#### BEFORE THE LOAN 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: PAUL BREST HALL, MUNGER COMPLEX STANFORD UNIVERSITY STANFORD, CALIFORNIA
- DATE: WEDNESDAY, DECEMBER 9, 2009 12 P.M.
- REPORTER: BETH C. DRAIN, CSR CSR. NO. 7152
- BRS FILE NO.: 86238

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1	STANFORD, CALIFORNIA; WEDNESDAY, DECEMBER 9, 2009
2	12:00 PM
3	
4	CHAIRMAN ROTH: IF I COULD GET MY FELLOW
5	TASK FORCE MEMBERS TO FIND THEIR SEAT. IT'S
6	INTERESTING THAT ALL OUR INVITED SPEAKERS ARE READY
7	TO GO HERE. SO WELCOME TO ANOTHER MEETING OF THE
8	LOAN TASK FORCE. I'M GOING TO CALL THE MEETING TO
9	ORDER AND ASK MELISSA, AS SHE'S MAKING HER WAY
10	THERE, TO READ THE ROLL CALL.
11	MS. KING: ALL RIGHT. FLOYD BLOOM. MARCY
12	FEIT. MICHAEL GOLDBERG.
13	MR. GOLDBERG: HERE.
14	MS. KING: BOB KLEIN. TED LOVE. ED
15	PENHOET. DUANE ROTH.
16	CHAIRMAN ROTH: HERE.
17	MS. KING: JEFF SHEEHY.
18	MR. SHEEHY: HERE.
19	MS. KING: OSWALD STEWARD.
20	AND, CHAIRMAN ROTH, I KNOW THAT SEVERAL
21	OTHER MEMBERS ARE PLANNING TO BE HERE IN PERSON, BUT
22	THEY MAY BE SLIGHTLY DELAYED, LIKE YOUR PLANE WAS,
23	SO I SUGGEST MAYBE GETTING STARTED AND HOPE THEY
24	JOIN US AS SOON AS POSSIBLE.
25	CHAIRMAN ROTH: THANK YOU. I'M GOING TO
	3

1	START JUST BY GIVING A BRIEF OVERVIEW OF THE PURPOSE
2	OF TODAY'S MEETING AND THEN A LITTLE HISTORICAL
3	BACKGROUND AND CONTEXT FOR OUR DISCUSSION. WE BEGAN
4	THIS PROCESS AS A TASK FORCE IN 2007, TWO YEARS AGO.
5	DECEMBER WAS OUR FIRST MEETING. AND WE WERE TASKED
6	WITH THE INSIGHT INTO HOW WE SHOULD DESIGN A LOAN
7	PROGRAM IN TERMS OF HOW WE MIGHT IMPLEMENT IT AS
8	PART OF THE HELP FOR ADVANCING PRODUCTS THROUGH
9	EARLY STAGE AND CLINICAL TRIALS.
10	AND FOR THOSE OF YOU THAT MAY NOT KNOW,
11	PROPOSITION 71 DEALT WITH BOTH GRANTS AND LOANS. SO
12	THIS WAS ALWAYS CONTEMPLATED AS AN IMPORTANT PART OF
13	THE \$3 BILLION INITIATIVE. SO THE HISTORY OF THE
14	TASK FORCE WAS TO COME UP WITH RECOMMENDATIONS,
15	INTERACT WITH THE STAKEHOLDERS, AND PUT THOSE
16	FORWARD FOR FULL REVIEW BY FIRST THE SUBCOMMITTEE ON
17	FINANCE, CHAIRED BY MICHAEL GOLDBERG, AND THEN THE
18	FULL ICOC BOARD. AND THAT WAS DONE THROUGH A SERIES
19	OF MEETINGS. MANY OF YOU, SOME OF YOU ANYWAY,
20	PARTICIPATED IN THOSE AND GAVE US INPUT.
21	WE DRAFTED VARIOUS PARTS OF THAT AS WE
22	WENT ALONG. WE HIRED CONSULTANTS. WE BROUGHT IN
23	PRICEWATERHOUSECOOPERS ON A CONTRACT THAT ADDED A
24	GREAT DEAL OF KNOWLEDGE TO MODELING HOW WE MIGHT DO
25	THIS. THEY LOOKED AT ALL THE OTHER LOAN PROGRAMS

4

1	AROUND THE COUNTRY, EVEN SOME INTERNATIONAL ONES.
2	AND FROM ALL THAT AND RECOMMENDATIONS OF THESE
3	VARIOUS STAKEHOLDERS MEETINGS, OF WHICH THERE WERE
4	NUMEROUS MEETINGS, WE DRAFTED WHAT YOU HAVE IN YOUR
5	PACKET AFTER THE INVITED SPEAKERS AS A SUMMARY OF
6	THE LOAN TERMS.
7	AND THOSE TERMS HAVE GONE THROUGH SEVERAL
8	ITERATIONS AND BRING US TO THIS MEETING TODAY. AND
9	THIS MEETING TODAY IS REALLY TO HAVE A FURTHER
10	DISCUSSION ABOUT ANY CHANGES, IMPROVEMENTS THAT WE
11	CAN MAKE TO THIS POLICY GOING FORWARD. WE DON'T
12	INTEND TO MAKE THOSE DECISIONS TODAY. THIS IS A DAY
13	OF INPUT FOR US. SO WE WOULD LIKE NOT ONLY THE
14	INVITED GUESTS BUT ANYONE IN THE AUDIENCE WHO HAS
15	INPUT FOR US TO COMMENT.
16	SO I WANT TO JUST LAY OUT THE GENERAL
17	PHILOSOPHICAL TERMS FOR EVERYBODY THAT I THINK
18	ACCURATELY REFLECT OUR GOAL AND INTENT HERE. AND
19	THE FIRST REALLY COMES PRETTY DIRECTLY OUT OF THE
20	STRATEGIC PLAN, WHICH IS TO FUND OR MAKE LOANS IN
21	AREAS OF PRODUCT DEVELOPMENT WHERE THERE'S JUST VERY
22	LITTLE, IF ANY, FUNDING AVAILABLE. AND THAT WAS IT.
23	WE SHOULDN'T, IN OTHER WORDS, BE COMPETING WITH
24	OTHER FUNDING SOURCES, BUT FIND THOSE GAPS AS THEY
25	EMERGE. AND THEY CAN BE YOU KNOW, YOU MIGHT

5

1	THINK IMMEDIATELY EARLY STAGE, BUT THEY COULD ALSO
2	BE LATE STAGE AS IN WHAT HAPPENED TO GENE THERAPY.
3	AT ONE TIME YOU COULDN'T RAISE MONEY TO FUND A PHASE
4	III TRIAL. SO THAT COULD CHANGE OVER TIME, BUT WE
5	SHOULD BE LOOKING AS AN ORGANIZATION TO FUND WHERE
6	FUNDING IS VERY, VERY DIFFICULT. SO I THINK THAT
7	WAS FAIRLY WELL UNDERSTOOD.
8	ANOTHER KEY IS THAT THESE LOANS, BECAUSE
9	OF OUR REVIEW PROCESS, BY NECESSITY, HAVE TO BE
10	PRODUCT LOANS, PRODUCT-SPECIFIC LOANS. WE CAN'T AND
11	DON'T REVIEW COMPANIES FOR INVESTMENT OR LOANS. WE
12	REVIEW A PRODUCT THAT GOES THROUGH A SCIENTIFIC
13	REVIEW PROCESS AND THEN IS SENT TO US. SO THAT'S AN
14	IMPORTANT PART TO KEEP IN MIND.
15	OUR LOAN TERMS, WE SAID, SHOULD REALLY
16	ENCOURAGE FOLLOW-ON FUNDING. AND SO YOU WILL SEE
17	THINGS IN THERE ABOUT SUBORDINATION, ABOUT NO
18	SECURITY INTERESTS, OTHER THINGS THAT WOULD MAKE
19	THESE SO THEY ARE NOT IMPEDIMENTS TO FOLLOW-ON
20	FUNDING WHERE A FUTURE FUNDER WOULD SAY I CAN'T
21	ACCEPT THOSE TERMS. THAT WAS THE INTENT OF WHAT WE
22	WANTED TO DO.
23	AND I JUST WANT TO REITERATE ONE THING,
24	THAT OUR LOANS SHOULD NOT MEET ANY OF THE STANDARDS
25	THAT YOU MIGHT THINK ABOUT OR WON'T MEET, I SHOULD
	6
	υ

1	SAY, NOT CAN'T, THEY WILL NOT MEET THE STANDARD LOAN
2	TERMS THAT BANKS LIKE VENTURE DEBT BANKS OR ANY
3	OTHER LENDER WOULD CONSIDER, AND WE DON'T INTEND
4	THEM TO. SO THE DILIGENCE WE DO IS NOT AROUND THE
5	COLLATERAL OR ABILITY NECESSARILY TO REPAY. THE DUE
6	DILIGENCE THAT WE INSTRUCT OUR DESIGNATED
7	UNDERWRITERS TO DO DEALS MOSTLY TO MAKE SURE THAT WE
8	DON'T FIND ANY KIND OF ISSUES IN TERMS OF NOT
9	DISCLOSED DEBT OR A LIEN AGAINST THE COMPANY OR
10	THINGS THAT WOULD BE MATERIALLY IMPORTANT THAT WERE
11	NOT DISCLOSED TO US. SO THAT'S REALLY WHAT WE'RE
12	LOOKING FOR, NOT THAT WE'RE GOING TO HAVE LOANS THAT
13	ARE, IN FACT, SECURITIZED BY THE USUAL PART OF IT.
14	ALONG THE WAY, STEVE BURRILL MADE A PRETTY
15	PASSIONATE CASE THAT WE SHOULD HAVE BOTH RECOURSE
16	LOANS AND NONRECOURSE LOANS. AND SO WE ADOPTED THAT
17	AS PART OF OUR OVERALL PACKAGE, AND THAT'S ONE OF
18	THE AREAS WE WANT TO HAVE A DISCUSSION WITH YOU
19	ABOUT TODAY.
20	BUT THE CONCEPT WAS THAT A NONRECOURSE
21	LOAN, SINCE IT'S A PRODUCT LOAN, COULD BE FORGIVEN
22	IF THAT TECHNOLOGY STOPPED AND IT WAS ABANDONED.
23	AND THE TERM THAT WE USE IS NOT ABANDONED, BUT
24	ESSENTIALLY IT'S NOT GOING FORWARD. IF IT'S
25	LICENSED, IT GOES TO ANOTHER PARTY, THE LOAN WOULD
	7

1	FOLLOW THAT, BUT IT WOULD NOT BE REQUIRED TO BE
2	REPAID OR ANY OF THE INTEREST. THE RECOURSE LOAN,
3	OF COURSE, WOULD BE A COMPANY LOAN. EVEN THOUGH
4	IT'S A PRODUCT-APPROVED LOAN, THE COMPANY TAKES THE
5	RESPONSIBILITY TO REPAY THAT COME WHAT MAY.
6	THE FOURTH PART OF WHAT WE REVIEWED IS
7	THAT OUR GOAL FOR THIS WAS TO CONVINCE INDUSTRY THAT
8	IF THEY HAD A WINNER HERE AND REPAID, THAT WE COULD
9	CREATE AN EVERGREENING SO WE'D HAVE MORE MONEY DOWN
10	THE ROAD TO GIVE TO PEOPLE IN THE EARLY STAGE. SO
11	THIS IS SOME MAY REFER TO IT AS MOTHERHOOD, BUT
12	IT'S CLEARLY, I THINK, BEEN ACCEPTED THAT THIS LOAN
13	PROGRAM IS INTENDED TO BE THERE FOR THE FUTURE
14	OPPORTUNITIES FIVE, SIX, SEVEN, TEN YEARS DOWN THE
15	ROAD. SO THAT WAS ANOTHER IMPORTANT CONCEPT THAT WE
16	TALKED ABOUT.
17	SO, AGAIN, THE TERM SHEET THAT IS IN FRONT
18	OF YOU THAT IS AN ABBREVIATED ONE, THERE'S A FULLER
19	LOAN ADMINISTRATION POLICY THAT EMBEDS ALL OF THAT
20	INTO IT, BUT THOSE TERMS ARE THE MAJOR TERMS THAT WE
21	HAVE ESTABLISHED AND WILL SERVE AS THE BASIS FOR OUR
22	DISCUSSION TODAY.
23	SO WITH THAT, I'M GOING TO ASK MY
24	COLLEAGUES ON THE BOARD, AND I'LL NOTE THAT ED
25	PENHOET HAS JOINED US, WE HAVE ANOTHER TASK FORCE
	8

1	MEMBER HERE, BUT I'M GOING TO ASK IF ANY THERE'S ANY
2	OTHER COMMENTS YOU WANT TO MAKE PRELIMINARILY BEFORE
3	WE MOVE TO OUR INVITED SPEAKERS.
4	DR. PENHOET: GREAT JOB.
5	MR. GOLDBERG: I CONCUR.
6	CHAIRMAN ROTH: OKAY. WITH THAT, WE'RE
7	GOING TO HAVE FIVE INPUTS TODAY, AND WE'RE GOING TO
8	BEGIN, I THINK, WITH, LET'S SEE WHAT THE ORDER IS.
9	GREG, ARE YOU READY? FOR THOSE OF YOU, THE BIOS ON
10	EACH OF THESE ARE, I THINK, IN THE HANDOUT. AND
11	GREG WAS ONE OF THE VERY FIRST PEOPLE TO COME BEFORE
12	THIS TASK FORCE AND MADE A RATHER REMARKABLE
13	PRESENTATION ABOUT THE LACK OF FUNDING AND THE NEED
14	FOR FUNDING. SO IT'S GREAT TO HAVE YOU BACK, GREG.
15	MR. BONFIGLIO: THANK YOU, DUANE.
16	APPRECIATE THE OPPORTUNITY TO BE BACK AND TALKING
17	WITH YOU GUYS. AND I UNDERSTAND THAT I'VE GOT A
18	FIVE-MINUTE CALL. YOU'VE GOT A LOT OF STUFF TO PACK
19	IN FOR TWO HOURS. I'M GOING TO MOVE FAIRLY QUICKLY,
20	AND I WANT TO PREFACE MY COMMENTS WITH SAYING THAT I
21	DID NOT GET A COPY OF THE THING YOU DISTRIBUTED LAST
22	NIGHT BEFORE I PUT THIS PRESENTATION TOGETHER. SO I
23	ACTUALLY HAVE A COUPLE OF OTHER COMMENTS JUST ON MY
24	QUICK REVIEW OF WHAT CAME OUT THIS MORNING THAT WE
25	CAN DISCUSS AFTER I DO THE PRESENTATION.

