RAISE AT LEAST 20
6 MILLION, THAT WOULD BE AN EARLY TRIGGER ON THE
7 SIX-YEAR LOAN, THE ONLY TWO.

8 THE TEN-YEAR CONTAINS BOTH OF THOSE. AND
9 THEN THERE ARE THREE ADDITIONAL ONES THAT ARE DEFINED
10 AS A TWENTYFOLD FINANCING IN EXCESS OF THE LOAN
11 AMOUNT. SO IF YOU HAD A \$5 MILLION LOAN AND YOU DO 20
12 TIMES THAT FIVE MILLION IN FOLLOW-ON FINANCING, THAT
13 WILL BE A TRIGGER AT THE POINT YOU HIT THAT.

14 NO. 4, WITHIN 90 DAYS OF AN FDA SUBMISSION
15 OF AN INVESTIGATIONAL DEVICE EXEMPTION APPLICATION,
16 THIS IS FOR MEDICAL DEVICES OR DIAGNOSTICS, AND WITHIN
17 90 DAYS OF YOUR SUBMISSION OF THAT PRODUCT, THE LOAN
18 WOULD BECOME DUE, OR WITH A THERAPEUTIC PRODUCT WITHIN
19 SIX MONTHS OF BEGINNING A PIVOTAL TRIAL, WHICH WE MEAN
20 SOMETHING IN PHASE 3 THAT COULD BE A TRIAL THAT COULD
21 BE USED AS THE BASIS FOR APPLYING FOR FDA APPROVAL, OR
22 WITHIN SIX MONTHS OF FILING OF AN IND APPLICATION FOR
23 THERAPEUTICS.

24 PREPAYMENT, WE AGREED WE'D TAKE THE MONEY
25 BACK ANY TIME. IF THE COMPANY WANTS TO PREPAY IT,

BARRISTERS' REPORTING SERVICE

1 THEY DON'T LIKE THE INTEREST RATE, OR THEY CAN GET A
2 BETTER DEAL, THEY'RE ALLOWED TO PREPAY WITHOUT
3 PENALTY. AGAIN, THE WARRANTS STAY WITH US. THE LOANS
4 WOULD BE SUBORDINATED TO OTHER DEBT, BUT NOT TO
5 EQUITY. I THINK THAT'S VERY STANDARD AND SHOULD NOT
6 CREATE ISSUES FOR US.

7 THE CONCEPT OF MATCHING FUNDS CAME UP
8 SEVERAL TIMES, BOTH IN THE DUE DILIGENCE
9 PRICEWATERHOUSE DID AND IN OUR DISCUSSION WITH OTHERS.
10 AND I THINK THE WAY WE WOULD LIKE TO DEAL WITH THIS IS
11 THAT IF, IN FACT, WE LEARN THAT \$10 MILLION IS GOING
12 TO BE REQUIRED TO DO WHATEVER THE SCOPE OF THE PROGRAM
13 IS, AND YOU'RE APPLYING FOR FIVE MILLION, WE WANT TO
14 MAKE SURE YOU HAVE THE TEN. AND IF IT'S MILESTONE
15 DRIVEN, IN THOSE CASES THAT YOU NEED FOUR MILLION TO
16 DO THE NEXT PHASE AND YOU HAVE TWO MILLION COMING FROM
17 US, YOU HAVE TO SHOW US YOU HAVE THE TWO MILLION
18 BEFORE WE'LL WRITE OUR CHECK. SO THOSE WILL BE,
19 AGAIN, VERY SPECIFIC. YOU'LL KNOW WHAT THEY ARE GOING
20 IN, AND WE WOULD EXPECT THAT THOSE MILESTONES WOULD
21 ALLOW THE RECIPIENTS TO LEVERAGE THE MATCHING FUNDS
22 THAT ARE NEEDED TO DO THE SCOPE OF THE PROGRAM.

23 AND WHAT WE'RE THINKING THERE, JUST SO
24 EVERYBODY UNDERSTANDS, WE DON'T WANT TO BE THE FIRST
25 MONEY IN AND IT'S INADEQUATE TO FINISH THE JOB. SO WE

BARRISTERS' REPORTING SERVICE

1 WANT TO MAKE SURE YOU HAVE THE MONEY THAT YOU TOLD US
2 YOU NEEDED TO FINISH THE JOB, AND YOU HAVE IT SECURED
3 BEFORE WE ISSUE OUR NEXT MILESTONE PAYMENT ON THAT
4 LOAN.

5 AND THEN THE DEFAULT I THINK WE'VE TALKED
6 ABOUT PREVIOUSLY, BUT FORTUNATELY WE HAVE A NEW PERSON
7 AT CIRM, NANCY KOTCH. AND I WAS ABLE TO HAVE A
8 CONVERSATION WITH NANCY, AND WE'VE REALLY LOOKED AT
9 ONE ISSUE THAT ALWAYS IS HANGING OUT THERE. WHAT
10 HAPPENS IN THE CASE OF A DEFAULT WHERE THE COMPANY
11 GOES BANKRUPT AND THE INTELLECTUAL PROPERTY IS
12 ABANDONED AND THEY, IN FACT, WOULD BE OF INTEREST TO
13 US? AND SO NANCY HAS WRITTEN A PARAGRAPH HERE THAT
14 SORT OF PUTS THE ONUS ON THE RECIPIENT FIRST IN THE
15 WORST-CASE SCENARIO, THAT WE WOULD HAVE SOMEONE HANDLE
16 THIS FOR CIRM TO SEE IF THERE'S ANY VALUE LEFT, BUT IT
17 WOULD NOT BE A SITUATION WHERE WE GET DIRECTLY
18 INVOLVED WITH BROKERING INTELLECTUAL PROPERTY, BUT
19 WE'D HAVE A THIRD PARTY POTENTIALLY THAT WOULD DO THAT
20 AFTER EVERYTHING ELSE HAS FAILED IN THAT PROCESS. SO
21 THAT'S DEALT WITH UNDER THE DEFAULT, AND I THINK WE
22 CAN EXPLAIN SOME RATIONALE THERE IF THERE'S MORE.

23 ROMAN NUMERAL III DEALS WITH THE COVENANTS.
24 WE HAVE DISCUSSED THESE. THESE WERE TAKEN ALMOST
25 DIRECTLY FROM THE INTELLECTUAL PROPERTY POLICY, THE

BARRISTERS' REPORTING SERVICE

1 ONES THAT WERE APPLICABLE. AND SCOTT TOCHER IS HERE,
2 WHO HAD CONSIDERABLE EXPERIENCE IN DRAFTING THOSE. I
3 THINK WE'VE COME FULL CIRCLE ON GETTING THOSE REALLY
4 ESTABLISHED. AND I THINK I, FOR ONE, AM VERY
5 COMFORTABLE WITH WHAT WE HAVE THERE.