9

1	SO WHAT I WAS HOPING TO DO FIRST, THIS IS
2	WHO WE ARE, PROTEUS. I THINK MOST IF YOU GUYS ARE
3	FAMILIAR WITH OUR FIRM. WE'RE A FUND AND WE HAVE
4	THREE BUSINESSES: FUND MANAGEMENT, CONSULTING, AND
5	INVESTMENT BANKING, BUT IT'S ALL FOCUSED ON
6	REGENERATIVE MEDICINE. WHAT I HOPE TO DO IS GIVE
7	YOU A QUICK OVERVIEW OF WHERE WE ARE FROM OUR
8	PERSPECTIVE, THE CONTEXT IN WHICH THIS LOAN PROGRAM
9	COMES UP. IN MANY WAYS IT'S KIND OF THE BEST OF
10	TIMES AND THE WORST OF TIMES. AND THEN I'LL TAKE A
11	LOOK AT JUST A COUPLE OF THE KEY PROVISIONS IN THE
12	CIRM PROGRAM THAT I HAVE CONCERNS ABOUT. AND I'M
13	NOT GOING ADDRESS THE ONES THAT I THINK ARE
14	REASONABLE AND WE DON'T NEED SPEND TIME ON, BUT
15	THERE ARE THREE OR FOUR THAT I THINK ARE GOING TO
16	PRESENT SOME SIGNIFICANT PROBLEMS. I'D LIKE TO
17	HIGHLIGHT THOSE AND ADDRESS THOSE PROBLEMS.
18	SO SOME OF YOU HAVE SEEN THIS BEFORE, THE
19	GARTNER CURVE. OUR THEORY OF THE DEVELOPMENT OF
20	REGENERATIVE MEDICINE IS THAT, LIKE OTHER
21	TECHNOLOGIES, IT'S NOT A LINEAR PROCESS AND IT HAS
22	BEEN FOLLOWING, TRACKING QUITE NICELY THROUGH THE
23	GARTNER CURVE, YOU KNOW, HAVING RUN UP BACK IN
24	THE '80S WITH THE EARLY TISSUE ENGINEERING
25	COMPANIES, THE TECH BUBBLE BURST, THOSE COMPANIES,

10

1	MOST OF THEM WENT BANKRUPT. WE HEAD INTO THE VALLEY
2	OF DEATH, DRIVEN BY FACTORS, NOT THE LEAST OF THE
3	WHICH WAS THE BUSH BAN ON FUNDING FOR EMBRYONIC STEM
4	CELL COMPANIES.
5	ONE OF THE KEY DRIVERS IN BRINGING US OUT,
6	HONESTLY, IS THIS ORGANIZATION. THE FACT THAT CIRM,
7	THAT PROP 71 PASSED AND CIRM WAS CREATED REALLY
8	GALVANIZED GOVERNMENTS, COUNTRIES, INSTITUTIONAL
9	SOURCES AROUND THE WORLD TO THE CAUSE OF
10	REGENERATIVE MEDICINE AND HAS DRIVEN A LOT OF OTHER
11	FUNDING SOURCES.
12	THE CYCLE KIND OF WAS COMPLETED WHEN
13	PRESIDENT OBAMA LIFTED THE BAN ON HUMAN EMBRYONIC
14	STEM CELLS. SO IN OUR VIEW WE'RE PRETTY CLEARLY ON
15	THE SECOND HALF OF THE GARTNER CURVE. TECHNOLOGY IS
16	MUCH MORE MATURE. IT'S BEGINNING TO MOVE INTO THE
17	MARKETPLACE. HERE ARE SOME METRICS THAT WE LOOK AT
18	THAT FROM OUR PERSPECTIVE CONFIRM THAT WE ARE IN THE
19	SECOND HALF OF THAT GARTNER CURVE. GOT A RAPIDLY
20	EXPANDING MARKET. WE'RE LOOKING AT 900 CLINICAL
21	TRIALS. I WON'T GO THROUGH ALL OF THEM, BUT
22	PROBABLY FROM MY PERSPECTIVE THE MOST IMPORTANT
23	MEASURE OF WHERE A HEALTHCARE BIOTECH INDUSTRY SITS
24	IS THE LEVEL OF CLINICAL ACTIVITY BECAUSE THAT, OF
25	COURSE, IS THE PRECURSOR OF PRODUCTS ENTERING INTO

11

THE MARKET.

1

2 WHEN I INVESTED IN MY FIRST STEM CELL 3 COMPANY BACK IN 2000, I DID THE SAME SEARCH. THERE 4 WERE LESS THAN A HUNDRED CLINICAL TRIALS GOING ON 5 INVOLVING STEM CELL OR REGENERATIVE MEDICINE PRODUCTS. AT LAST COUNT THERE ARE OVER 900. 6 NOW. 7 THE VAST MAJORITY OF THOSE ARE BONE MARROW PRODUCTS 8 IN AN ONCOLOGY SETTING, BUT THERE ARE NOW OVER 200 9 CLINICAL PROGRAMS UNDER WAY INVOLVING NON-BONE 10 MARROW PRODUCTS. AND THAT'S A PRETTY SIGNIFICANT 11 INCREASE. WE'VE GOT 400 COMMERCIAL PRODUCTS ON THE 12 MARKET. NOW, AGAIN, MOST OF THOSE ARE IN THE AREA 13 OF SKIN, TOOLS, AND DEVICES, BUT THERE ARE ANOTHER 900 IN DEVELOPMENT. 14 15 MAJOR MILESTONE THAT WE PASSED IS WE'VE 16 NOW TREATED OVER A MILLION PATIENTS WITH 17 REGENERATIVE MEDICINE PRODUCTS. AND THAT'S A BIG MILESTONE. AND WE'VE ALSO HIT OVER A BILLION 18 19 DOLLARS IN REVENUE. SO THE INDUSTRY REALLY HAS 20 REACHED A POINT OF MATURITY. ONE OF THE OTHER KEY 21 MEASURES IS COMPANY ACTIVITY. 22 WE KEEP A DATABASE AT THE FIRM THAT TRACKS 23 COMPANY ACTIVITY AROUND THE WORLD. WE NOW HAVE OVER 24 700 COMPANIES IN THAT DATABASE. I WANT TO BE CLEAR. 25 WE'RE TRACKING EVERYBODY FROM A RAW START-UP ALL THE

1	WAY UP THROUGH JOHNSON & JOHNSON. SO I'M NOT
2	SUGGESTING THAT THERE ARE 700 START-UPS, BUT THERE
3	ARE 700 COMPANIES WORLDWIDE THAT HAVE EXPRESSED AN
4	INTEREST OR HAVE ONGOING PROGRAMS AROUND
5	REGENERATIVE MEDICINE. ABOUT 10 PERCENT OF THOSE
6	ARE LOCATED IN CALIFORNIA. THERE ARE OVER 70
7	COMPANIES IN CALIFORNIA, MORE BEING FORMED ALL THE
8	TIME, WORKING IN THE FIELD OF REGENERATIVE MEDICINE.
9	THESE ARE GREAT METRICS THAT SUGGEST WE'VE GOT A
10	FIELD THAT'S PRETTY MATURE.
11	THE OTHER BIG PIECE OF NEWS SINCE THE LAST
12	TIME I TESTIFIED AT THE HEARING, WHICH IS A LITTLE
13	MORE THAN 18 MONTHS AGO, PHARMA HAS NOW BECOME VERY
14	ACTIVELY ENGAGED IN THE FIELD. VIRTUALLY EVERY BIG
15	PHARMA PROGRAM THAT HAS IN THE PAST EXPRESSED ANY
16	INTEREST IN REGENERATIVE MEDICINE IS NOW OUT THERE
17	ACTIVELY WORKING ON PROGRAMS. THIS IS JUST A
18	REPRESENTATIVE SAMPLE OF THE KIND OF DEALS THAT HAVE
19	BEEN DONE. THERE HAVE BEEN SOME VERY SIGNIFICANT
20	DEALS. THIS YEAR ALONE PFIZER FORMED THEIR
21	REGENERATIVE MEDICINE UNIT. THEY'VE GOT FACILITIES
22	BOTH AT CAMBRIDGE, ENGLAND, AND IN CAMBRIDGE,
23	MASSACHUSETTS. YOU'VE, I'M SURE, ALL HEARD ABOUT
24	THE HARVARD AND GSK DEAL. THERE'S A LOT OF ACTIVITY
25	IN THE FIELD RIGHT NOW AT THE BIG PHARMA LEVEL, AND

13

1	I THINK THAT'S A VERY, VERY POSITIVE DEVELOPMENT.
2	AND, OF COURSE, THIS TECHNOLOGY HAS CERTAINLY
3	CAPTURED THE IMAGINATION OF THE PUBLIC.
4	THE PROBLEM IS HERE'S WHERE WE ARE. WORST
5	FINANCIAL CRISIS IN THE LAST 75 YEARS. WE ARE ALL
6	PAINFULLY AWARE OF THAT. WE KEEP HEARING THAT WE'RE
7	BEGINNING TO COME OUT OF THAT, THAT THE STOCK MARKET
8	HAS NOW COME BACK, AND THE RECESSION IS OVER AND
9	WE'RE BEGINNING TO COME OUT. I'M NOT SEEING A LOT
10	OF EVIDENCE OF THAT OTHER THAN THE STOCK MARKET OUT
11	ON THE STREET.
12	BUT THE POINT FOR THIS GROUP AND FOR THE
13	FIELD THAT WE'RE INVOLVED IN IS THAT BIOTECH IS
14	FUNDAMENTALLY DEPENDENT ON EXTERNAL FUNDING, SO
15	CHANGES IN THE FINANCIAL MARKETS HAVE A DRAMATIC
16	IMPACT ON BIOTECH, MUCH MORE SO THAN THEY DO ON I.T.
17	OR OTHER TECHNOLOGY DEVELOPMENT CYCLES IN LARGE PART
18	BECAUSE BIOTECH IS A BUSINESS WHERE YOU GET NO
19	REVENUE UNTIL YOUR PRODUCT HITS THE MARKET.
20	THE PRODUCT DEVELOPMENT CYCLE IS QUITE
21	LONG, AND SUBSTANTIAL EXPENDITURES ARE REQUIRED TO
22	GET FROM HERE TO THERE, UNLIKE I.T. WHERE YOU CAN
23	LAUNCH A NEW PIECE OF SOFTWARE AND IT WILL GRADUALLY
24	INCREASE REVENUES OVER TIME AND YOU CAN LAUNCH IT
25	PRETTY QUICKLY BECAUSE YOU DON'T HAVE TO GO THROUGH
	14

14

1	A REGULATORY PATH. IN BIOTECH, YOU'RE ALL FAMILIAR
2	WITH THIS PATH, YOU GOT TO MARCH THROUGH THE FDA
3	PROCESS. IT COSTS A LOT OF MONEY TO GET FROM HERE
4	TO THERE; AND THEN IF YOU'VE GOT A GOOD PRODUCT,
5	YOUR REVENUES GO FROM ZERO TO THREE AND THEN TO 500
6	AND THEN ON TO A BILLION IN A RELATIVELY SHORT
7	PERIOD OF TIME. SO THE REVENUE RAMP ON THE BACK END
8	IS PRETTY DRAMATIC, BUT IT TAKES A LONG TIME TO GET
9	THERE. AS A RESULT, BIOTECH IS ABSOLUTELY DEPENDENT
10	ON EXTERNAL FUNDING. AND WHEN THE MARKETS COLLAPSE,
11	THAT REALLY SHUTS OFF FUNDING FOR BIOTECH COMPANIES.
12	SO HERE'S WHAT'S HAPPENED. RIGHT NOW, AS
13	A RESULT OF THE IMPLOSION IN THE FINANCIAL MARKETS,
14	WE BASICALLY HAVE THE TWO MAJOR SOURCES OF CAPITAL
15	THAT HAS IN THE PAST DRIVEN THE DEVELOPMENT OF THE
16	BIOTECH INDUSTRY TAKEN AWAY. THE PERFORMANCE OF
17	BIOTECH THE PUBLIC MARKETS ARE NOW BASICALLY
18	CLOSED. THERE'S BEEN ONE BIOTECH IPO IN THE LAST 18
19	MONTHS. PEOPLE ARE TALKING ABOUT IPO'S COMING BACK
20	IN THE NEXT CYCLE. FROM MY PERSPECTIVE, THAT'S A
21	LOT MORE HOPE THAN IT IS A REALITY, BUT WE'LL SEE.
22	I COULD BE WRONG.
23	ONE OF THE KEY DRIVERS HERE IS THAT THE
24	PERFORMANCE OF BIOTECH STOCKS THAT HAVE GONE OUT IN
25	THIS LAST WAVE, YOU KNOW, WE HAD A BIOTECH WINDOW.
	15

1	WE HAD FOUR MAJOR BIOTECH WINDOWS IN THE PUBLIC
2	MARKETS OVER THE LAST 35, 40 YEARS. 2003 TO 2007
3	WAS THE LAST MAJOR WINDOW. SEVENTY-SEVEN COMPANIES
4	WENT OUT DURING THAT PERIOD. THE AVERAGE VENTURE
5	RETURN ON THOSE INVESTMENTS WAS ABOUT 1.9 X. THAT'S
6	NOT A VERY LOFTY RETURN FROM A VENTURE PERSPECTIVE.
7	AND GIVEN CURRENT MARKET CONDITIONS, AND THIS DATA
8	IS A LITTLE BIT OLD, BUT AS OF THE MARKET PEAK
9	BEFORE WE HAD THIS IMPLOSION, ALMOST 60 PERCENT OF
10	THOSE COMPANIES WERE TRADING BELOW THEIR INITIAL
11	PRICE PER SHARE, MEANING THE PUBLIC INVESTOR HAD
12	LOST MONEY. AND AS OF JUNE 2009, LAST SUMMER, 79
13	PERCENT WERE TRADING BELOW THEIR INITIAL PRICE PER
14	SHARE.
15	ONE OF THE KEY MEASURES HERE IS THAT
16	ALMOST 70 PERCENT OF THEM WERE TRADING BELOW THEIR
17	INVESTED CAPITAL. THOSE ARE BLEAK NUMBERS. THOSE
18	ARE NUMBERS THAT ARE NOT GOING TO BRING FOLKS INTO
19	THE BIOTECH INVESTMENT POOL. AND WHAT IT HAS DONE
20	IS BASICALLY SHUT DOWN PUBLIC MARKETS AS A VEHICLE
21	FOR FUNDING BIOTECH COMPANIES.
22	NOW, THERE ARE SOME COMPANIES THAT HAVE
23	BEEN IN A POSITION TO TAKE ADVANTAGE OF THIS. WE
24	MAY HEAR TODAY FROM THE FOLKS AT GERON. DAVE
25	GREENWOOD, WHO'S THE CFO, HAS BEEN BRILLIANT AT
	16

16

1	BEING ABLE TO PUT ON THE SHELF EQUITY POSITIONS THAT
2	HE CAN THEN GO TO THE MARKET WHEN THE STOCK COMES
3	UP. BUT THEY'RE IN A SOMEWHAT UNIQUE POSITION.
4	MOST BIOTECH COMPANIES THAT ARE EITHER HAVING TO DO
5	INITIAL PUBLIC OFFERINGS OR SECONDARY OFFERINGS ARE
6	HAVING TO FACE THESE NUMBERS, AND THAT IS VERY
7	CHALLENGING. AND IF THEY'RE NOT FACING THOSE
8	NUMBERS, THEY'RE GOING OUT AND DOING PIPE
9	FINANCINGS. AND IF THEY'RE DOING PIPE FINANCINGS,
10	PIPE FINANCINGS HAVE ALWAYS BEEN BRUTAL FOR
11	COMPANIES, BUT THEY'RE MUCH MORE BRUTAL NOW. AND AS
12	A RESULT, YOUR ACCESS TO CAPITAL IN THE PUBLIC
13	MARKETS HAS BEEN SUBSTANTIALLY LIMITED. IF YOU HAVE
14	TO DIP YOUR TOE INTO THAT MARKET, IT'S GOING TO COME
15	AWAY WITH IT BURNT OFF BY THE ACID THAT COMES WITH
16	THAT DEAL.
17	ON THE PRIVATE EQUITY SIDE, I THINK IT'S
18	NO SECRET THAT MOST VENTURE FIRMS HAVE FLED EARLY
19	STAGE INVESTMENT. THE PERIOD FROM 2000 TO 2009 HAS
20	JUST BEEN BRUTAL FOR VENTURE FUNDS THAT WERE IN
21	EARLY STAGE. VENTURE INVESTMENTS IN BIOTECH AS A
22	WHOLE ARE DOWN ABOUT 45 PERCENT. THERE HAS BEEN AN
23	UP TICK IN THE LAST QUARTER. THE PWC NUMBERS DID
24	SHOW ACTUALLY A DECENT UP TICK IN BIOTECH
25	INVESTMENTS. BUT IF YOU PARSE THROUGH THOSE