6 SO WITH THAT, THAT'S A BROAD OVERVIEW OF THE
7 TERMS AND CONDITIONS THAT WE HAVE BEEN WORKING ON
8 CONSISTENTLY THROUGHOUT THESE MEETINGS AND FINE-TUNING
9 TO GET TO THE POINT THAT WE'RE AT TODAY. AND I WOULD
10 REALLY LIKE SOME COMMENTS SORT OF ON A
11 SECTION-BY-SECTION BASIS AND INVITE THE PUBLIC THAT
12 ARE EITHER IN MICHAEL'S SITE OR HERE TO GIVE US SOME
13 COMMENTS IF YOU'VE HAD TIME TO DIGEST THIS AND
14 FEEDBACK.

15 SO LET ME START FIRST WITH THE TASK FORCE.
16 ANY THOUGHTS OR COMMENTS FROM THE TASK FORCE ABOUT THE
17 TERMS?

18 MR. GOLDBERG: I THINK THIS IS A REALLY WELL
19 THOUGHT-OUT SET OF TERMS AND PARTICULARLY THE
20 MILESTONE STRUCTURE. AND I THINK THAT THE COMPANIES
21 THAT WILL BE THE CUSTOMERS FOR THIS PROGRAM WILL
22 UNDERSTAND HOW TO RELATE TO THAT, AND I THINK THAT
23 WILL OPTIMIZE THE USE OF THE CAPITAL.

24 CHAIRMAN ROTH: NO OTHER TASK FORCE
25 COMMENTS, I'M GOING TO OPEN IT TO THE PUBLIC. IS

BARRISTERS' REPORTING SERVICE

1 THERE ANYBODY IN THE PUBLIC THAT WOULD LIKE TO MAKE
2 SOME COMMENTS?

3 MR. GOLDBERG: WE HAVE RALPH SNODGRASS OF
4 VISTAGEN, WHICH IS A SAN FRANCISCO BAY TECHNOLOGY
5 COMPANY.

6 MR. SNODGRASS: FIRST OF ALL, I JUST WANT TO
7 SHOW MY APPRECIATION FOR THE WORK THAT'S BEING PUT
8 INTO THIS. I THINK IT'S A VERY IMPORTANT PROGRAM. I
9 LIKE THE MILESTONE-DRIVEN APPROACH. IT'S WORKED VERY
10 WELL FOR COMPANIES THAT COULD TAKE ADVANTAGE OF THIS.
11 I THINK THE SIX- AND TEN-YEAR TERM ALSO WORKS WELL.
12 WE'VE WORKED WITH NONRECOURSE. I THINK THOSE ARE
13 APPROPRIATE.

14 MY QUESTION IS I MIGHT HAVE MISHEARD. CAN
15 YOU REPEAT AGAIN WHAT YOU SAID ABOUT THE PREPAYMENT
16 TRIGGERS ASSOCIATED WITH AN IND BUYER?

17 CHAIRMAN ROTH: SO --

18 MR. SNODGRASS: MY QUESTION WAS THERE
19 WEREN'T ANY (UNINTELLIGIBLE) ASSOCIATED WITH THE IND.
20 DID I MISHEAR?

21 CHAIRMAN ROTH: SO THAT REALLY SHOULD BE AN
22 NDA, AND YOU'VE CAUGHT THAT. IT'S A NEW DRUG
23 APPLICATION. I BUZZED RIGHT OVER IT. IT'S NOT AN
24 IND.

25 MR. SNODGRASS: THANK YOU VERY MUCH.

BARRI STERS' REPORTING SERVICE

1 CHAIRMAN ROTH: IT'S ON THE TEN-YEAR WARRANT
2 AGREEMENT.

3 MR. GOLDBERG: WE'RE REFERRING TO THAT AS AN
4 NDA OR BLA.

5 CHAIRMAN ROTH: RIGHT. NDA OR BLA.

6 MR. SNODGRASS: ONE OTHER QUESTION JUST TO
7 HELP ME UNDERSTAND THE THINKING OF THE VARIOUS
8 PARTIES. LET'S TALK ABOUT THESE VARIOUS TYPES OF LOAN
9 APPLICATIONS FROM PRECLINICAL THROUGH THE VARIOUS
10 CLINICAL PHASES. ALL THE DISCUSSION AROUND THAT IS
11 FOCUSED AROUND THERAPEUTIC PRODUCTS. WHAT IS THE
12 THINKING AROUND THE GROUP DEVELOPING STEM-CELL BASED
13 TOOLS FOR (UNINTELLIGIBLE) DEVELOPMENT OR APPLICATIONS
14 USING STEM CELLS THAT THEMSELVES AREN'T GOING TO BE
15 PRODUCTS, BUT MAY (UNINTELLIGIBLE) FROM TOXICOLOGY OR
16 FROM DISCOVERY ASSAYS?

17 CHAIRMAN ROTH: WE HAD A LITTLE BIT OF
18 TROUBLE HEARING THE QUESTION. MICHAEL --

19 MR. GOLDBERG: CAN YOU HEAR ME NOW?

20 MR. SNODGRASS: ALL THE DISCUSSIONS MADE IN
21 SOME OF THE LITERATURE THAT I HAD THE CHANCE TO TAKE A
22 LOOK AT HAS HOW VARIOUS TYPES OF PROJECTS IN TERMS OF
23 THERAPEUTIC MOLECULES OR PRODUCT. SO MY QUESTION IS
24 THE THREE CLINICAL INVESTMENTS THAT THE COMPANIES THAT
25 MIGHT BE TRYING TO DEVELOP STEM-CELL BASED TOOLS AND

BARRISTERS' REPORTING SERVICE

1 SYSTEMS THAT ARE ENABLING DRUG DEVELOPMENT, ENABLING
2 THE (INAUDIBLE), WOULD THEY BE ABLE TO APPLY FOR --

3 CHAIRMAN ROTH: RALPH, THE ASSUMPTION THAT
4 WE USED IN THIS, WHICH, AGAIN, CAN BE INFLUENCED DOWN
5 THE ROAD BY THE RFA PROCESS, IS THERE HAD TO BE AN
6 IDENTIFIABLE PRODUCT BECAUSE THAT'S THE WHAT LOAN
7 PROGRAM IS REALLY AIMED AT, PRODUCTS THAT ARE
8 ADVANCING TO HEALTHCARE IN GENERAL TO THE CLINIC AND
9 THROUGH THE CLINIC. SO THE CONCEPT OF DIAGNOSTICS AND
10 DEVICES IS CLEARLY HERE. I THINK SERVICES, IF THEY'RE
11 REGULATED, THEY BECOME A LOT EASIER FOR US TO GET OUR
12 HANDS AROUND. IF THEY'RE UNREGULATED, THAT'S
13 POTENTIALLY AN AREA THAT WE HAVEN'T THOUGHT THROUGH
14 BECAUSE OF SOME OF THE TERMS AND CONDITIONS HERE. BUT
15 PERHAPS WE COULD DO THAT AT A POINT DOWN THE ROAD.

16 I'M UNFAMILIAR WITH YOUR PRODUCT AREA, SO I
17 DON'T KNOW IF IT'S A REGULATED PRODUCT OR SERVICE OR
18 IF IT WOULD BE JUST A RESEARCH TOOL.