17

1	NUMBERS, WHAT YOU'RE GOING TO FIND IS THAT THE
2	VENTURE FUNDS ARE FUNDING THEIR EXISTING
3	INVESTMENTS.
4	THE NUMBER THAT YOU OUGHT TO FOCUS ON, IF
5	YOU'RE THINKING ABOUT REGENERATIVE MEDICINE
6	COMPANIES THAT ARE LOOKING FOR FINANCING, IS IN THAT
7	BOTTOM BULLET, FIRST-TIME FINANCINGS. HOW MANY NEW
8	COMPANIES ARE BEING FINANCED, NEW DEALS ARE BEING
9	DONE BY VENTURE FUNDS AS OPPOSED TO REUPPING IN
10	THEIR EXISTING DEALS? FIRST-TIME FINANCINGS ARE AT
11	THEIR LOWEST LEVEL IN HISTORY. THAT'S A PRETTY
12	BRUTAL NUMBER.
13	BOTTOM LINE IT IS A VERY, VERY TOUGH
14	ENVIRONMENT IF YOU ARE A REGENERATIVE MEDICINE
15	COMPANY OUT THERE TRYING TO RAISE CAPITAL, WHETHER
16	YOU'RE A PUBLIC COMPANY OR YOU'RE A PRIVATE ENTITY.
17	SIGNIFICANT CASH SHORTFALLS. YOU'VE GOT COMPANIES,
18	A HUGE CHUNK OF COMPANIES THAT ARE TRADING AT LESS
19	THAN 6 PERCENT HAVE LESS THAN SIX MONTHS' CASH.
20	AND, OF COURSE, AS A RESULT, THIS IS NOT SURPRISING.
21	WE'VE SEEN A LOT OF D LISTINGS AND BANKRUPTCIES. IT
22	IS A PRETTY BRUTAL ENVIRONMENT.
23	THIS KIND OF DATA, THE FIRST SET OF DATA
24	THERE IS ON PUBLIC COMPANIES. IT'S PUBLICLY
25	AVAILABLE. YOU CAN GET IT FROM THE 10Q'S AND 10K'S
	18

1	OF COMPANIES. BUT IN OUR DATABASE WE TRACK AND HAVE
2	ACCESS TO FINANCIALS FROM PRIVATE COMPANIES. BASED
3	ON OUR INTERNAL ANALYSES, WE ARE PROJECTING THAT
4	ABOUT 20 PERCENT OF THE COMPANIES ACROSS THE BOARD,
5	CERTAINLY IN CALIFORNIA AS WELL, ARE GOING TO FAIL
6	IN THE NEXT 12 TO 18 MONTHS, EITHER SHUT DOWN
7	OPERATIONS. THEY MAY NOT GO FULL BK, BUT THEY'RE
8	GOING TO SUBSTANTIALLY SHUT DOWN THEIR OPERATIONS
9	AND GO INTO HIBERNATION MODE BECAUSE THEY SIMPLY
10	DON'T HAVE THE CASH AND THEY CAN'T FIND IT. SO IT'S
11	A BRUTAL ENVIRONMENT.
12	WHAT HAS HAPPENED FUNDAMENTALLY IS THAT
13	THE VALLEY OF DEATH, WE'RE ALL FAMILIAR WITH THE
14	VALLEY OF DEATH CONCEPT, IT'S THAT CONCEPT FROM WHEN
15	YOU HAVE YOU'VE ACHIEVED SOME LEVEL OF TECHNICAL
16	SUCCESS TO WHEN YOU CAN QUALIFY FOR TRADITIONAL
17	INSTITUTIONAL FINANCING. HISTORICALLY THAT HAD BEEN
18	PROOF OF CONCEPT UNTIL YOU GOT YOUR PRECLINICAL
19	DATASET TOGETHER OR SOME REASONABLE FACSIMILE OF
20	THAT PRECLINICAL DATASET. UNFORTUNATELY WITH THE
21	FLIGHT OF VENTURE CAPITAL FROM EARLY STAGE INVESTING
22	AND THE COLLAPSING OF THE PUBLIC MARKETS, WHAT'S
23	HAPPENED IS THE VALLEY OF DEATH HAS NOW EXPANDED
24	FROM PROOF OF CONCEPT ALL THE WAY THROUGH INTO PHASE
25	II.

19

1	RIGHT NOW THE CRITERIA FOR MOST VENTURE
2	GUYS LOOKING AT DEALS IS YOU'VE GOT TO HAVE A
3	PRISTINE DEAL, YOU'VE GOT TO HIT ALL OF THE
4	CHECKMARKS, AND YOUR TECHNOLOGY HAS GOT TO BE INTO
5	THE PHASE II CYCLE. AND THAT JUST TAKES THE VALLEY
6	OF DEATH AND STRETCHES IT OUT QUITE FAR, WHICH MAKES
7	THE LOAN PROGRAM THAT WE'RE TALKING ABOUT HERE EVEN
8	MORE IMPORTANT FOR REGENERATIVE MEDICINE COMPANIES.
9	THAT BRINGS ME TO WHERE WE ARE. WHAT IS
10	THE FUNDING NICHE? BEFORE I TALK ABOUT THE LOANS,
11	MY UNDERSTANDING OF ONE OF THE GOALS OF THE LOAN
12	PROGRAM WAS TO FILL THIS FUNDING NICHE, TO TRY TO
13	PROVIDE FUNDING THAT WAS AVAILABLE FOR COMPANIES
14	THAT ARE IN THE VALLEY OF DEATH. I COULD BE
15	MISTAKEN ABOUT THAT, BUT I GATHER FROM SOME OF THE
16	EARLIER PRESENTATIONS THAT WAS THE KEY. THAT IS THE
17	FRAMEWORK WITH WHICH OR THE BACKGROUND AGAINST WHICH
18	MY COMMENTS ARE MADE.
19	SO WHAT I WANTED TO DO IS RATHER THAN
20	GOING THROUGH, BECAUSE I KNOW WE'VE GOT A LOT OF
21	OTHER FOLKS WHO WANTED TALK, RATHER THAN GO THROUGH
22	EVERY SINGLE PROVISION OF THE LOAN PROGRAM, I'M ONLY
23	GOING TO HIT ON THE ONES THAT I'VE GOT CONCERNS
24	ABOUT. AND, AGAIN, IT'S NOT INFORMED BY A MORE
25	DETAILED READ OF WHAT CAME OUT LAST NIGHT.

20

1	BUT FIRST, FOR ME THE GIANT CONCERN HERE
2	IS THAT 90 PERCENT OF THE COMPANIES IN CALIFORNIA
3	ARE NOT ELIGIBLE TO PARTICIPATE IN THE LOAN PROGRAM.
4	THIS IS THE HUGE ISSUE. IF YOU WANT UPTAKE ON THE
5	LOAN PROGRAM, YOU GOT TO MAKE THE LOANS AVAILABLE TO
6	PEOPLE. RIGHT NOW THE GATING ITEM FOR THESE LOANS
7	IS THAT YOU HAVE TO HAVE QUALIFIED FOR A GRANT. HOW
8	MANY COMPANIES HAVE BEEN AWARDED GRANTS TO DATE?
9	FOUR? FIVE? OUT OF THE 70 COMPANIES IN CALIFORNIA,
10	YOU'VE BASICALLY TAKEN 90 PERCENT OF THE MARKET AND
11	PUT THEM OUT OF THIS PROGRAM. THAT MAY NOT HAVE
12	BEEN AN INTENDED CONSEQUENCE WHEN YOU SET THE
13	PROGRAM UP, BUT THAT IS THE CONSEQUENCE THAT WE'RE
14	FACING RIGHT NOW. WE HAVE COMPANIES THAT ARE GOING
15	TO FAIL THAT COULD DESPERATELY USE THIS MONEY AND
16	THEY CAN'T GET ACCESS TO IT BECAUSE THEY'RE NOT
17	GRANTEES. AND THAT IS A HUGE, HUGE PROBLEM.
18	THE \$3 MILLION MINIMUM MAY BE AN ISSUE FOR
19	SOME SMALLER COMPANIES. I GUESS I QUESTION THE
20	JUDGMENT OF A CEO OF ANY START-UP WHO TURNS AWAY
21	MONEY. IF HE CAN GET THREE MILLION, HE OUGHT TO
22	TAKE THREE MILLION. I'VE DONE SOME INFORMAL SURVEY
23	WITH COMPANIES THAT WE WORK WITH TO ASK THEIR
24	FEEDBACK ON THE LOAN PROGRAM. AND SOME OF THEM
25	SAID, YOU KNOW, I MIGHT NOT WANT TO HAVE TO BORROW

21

1	\$3 MILLION. MAYBE I ONLY NEED A MILLION AND A HALF
2	TO GET THE NEXT 18 MONTHS DONE. SO THIS IS KIND OF
3	FORCING ME TO TAKE THREE MILLION. AND MY RESPONSE
4	IS IF SOMEBODY IS GIVING YOU CAPITAL, YOU PROBABLY
5	WANT TO TAKE IT. BUT THAT MAY BE A PROBLEM FOR SOME
6	COMPANIES.
7	FOR ME, THE FACT THAT WE'VE EFFECTIVELY
8	CUT OUT 90 PERCENT OF THE COMPANIES IN CALIFORNIA
9	WHO WOULD WANT TO PARTICIPATE IN THIS PROGRAM IS THE
10	MAJOR PROBLEM THAT WE'VE GOT TO DEAL WITH. IF YOU
11	WANT THIS LOAN PROGRAM TO BE EFFECTIVE AT ALL,
12	YOU'VE GOT TO OPEN THE DOORS TO THE PEOPLE WHO NEED
13	IT.
14	IN TERMS OF THE WARRANTS, I'VE GOT ISSUES
15	AND QUESTIONS. THE HUNDRED-PERCENT WARRANT COVERAGE
16	IN MY PERSPECTIVE IS VERY AGGRESSIVE. I TESTIFIED
17	ABOUT THAT 18 MONTHS AGO. I THINK HUNDRED-PERCENT
18	WARRANT COVERAGE IS PRETTY COMMON IN DEATH SPIRAL
19	PIPE'S. I KNOW THERE ARE DEALS THAT ARE DONE WITH
20	HUNDRED-PERCENT WARRANT COVERAGE WHERE YOU'VE GIVEN
21	ON VALUATION. THE WAY YOU GET IT BACK IS YOU GET
22	WARRANT COVERAGE. SO CERTAINLY THERE HAVE BEEN
23	DEALS STRUCTURED WHERE A VENTURE GROUP OR AN
24	INSTITUTIONAL INVESTOR PAYS AT A HIGHER VALUATION
25	LEVEL THAN THEY WOULD HAVE OTHERWISE. THEY MAKE UP

22

1	ON THE VALUE FOR A WHOLE HOST OF REASONS TYPICALLY
2	DUE TO THE DEAL STRUCTURE, AND THEY COME BACK IN AND
3	THEY MAKE IT UP ON THE BACK SIDE BY GETTING A
4	HUNDRED-PERCENT WARRANT COVERAGE.
5	YOU PUT THOSE DEALS IN ONE BUCKET. THOSE
6	ARE LEGITIMATE DEALS WHERE YOU HAVE A COMPROMISE OF
7	THINGS AT THE TABLE. THE OTHER PLACE YOU SEE
8	HUNDRED-PERCENT WARRANT COVERAGE, FRANKLY, IS IN
9	DEATH SPIRAL PIPE'S. AND I DON'T THINK CIRM WANTS
10	TO BE IN THE BUSINESS OF TRYING MIRRORING THAT SET
11	OF TERMS. THESE ARE FINANCINGS THAT FUNDAMENTALLY
12	KILL COMPANIES. SO I THINK YOU OUGHT TO TAKE A HARD
13	LOOK AT THE HUNDRED-PERCENT WARRANT COVERAGE AND
14	WHETHER THAT REALLY IS NECESSARY AS PART OF THIS
15	PROGRAM.
16	NOW, I WANT TO PUT A CAVEAT ON THAT
17	THOUGH. THERE ARE TWO CAVEATS. ONE IS I REALIZE
18	THERE'S A 20-PERCENT, FULLY DILUTED CAP ON THIS SO
19	THAT YOU MAY NOT HIT THE SAME HUNDRED-PERCENT
20	WARRANT COVERAGE IN ANY GIVEN DEAL. AND THE OTHER
21	THING THAT I WOULD COMMENT, AND THIS IS MORE OF A
22	QUESTION, IF YOU DO NOT ALLOW FOR A CASHLESS
23	EXERCISE FEATURE, THEN A HUNDRED-PERCENT WARRANT
24	COVERAGE IS ESSENTIALLY A PROMISE OF FURTHER
25	FINANCING. AND IF THAT'S THE CASE, GO AHEAD WITH A

23

1	HUNDRED-PERCENT WARRANT COVERAGE; BUT IF YOU MARRY A
2	HUNDRED-PERCENT WARRANT COVERAGE WITH A CASHLESS
3	EXERCISE FEATURE, NOW YOU'RE IN THE DEATH SPIRAL
4	MODE. SO I WOULD FOR ME YOU'RE OUT OF MARKET IF
5	YOU'RE DOING THAT. THAT IS GOING TO MAKE THESE
6	LOANS MUCH LESS ATTRACTIVE TO COMPANIES.
7	ON THE OTHER HAND, IF YOU HAVE THIS
8	CASHLESS, YOU HAVE TO PAY, YOU HAVE TO EXERCISE THE
9	WARRANTS, THEN YOU'RE ESSENTIALLY GUARANTEEING TO
10	THE COMPANY, IF PEOPLE WANT TO EXERCISE THE
11	WARRANTS, AN ADDITIONAL ROUND OF FINANCING RELATED
12	TO THOSE WARRANTS. THAT'S NOT A BAD THING. SO THIS
13	IS MORE A QUESTION FOR ME. I DON'T KNOW WHETHER THE
14	CASHLESS EXERCISE IS ALLOWED UNDER THIS WARRANT
15	PROGRAM, AND SO THAT'S A QUESTION.
16	I ALSO AM REALLY UNCLEAR WHAT IT MEANS TO
17	HAVE THE LOAN BE RECOURSE VERSUS NONRECOURSE. SOME
18	OF THE MATERIALS I'VE SEEN HAVE SUGGESTED THE
19	INTELLECTUAL PROPERTY RIGHTS THAT ARE ASSOCIATED
20	WITH GRANTS ARE NOT ATTACHED TO THE LOANS, AND THEN
21	THE MATERIALS THAT YOU HANDED OUT AND A COUPLE OF
22	THE OTHER THINGS I'VE SEEN HAVE SUGGESTED THAT ALL
23	OF THE INTELLECTUAL PROPERTY RIGHTS ARE ASSOCIATED
24	WITH THE LOANS WITH THE EXCEPTION THAT THE LOANS CAN
25	BE FORGIVEN. AND IF THE LOANS ARE FORGIVEN, THEN