19 MR. SNODGRASS: I WOULD ENCOURAGE THE TASK
20 FORCE TO AT LEAST CONSIDER THE KIND OF COMPANIES THAT
21 ARE DEVELOPING, QUOTE, PRODUCTS, WHETHER THE PRODUCT
22 IS A STEM-CELL BASED SYSTEM THAT PHARMACEUTICAL
23 INDUSTRY TO FACILITATE DRUG DISCOVERY AND DRUG
24 DEVELOPMENT AND (UNINTELLIGIBLE) COMPOUNDS.

25 CHAIRMAN ROTH: I'LL TAKE THAT CERTAINLY AS

BARRISTERS' REPORTING SERVICE

1 SOMETHING WE SHOULD CONSIDER, BUT ONE THOUGHT WOULD BE
2 THAT PERHAPS THAT'S BETTER COVERED WITH GRANTS THAT
3 WOULD MOVE THOSE IDEAS THROUGH. I THINK THERE ARE
4 SOME GRANTS THAT COULD CERTAINLY BE TARGETED AT THAT
5 AREA AS OPPOSED TO WHAT WE HAD IN MIND HERE WITH THE
6 PRODUCT BASED AND THINKING MORE REGULATORY APPROVED
7 PRODUCT.

8 ANY OTHER COMMENTS?

9 MR. SIMPSON: JOHN SIMPSON FROM CONSUMER
10 WATCHDOG. MY QUESTION IS A LITTLE BIT ABOUT THE RFA
11 PROCESS AND HOW YOU ENVISION THAT. WOULD IT BE AN RFA
12 AROUND A PARTICULAR PIECE OF SCIENCE THAT COULD OPEN
13 ITSELF UP FOR EITHER GRANTS OR LOANS, OR WOULD THE RFA
14 JUST ENVISION A RESPONSE FOR A LOAN REQUEST? I'M NOT
15 QUITE SURE IN MY OWN MIND WHAT'S INTENDED THERE.

16 CHAIRMAN ROTH: JOHN, YOU WILL RECALL THAT
17 WE HAD SEVERAL CONVERSATIONS ABOUT THAT WITH THE TASK
18 FORCE AND WITH ADVISORS. WE FELT, AGAIN, THAT SHOULD
19 BE LEFT VERY FLEXIBLE, THAT THEY COULD BE EITHER/OR OR
20 BOTH WITHIN ONE GRANT. AND THE SUBJECT MATTER WILL BE
21 UP TO THE WISDOM OF THE COLLECTIVE PEOPLE THAT MAKE UP
22 WHAT IS IT THAT THE GAPS ARE.

23 I WOULD ADD THAT OUR GOAL AND MISSION WAS TO
24 FUND THE GAPS WHERE THERE WASN'T ADDITIONAL FUNDING
25 AVAILABLE, WHERE THERE WASN'T ADDITIONAL FUNDING

BARRISTERS' REPORTING SERVICE

1 AVAILABLE OR IS VERY DIFFICULT FUNDING TO GET. SO THE
2 MORE KNOWLEDGE WE HAVE, THE MORE THAT GETS FED INTO
3 CIRM, TO ALAN, AND TO OTHERS, THE MORE LIKELY THERE
4 WILL BE AN RFA THAT WILL ADDRESS THAT PARTICULAR AREA.

5 MR. SIMPSON: ONE FURTHER FOLLOW-UP, IF I
6 COULD. I DON'T KNOW IF THIS IS WORKING FOR THE
7 TELEPHONE PEOPLE OR NOT. THIS GOES AROUND THE SIZE OF
8 THE LOANS. I REMEMBER, IT LOOKS AS THOUGH YOU'RE
9 GOING FOR ONE TO FIVE MILLION. I HAD SOME
10 CONVERSATIONS OFF LINE LAST TIME WITH, I THINK HE ALSO
11 BROUGHT UP HIMSELF, THE GENTLEMAN FROM GERON, WHO
12 SEEMED TO BE SUGGESTING MAGNITUDES OF MUCH LARGER SUMS
13 MIGHT BE APPROPRIATE. I'M JUST WONDERING WHETHER
14 THERE'S ANY THOUGHT BEING GIVEN TO GOING BEYOND THE
15 ONE TO \$5 MILLION RANGE?

16 CHAIRMAN ROTH: JOHN, AGAIN, THERE WAS QUITE
17 A BIT OF DISCUSSION AROUND THAT. AND I THINK THE TASK
18 FORCE FELT MOST COMFORTABLE RECOMMENDING A RANGE OF
19 ONE TO FIVE, BUT IT'S NOT PART OF THE POLICY AND
20 LEAVING THAT FLEXIBILITY UP TO CIRM TO DETERMINE AT
21 THE TIME WHETHER THAT NEEDS TO BE 10 OR 20 OR 50. I
22 DON'T THINK WE WANT TO MAKE THAT DECISION AS PART OF
23 THE POLICY. THE POLICY SHOULD REALLY GOVERN WHAT WE
24 DECIDE TO ALLOCATE TO THE LOAN PROGRAM, THE RANGE OF
25 THAT, THE INTEREST RATES, THINGS THAT ARE GOING TO

BARRISTERS' REPORTING SERVICE

1 VARY BASED ON WHAT WE KNOW.

2 THE GOAL HERE WAS TO HAVE A POLICY THAT
3 COULD LIVE FOR A LONG TIME WITHOUT HAVING TO BE
4 UPDATED CONSTANTLY BECAUSE IT HANDICAPPED CIRM AND OR
5 ICOC IN DOING WHAT THEY WANT TO DO.

6 MR. KLEIN: I THINK, JOHN, THE OTHER ISSUE
7 WAS THAT IN THE EARLY TRIALS FOR CELL REPLACEMENT
8 THERAPIES, BECAUSE THE FDA HAS NOT FACED THIS TYPE OF
9 A TRIAL BEFORE, THEY MAY HAVE EXTRAORDINARY LEVELS OF
10 PRECAUTIONARY STEPS PUT INTO IT AND MAY REQUIRE HIGHER
11 AMOUNTS THAN LATER DOWNSTREAM. AND SO THIS PROVIDES
12 THE FLEXIBILITY TO RESPOND TO THAT. BUT IN ANY CASE,
13 THE ISSUE OR THE APPROACH THAT DUANE HAS TAKEN THE
14 TASK FORCE IS, I THINK, A VERY HEALTHY ONE, WHICH IS
15 MILESTONE DRIVEN. SO EVEN IF IT'S A LARGER AMOUNT,
16 YOU ARE GOING TO HAVE INCREMENTS THAT ARE HIGHLY
17 CONTROLLED ALONG THE WAY. SO YOU MIGHT BUILD UP TO A
18 LARGER AMOUNT OVER TIME, BUT BASED UPON MEETING
19 MILESTONES THAT PROVE YOU'RE MAKING PROGRESS TOWARDS
20 THE GOAL.

21 IN THAT REGARD, DUANE, COULD YOU OR MICHAEL
22 OR ANYONE ELSE OR CHRIS GIVE US SOME SENSE OF IF YOU
23 WANTED FOUR OR FIVE MILESTONES ON A PHASE 1A OR PHASE
24 1B, WHAT WOULD THOSE MILESTONES BE AS A SUGGESTION?
25 IT'S GOING TO VARY SUBSTANTIALLY BY WHAT THE THERAPY

BARRISTERS' REPORTING SERVICE

1 IS, BUT JUST SOME EXAMPLES GIVEN A HYPOTHETICAL SET OF
2 FACTS.

3 CHAIRMAN ROTH: ONE OF THE BIGGEST
4 VARIABLES, BOB, IS ENROLLMENT RATES, THE ASSUMPTIONS
5 ON THE ENROLLMENT RATES. THAT COULD BE ONE THAT,
6 AFTER YOU'VE ENROLLED X NUMBER OF PATIENTS, YOU CAN
7 PULL DOWN YOUR SECOND MILESTONE. BUT THESE, AGAIN,
8 WILL BE LEFT TO THE APPLICANTS TO DESCRIBE WHAT THEY
9 THINK ARE THE VALID MILESTONES, AND THAT WILL BE
10 EVALUATED BY THE OUT-OF-STATE EXPERTS, WHO WILL COME
11 BACK AND SAY THIS IS REASONABLE OR THIS DOESN'T MAKE
12 SENSE TO US. BUT I THINK THAT'S WHAT WE WANT IS TO
13 HAVE PEOPLE TELL US HOW WE WILL KNOW WHEN YOUR NEXT
14 TRANCHE SHOULD BE PULLED DOWN, YOUR NEXT MILESTONE.
15 AND THEN WE CAN DETERMINE HOW CLEAR THAT IS AS OPPOSED
16 TO WHEN WE TELL YOU WE NEED IT, WHICH I'M SURE A LOT
17 OF THEM WOULD LIKE TO DO. THAT WILL PUT THE ONUS ON
18 THE COMPANIES THAT ARE APPLYING FOR THE LOANS TO TELL
19 US WHAT THE REAL MILESTONES ARE.

20 OTHER COMMENTS FROM TASK FORCE OR FROM
21 MEMBERS OF THE PUBLIC?

22 MR. ADAMS: I'M BILL ADAMS, INTERNATIONAL
23 STEM CELL CORPORATION. ON YOUR MATCHING FUNDS, ARE WE
24 GOING TO GET A MORE PRECISE DEFINITION OF WHAT THAT
25 IS? AND IN TERMS OF MATCHING FUNDS FOR A FOR-PROFIT

BARRISTERS' REPORTING SERVICE

1 COMPANY, WOULD THAT BE WE HAVE FUNDS AVAILABLE, OR
2 WOULD THEY BE RESTRICTED FUNDS THAT WE WOULD HAVE TO
3 MAKE AVAILABLE TO MATCH THE GRANT? AND HOW WOULD THE
4 TIMING WORK? WOULD IT BE MATCHING AT THE TIME OF A
5 DRAW-DOWN FROM CIRM?

6 AND MY OTHER QUESTION WOULD BE HOW'S THAT
7 GOING TO WORK FOR ACADEMIA? ARE THEY GOING TO MATCH
8 WITH GRANT MONEY OR SOMETHING ELSE?

9 CHAIRMAN ROTH: SO LET ME TRY AND TAKE A
10 SHOT AT THE FIRST PART OF THAT. IN TERMS OF THE
11 MILESTONE MATCH, WHEN YOU PRESENT YOUR BUSINESS PLAN
12 TO US FOR THIS PRODUCT, THIS PRODUCT PLAN, AND HOW
13 IT'S GOING TO EVOLVE, AND IF YOU'RE ASKING FOR
14 PRECLINICAL PHASE 1A, PHASE 1B, FOR EXAMPLE, YOU WOULD
15 TELL US IN EACH PHASE WHAT'S THE TOTAL COST THAT YOU
16 ESTIMATE TO COMPLETE THAT PHASE, HOW MUCH ARE YOU
17 ASKING US FOR, AND WHERE WILL THE REST COME FROM, AND
18 WHEN WILL WE KNOW YOU HAVE IT? SO IT'S REALLY UP TO
19 YOU TO SAY WE NEED \$2 MILLION TO DO THE PHASE 2B,
20 WE'RE ASKING YOU FOR A MILLION, AND WE WILL HAVE
21 SECURED AND HAVE AVAILABLE RESOURCES TO DO THAT SECOND
22 MILLION.

23 AND, AGAIN, I THINK THE THOUGHT PROCESS IS
24 THAT'S LEVERAGE IF YOU'RE OUT HAVING HAVE TO RAISE
25 THAT MONEY, THAT YOU HAVE A MILLION IF YOU CAN GET A

BARRISTERS' REPORTING SERVICE

1 SECOND MILLION TO GO WITH IT, THEY DON'T HAVE TO PUT
2 UP THE FULL TWO MILLION. THIS IS PRETTY NONDILUTED
3 EXCEPT FOR THE WARRANTS.

4 MR. ADAMS: WE'D BE TALKING ABOUT MORE
5 TRANCHE DRIVEN THAN THE WHOLE PROGRAM.

6 CHAIRMAN ROTH: RIGHT.

7 MR. ADAMS: IF I WAS BORROWING \$5 MILLION, I
8 WOULDN'T NEED TO HAVE FIVE MILLION RESTRICTED FUNDS
9 SITTING IN THE BANK.

10 CHAIRMAN ROTH: BEFORE YOU GET THE NEXT
11 TRANCHE, YOU HAVE TO HAVE WHAT YOU NEED TO COMPLETE
12 THE PROGRAM, NOT JUST TO BEGIN IT SO THAT WE HAVE A
13 GOOD UNDERSTANDING THAT YOU, IN FACT, CAN RAISE THE
14 MONEY NECESSARY TO COMPLETE THAT PHASE. I THINK THAT
15 WILL BE PRETTY CLEAR.

16 IN TERMS OF THE COMPANY OR THE INSTITUTIONS,
17 THE FEEDBACK I GOT FROM THE INSTITUTIONS FROM THE TECH
18 TRANSFER PROFESSIONALS IS IT WOULD BE HIGHLY UNUSUAL
19 FOR THEM TO HAVE A FACULTY MEMBER THAT HADN'T STARTED
20 A COMPANY TO BE ABLE TO APPLY FOR THIS. WHETHER THE
21 INSTITUTIONS WOULD EVER DO THAT, IN FACT, IS
22 QUESTIONABLE, NO. 1. BUT, TWO, IF THEY DID, THEY
23 WOULD HAVE AGAIN TO SECURE, IF THEY TOLD US THEY
24 NEEDED MORE MONEY, THEY WOULD HAVE HAD TO FORM A
25 COMPANY AND RAISE SOME ADDITIONAL MONEY BY THAT TIME,

BARRISTERS' REPORTING SERVICE

1 I WOULD THINK.

2 MR. KLEIN: DUANE, I THINK JUST TO REFLECT
3 ON YOUR COMMENT, THE PIVOT -- THE KEY POINT WAS, AS
4 YOU STATED EARLIER, WITH EACH STAGE, IN ORDER TO DRAW
5 DOWN ANY FUNDS WITHIN THAT STAGE, YOU NEED THE
6 MATCHING FUNDS FOR THAT STAGE. AND THEORETICALLY AT
7 LEAST YOU COULD ALSO WITH THE BANK HAVE A
8 MILESTONE-DRIVEN COMMITMENT THAT WOULD BE A LINE OF
9 CREDIT AVAILABLE TO YOU WITHIN EACH PHASE AS YOU GOT
10 TO THAT PHASE. NOW, BANKS AREN'T GOING TO GO OUT VERY
11 FAR BECAUSE THEY'RE GOING TO WANT TO EVALUATE THE
12 PRIOR PHASE.