24

1	THE IP RIGHTS DON'T ATTACH. I'M NOT CLEAR WHERE
2	THIS COMES OUT. I'M ALSO NOT ENTIRELY CLEAR WHAT
3	RECOURSE MEANS IN THIS CONTEXT. THOSE ARE QUESTIONS
4	I HOPE WE CAN TALK ABOUT A LITTLE BIT TODAY.
5	THERE ARE COUPLE OF ACCELERATION
6	PROVISIONS THAT I THINK ARE GOING TO BE ISSUES FOR
7	PEOPLE. THE \$100 MILLION MERGER ISSUE IS ONE THAT
8	MAY PREVENT M&A ACTIVITY THAT WOULD BE NECESSARY FOR
9	A COMPANY TO SURVIVE. TYPICALLY, NOT TYPICALLY, BUT
10	OFTEN COMPANIES WILL FORM TOGETHER TO POOL
11	RESOURCES, TO POOL CAPITAL TO TRY AND MOVE A PROGRAM
12	FORWARD. AND DEPENDING ON DEAL STRUCTURES, YOU
13	COULD EASILY SEE A POST-MONEY VALUATION OF \$100
14	MILLION ON ONE OF THOSE MERGERS. IF THAT ALONE
15	TRIGGERED REPAYMENT OF THE LOAN, IT WOULD BE A
16	SIGNIFICANT DETERRENT ON THAT KIND OF ACTIVITY. AND
17	I DON'T THINK YOU WANT TO DETER THAT ACTIVITY.
18	HONESTLY, IF THOSE TWO COMPANIES MERGE TOGETHER AND
19	THEY ARE A MORE VIABLE ENTITY AND THEY CAN MOVE THE
20	TECHNOLOGY FORWARD, YOU HAVE A HIGHER PROBABILITY OF
21	GETTING THE LOAN REPAID, AND YOU WANT TO ENCOURAGE
22	THAT KIND OF BEHAVIOR WHERE APPROPRIATE.
23	\$60 MILLION FINANCING, NOT UNCOMMON FOR
24	PEOPLE TO GO OUT AND RAISE 50, 60, \$75 MILLION TO
25	FUND A PHASE III TRIAL. YOU DON'T WANT TO TRIGGER
	25

25

1	REPAYMENT OF THE LOAN JUST AT THE TIME YOU NEED THE
2	CAPITAL TO ENGAGE IN THE MOST EXPENSIVE ACTIVITY
3	THAT IS PART OF THIS CYCLE. PHASE III TRIALS ARE
4	THE MOST EXPENSIVE PART OF THE CYCLE. SERIES C
5	FINANCING FOR BIOTECH COMPANIES ARE OFTEN AT THAT
6	LEVEL, 50 TO \$75 MILLION.
7	AND THERE ARE SERIES C FINANCINGS
8	HISTORICALLY THAT HAVE BEEN DONE TO FUND PHASE III
9	TRIALS, AND YOU DON'T WANT TO PUT THE COMPANY IN A
10	POSITION WHERE THEY ARE REQUIRED TO TAKE MONEY FROM
11	ONE HAND AND PUT IT INTO THE COMPANY AND WITH THE
12	OTHER HAND HAND IT BACK TO CIRM. VERY FEW INVESTORS
13	ARE GOING TO PUT MONEY INTO A BUSINESS WHERE THEY
14	KNOW MY MONEY GOES IN ON DAY ONE AND ON DAY TWO IT
15	GOES OUT TO PAY SOMEBODY ELSE'S LOAN. THAT
16	TYPICALLY IS A DEAL THAT MOST GUYS ARE GOING TO WALK
17	AWAY FROM. SO I THINK YOU OUGHT TO THINK A LITTLE
18	BIT ABOUT THAT ONE.
19	AND THE PIVOTAL TRIAL ISSUE, I DON'T HAVE
20	AN ISSUE WITH THE SIX-MONTH LIMIT SIX-MONTH
21	TRIGGER ON REPAYMENT OF THE LOAN, BUT IT SHOULDN'T
22	BE AT THE START OF THE CLINICAL TRIAL. AT THAT
23	POINT YOU'RE COMMITTED TO SPEND A WHOLE BUNCH OF
24	MONEY, 40, 50, \$60 MILLION, TO FUND A VERY LARGE
25	TRIAL. WHERE YOU'VE SEEN VALUE IS WHEN THE TRIAL IS

26

1	COMPLETED. WHEN THE TRIAL IF YOU WANTED TO TIE
2	THAT REPAYMENT, THE PIVOTAL TRIAL REPAYMENT, TO THE
3	COMPLETION OF THE PIVOTAL TRIAL, NOW THE COMPANY HAS
4	ACHIEVED VALUE, AND THEY'RE IN A POSITION TO REPAY
5	THE LOAN. BUT IF YOU PUT THEM IN A POSITION WHERE
6	THEY HAVE TO REPAY THE LOAN AT THE START OF THE
7	PIVOTAL TRIAL, WELL, YOU KNOW, AGAIN, THEY'VE JUST
8	RAISED MONEY TO FUND THE PIVOTAL TRIAL AND YOU'RE
9	PULLING SOME OF THAT MONEY OUT, AND YOU ARE GOING TO
10	PUT THE COMPANY IN A POSITION WHERE IT WILL BE LESS
11	ABLE TO BE ABLE TO SURVIVE THAT CYCLE. AND I REALLY
12	DON'T THINK YOU WANT TO DO THAT.
13	AND BASICALLY THOSE ARE THE QUESTIONS THAT
14	I HAD, AND I WILL HAVE SOME MORE AS WE GO THROUGH.
15	CHAIRMAN ROTH: THANK YOU, GREG.
16	UNFORTUNATELY YOUR NEWS ABOUT THE MARKETS AND THE
17	ABILITY TO FUND THESE HAVEN'T GOTTEN BETTER IN TWO
18	YEARS. WITH THAT AS BACKGROUND. THERE ARE A NUMBER
19	OF VERY GOOD QUESTIONS AND COMMENTS THAT I THINK
20	GREG HAS RAISED. THE QUESTION TO THE TASK FORCE:
21	WOULD YOU LIKE TO DEAL WITH SOME OF THOSE NOW, OR
22	SHOULD WE MOVE THROUGH ALL THE PRESENTATIONS AND GET
23	INTO A DIALOGUE?
24	JUST FOR THE RECORD, CHAIRMAN KLEIN HAS
25	JOINED THE TASK FORCE AND MARCY FEIT JOINED.
	27

1	MR. KLEIN: I ACTUALLY THINK THAT THERE'S
2	SOME INFORMATION THAT CAN BE EXCHANGED HERE AT THIS
3	POINT THAT MIGHT BE INFORMATIVE AND AFFECT THE
4	FOLLOW-ON PRESENTATIONS. SO KEEP IT RELATIVELY
5	SHORT AND JUST HIT THE HIGH POINTS, THEN THE
6	FOLLOW-ON PRESENTATIONS CAN TAKE THAT INTO ACCOUNT
7	AND WE'LL LEARN MORE INCREMENTALLY.
8	CHAIRMAN ROTH: THE CONCERN I HAVE IS I
9	WANT TO GET TO A PRETTY OPEN DISCUSSION WITH ALL OF
10	THEM, AND I DIDN'T WANT TO PREEMPT SOME OF THE OTHER
11	COMMENTS. THERE ARE SOME THINGS THAT CERTAINLY WE
12	COULD GO IN AND CLARIFY.
13	MR. KLEIN: WELL, I WOULD LIKE TO, FOR
14	EXAMPLE, HIT THE POINT ABOUT 90 PERCENT BEING
15	EXCLUDED AND TRY AND UNDERSTAND WHERE GREG IS COMING
16	FROM THAT ASSUMPTION BECAUSE CERTAINLY WE'RE
17	EVOLVING OUR PEER REVIEW PROCESS, CONSTANTLY TRYING
18	TO HAVE MORE INDUSTRY ON THE PEER REVIEW PANELS.
19	AND WE'RE SEEING INCREMENTALLY MORE COMPANIES COME
20	INTO THIS. IT'S BEEN A VERY SHORT TIME THAT WE'VE
21	ACTUALLY HAD OUR FOR-PROFIT REGS, AND I THINK THE
22	COMPANIES ARE UNDERSTANDING THIS PROCESS, BUT WHERE
23	IS THE 90-PERCENT EXCLUSION COMING FROM?
24	MR. BONFIGLIO: JUST LOOKING AT HOW MANY
25	COMPANIES HAVE ACTUALLY QUALIFIED FOR GRANTS TO
	28
	20

1	DATE, I THINK IT'S LESS THAN SEVEN, AND YOU HAVE AT
2	LEAST 70 COMPANIES IN CALIFORNIA. SO 90 PERCENT OF
3	THE COMPANIES IN CALIFORNIA ARE NOT ELIGIBLE TO
4	APPLY FOR A LOAN BECAUSE THEY HAVE NOT YET QUALIFIED
5	OR NOT QUALIFIED FOR GRANTS.
6	MR. KLEIN: SO THEY WOULD COMPETE FOR A
7	LOAN JUST LIKE A GRANT. BUT I DON'T THINK ALL 70
8	HAVE, IN FACT, EVER APPLIED. PROBABLY ABOUT 15 HAVE
9	APPLIED OVER TIME. SO I THINK THAT WOULD BE THE
10	APPROPRIATE RATIO TO LOOK AT. AND WE'RE SEEING
11	INCREASING PERCENTAGES OF COMPANIES MEETING THAT
12	COMPETITIVE LEVEL.
13	MR. BONFIGLIO: BUT, BOB, YOU BUILT INTO
14	YOUR QUESTION THE ASSUMPTION THAT ONLY COMPANIES
15	THAT CAN QUALIFY FOR GRANTS ARE ELIGIBLE FOR THE
16	LOANS. AND THAT MAY BE A STRUCTURE IN THE STATUTE
17	ITSELF THAT CIRM CANNOT CHANGE, BUT THE UNINTENDED
18	CONSEQUENCE OF THAT IS 90 PERCENT OF THE COMPANIES
19	THAT ARE OUT THERE THAT NEED THIS MONEY CAN'T GET
20	ACCESS TO IT.
21	CHAIRMAN ROTH: GREG, LET ME JUST TRY AND
22	QUICKLY ANSWER THAT. WHAT THIS TASK FORCE DID WAS
23	CONTEMPLATE HOW THE LOAN PROGRAM WOULD WORK. THE
24	RFP'S WILL DICTATE WHO'S ELIGIBLE. SO, FOR EXAMPLE,
25	WE COULD DECIDE THAT WE'RE GOING TO HAVE AN RFP
	29

29

1THAT'S FOR PRODUCT DEVELOPMENT ONLY, AND THERE COUL2BE, LET'S SAY, \$100 MILLION. THEN EVERYBODY CAN3APPLY REGARDLESS OF WHERE THEIR PRODUCT IS, WHAT4PHASE IT'S IN. IT'S ALL IN AND IT DOES HAVE TO BE5PEER REVIEWED AND SCORED, AND THEN IT WOULD BE6FUNDED.7SO THAT WAS OUR ANTICIPATION. AND SO I8WANT TO BE A LITTLE BIT CAREFUL ABOUT THE9TERMINOLOGY GRANT VERSUS LOAN. THEY'RE REALLY THE10SAME THING. THEY'RE BOTH PEER REVIEWED, AND WE CAN	D
<ul> <li>APPLY REGARDLESS OF WHERE THEIR PRODUCT IS, WHAT</li> <li>PHASE IT'S IN. IT'S ALL IN AND IT DOES HAVE TO BE</li> <li>PEER REVIEWED AND SCORED, AND THEN IT WOULD BE</li> <li>FUNDED.</li> <li>SO THAT WAS OUR ANTICIPATION. AND SO I</li> <li>WANT TO BE A LITTLE BIT CAREFUL ABOUT THE</li> <li>TERMINOLOGY GRANT VERSUS LOAN. THEY'RE REALLY THE</li> </ul>	
<ul> <li>PHASE IT'S IN. IT'S ALL IN AND IT DOES HAVE TO BE</li> <li>PEER REVIEWED AND SCORED, AND THEN IT WOULD BE</li> <li>FUNDED.</li> <li>SO THAT WAS OUR ANTICIPATION. AND SO I</li> <li>WANT TO BE A LITTLE BIT CAREFUL ABOUT THE</li> <li>TERMINOLOGY GRANT VERSUS LOAN. THEY'RE REALLY THE</li> </ul>	
<ul> <li>5 PEER REVIEWED AND SCORED, AND THEN IT WOULD BE</li> <li>6 FUNDED.</li> <li>7 SO THAT WAS OUR ANTICIPATION. AND SO I</li> <li>8 WANT TO BE A LITTLE BIT CAREFUL ABOUT THE</li> <li>9 TERMINOLOGY GRANT VERSUS LOAN. THEY'RE REALLY THE</li> </ul>	
<ul> <li>6 FUNDED.</li> <li>7 SO THAT WAS OUR ANTICIPATION. AND SO I</li> <li>8 WANT TO BE A LITTLE BIT CAREFUL ABOUT THE</li> <li>9 TERMINOLOGY GRANT VERSUS LOAN. THEY'RE REALLY THE</li> </ul>	
<ul> <li>SO THAT WAS OUR ANTICIPATION. AND SO I</li> <li>WANT TO BE A LITTLE BIT CAREFUL ABOUT THE</li> <li>TERMINOLOGY GRANT VERSUS LOAN. THEY'RE REALLY THE</li> </ul>	
8 WANT TO BE A LITTLE BIT CAREFUL ABOUT THE 9 TERMINOLOGY GRANT VERSUS LOAN. THEY'RE REALLY THE	
9 TERMINOLOGY GRANT VERSUS LOAN. THEY'RE REALLY THE	
10 SAME THING. THEY'RE BOTH PEER REVIEWED, AND WE CAN	
11 SPECIFY THAT YOU COULD APPLY UNDER THIS RFP FOR A	
12 GRANT, WHICH MEANS YOU'RE UNDER OUR IP REGULATIONS,	
13 OR A LOAN, WHICH MEANS YOU'RE NOT UNDER THE IP	
14 REGULATIONS, YOU'RE UNDER THE LOAN PROGRAM, OR	
15 EITHER, COMBINATION OF.	
16 THE PARTICULAR ONE THAT WE JUST FINISHED,	
17 THE DISEASE TEAMS, SORT OF FORCED COMPANIES IN THE	
18 ONE SIDE AND OTHERS IN INSTITUTIONS INTO THE GRANT	
19 PROCESS. SO LET'S TALK ABOUT THAT A LITTLE BIT MOR	Е
20 BECAUSE I THINK ONCE WE CLARIFY	
21 MR. BONFIGLIO: I WOULD ENCOURAGE YOU TO	
22 DO WHATEVER YOU CAN TO OPEN THE DOORS TO THE OTHER	
23 COMPANIES THAT HAVE NOT YET BEEN AWARDED GRANTS	
24 BECAUSE THOSE COMPANIES ARE RIGHT NOW EFFECTIVELY	
25 FORECLOSED FROM PARTICIPATION IN THE LOAN PROGRAM,	
30	