13 CHAIRMAN ROTH: THAT WOULD BE A NEW TYPE OF
14 FINANCING IN MY EXPERIENCE IN THE BIOTECH AREA.

15 MR. KLEIN: THEORETICALLY, WITH VENTURE
16 CAPITAL ACCOMPANYING A BANK LINE, YOU THEORETICALLY
17 COULD HAVE MORE THAN A ONE PHASE GIVEN THAT THERE WERE
18 OBJECTIVE STANDARDS YOU HAD TO MEET IN THE PRIOR
19 PHASE.

20 MR. ADAMS: REMEMBER WITH REGARD TO BANKS,
21 WE ARE IN THE VALLEY OF DEATH AT THIS MOMENT.

22 CHAIRMAN ROTH: ANY OTHER COMMENTS FROM THE
23 AUDIENCE? OKAY.

24 I HAVE A NUMBER OF THINGS THAT I TOOK AS
25 SORT OF TO FOLLOW-UP ITEMS THAT WE'RE GOING TO DO, BUT

BARRISTERS' REPORTING SERVICE

1 I DON'T THINK AFFECT OUR ABILITY TO VOTE ON THIS
2 POLICY TODAY. ONE IS TO HAVE A LOOK AT THE STATIC
3 VERSUS DYNAMIC MODELING THAT FLOYD AND BOB BOTH TALKED
4 ABOUT.

5 THE WARRANT COVERAGE IS ONE THAT I WOULD
6 LIKE SOME INPUT ABOUT WHETHER WE REALLY WANT TO MOVE
7 TO SOMETHING MORE COMPLEX OR KEEP IT SIMPLE. I THINK
8 MICHAEL AND I FAVOR THAT IF YOU COULDN'T HEAR FROM OUR
9 COMMENTS, BUT I'D BE INTERESTED IN THE OTHER TASK
10 FORCE MEMBERS' OPINION ABOUT WHETHER THAT'S SOMETHING
11 WE SHOULD ENTER INTO.

12 DR. BLOOM: I THINK WE SHOULD STAY SIMPLE.

13 CHAIRMAN ROTH: FLOYD SAYS STAY SIMPLE.

14 MR. SHEEHY: SIMPLE.

15 MR. KLEIN: I'D LIKE TO ASK A QUESTION ABOUT
16 WHAT'S BEEN DESCRIBED HERE SO I CAN UNDERSTAND WHAT IS
17 PROPOSED.

18 IT SAYS THE WARRANTS, IN THE LAST LINE IN
19 THE PARENTHETICAL PHRASE, WILL BE EXERCISED REGARDLESS
20 OF WHETHER OR NOT THE LOAN ULTIMATELY IS PAID BACK.
21 NOW, SO WHAT CASE IS THAT CONTEMPLATING? AND THEN
22 HAVE I A SECOND QUESTION AFTER I UNDERSTAND THE ANSWER
23 TO THE FIRST QUESTION.

24 CHAIRMAN ROTH: SO THAT WOULD DEAL WITH THE
25 RECOURSE LOANS WHERE THEY ABANDON THE PRODUCT THAT

BARRISTERS' REPORTING SERVICE

1 THEY ASKED US TO FUND. THOSE WARRANTS ARE STILL OURS.
2 IT'S ALSO TRUE OF THE NONRECOURSE LOANS. THEY COULD
3 ABANDON THE PRODUCT; THEY DON'T OWE US THE LOAN BACK.
4 THEY DON'T OWE US THE LOAN BACK, BUT WE STILL HAVE THE
5 WARRANTS. SO THE COMPANY COULD HAVE THREE OR FOUR
6 PROGRAMS GOING ON. THE ONE WE HAPPEN TO MAKE THE
7 LOANS AGAINST, THAT PRODUCT FAILED, WENT COMPLETELY
8 OUT, SO THEY GIVE US NOTICE THAT THIS IS NO LONGER A
9 PRODUCT, WE'RE NOT DOING ANYTHING WITH THE IP, IT'S
10 DEAD, SO WE DON'T OWE YOU THAT, BUT OUR WARRANTS ARE
11 STILL GOOD BECAUSE THE COMPANY COULD SURVIVE AND GO ON
12 TO DO OTHER THINGS.

13 MR. KLEIN: I HAD THOUGHT THAT, KEEPING IT
14 SIMPLE, THAT IN THE NONRECOURSE SITUATION, WE WERE
15 GOING TO HAVE WARRANTS THAT WERE CONDITIONAL UPON THAT
16 PROGRAM GOING FORWARD, BUT THAT'S NOT THE CASE?

17 CHAIRMAN ROTH: THAT'S NOT THE CASE. THOSE
18 WARRANTS ARE IN THE COMPANY AND WE OWN IT FOREVER, NOT
19 THE PRODUCT.

20 MR. KLEIN: OKAY.

21 CHAIRMAN ROTH: THAT'S VERY IMPORTANT TO
22 THIS MODEL. OTHERWISE, REMEMBER, WE'RE TAKING
23 ENORMOUS RISK AT THE PHASES WE'RE AT. SO IF SOMEBODY
24 SAYS I DON'T WANT TO TAKE A RISK ON MY COMPANY, I WANT
25 TO TAKE IT JUST ON THIS PRODUCT, AND IF THE PRODUCT

BARRISTERS' REPORTING SERVICE

1 DOESN'T WORK, I'M WALKING AWAY FROM THE LOAN. FOR
2 THAT, THEY'RE SAYING, YEAH, YOU CAN HAVE THE WARRANTS
3 THAT COVER THAT.

4 MR. KLEIN: NOW, IF YOU ENTER INTO A
5 MILESTONE-DRIVEN PROGRAM, DO THE WARRANTS ONLY ARISE
6 PRO RATA WITH EACH MILESTONE, OR DO THEY ARISE AT THE
7 BEGINNING OF THE COMMITMENT?

8 CHAIRMAN ROTH: PRO RATA WITH EACH
9 MILESTONE. SO IF IT'S A \$5-MILLION TRANCHE,
10 MILESTONE-DRIVEN LOAN, THE FIRST MILLION IS BASED ON
11 YOUR LAST FINANCING. SO YOU GIVE US A MILLION DOLLARS
12 WORTH OF WARRANT COVERAGE. IF IT'S A DOLLAR A SHARE,
13 IT'S A MILLION WARRANTS AT A BUCK. AND THEN IF THE
14 NEXT ONE COMES ALONG AND IT'S A \$2-MILLION TRANCHE AND
15 YOU HAVEN'T DONE ANOTHER FINANCING, WE GET TWO MILLION
16 MORE SHARES. BUT IF YOU'VE DONE A FINANCING AND IT
17 WENT TO A DOLLAR AND A HALF, WE GET \$2 MILLION WORTH
18 AT A DOLLAR AND A HALF. SO IT KEEPS CLIMBING UP
19 THERE. SO WE'RE SAYING IF YOU DON'T PULL DOWN THE
20 WHOLE AMOUNT, YOU DON'T OWE US \$5 MILLION WORTH OF
21 WARRANT COVERAGE. YOU OWE US A MILLION DOLLARS.

22 MR. KLEIN: ALL RIGHT. WELL, MY CRITICAL
23 ISSUE IS NOT MAKING COMMITMENTS THAT ARE FREE
24 COMMITMENTS. WE DON'T MAKE IT IN ANY OTHER AREA OF
25 LENDING. AND IF WE DON'T ATTACH A PRICE UP FRONT WHEN

BARRISTERS' REPORTING SERVICE

1 YOU TAKE OUT A COMMITMENT, AS THE CHIEF FINANCIAL
2 OFFICER OF A COMPANY, I WOULD BE ABSOLUTELY DERELICT
3 NOT TO ASK FOR THE LARGEST AMOUNT THAT I WOULD THINK I
4 COULD POSSIBLY NEED, WHICH RUNS COMPLETELY COUNTER TO
5 OUR OBJECTIVES.

6 SO MY VIEW IS THAT IF YOU HAVE A HUNDRED
7 PERCENT WARRANT COVERAGE BECAUSE IT'S NONRECOURSE, YOU
8 MIGHT SAY THAT WHEN YOU PULL DOWN YOUR COMMITMENT,
9 EVEN IF YOU DON'T EXERCISE THE LATER STAGES, YOU STILL
10 HAVE 10 PERCENT WARRANT COVERAGE ON THE FULL AMOUNT
11 THAT YOU'RE RESPONSIBLE FOR, WHICH CREATES A
12 DISINCENTIVE TO CREATE VERY HIGH LEVELS OF DEMAND THAT
13 TIE UP, PARALYZING SIGNIFICANT PORTIONS OF OUR
14 PORTFOLIO THAT REALLY MAY NOT BE NECESSARY FOR THE
15 PROGRAM. THIS CREATES AN INTERNAL DISCIPLINE, AN
16 ECONOMIC DISCIPLINE, TO ONLY ASK FOR WHAT YOU NEED
17 BECAUSE THERE'S A PRICE TO ASKING FOR TOO MUCH.

18 CHAIRMAN ROTH: WHICH, ON THE OTHER HAND,
19 DEFEATS THE PURPOSE OF NOT HAVING PEOPLE HAVE TO COME
20 BACK FOR RFA AFTER RFA. LET ME TRY TO JUST ADDRESS.
21 WE STARTED OUT WITH 50 PERCENT WARRANT COVERAGE ON THE
22 NONRECOURSE LOANS. AND TO GET AROUND HAVING TO DO
23 THIS AND LOOKING AT THE MILESTONES, WE DECIDED JUST TO
24 MAKE IT A HUNDRED PERCENT RIGHT FROM THE BEGINNING.

25 IF WE GO BACK AND SAY FIVE MILLION IS YOUR

BARRISTERS' REPORTING SERVICE

1 TOTAL, YOU HAVE THREE TRANCHES, ONE, TWO, AND THREE
2 MILLION AND, BY THE WAY, YOU GOT TO GIVE US THE
3 WARRANTS ON ALL FIVE MILLION, I CAN ASSURE YOU THAT
4 INDUSTRY IS GOING TO SAY THAT IS WAY TOO EXPENSIVE.

5 MR. KLEIN: WAIT A MINUTE. I'M NOT
6 SUGGESTING -- YOU'VE GOT THIS HUNDRED PERCENT WARRANT
7 REQUIREMENT ON NONRECOURSE. I'M SUGGESTING THAT 90
8 PERCENT OF THAT AT EACH TRANCHE ONLY BECOME EFFECTIVE
9 WHEN THE TRANCHE IS UTILIZED; BUT WHEN YOU TAKE OUT A
10 COMMITMENT, 10 PERCENT FOR THE TOTAL AMOUNT OF THE
11 COMMITMENT IS EFFECTIVE.

12 CHAIRMAN ROTH: SO 10 PERCENT ON A FIVE
13 MILLION VERSUS A HUNDRED PERCENT ON A MILLION.

14 MR. KLEIN: THAT'S RIGHT.

15 CHAIRMAN ROTH: HOW MANY WARRANTS DO YOU
16 GET?

17 MR. KLEIN: YOU GET THE EQUIVALENT OF 10
18 PERCENT ON THE \$5 MILLION.

19 CHAIRMAN ROTH: ON THE FOUR MILLION AND YOU
20 GET A HUNDRED PERCENT ON THE ONE MILLION.

21 MR. GOLDBERG: I THINK WHAT BOB IS TRYING TO
22 ARTICULATE, AND TELL ME IF I MISUNDERSTAND, BOB,
23 TRYING TO CREATE A PROPORTIONATE ADD SO THAT THERE'S A
24 NONLINEAR PATH TO EARLY DISCONTINUANCE.

25 MR. KLEIN: CAN YOU REPEAT THAT? IT'S

BARRISTERS' REPORTING SERVICE

1 DIFFICULT TO HEAR.

2 MR. GOLDBERG: SO, BOB, ARE YOU TRYING TO --
3 ARE YOU PROPOSING THAT CONCEPTUALLY RIGHT NOW THE
4 WARRANT COVERAGE IS CONSUMED LINEARLY WITH THE LOAN
5 DOLLARS? AN APPLICANT TAKES OUT LOAN DOLLARS AND THE
6 CIRM GETS OUR PRICE TO TAKE THOSE LOANS DOWN. SO ARE
7 YOU PROPOSING A FORMULATION THAT WOULD CREATE A
8 DISPROPORTIONATE AMOUNT OF WARRANT COVERAGE TAKE-DOWN
9 IN THE EARLY YEARS IF THE SUBSEQUENT YEARS DID NOT
10 FALL IN LINE WITH THE ORIGINAL FUNDING PLAN, OR MAYBE
11 A WARRANT CONVERSION PENALTY?

12 MR. KLEIN: NO. I THINK DUANE STATED IT
13 CORRECTLY IS THAT IF YOU HAVE A \$5-MILLION COMMITMENT
14 THAT'S MILESTONE DRIVEN, FIVE MILESTONES, WHEN YOU
15 TAKE DOWN THE FIRST MILLION AND IT'S A HUNDRED PERCENT
16 WARRANT COVERAGE, YOU WILL HAVE TO PROVIDE THAT
17 HUNDRED PERCENT WARRANT COVERAGE ON THE FIRST MILLION.
18 BUT YOU CONCURRENTLY PROVIDE 10 PERCENT WARRANT
19 COVERAGE ON THE ADDITIONAL FOUR MILLION SO THAT THERE
20 IS A COST TO THE COMMITMENT OF FUNDS, THUS TYING UP
21 CAPACITY.