1	AND MANY OF THEM WOULD LIKE TO PARTICIPATE IN THE
2	LOAN PROGRAM.
3	MR. KLEIN: I'M TRYING TO UNWIND THAT
4	BECAUSE IF THEY COME INTO AN RFA AND COMPETE, THEY
5	DON'T HAVE TO HAVE PREVIOUSLY GOTTEN A GRANT. THEY
6	CAN COMPETE JUST FOR A LOAN IN THE CYCLE. AND THE
7	ONLY DIFFERENCE IS THAT OVER THREE MILLION, THE
8	LOANS DON'T GO DOWN BELOW THREE MILLION. BELOW
9	THREE MILLION A COMPANY CAN COMPETE FOR A GRANT.
10	THE OTHER POINT I THINK THAT'S IMPORTANT
11	IS THE ISSUE WITH THESE ACCELERATION EVENTS.
12	CLEARLY WE'VE GOTTEN A LOT OF COMMENTS IT NEEDED TO
13	BE TIED TO REAL LIQUIDITY. SO IF YOU HAVE AS
14	LONG AS YOU TAKE OUT THE LESSER OF THE \$60-MILLION
15	TEST, IF YOU HAVE A LIQUIDITY REQUIREMENT FOR ANY
16	ACCELERATION TO BE EFFECTIVE, SO IT'S 20 TIMES THE
17	AMOUNT OF THE GRANT, FOR EXAMPLE, I THINK YOU'LL
18	ELIMINATE ALL OF THOSE PARTICULAR OBSTACLES YOU HAVE
19	BECAUSE AS LONG AS THERE IS LIQUIDITY, SO IF YOU
20	HAVE A \$20 MILLION GRANT, IF YOU'VE GOT 400 MILLION
21	OF LIQUIDITY, YOU CAN CLEARLY REPAY THAT LOAN.
22	MR. BONFIGLIO: SURE. YOU MAY BE ABLE TO
23	DEPENDING ON WHAT YOUR CAPITAL STRUCTURE LOOKS LIKE
24	AND WHAT YOUR CASH FLOW LOOKS LIKE, BUT THAT'S ONE
25	OF THE THREE TRIGGER EVENTS. THE ONE THAT CAUSES ME

31

1	THE MOST CONCERN IS THE PIVOTAL TRIAL. WITHIN SIX
2	MONTHS OF THE PIVOTAL TRIAL, YOU GOT TO REPAY THE
3	LOAN, YOU MAY NOT HAVE THE CAPITAL TO DO THAT.
4	CHAIRMAN ROTH: SO, GREG, I WANT TO
5	CLARIFY THE THOUGHT BEHIND IT. IT DOESN'T MEAN THAT
6	WE WON'T HAVE A MORE THOROUGH DISCUSSION ABOUT THIS.
7	BUT THE IDEA WAS WE'RE GOING TO GO WITH SIX-YEAR
8	LOANS, AND THEN WE DECIDED THAT SOME PEOPLE MIGHT
9	NEED A TEN-YEAR LOAN. SO IF YOU CHOOSE THE SIX, THE
10	CLINICAL TRIAL IS NOT THERE. THE ONLY THING IS
11	CHANGE OF CONTROL OR A MAJOR FINANCING. SO THE
12	CLINICAL TRIAL ONE'S ONLY IF YOU CHOOSE A TEN-YEAR
13	TIME PERIOD.
14	SO WE NEED TO FIND SOMETHING THAT WOULD BE
15	AN ADDITIONAL ACCELERATION, OR OTHERWISE WE END UP
16	ALL TEN-YEAR LOANS. AND THAT'S A LONG TIME FOR US
17	GIVEN THAT WE'D LIKE TO RECYCLE THE MONEY. THAT WAS
18	THE THINKING BEHIND IT. DOESN'T MEAN WE GOT IT
19	RIGHT, BUT JUST SO YOU KNOW THAT WE TRIED TO FIND A
20	TRIGGER THAT IF YOU DID TAKE THE TEN-YEAR AND YOU'RE
21	LUCKY ENOUGH BY YOUR NUMBERS, MOST PEOPLE AREN'T
22	THERE IN TEN YEARS, BUT IF YOU WERE LUCKY ENOUGH TO
23	GET INTO A PIVOTAL TRIAL, WITHIN SIX MONTHS OF THAT,
24	WE WOULD LIKE TO BE REPAID.
25	SO YOU MADE SOME GOOD POINTS MAYBE WE
	32

1	SHOULD TALK ABOUT. LET'S GO TO MATT AND LET MATT
2	TALK TO US.
3	DR. PLUNKETT: THANK YOU VERY MUCH, DUANE.
4	THANKS FOR THE OPPORTUNITY TO SHARE SOME THOUGHTS.
5	I ONLY HAVE SEVEN SLIDES. SO I'LL TRY AND BE REALLY
6	QUICK HERE. FIFTEEN-SECOND OF MY BIO IS BERKELEY
7	CHEMISTRY PH.D., FOUR YEARS IN THE DRUG DISCOVERY
8	INDUSTRY HERE, THEN NINE YEARS AS A BIOTECH BANKER
9	AT CIBC OPPENHEIMER, AND I CAME TO IPIERIAN OVER THE
10	SUMMER BECAUSE I REALLY FELT THAT THE WORK GOING ON
11	THERE IS A CHANCE TO CHANGE THE WAY NEW DRUGS ARE
12	DISCOVERED. FOR ME IT'S REALLY EXCITING TO BE IN
13	SUCH A VIBRANT INDUSTRY HERE IN CALIFORNIA.
14	REALLY QUICK SNAPSHOT OF OUR COMPANY.
15	WE'RE WORKING TO CREATE NEW THERAPEUTICS USING
16	CELLULAR REPROGRAMMING AND DIRECTED DIFFERENTIATION.
17	I THINK THE MOST IMPORTANT POINTS TO MAKE HERE
18	THOUGH FOR THIS GROUP IS WE'VE GROWN FROM 15
19	EMPLOYEES AT THE BEGINNING OF THE YEAR TO 46 AT THE
20	END OF THIS MONTH. AND WE'RE PLANNING TO HAVE 57
21	EMPLOYEES AT THE END OF NEXT YEAR. SIGNIFICANTLY,
22	THOUGH, WE ACTUALLY PLAN TO GROW THAT EVEN FURTHER
23	IF A BASIC BIOLOGY II AWARD WHICH WE PUT THE
24	FINISHING TOUCHES ON ON MONDAY IS ACCEPTED BY THE
25	REVIEW PANEL. AND WE'RE ACTUALLY PLANNING TO SPEND

33

1	OVER THE COURSE OF THE THREE-YEAR AWARD, IF WE GET
2	THE AWARD, ABOUT TWICE AS MUCH MONEY ON IT AS
3	ACTUALLY WOULD BE REIMBURSED BY CIRM. SO I THINK
4	THAT'S A COMMON POINT THAT YOU WILL SEE THROUGH SOME
5	OF MY LATER SLIDES IS ANY MONEY THAT WOULD COME FROM
6	CIRM WOULD REALLY LEVERAGE ADDITIONAL INVESTMENT
7	FROM THE PRIVATE SECTOR.
8	FOR US IT'S REALLY AN OPPORTUNITY TO TAKE
9	VENTURE CAPITAL DOLLARS AND ADD ADDITIONAL
10	INVESTMENT INTO WHAT WE'RE DOING. OUR FIVE-YEAR
11	PLAN ADDRESSES SPINAL MUSCULAR ATROPHY, ALS,
12	PARKINSON'S DISEASE, HUNTINGTON'S DISEASE, AND
13	DIABETES. AND WE CAN ONLY ACCOMPLISH THIS WITH A
14	COMBINATION OF VENTURE INVESTMENT AND ALTERNATE
15	FUNDING SOURCES LIKE CIRM. AND WE'RE NOT GOING TO
16	BE ABLE TO ADVANCE MOST OF THESE PROGRAMS WITHOUT
17	ALTERNATE FINANCING.
18	ONE POINT THAT I'LL COME BACK TO LATER IS
19	AS A COMPANY WE HAVE A VERY STRONG INTEREST IN
20	RECOURSE LOANS, AND I'LL TELL YOU A LITTLE BIT MORE
21	ABOUT THAT LATER.
22	PHILOSOPHICALLY I THINK OUR INTEREST AS A
23	BIOTECH COMPANY IN CALIFORNIA AND CIRM'S INTERESTS
24	REALLY ARE CONVERGING. I THINK THIS IS PROBABLY
25	STATING THE OBVIOUS FOR ALMOST EVERYBODY IN THE
	24

34

1	ROOM, BUT THE GOALS OF DELIVERING NEW TREATMENTS AND
2	ENHANCING CALIFORNIA'S LEADERSHIP AND CREATING AN
3	INDUSTRY ADVANTAGE AND GREAT JOBS IN THIS STATE AND
4	GETTING A RETURN ON ITS INVESTMENTS FOR BOTH ANY
5	CAPITAL THAT WE WOULD GET FROM CIRM AS WELL AS OUR
6	VENTURE INVESTORS, THOSE ARE ALL THINGS THAT I THINK
7	OUR INTERESTS ARE ALIGNED.
8	SO MY COMMENTS HERE ARE REALLY TRIED TO

Ō 9 FOCUS ON JUST ONE OR TWO KEY PROVISIONS THAT I THINK, HAVING REVIEWED THE DOCUMENTS AND HAD THE 10 11 CHANCE TO ASK SOME QUESTIONS OF DUANE AND MELISSA 12 JUST TO GET AN UNDERSTANDING OF THE THINKING BEHIND 13 IT, THE MAIN CONCERN THAT WE HAVE AS A COMPANY IS 14 REPAYMENT OF A LOAN BEFORE YOU KNOW YOU HAVE A 15 PRODUCT. BEFORE THE PRODUCT'S APPROVED, SO SHORTLY 16 AFTER THE START OF A PHASE III, UPON ANY CHANGE OF 17 CONTROL, AS I THINK PEOPLE IN THE ROOM KNOW, MANY OF THE MERGERS IN THE INDUSTRY ARE STOCK-FOR-STOCK 18 19 DEALS WHERE A COMPANY MIGHT BE ACQUIRED FOR \$200 20 MILLION BY A COMPANY THAT'S WORTH \$400 MILLION, BUT 21 NEITHER ONE HAS VERY MUCH CASH. CERTAINLY THEY 22 WOULDN'T BE ABLE TO REPAY A LOAN WITHOUT CAUSING A 23 WHOLE LOT OF ANGUISH.

AND THEN FINALLY, UPON RAISING ADDITIONAL
FINANCING FROM ANOTHER SOURCE, NOBODY WANTS TO

35

1	INVEST IN AN OPPORTUNITY AND SEE THAT MONEY GO
2	SOMEWHERE ELSE. THIS IS A BAD ANALOGY. BUT IF YOU
3	WERE TO GIVE MONEY TO YOUR BROTHER TO HELP PAY FOR
4	HIS KID'S COLLEGE TUITION AND INSTEAD IT GOES TO PAY
5	OFF THE CREDIT CARDS, THAT'S NOT WHAT YOU WANT TO
6	HAVE HAPPEN. YOU WANT TO SEE THE COLLEGE TUITION
7	PAID FOR.
8	TWO OTHER POINTS, AND THESE ARE REALLY
9	WHAT I FEEL IS IN ORDER FROM THE PERSPECTIVE OF A
10	COMPANY LIKE IPIERIAN IS THAT THE DILUTION FROM THE
11	WARRANTS, ESPECIALLY FOR THE NONRECOURSE LOANS, CAN
12	BE QUITE DILUTIVE. THAT CERTAINLY IS MITIGATED BY
13	THE 20-PERCENT CAP ON OWNERSHIP FOR AN INVESTOR THAT
14	WOULD COME IN AFTER THE VALLEY OF DEATH HAS BEEN
15	BRIDGED BY, FOR EXAMPLE, CIRM FUNDING THAT WOULD, IN
16	ESSENCE, COME OUT OF THE PREMONEY OF A NEW
17	INVESTMENT. SO THAT'S SOMETHING THAT CIRM AND ANY
18	OTHER EQUITY INVESTORS IN THE COMPANY WOULD HAVE TO
19	SORT OUT. SO THAT IN AND OF ITSELF ISN'T
20	NECESSARILY AN OBSTACLE TO INVESTMENT, BUT IT IS
21	SOMEWHAT EXPENSIVE.
22	AND THEN, FINALLY, THE ELIGIBILITY FOR A
23	RECOURSE LOAN SHOULD BE QUITE BROAD. AS I MENTIONED
24	BEFORE, WE PLAN TO HAVE SOME REALLY MEANINGFUL
25	PROGRESS IN OUR FIVE CORE THERAPEUTIC PROGRAMS OVER
	36

1	THE NEXT FOUR YEARS. WE EXPECT TO HAVE AT LEAST TWO
2	OF THOSE IN PHASE I CLINICAL TRIALS IN THAT
3	TIMEFRAME. AND I THINK WHAT I CAN SAY IS WE CAN'T
4	PREDICT THE SUCCESS OF ANY ONE OF OUR PROGRAMS AT
5	IPIERIAN CONFIDENT THAT SOMETHING IN THERE IS GOING
6	TO BE SUCCESSFUL. AND, THEREFORE, WE'RE QUITE HAPPY
7	TO REPAY A LOAN IN CASH WITH INTEREST IN EXCHANGE
8	FOR THE OPPORTUNITY TO HAVE A LOWER WARRANT COVERAGE
9	ON THE LOAN. SO JUST A PERSPECTIVE FROM BEING
10	FORTUNATE ENOUGH TO HAVE MULTIPLE THERAPEUTIC
11	PROGRAMS TO WORK ON.
12	JUST A COUPLE OF SHORT PROPOSALS HERE FOR
13	THINGS THAT I THINK COULD ADDRESS THOSE CONCERNS
14	WHICH I IDENTIFIED. SO FIRST, WHEN IS A LOAN
15	REPAID? ONE THING TO THINK ABOUT WOULD BE UPON
16	FIRST MAJOR MARKET REGULATORY APPROVAL.
17	UNFORTUNATELY THE FDA STILL IS A BIG RISK; AND EVEN
18	THOUGH MOST STUFF STILL IS GETTING APPROVED, IT'S
19	TAKING LONGER THAN THE TEN-MONTH PDUFA TIMEFRAME
20	MOST TIMES, SO EUROPE, JAPAN, UNITED STATES.
21	IF STILL MOVING THROUGH CLINICAL TRIALS
22	AND YOU GOT HUNG UP AT THE FDA OR WHATEVER, I'D
23	PROPOSE THAT CIRM CONSIDER PERIODIC EXTENSIONS IF
24	YOUR PRODUCT IS STILL MOVING ALONG.
25	AND THEN IF THERE'S A CASH ACQUISITION OR
	37

1	AN ACQUISITION THAT LOOKS LIKE CASH, THAT'S PFIZER
2	STOCK OR WHATEVER, THAT THE LOAN BECOMES REPAYABLE
3	IN THAT EVENT, BUT NOT A STOCK-FOR-STOCK DEAL
4	BETWEEN TWO SMALLER COMPANIES. TURNING THAT AROUND,
5	THOUGH, I'D PROPOSE THAT CIRM PUT SOME INCENTIVES
6	FOR EARLY REPAYMENT. THAT'S A TRIPLE WIN, SO MAYBE
7	200 PERCENT BETTER THAN JUST A SINGLE WIN FOR
8	CALIFORNIA, CIRM, AND THE LOAN RECIPIENT.
9	SO ONE WAY TO THINK ABOUT THIS COULD BE
10	ONE-TENTH OF THE WARRANT COVERAGE KNOCKED OFF FOR
11	EACH YEAR THAT YOU REPAY THE LOAN EARLY.
12	AND THEN JUST ANOTHER THOUGHT FOR
13	CONSIDERATION IS KIND OF TIERING THE WARRANT
14	COVERAGE TO ADDRESS RELATIVE RISK OF PRODUCT
15	CANDIDATE AND COMPANY'S STAGE. AND ONE WAY THAT YOU
16	COULD LOOK AT THIS WOULD BE USING INVESTED CAPITAL
17	TO DATE IN A COMPANY AS A SURROGATE FOR HOW FAR
18	ALONG THE COMPANY HAS GONE OR HOW MUCH PROGRESS
19	THERE IS. SO BASICALLY TAKING THE PROPOSAL THAT YOU
20	HAVE OUT THERE IN THE PRELIMINARY REGULATIONS. AND
21	IF THERE'S A COMPANY WHERE THE VALLEY OF DEATH IS
22	BEING BRIDGED BY CIRM MONEY, IT CERTAINLY IS
23	ABSOLUTELY JUSTIFIABLE TO HAVE THE, I THINK, MORE
24	EXPENSIVE MONEY, IF YOU WILL, AND THEN STEP THAT
25	DOWN IF MORE AND MORE CAPITAL HAS GONE ALONGSIDE.