22 MR. GOLDBERG: (UNINTELLIGIBLE.)

23 CHAIRMAN ROTH: OKAY. OTHER THOUGHTS OR
24 COMMENTS ON THAT? PUBLIC, ANYBODY WANT TO VENTURE IN
25 THAT HAS WARRANT EXPERIENCE? OKAY.

BARRISTERS' REPORTING SERVICE

1 SO THAT'S AN AREA THAT WE CAN DISCUSS IN
2 MORE DETAIL GOING FORWARD, AND I'LL PROBABLY ASK THE
3 COMMITTEE TO LET US MAKE THAT DETERMINATION AFTER WE
4 GET A LITTLE MORE INPUT AND HAVE A LITTLE MORE
5 DISCUSSION AND NOT HAVE IT DELAY OUR DECISIONS TO MOVE
6 FORWARD ON THIS. THERE WILL BE TWEAKS AS THERE WAS
7 WITH THE IP POLICY. WE'RE GOING TO GET ADDITIONAL
8 COMMENTS. IT'S CLEAR TO ME THAT WE'RE GOING TO DO
9 THAT. WE'LL TAKE A LOOK AT WHETHER WE CAN MAKE THAT
10 AS AN INCENTIVE TO KEEP PEOPLE HONEST AND TO MAKE SURE
11 THAT THEY DON'T ASK FOR MORE THAN WHAT THEY ACTUALLY
12 NEED.

13 SO PUBLIC COMMENTS?

14 MR. SIMPSON: A QUESTION ON THAT. WHAT
15 WOULD HAPPEN THEN YOU TOOK YOUR SECOND TRANCHE? WOULD
16 YOU THEN PAY 90 PERCENT ON THAT AND THEN ANOTHER 10 ON
17 THE REMAINING?

18 MR. KLEIN: NO. YOU TAKE 90 PERCENT WHEN
19 YOU TAKE YOUR SECOND TRANCHE. ON THE THIRD TRANCHE
20 AND THE FOURTH TRANCHE AND THE FIFTH TRANCHE, YOU
21 WOULD HAVE ALREADY BEEN COMMITTED TO 10 PERCENT. AND
22 SO WHEN YOU TOOK EACH ONE OF THOSE TRANCHES, THE OTHER
23 90 PERCENT.

24 MR. SIMPSON: BUT YOU WOULDN'T PAY 90 ON THE
25 SECOND AND ANOTHER ADDITIONAL 10 ON THE --

BARRISTERS' REPORTING SERVICE

1 MR. KLEIN: NO. NO.

2 CHAIRMAN ROTH: THE OTHER POINT THAT I WOULD
3 MAKE, AND THIS IS AN IMPORTANT ONE, IS THE TERM OF
4 THESE WARRANTS IS TEN YEARS. THAT'S WHAT THE WARRANT
5 AGREEMENT ASKED FOR AND REQUIRES. SO A TEN-YEAR
6 WARRANT, AS THEY'RE MILESTONE DRIVEN, YOU HAVE A
7 LONGER TIME OUT IN THE FUTURE TO EXERCISE THOSE. SO
8 IT'S NOT ALWAYS AN ADVANTAGE TO GET THEM ALL UP FRONT
9 BECAUSE YOU WANT TIME FOR SUCCESS TO TAKE PLACE, AND
10 THAT'S WHAT'S PROBABLY GOING TO BE REQUIRED ON THE
11 THERAPEUTIC END AT ANY RATE.

12 OKAY. I THINK FROM MY STANDPOINT WE'VE
13 COVERED ALMOST EVERYTHING THAT WE NEEDED TO DISCUSS
14 TODAY. I HAD JUST A COUPLE OF ADDITIONAL THINGS THAT
15 I'D LIKE TO DO, AND THAT IS TO THANK THE STAFF, IN
16 PARTICULAR SCOTT TOCHER, WHO'S DONE A FANTASTIC JOB OF
17 KEEPING US, IN THE WRITTEN DOCUMENTS AND OTHER THINGS
18 THAT WE PUT TOGETHER, KEEPING US GOING. AND I REALLY
19 APPRECIATE THE HELP HE'S GIVEN US. AND THIS WOULD NOT
20 HAVE HAPPENED WITHOUT LYNN. LYNN HARWELL HAS DONE A
21 YEOMAN'S JOB OF PINGING ME EVERY OTHER DAY WHEN I
22 WASN'T GIVING HER WHAT SHE WANTED AND WORKED FANTASTIC
23 WITH ME AND THE TASK FORCE. AND WE REALLY THANK YOU
24 BOTH FOR THAT.

25 AND THEN, AGAIN, I WANT TO JUST MENTION

BARRISTERS' REPORTING SERVICE

1 PRICEWATERHOUSE AND THE JOB THEY DID. IT'S FAR
2 EXCEEDED MY EXPECTATION. AND CHRIS AND EVERYONE THAT
3 WORKED ON THAT, THANK YOU.

4 AND THEN WELCOME NANCY TO THE TEAM.

5 SO WITH THAT BEING SAID --

6 MR. KLEIN: BEFORE THAT, I THINK, DUANE, WE
7 ALL OWED A GREAT DEAL OF GRATITUDE FOR YOU FOR LEADING
8 THIS BECAUSE THIS AN EXTREMELY IMPORTANT MODEL. IT
9 WAS DONE EXTRAORDINARILY WELL AND IN A SHORT TIME
10 PERIOD, AND WE ARE VERY GRATEFUL.

11 CHAIRMAN ROTH: THANK YOU.

12 MR. GOLDBERG: I SECOND THAT.

13 CHAIRMAN ROTH: THANK YOU BOTH. FROM THE
14 AUDIENCE WE HAVE A COMMENT, AND THEN WE'RE GOING TO
15 TAKE A VOTE.

16 MR. ADAMS: ONE LAST COMMENT. I WOULD THINK
17 FROM OUR PERSPECTIVE, WE'RE GOING TO HAVE TO TAKE A
18 VERY, VERY HARD LOOK AT A HUNDRED PERCENT WARRANT
19 COVERAGE.

20 MR. GOLDBERG: WE CAN'T HEAR YOU.

21 CHAIRMAN ROTH: THE POINT THAT WAS BEING
22 RAISED IS THE HUNDRED PERCENT WARRANT COVERAGE, AND
23 THAT THAT WOULD BE SOMETHING THEY'D HAVE TO TAKE A
24 HARD LOOK ON. LET ME JUST EXPLAIN THAT. IT'S A
25 HUNDRED PERCENT OF THE LOAN AMOUNT, THE LOAN AMOUNT,

BARRISTERS' REPORTING SERVICE

1 AND IT'S CAPPED AT 20 PERCENT. IF YOU EXERCISE THAT,
2 IT COULDN'T BE GREATER THAN 20 PERCENT OF YOUR
3 COMPANY. I THINK IT'S QUITE REASONABLE. IT'S NOT
4 SOMETHING WHERE WE'RE ASKING FOR A HUNDRED PERCENT OF
5 THE COMPANY COVERAGE. IT'S OF THE LOAN AMOUNT. AND
6 THAT'S PRETTY STANDARD IN TERMS OF RISK PROFILE FOR
7 WHAT WE WERE ABLE TO UNCOVER OUT THERE.

8 THE OPTION IS, OF COURSE, TO DO THE
9 10-PERCENT RECOURSE. SO IF THE LOANS BECOME ONEROUS
10 TO COMPANIES, THEY CAN DO A RECOURSE LOAN WHERE THEY
11 AGREE TO PAY IT BACK, BUT THEY GET VERY LITTLE LOAN
12 COVERAGE.

13 OKAY. WHAT I'D LIKE TO DO IS ENTERTAIN A
14 MOTION TO APPROVE THIS DRAFT DOCUMENT AND SEND IT ON
15 TO THE FINANCE COMMITTEE.

16 DR. BLOOM: SO MOVED.

17 CHAIRMAN ROTH: IT'S BEEN MOVED BY FLOYD.

18 MR. KLEIN: SECONDED.

19 CHAIRMAN ROTH: SECOND BY BOB. ANY FURTHER
20 DISCUSSION?

21 MR. SHEEHY: IT DOESN'T GO TO THE ICOC?

22 CHAIRMAN ROTH: IT'S GOES TO THE FINANCE
23 COMMITTEE.

24 MR. KLEIN: AND THEN THE ICOC.

25 CHAIRMAN ROTH: YES, IT WILL GO TO THE ICOC.

BARRISTERS' REPORTING SERVICE

1 MR. SIMPSON: SO THE ICOC WOULD GET THIS
2 AUGUST MEETING PROBABLY, SOMETHING LIKE THAT.

3 CHAIRMAN ROTH: WE'LL DO IT JUST AS FAST AS
4 WE CAN. THERE'S AN EXTREME NEED TO GET THIS IN PLACE.
5 I THINK FROM THE INDUSTRY STANDPOINT, THERE'S A LOT OF
6 PEOPLE HURTING OUT THERE TRYING TO MOVE THINGS AHEAD,
7 AND FINANCING HAS BEEN DIFFICULT. SO EVERYTHING WE
8 CAN DO, AND I'M GOING TO PUSH SCOTT AND THE PEOPLE
9 INTERNALLY TO KEEP THIS THING ON AS FAST A TRACK AS WE
10 CAN.

11 AND, SECOND, BOB INFORMS THAT WE CAN REALLY
12 ADOPT THE POLICY AFTER ICOC APPROVAL ON AN INTERIM OR
13 EMERGENCY BASIS, WHICH I THINK WE'RE IN. WE'LL TAKE A
14 LOOK AT THAT.

15 MR. ADAMS: HOW DOES THIS FIT IN WITH -- WE
16 HAVE AN FAR THAT WAS SUPPOSED TO COME OUT LAST MONTH
17 ON TOOLS. THERE'S SUPPOSED TO BE AN FAR COMING OUR ON
18 TOOLS, I GUESS.

19 CHAIRMAN ROTH: RFA.

20 MR. ADAMS: RFA. HOW DOES ALL THIS FIT IN
21 TOGETHER WITH THE LOAN PROGRAM IN TERMS OF TIMING AND
22 WHEN WE CAN APPLY?

23 CHAIRMAN ROTH: AGAIN, MAYBE, PAT, CAN YOU
24 ANSWER? PAT OLSON IS GOING TO ANSWER THE QUESTION.

25 DR. OLSON: THE RFA FOR TOOLS AND TECHNOLOGY

BARRISTERS' REPORTING SERVICE

1 SHOULD BE OUT EITHER TODAY OR TOMORROW. I'M AFRAID
2 THE LOAN PROGRAM IS NOT QUITE ON THE SAME TIME LINE,
3 SO IT WILL NOT BE AN OPTION FOR THIS PARTICULAR RFA.

4 CHAIRMAN ROTH: IT WILL BE A GRANT PROGRAM.

5 DR. OLSON: THIS IS A GRANT PROGRAM,
6 EXACTLY. IT'S AVAILABLE TO COMPANIES.

7 CHAIRMAN ROTH: GOOD. ANY OTHER DISCUSSION
8 OR PUBLIC COMMENT? ALL IN FAVOR. ANY OPPOSED?
9 SOUNDS LIKE IT'S UNANIMOUS.

10 AGAIN, THANK THE TASK FORCE FOR ALL THE HELP
11 AND SUPPORT YOU'VE GIVEN AND CERTAINLY, AGAIN, TO THE
12 STAFF.

13 MR. KLEIN: THANK YOU. SHOULD WE ASK
14 COUNSEL WHETHER THERE'S ANY SPECIAL DIRECTIONS OR
15 ANYTHING ELSE WE NEED TO DO HERE?

16 MR. TOCHER: ON THE AGENDA?

17 CHAIRMAN ROTH: PROCESSWISE.

18 MR. TOCHER: PROCESSWISE, NO. IT'S OFF TO
19 THE FINANCE COMMITTEE.

20 MR. KLEIN: AGAIN, I THINK WE SHOULD GIVE A
21 BIG ROUND OF APPLAUSE TO DUANE AND THE STAFF FOR A
22 TREMENDOUS JOB HERE.

23 (APPLAUSE.)

24 MR. KLEIN: ALONG WITH A SEPARATE HAND OF
25 APPLAUSE FOR PWC THAT CONTRIBUTED A SUBSTANTIAL AMOUNT

BARRISTERS' REPORTING SERVICE

1 OF TIME IN ADDITION TO WHAT THEY' RE BEING PAID HERE.
2 SO SPECIAL APPLAUSE FOR THE COMMITMENT TO THE GOALS
3 AND MISSION AND THE TREMENDOUS EFFORT PUT OUT BY PWC.

4 (APPLAUSE.)

5 CHAIRMAN ROTH: WE STAND ADJOURNED.

6 (THE MEETING WAS THEN ADJOURNED AT
7 02: 32 P. M.)

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BARRISTERS' REPORTING SERVICE

REPORTER'S CERTIFICATE

I, BETH C. DRAIN, A CERTIFIED SHORTHAND REPORTER IN AND FOR THE STATE OF CALIFORNIA, HEREBY CERTIFY THAT THE FOREGOING TRANSCRIPT OF THE PROCEEDINGS BEFORE THE BIOTECH LOAN PROGRAM TASK FORCE OF THE INDEPENDENT CITIZEN'S OVERSIGHT COMMITTEE OF THE CALIFORNIA INSTITUTE FOR REGENERATIVE MEDICINE IN THE MATTER OF ITS REGULAR MEETING HELD AT THE LOCATION INDICATED BELOW

THE LUXE HOTEL
SUNSET BALLROOM
11461 SUNSET BOULEVARD
LOS ANGELES, CALIFORNIA
ON
TUESDAY, MAY 6, 2008

WAS HELD AS HEREIN APPEARS AND THAT THIS IS THE ORIGINAL TRANSCRIPT THEREOF AND THAT THE STATEMENTS THAT APPEAR IN THIS TRANSCRIPT WERE REPORTED STENOGRAPHICALLY BY ME AND TRANSCRIBED BY ME. I ALSO CERTIFY THAT THIS TRANSCRIPT IS A TRUE AND ACCURATE RECORD OF THE PROCEEDING.



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