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1	SO IF IT'S A \$15 MILLION DISEASE TEAM
2	GRANT, BUT \$40 MILLION IN OTHER FUNDING HAS GONE
3	INTO THE COMPANY, I PROPOSE THAT THE WARRANT
4	COVERAGE BE STEPPED DOWN ACCORDINGLY LIKE YOU CAN
5	SEE RIGHT HERE. AND JUST ONE KIND OF MINOR NOTE IS
6	I USUALLY SEE WARRANTS PRICED ON THE NEXT ROUND OF
7	FINANCING AS OPPOSED TO THE PRIOR ROUND OF FINANCING
8	IN THE VENTURE DEBT WORLD.
9	I'GOING TO GO JUST A LITTLE BIT OUT ON A
10	LIMB HERE WITH MY LAST SLIDE AND STATE THAT GIVEN
11	THE RELATIVELY LOW COST OF CIRM CAPITAL AND WITH ALL
12	THE OTHER GOALS THAT CIRM IS TRYING TO ACCOMPLISH,
13	WHICH I HIT ON EARLIER, DEVELOPING STEM CELL
14	SCIENCE, CREATING JOBS, NURTURING A 21ST CENTURY
15	INDUSTRY, I DON'T THINK THAT THE RETURNS HAVE TO BE
16	VENTURELIKE TO CREATE A HUGE WIN FOR CALIFORNIA. SO
17	MOST VC'S WOULD LIKE TO GET MORE THAN 2 OR 3 X
18	RETURN CAPITAL. THAT'S BEEN SORT OF A GOOD
19	ACCOMPLISHMENT FOR THE LAST HALF DECADE, BUT I WOULD
20	POSIT THAT AS A CALIFORNIA TAXPAYER, I WOULD BE
21	DELIGHTED IF CIRM WERE TO ACHIEVE THE GOALS THAT ARE
22	UP THERE ON THE TOP AND YOU RETURN YOUR CAPITAL.
23	SO WHAT THAT TELLS ME IS THAT YOUR TARGET
24	RETURNS DON'T HAVE TO BE VENTURELIKE. YOU CAN
25	ACTUALLY GET TO SOME PRETTY NICE NUMBERS JUST ON
	30
24	RETURNS DON'T HAVE TO BE VENTURELIKE. YOU CAN ACTUALLY GET TO SOME PRETTY NICE NUMBERS JUST ON

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<ol> <li>PRIME PLUS 5 PERCENT AND THEN MODEST WARRANT</li> <li>COVERAGE. IT'S PRETTY EASY TO SEE HOW IN A</li> <li>SUCCESSFUL SCENARIO, EVEN A 10-PERCENT WARRANT</li> <li>COVERAGE FOR A COMPANY THAT MIGHT BE WORTH 50 OR A</li> <li>HUNDRED MILLION TODAY OVER TIME IS EASILY GOING TO</li> <li>GROW TO BE A BILLION OR MORE WITH A SUCCESSFUL</li> <li>PRODUCT. AND YOU CAN CERTAINLY GET TO SOME REALLY</li> <li>NICE NUMBERS EVEN ACCOUNTING FOR PRODUCT FAILURE IN</li> <li>THAT CASE.</li> <li>SO THAT'S WHAT I HAVE FOR YOU FOLKS.</li> <li>THANKS AGAIN FOR THE OPPORTUNITY.</li> </ol>	
<ul> <li>3 SUCCESSFUL SCENARIO, EVEN A 10-PERCENT WARRANT</li> <li>4 COVERAGE FOR A COMPANY THAT MIGHT BE WORTH 50 OR A</li> <li>5 HUNDRED MILLION TODAY OVER TIME IS EASILY GOING TO</li> <li>6 GROW TO BE A BILLION OR MORE WITH A SUCCESSFUL</li> <li>7 PRODUCT. AND YOU CAN CERTAINLY GET TO SOME REALLY</li> <li>8 NICE NUMBERS EVEN ACCOUNTING FOR PRODUCT FAILURE IN</li> <li>9 THAT CASE.</li> <li>10 SO THAT'S WHAT I HAVE FOR YOU FOLKS.</li> </ul>	
<ul> <li>4 COVERAGE FOR A COMPANY THAT MIGHT BE WORTH 50 OR A</li> <li>5 HUNDRED MILLION TODAY OVER TIME IS EASILY GOING TO</li> <li>6 GROW TO BE A BILLION OR MORE WITH A SUCCESSFUL</li> <li>7 PRODUCT. AND YOU CAN CERTAINLY GET TO SOME REALLY</li> <li>8 NICE NUMBERS EVEN ACCOUNTING FOR PRODUCT FAILURE IN</li> <li>9 THAT CASE.</li> <li>10 SO THAT'S WHAT I HAVE FOR YOU FOLKS.</li> </ul>	
<ul> <li>5 HUNDRED MILLION TODAY OVER TIME IS EASILY GOING TO</li> <li>6 GROW TO BE A BILLION OR MORE WITH A SUCCESSFUL</li> <li>7 PRODUCT. AND YOU CAN CERTAINLY GET TO SOME REALLY</li> <li>8 NICE NUMBERS EVEN ACCOUNTING FOR PRODUCT FAILURE IN</li> <li>9 THAT CASE.</li> <li>10 SO THAT'S WHAT I HAVE FOR YOU FOLKS.</li> </ul>	
<ul> <li>6 GROW TO BE A BILLION OR MORE WITH A SUCCESSFUL</li> <li>7 PRODUCT. AND YOU CAN CERTAINLY GET TO SOME REALLY</li> <li>8 NICE NUMBERS EVEN ACCOUNTING FOR PRODUCT FAILURE IN</li> <li>9 THAT CASE.</li> <li>10 SO THAT'S WHAT I HAVE FOR YOU FOLKS.</li> </ul>	
<ul> <li>7 PRODUCT. AND YOU CAN CERTAINLY GET TO SOME REALLY</li> <li>8 NICE NUMBERS EVEN ACCOUNTING FOR PRODUCT FAILURE IN</li> <li>9 THAT CASE.</li> <li>10 SO THAT'S WHAT I HAVE FOR YOU FOLKS.</li> </ul>	
<ul> <li>8 NICE NUMBERS EVEN ACCOUNTING FOR PRODUCT FAILURE IN</li> <li>9 THAT CASE.</li> <li>10 SO THAT'S WHAT I HAVE FOR YOU FOLKS.</li> </ul>	
9 THAT CASE. 10 SO THAT'S WHAT I HAVE FOR YOU FOLKS.	
10 SO THAT'S WHAT I HAVE FOR YOU FOLKS.	
TT THANKS AGAIN FOR THE OFFORTUNITT.	
12 CHAIRMAN ROTH: THANK YOU, MATT. ANY	
13 BURNING QUESTIONS OR CLARIFICATIONS?	
14 MR. KLEIN: THE \$20 MILLION LOAN ON YOUR	
15 LAST SLIDE, IT SAID A 10, 15 TIMES RETURN. HOW DID	
16 YOU GET TO THE 10, 15 TIMES RETURN?	
DR. PLUNKETT: THAT'S JUST ON THE WARRANT	
18 COMPONENT. SO IT'S JUST WORKING THROUGH A THOUGHT	
19 EXPERIMENT. SO IF YOU HAVE OUR COMPANY IS ABOUT	
20 A 50 MILLION POST-MONEY VALUATION. LET'S JUST	
21 ASSUME THERE'S ANOTHER FINANCING ALONG THE ROAD,	
22 JUST USING ROUND NUMBERS, A HUNDRED MILLION	
23 POST-MONEY VALUATION. IF YOU THEN GROW WITH SUCCESS	
24 TO BE A BILLION-DOLLAR COMPANY, THOSE WARRANTS OR A	
25 BILLION AND A HALF DOLLARS, WHICH CERTAINLY LOTS OF	
40	

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1	EXAMPLES FOR THAT, THOSE WARRANTS WOULD THEN HAVE
2	GIVEN YOU 10 X ON THAT 10 PERCENT, SO 1 X TOTAL OR
3	ONE TO ONE AND A HALF TIMES. SO THAT'S THE 100 TO
4	150 PERCENT. MIGHT HAVE BEEN A LITTLE UNCLEAR THERE
5	ON THE LAST PART.
6	MR. KLEIN: TEN-PERCENT WARRANT COVERAGE
7	IS ANOTHER 150 PERCENT ADDED TO RETURN.
8	DR. PLUNKETT: YES.
9	MR. KLEIN: SO THE REAL RETURN WITH A
10	10-PERCENT COVERAGE IS 270 PERCENT INCLUDING THE
11	INTEREST.
12	DR. PLUNKETT: CORRECT, YES.
13	CHAIRMAN ROTH: OKAY. BRYANT, YOU WANT TO
14	GO NEXT. WHILE BRYANT IS MAKING HIS WAY UP, I WANT
15	TO MAKE SURE WE CAN GET BACK TO THESE SLIDES,
16	MELISSA, BECAUSE THERE ARE A FEW THAT WILL BE USEFUL
17	FOR DISCUSSION. I KNOW THERE ARE A NUMBER OF
18	INDUSTRY AND OTHER INTERESTED PARTIES IN THE ROOM.
19	WE WANT TO BRING YOU INTO THIS CONVERSATION. SO
20	WHEN WE GET DONE HERE, WE'LL HAVE A DIALOGUE BACK
21	AND FORTH AND THEN OPEN THE MIC SO YOU CAN MAKE
22	COMMENTS AS WELL.
23	MR. FONG: THANK YOU, DUANE, AND THANK YOU
24	TO THE TASK FORCE FOR INVITING US TO MAKE SOME
25	COMMENTS ON THE CIRM LOAN. A LOT OF THE COMMENTS
	41

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1	THAT I HAVE HAVE ACTUALLY BEEN ALREADY SPOKEN FOR,
2	SO I'M GOING TO GO THROUGH THIS PRETTY QUICKLY
3	BECAUSE I THINK GREG AND MATT WENT THROUGH THIS
4	QUITE A BIT ALREADY. FOR THOSE WHO DON'T KNOW IN
5	THE AUDIENCE, BURRILL & COMPANY IS A SAN
6	FRANCISCO-BASED LIFE SCIENCES MERCHANT BANK WITH
7	ACTIVITIES IN INVESTING AS WELL AS IN INVESTMENT
8	BANKING AS WELL AS MEDIA.
9	GREG HAS SHOWED THIS SLIDE. SO THIS IS
10	THE PLAYING FIELD THAT WE'RE DEALING WITH WITH EARLY
11	STAGE CLINICAL DEVELOPMENT COMPANIES. THIS IS
12	ESSENTIALLY THE KIND OF GRIDIRON THAT A CLINICAL
13	DEVELOPMENT COMPANY HAS TO RUN THROUGH FROM ITS VERY
14	EARLIEST STAGES, KIND OF PRECLINIC SCIENCE AND
15	IDENTIFYING A POTENTIAL THERAPEUTIC, ALL THE WAY UP
16	TO FILING AN IND AND PROGRESSING THIS THING FORWARD
17	INTO LATER STAGES OF CLINICAL TRIAL.
18	THIS VALLEY OF DEATH THAT YOU'VE BEEN
19	HEARING ABOUT IN QUOTES IS THIS PERIOD HERE FROM
20	VERY EARLY STAGE SCIENCE TO A POINT WHERE YOU CAN
21	ACTUALLY IDENTIFY A COMPOUND TO MOVE INTO HUMAN
22	STUDIES, TO GET IT TO PROOF OF CONCEPT, AND THAT'S
23	THE AREA I THINK A LOT OF THE STEM CELL COMPANIES
24	AND REGENERATIVE MEDICINE COMPANIES FIT INTO THIS
25	AREA, VERY EARLY STAGE PRECLINICAL SCIENCE THAT NEED

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1	FUNDING TO GET TO THAT NEXT POINT THAT WILL ENABLE
2	THEM TO TAKE THESE INNOVATIVE THERAPIES INTO HUMAN
3	CLINICAL STUDIES.
4	GREG ALSO TOUCHED ON THIS. THE CURRENT
5	STATE OF VENTURE CAPITAL FINANCINGS, FOR THE MOST
6	PART, AND THIS IS A GENERALIZATION, ARE PRETTY MUCH
7	AVOIDING THIS VALLEY OF DEATH. HISTORY HAS TOLD US
8	IT'S A PRETTY LONG SLOG AND IT TAKES A LOT OF MONEY.
9	GREG'S SLIDE MENTIONED TEN YEARS AND A BILLION
10	DOLLARS. THAT'S PROBABLY FOR ONE OF THE MORE
11	BLOCKBUSTER DRUGS, BUT IT'S NOT PRETTY FAR OFF.
12	REALLY THE OBLIGATION NOW IN THE PRIVATE
13	MARKETS FOR VENTURE CAPITALISTS TO EXIT THESE
14	COMPANIES HAS BEEN EXTENDED. SO REALLY ALMOST A
15	FRAME SHIFT IN REALLY HOW MUCH MONEY REALLY NEEDS TO
16	GO INTO THESE COMPANIES IN ORDER FOR A VENTURE
17	CAPITALIST TO MAKE DECENT RETURNS NOW ON THEIR
18	INVESTMENT.
19	THAT'S REALLY BECAUSE OF THE FACT THAT IN
20	ORDER TO GET TO AN EXIT, MORE OFTEN THAN NOT A PHASE
21	II STUDY NORMALLY ISN'T SUFFICIENT. SO IF YOU'RE
22	ABLE TO EITHER TAKE YOUR COMPANY PUBLIC OR DO A
23	MERGER/ACQUISITION AFTER THAT PHASE, YOU'RE
24	BASICALLY ON THE HOOK FOR A FAIRLY EXPENSIVE PHASE
25	III CLINICAL STUDY, WHICH EXPOSES YOU TO OBVIOUSLY
	43

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LATER STAGE CLINICAL RISKS THAT YOU MIGHT NOT HAVE
 HELD PREVIOUSLY.

3 IF WE ARE -- THIS IS PARTICULARLY BURRILL, 4 BUT I KNOW A LOT OF OTHER OF OUR VENTURE PEERS ARE 5 DOING THIS AS WELL, IF WE WERE TO FUND A CLINICAL 6 DEVELOPMENT OPPORTUNITY, THESE ARE NOT COMPANIES 7 THAT HISTORICALLY HAD 50 PEOPLE AND LARGE DISCOVERY 8 AND DEVELOPMENT ENGINES. THESE ARE COMPANIES THAT 9 HAVE LESS THAN FIVE PEOPLE THAT POSSIBLY HAVE A 10 SINGLE PRODUCT OPPORTUNITY THAT THEY'RE ABOUT TO 11 START A PHASE II CLINICAL TRIAL IN, AND BASICALLY 12 FOR 15 TO \$20 MILLION AMONG A SYNDICATE OF FOUR 13 PEOPLE, YOU CAN TURN OVER A CARD, AND IF IT FAILS, 14 YOUR OUTLAY WAS PROBABLY LESS THAN \$3 MILLION. IF 15 IT SUCCEEDS, YOU'RE PROBABLY AT A VALUATION WHERE 16 YOU CAN EITHER STEP UP THE VALUATION IN THE NEXT 17 ROUND OR POSSIBLY EVEN EXIT BECAUSE YOU'VE GOT INTERESTING PHASE II DATA. 18

AND THE OTHER THING THAT'S REALLY TAKING AWAY MONEY FROM EARLY STAGE INNOVATIVE SCIENCE IS REALLY THE OTHER TYPES OF AREAS THAT HEALTH CARE INVESTORS CAN MOVE INTO. THERE'S OBVIOUSLY A LARGE PUSH INTO MOLECULAR DIAGNOSTICS. GIVEN WHAT'S GOING ON WITH THE WHOLE GENOME SEQUENCING AND THE COST OF SEQUENCING, THAT'S A BIG AREA FOR BURRILL. IT'S A

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1	BIG AREA FOR OTHER VENTURE FIRMS AS WELL. SPECIALTY
2	PHARMA COMPANIES THAT ACTUALLY HAVE REVENUE AND
3	POTENTIALLY ARE GENERATING PROFITS ARE ALWAYS
4	INTERESTING BECAUSE THOSE ARE THE COMPANIES THAT
5	POTENTIALLY COULD DO AN IPO. AND MED TECH IS ALSO A
6	LARGE COMPONENT OF A LOT OF PEOPLE'S PORTFOLIOS AND
7	WILL STAY THAT WAY IN THE FUTURE.
8	SO TO A LIMITED EXTENT, EARLY STAGE
9	INVESTMENT FOR INNOVATION IS ALWAYS NEEDED,
10	ALTERNATIVE SOURCES OF FINANCING. I THINK THE
11	DOLLARS AVAILABLE FROM VENTURE CAPITAL FUNDS HAVE
12	NEVER BEEN FULL ENOUGH TO ACTUALLY SATISFY THE NEED
13	FOR CAPITAL IN THAT SECTOR. I THINK TODAY THAT NEED
14	IS GREATER JUST BECAUSE OF THE FACT OF THE THINGS I
15	SAID EARLIER. PEOPLE JUST AVOID INVESTING IN THAT
16	VALLEY OF DEATH.
17	TRADITIONAL GRANTS, WHICH HAVE BEEN THE
18	BACKBONE OF ADVANCING EARLY STAGE SCIENCE, THAT'S
19	STILL THERE, BUT THE QUANTITY AND AMOUNT THAT PEOPLE
20	ARE ABLE TO ATTAIN ARE RARELY SUFFICIENT TO ADVANCE
21	THE BALL FORWARD TO A POINT WHERE COMPANIES CAN
22	ACTUALLY GO OUT AND WRITE A BUSINESS PLAN AND
23	ATTRACT PRIVATE CAPITAL FROM VENTURE CAPITALISTS.
24	GIVEN THE CURRENT MENTALITY OF VC'S RIGHT
25	NOW TO STAY AWAY FROM EARLY STAGE INVESTING GIVEN
	45

45

1	THE RETURNS HAVE NOT BEEN THERE RECENTLY, I DON'T
2	THINK THERE'S GOING TO BE A VERY LARGE SHIFT IN THE
3	FUTURE ACTUALLY TO MOVE INTO EARLY STAGE INNOVATIVE
4	SCIENCE. SO ALTERNATIVE CREATIVE SOURCES ARE REALLY
5	GOING TO NEED TO TAKE THE FOREFRONT, AND THAT'S
6	WHERE THESE PROGRAMS LIKE THE CIRM LOAN PROGRAM COME
7	INTO PLAY BECAUSE IT PROVIDES A FUNDING MECHANISM
8	FOR VERY EARLY STAGE COMPANIES WHO ORDINARILY
9	WOULDN'T QUALIFY FOR VENTURE CAPITAL FINANCING OR
10	TRADITIONAL LOAN FINANCING TO OBTAIN MEANINGFUL
11	CAPITAL TO ACTUALLY ADVANCE A TECHNOLOGY TO A POINT
12	WHERE THEY MIGHT BE ABLE TO GET VENTURE CAPITAL
13	FINANCING.
14	AND IN THE CASE OF MATT'S COMPANY,
15	IPIERIAN, HERE'S A MATURE COMPANY THAT'S RAISED A
16	LOT OF VENTURE CAPITAL FINANCING, BUT CAN STILL TAKE
17	ADVANTAGE OF A PROGRAM LIKE THIS TO ACCELERATE A
18	PRODUCT OPPORTUNITY THAT OTHERWISE COULD NOT BE
19	FUNDED DUE TO BUDGET CONSTRAINTS. FROM OUR POINT OF
20	VIEW, ON BALANCE, THE PROGRAM, WE THINK, IS
21	FANTASTIC, AND THE TERMS ASSOCIATED WITH IT FOR
22	COMPANIES PURSUING BOTH NONRECOURSE OR RECOURSE
23	LOANS ARE ACTUALLY, I THINK, ON BALANCE PRETTY FAIR.
24	ESPECIALLY IN THE CASE OF NONRECOURSE LOANS, THESE
25	ARE LOANS THAT ARE ESSENTIALLY FREE GIVEN THAT

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1	THEY'RE PRODUCT-SPECIFIC AND ARE FORGIVEN UPON
2	FAILURE.
3	SO FOR THE WARRANT COVERAGE THAT ARE GIVEN
4	ESPECIALLY IN THE NONRECOURSE CASE, THIS IS
5	OBVIOUSLY THE DOWNSIDE PROTECTION FOR CIRM GIVEN THE
6	EXPECTED HIGH FAILURE RATE. AS MATT POINTED OUT,
7	GIVEN THAT THESE ARE PROBABLY VERY EARLY STAGE
8	COMPANIES THAT WOULDN'T ORDINARILY HAVE A CAPITAL
9	STRUCTURE, THOSE WARRANTS WOULD COME INTO PLAY FOR
10	THAT VENTURE CAPITALIST WHO MIGHT CHOOSE TO DEAL
11	WITH THAT IN THE PREMONEY. SO THE WARRANT COVERAGE
12	REALLY ISN'T THAT BIG OF A PROBLEM, ESPECIALLY IN
13	THE NONRECOURSE EXAMPLE.
14	SO I THINK THE GOAL OF THE PROGRAM IS
15	ACTUALLY TO MAKE ACCESSIBLE TO COMPANIES A LARGE
16	UNIVERSE OF COMPANIES THAT CAN ACTUALLY TAKE
17	ADVANTAGE OF THESE LOANS. AND IF THERE ARE CERTAIN
18	RATE LIMITING STEPS THAT WE CAN ALLEVIATE IF THERE'S
19	A BOTTLENECK FOR ACCESSIBILITY OR CERTAIN CRITERIA
20	THAT EXPANDS THE UNIVERSE OF COMPANIES WHO MIGHT
21	ORDINARILY APPLY AND QUALIFY TO 90 PERCENT FROM 50
22	PERCENT, I THINK WE SHOULD DEFINITELY TAKE INTO
23	CONSIDERATION SOME THINGS HERE THAT HAVE ALREADY
24	BEEN MENTIONED THAT I WON'T REPEAT, WAYS THAT WE CAN
25	MASSAGE SOME OF THESE THINGS TO MAKE IT MORE

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1	PALATABLE FOR COMPANIES TO PURSUE THESE TYPES OF
2	LOANS.
3	CHAIRMAN ROTH: THANK YOU, BRYANT. ANY
4	CLARIFICATIONS FOR BRYANT? SO THANK YOU. WE'RE
5	GOING TO GET TO THESE DISCUSSION ITEMS. SO, PETE, I
6	THINK YOU'RE NEXT UP. WELCOME BACK, BY THE WAY.
7	MR. SCOTT: THANK YOU. I'M PETE SCOTT.
8	I'M RESPONSIBLE FOR LIFE SCIENCE PRACTICE AT SILICON
9	VALLEY BANK. AND MY ROLE TODAY IS REALLY TO TALK
10	ABOUT ANOTHER FINANCING ALTERNATIVE AVAILABLE TO
11	COMPANIES OUT THERE AND REALLY HOW THE CIRM
12	FINANCING CAN WORK WITH THAT AND LIVE TOGETHER
13	ESSENTIALLY.
14	SO WHAT I THOUGHT I'D START WITH IS JUST A
15	BRIEF DISCUSSION ABOUT SILICON VALLEY BANK AND PUT
16	IT IN CONTEXT SO YOU KNOW WHERE WE'RE COMING FROM.
17	BANK'S BEEN AROUND FOR A LONG TIME, ABOUT 26 YEARS.
18	WE'RE ABOUT 27 OFFICES ACROSS THE COUNTRY, AND WE'RE
19	ALSO INTERNATIONAL. HAVE AN OFFICE IN LONDON AND
20	CHINA AND INDIA. ABOUT 11.5 BILLION IN ASSETS, AND
21	WE'RE A PUBLIC COMPANY. WE'RE PUBLICLY TRADED,
22	ABOUT \$1.2 BILLION MARKET CAP.
23	I THINK THE THING JUST TO, AGAIN, GIVE
24	SOME CONTEXT, THE BANK'S PRETTY FOCUSED. TECHNOLOGY
25	AND LIFE SCIENCE IS ABOUT 90 PERCENT OF WHAT WE DO,
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1	AND WE WORK WITH COMPANIES ALL THE WAY FROM
2	BRAND-NEW START-UPS, SO POTENTIAL CIRM RECIPIENTS,
3	TO LARGER PUBLIC COMPANIES OUT THERE IN THE TECH AND
4	LIFE SCIENCE SPACE.
5	SO LET ME GET SPECIFIC AND TALK ABOUT,
6	AGAIN, THE TYPE OF FINANCING AVAILABLE IN THE
7	MARKETPLACE FROM A VENTURE DEBT PERSPECTIVE AND GIVE
8	YOU A LITTLE BIT OF A PICTURE OF WHAT WE'RE TALKING
9	ABOUT IN THE MARKET. SO, IN ESSENCE, AVAILABLE
10	TODAY FOR BOTH VENTURE CAPITAL-BACKED AND PUBLIC
11	COMPANIES IS FINANCING IN ADDITION TO THE EQUITY
12	FINANCING CALLED VENTURE DEBT. AND REALLY THE KEY
13	PIECE OF IT THAT DIFFERENTIATES IT FROM REGULAR BANK
14	DEBT IS IT'S AVAILABLE TO DEVELOPMENT STAGE
15	COMPANIES. WHAT THAT MEANS, FOR US AT LEAST, IS
16	THAT COMPANIES THAT ARE DEVELOPING PRODUCTS THAT
17	TYPICALLY HAVE VERY LITTLE REVENUES, IF ANY
18	REVENUES, AND ARE IN A CASH BURN MODE. IT'S NOT THE
19	COMPANIES THAT ARE MUCH MORE MATURE AND HAVE CASH
20	FLOW. THOSE TYPE OF COMPANIES HAVE ACCESS TO
21	DIFFERENT TYPES OF CAPITAL. WHAT I'M REALLY
22	SPEAKING OF IS REALLY THE DEVELOPMENT STAGE COMPANY.
23	IN GENERAL, WHAT THESE DEALS LOOK LIKE IS
24	THEY'RE VENTURE DEBT OR GROWTH CAPITAL OR EVEN
25	EQUIPMENT FINANCING. AND IN GENERAL WHAT THEY LOOK
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1	LIKE IS THEY'RE THREE-YEAR TERM DEALS THAT COME IN
2	TYPICALLY ALONGSIDE EITHER VENTURE CAPITAL, EQUITY
3	FINANCING, OR PUBLIC FINANCING. THE TERMS ARE
4	GENERALLY THREE YEARS, AS I MENTIONED. ALL-IN RATES
5	ARE BETWEEN 9 AND 14 PERCENT. AND WHEN I SAY
6	ALL-IN, WHAT I MEAN BY THAT IS THAT THE DEAL IS
7	STRUCTURED USUALLY WITH UP-FRONT FEES, AN INTEREST
8	RATE ALONG THE WAY, AND THEN SOME SORT OF FINAL
9	PAYMENT STRUCTURE. YOU ADD ALL THAT UP AND THE IRR
10	TYPICALLY COMES IN BETWEEN 9 AND 14 PERCENT.
11	THESE DEALS ALSO TYPICALLY INCLUDE WARRANT
12	COVERAGE AS WELL. THE WARRANTS ON THESE TYPE OF
13	DEALS IN TODAY'S MARKET, USUALLY IN THE 5- TO
14	10-PERCENT RANGE, A SIMILAR STRUCTURE TO THE WAY
15	CIRM IS CONTEMPLATING THEIR WARRANTS. NORMALLY
16	THESE DEALS HAVE A BLANKET LIEN ON THE COMPANY.
17	ALTHOUGH TYPICALLY IN THE LIFE SCIENCE SPACE, THE
18	INTELLECTUAL PROPERTY IS NOT PART OF THE LIEN
19	POSITION, AND WE PUT IN PLACE WHAT'S CALLED A
20	NEGATIVE PLEDGE THAT BASICALLY SAYS YOU CAN'T PLEDGE
21	THE IP TO ANYONE ELSE. THAT, AGAIN, FITS INTO THE
22	CIRM PROPOSAL.
23	THE REAL VALUE OF THESE TYPE OF DEALS IS
24	THAT THEY'RE STRUCTURED REALLY TO DRIVE RUNWAY FOR
25	THE COMPANY, ADDITIONAL RUNWAY. AND THE CONCEPT IS
	50

1	PRETTY SIMPLE. ALONG WITH YOUR EQUITY DOLLARS, YOU
2	BRING ON SOME DEBT FINANCING DOLLARS, AND THE HOPE
3	IS THAT THIS DEBT FINANCING WILL GIVE THE COMPANY
4	SOME ADDITIONAL TIME HOPEFULLY TO MEET A MILESTONE
5	THAT WILL DRIVE REAL VALUE. SO IF YOU CAN HAVE A
6	COMBINATION OF EQUITY AND DEBT THAT GETS YOU TO A
7	SAID MILESTONE THAT HOPEFULLY DRIVES THE VALUE OF
8	THE COMPANY UP, THEN THE DEBT PROVIDED REAL VALUE,
9	AND IT DID IT IN A LESS DILUTIVE WAY THAN EQUITY
10	CAPITAL.
11	SO LET ME NOW TALK A LITTLE BIT ABOUT HOW
12	THE VENTURE DEBT MARKET AND HOW THOSE INSTRUMENTS
13	CAN WORK TOGETHER WITH THE CIRM DEAL. I'M GOING TO
14	TALK ABOUT IT IN TWO DIFFERENT WAYS REALLY. ONE IS
15	JUST SOME THINGS TO THINK ABOUT WHEN YOU'RE PUTTING
16	VENTURE DEBT IN PLACE BEFORE A CIRM FINANCING, AND
17	THEN I'M GOING TO TALK A LITTLE BIT ABOUT, ASSUMING
18	YOU HAVE CIRM FINANCING IN PLACE AND YOU'RE GOING TO
19	GO OUT LOOKING FOR VENTURE DEBT, AND SOME THINGS TO
20	THINK ABOUT THERE.
21	THE KEY MESSAGE HERE, THOUGH, IS THAT IN
22	BOTH THESE SCENARIOS THE VENTURE DEBT STRUCTURES IN
23	THE MARKET TODAY WILL WORK WITH THE CIRM DEAL. SO
24	THESE CAN LIVE TOGETHER AND IT IS A SOURCE OF
25	CAPITAL FOR COMPANIES.

1	THERE ARE A FEW THINGS, AS I LOOK THROUGH
2	SOME OF THE TERMS, IS PROBABLY SOMETHING TO I
3	DON'T THINK THERE ARE REAL CONCERNS, BUT JUST
4	SOMETHING FOR THE COMPANIES AND CIRM TO BE AWARE OF
5	AND SOMETHING THAT'S GOING TO BE KEY. ONE IS
6	THAT WELL, AGAIN, LET ME START WITH THE BEFORE
7	FINANCING. SO IF YOU HAVE A VENTURE DEBT DEAL AND
8	YOU'RE PUTTING IT IN PLACE AND YOU THINK YOU MIGHT
9	BE LOOKING FOR DOING A CIRM FINANCING LATER, SOME OF
10	THE THINGS TO THINK ABOUT, ONE IS THAT YOU'LL NEED
11	TO HAVE A SUBORDINATION AGREEMENT SIGNED BY CIRM.
12	AND SO WHAT YOU WANT TO DO IS BE SURE THAT YOU
13	NEGOTIATE THAT AS PART OF YOUR LOAN AND SECURITY
14	AGREEMENT, THAT YOU'RE ALLOWED TO TAKE ON SUBDEBT,
15	AND PERHAPS EVEN HAVE THAT SUBORDINATION AGREEMENT
16	REVIEWED UP FRONT.
17	WHAT YOU'RE REALLY TRYING TO DO IS ENSURE
18	THAT THE LENDER, WHEN THEY PUT THIS DEAL IN PLACE,
19	IS NOT GOING TO ASK FOR ACCELERATION WHEN YOU GO TO
20	DO YOUR CIRM DEAL. THAT'S KIND OF A KEY POINT IN
21	MAKING SURE THAT THE DEBT CAN STAY OUT.
22	THE OTHER THING IS THAT I PUT LENDER TRACK
23	RECORD UP THERE. I THINK KIND OF BEHIND ALL THIS IS
24	THAT THE LENDERS, THERE'S A LOT OF LENDERS OUT
25	THERE, YOU KIND OF REALLY NEED TO LOOK AT THEM. AND

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1	IF THEY'RE LOOKING AT THIS AS MORE OF A TRANSACTION,
2	SO IT'S JUST THAT PARTICULAR DEAL, OR YOU'RE LOOKING
3	AT IT MORE AS A KIND OF LONG-TERM RELATIONSHIP. AND
4	I THINK THAT'S A KEY DIFFERENTIATOR BECAUSE CLEARLY,
5	WHETHER YOU'RE DOING A CIRM FINANCING UP FRONT OR
6	PERHAPS AFTER YOU'VE ALREADY PUT VENTURE DEBT IN
7	PLACE, YOU'RE GOING TO NEED THE LENDER TO WORK WITH
8	YOU AND THEY'RE GOING TO NEED TO BE MOTIVATED TO
9	WORK WITH THE COMPANY AND GET THEM FINANCED. AND SO
10	THE LENDER THAT YOU'RE WORKING WITH WILL BE KEY
11	THERE IN TERMS OF ARE THEY DOING THIS AS A
12	TRANSACTION OR IS IT MORE OF A RELATIONSHIP PLAY.
13	TALK A LITTLE BIT ABOUT, AGAIN, AFTER
14	THE ASSUMING THE COMPANY DOES GET SOME CIRM
15	FINANCING IN PLACE AND LOOKS TO ADD VENTURE DEBT.
16	AGAIN, THIS IS THE SAME KIND OF THING, THAT THERE'S
17	GOING TO NEED TO BE A SUBORDINATION AGREEMENT. AND
18	I'D MAKE ONE KEY POINT HERE. TYPICALLY WHEN YOU'RE
19	LOOKING AT VENTURE DEBT, YOU GET A TERM SHEET UP
20	FRONT FROM THE VENTURE DEBT PROVIDER. WHEN THEY
21	PROVIDE THAT, IT WILL HAVE LANGUAGE IN THERE THAT
22	SAYS, HEY, THE CIRM FINANCING NEEDS TO BE
23	SUBORDINATED. MY RECOMMENDATION THERE WOULD BE TO
24	REALLY GO ON A PARALLEL PATH, MEANING BEFORE YOU
25	SIGN THAT TERM SHEET, I WOULD GET A COPY OF THE

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1	SUBORDINATION AGREEMENT FROM THE LENDER AND MAKE
2	SURE THAT IT'S GOING TO WORK WITH ALL PARTIES. AND
3	SO YOU DON'T GET KIND OF CAUGHT INTO A TERM SHEET
4	BEFORE YOU KNOW THAT YOU CAN GET THE SUBORDINATION
5	AGREEMENT EXECUTED.
6	THERE'S SOME THINGS, PART OF THE
7	SUBORDINATION AGREEMENT THAT YOU WILL HAVE TO WORK
8	OUT; FOR EXAMPLE, THE INTEREST PAYMENTS THAT WILL
9	NEED TO BE THAT GOES TO CIRM, YOU'LL NEED TO MAKE
10	SURE THAT IT ALLOWS FOR THAT. AND SO THERE'S MAYBE
11	SOME NEGOTIATING THINGS YOU NEED TO DO WITH THE
12	SUBORDINATION AGREEMENT.
13	AND THEN, AGAIN, THE LAST THING I WOULD
14	BRING UP JUST TO EMPHASIZE IS THE LENDER TRACK
15	RECORD HERE. YOU'RE GOING TO NEED TO KNOW THAT WHEN
16	THEY PUT THAT DEAL IN PLACE, THAT THEY'RE GOING TO
17	BE ABLE TO WORK WITH YOU THROUGH THE SUBORDINATION
18	AGREEMENT AND KIND OF HAVE GIVE-AND-TAKE AROUND IT.
19	SO THAT'S ALL I HAD ON HOW THAT WORKS
20	TOGETHER. AND HAPPY TO ANSWER QUESTIONS.
21	CHAIRMAN ROTH: THANKS, PETE. THERE ARE A
22	COUPLE OF VERY IMPORTANT TOPICS YOU RAISED THERE
23	THAT WE NEED TO HAVE SOME FURTHER DISCUSSION ON.
24	ANYBODY WANT TO ASK A CLARIFYING QUESTION? THANK
25	YOU.
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LET'S GO TO OUR LAST SPEAKER, AND WE'RE
 PLEASED YOU COULD BE HERE TODAY, BRUCE, TO SHARE
 SOME OF YOUR THOUGHTS. AND I UNDERSTAND YOU DON'T
 HAVE SLIDES, RIGHT?

5 MR. COHEN: HI. MY NAME IS BRUCE COHEN. I'M THE PRESIDENT AND CHIEF EXECUTIVE OFFICER OF 6 7 VITAPATH GENETICS, WHICH IS A VENTURE-BACKED 8 MOLECULAR DIAGNOSTICS COMPANY. I'VE BEEN IN THE 9 BUSINESS FOR ABOUT 25 YEARS. AND I SPENT FIVE YEARS 10 RUNNING A STEM CELL COMPANY, BUT MOST OF THE PAST 20 11 YEARS I'VE BEEN RAISING MONEY. SO I'M SPEAKING HERE 12 AS A CEO WHO'S BEEN RAISING MONEY IN THIS INDUSTRY 13 FOR A LONG TIME, AND I GUESS TO SOME EXTENT, SINCE 14 I'M NO LONGER IN THE STEM CELL BUSINESS, I'M ALSO SPEAKING A BIT AS A TAXPAYER. 15

16 I THINK EVERY ONE OF MY COLLEAGUES HAS 17 COVERED ALL THE ISSUES THAT PEOPLE FACE. AND FROM THE PERSPECTIVE OF A CEO WHO'S STRUGGLING TO RAISE 18 19 MONEY, I WANTED TO REITERATE A COUPLE OF THOSE 20 THINGS THAT I THINK ARE IMPORTANT WHEN CIRM THINKS ABOUT LOANING MONEY TO EARLY STAGE COMPANIES. 21 WE 22 ALL KNOW IT'S EXPENSIVE TO DEVELOP DRUGS AND 23 THERAPIES, AND WE ALL KNOW IT TAKES FOREVER TO GET 24 THEM THROUGH THE MARKET AND THROUGH THE FDA, AND WE 25 ALL KNOW ABOUT THE IMPORTANCE OF GETTING TO THE

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1 CRITICAL HUMAN	CLINICAL DATA FOR INVESTOR PURPOSES.
	LEINICAL DATA FOR INVESTOR FORFOSES.
2 BUT SC	OME OF THE THINGS WE DON'T OFTEN
3 THINK ABOUT IS	FROM A CEO'S PERSPECTIVE IS THAT
4 WHENEVER YOU RAD	ISE MONEY OR YOU TAKE NONDILUTIVE
5 CAPITAL, WHAT YO	OU REALLY NEED TO HAVE IS A VERY
6 CLEAR SENSE OF N	WHAT THE DOWNSTREAM OBLIGATIONS ARE.
7 SO WHI	EN WE THINK ABOUT SOME OF THE TERMS
8 IN THE CIRM LOAN	N PROGRAM, IT'S REALLY IMPORTANT TO
9 HAVE A HIGH LEV	EL OF SPECIFICITY SO THAT WHEN YOU GO
10 OUT AND GET SUB	SEQUENT FINANCING, THOSE INVESTORS
11 CAN KNOW EXACTLY	Y WHAT THE COMPANY OWES TO CIRM. AND
12 SO WHEN YOU THIN	NK ABOUT THAT, THERE ARE NOT
13 ROYALTIES IN TH	ESE DEALS, BUT THE CONVERSION TERMS
14 HAVE TO BE HIGH	Y DETAILED AND SPECIFIC SO THE
15 FOLLOW-ON INVEST	FORS KNOW WHAT THAT MEANS TO THEM.
16 IF YOU CAN'T ANS	SWER THAT QUESTION, THEN YOU REALLY
17 CAN'T CALCULATE	PRO FORMA CAP TABLES AND YOU CAN'T
18 RAISE MONEY.	
19 YOU W	ANT TO BE VERY CAREFUL ABOUT NO
20 SURPRISES ON TH	E BALANCE SHEET BECAUSE THAT'S A BIG
21 ITEM IN SUBSEQUE	ENT ROUNDS. AND NOT ONLY DOES IT
22 SCARE INVESTORS	AWAY, BUT IT MAKES THE CLOSING
23 PROCESS TAKE A	OT LONGER. THE LONGER THE CLOSING
24 PROCESS TAKES,	THE LESS LIKELY IT IS TO CLOSE.
25 WHEN	YOU LOOK AT THE TERMS, I THINK, FROM
	56

1	THE PERSPECTIVE OF TRYING TO RAISE MONEY FOR A
2	COMPANY AND LOOKING AT ALTERNATIVE FUNDING SOURCES
3	LIKE LEASE FINANCING AND VENTURE DEBT, MY FIRST
4	REACTION WAS THESE TERMS ARE QUITE REASONABLE. THE
5	INTEREST RATE, I THINK, IS LOW BY CURRENT INDUSTRY
6	STANDARDS. THE TERM IS MUCH LONGER THAN YOU CAN
7	GET. SVB TALKS ABOUT THREE-YEAR TERMS. SOME
8	INSTITUTIONS ONLY GIVE YOU TWO, BUT NOBODY EVER
9	GIVES YOU MORE THAN FOUR. STANDARD LOANS, WHETHER
10	THEY'RE BANK VENTURE DEBT, INDEPENDENT VENTURE DEBT,
11	OR LEASE FINANCING, WHICH ALL SORT OF COME IN THE
12	SAME CATEGORY, ALMOST ALWAYS HAVE AMORTIZATION
13	FEATURES. VERY FEW INSTITUTIONS WILL LOAN YOU MONEY
14	UNLESS YOU HAVE AN EQUIVALENT AMOUNT ON YOUR BALANCE
15	SHEET. SOME INSTITUTIONS, SOME BANKS REQUIRE
16	COMPENSATING BALANCES. SO THEY MAKE YOU LOAN YOUR
17	OWN MONEY FOR 15 PERCENT A YEAR.
18	AND SO THESE TERMS, I THINK, ARE QUITE
19	REASONABLE COMPARED TO WHAT YOU WOULD HAVE TO GET IN
20	THE MARKET IF YOU COULD GET IT.
21	THE WARRANT COVERAGE, I THINK THERE HAVE
22	BEEN DEALS THAT I'VE BEEN INVOLVED IN WHERE THE
23	WARRANT COVERAGE HAS BEEN AS HIGH AS 20 PERCENT ON A
24	FULL RECOURSE LOAN. ALMOST EVERYBODY MAKES A GRAB
25	AT THE IP. SO THE FACT THAT CIRM IS NOT MAKING A

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1	GRAB ON THE IP MAKES THIS A VERY, I THINK, GENEROUS
2	LOAN PROGRAM.
3	I WON'T BELABOR THE POINT. I THINK MY
4	COLLEAGUE FROM SVB MADE IT BETTER ABOUT
5	SUBORDINATION, BUT ANYBODY WHO COMES IN FROM A
6	COMMERCIAL BANK OR A PUBLIC VENTURE LENDING FIRM OR
7	EVEN FROM AN ASSET LENDING FIRM WILL REQUIRE THAT
8	THEIR LOAN BE SENIOR AND THEY WILL INSIST ON
9	SUBORDINATION. AND SO THE FACT THAT CIRM IS WILLING
10	TO BE SUBORDINATE IS A HUGE ASSET TO THE COMPANY.
11	THE TERMS OF THE RECOURSE LOANS, I THINK
12	BECAUSE THEY ARE NOT COLLATERALIZED, THEY'RE
13	TERRIFIC LOANS. AND I THINK A CEO WOULD BE OUT OF
14	HIS OR HER MIND NOT TO TAKE THEM UNDER THOSE TERMS.
15	BECAUSE, IN FACT, A RECOURSE LOAN WITHOUT A LIEN ON
16	THE IP IS A VERY SMALL GRAB ON THE BALANCE SHEET OF
17	THE COMPANY. AND I THINK THAT'S A GOOD THING FOR A
18	COMPANY TO HAVE.
19	I PERSONALLY DON'T THINK THAT THE WARRANT
20	COVERAGE IS EXCESSIVE IN EITHER THE RECOURSE OR THE
21	NONRECOURSE LOANS BECAUSE IT'S NOT OUT OF INDUSTRY
22	RANGE. AND IF IT'S A NONRECOURSE LOAN, HIGH WARRANT
23	COVERAGE IS PROBABLY THE APPROPRIATE THING.
24	I DID HAVE A COUPLE OF RECOMMENDATIONS. I
25	THINK WITH REGARD TO THE ACCELERATION ON THE
	58

REPAYMENT, OBVIOUSLY IT HAS TO BE CAREFULLY WRITTEN
 SO THAT THE LOAN IS NOT DUE DURING THE CLOSE PERIOD
 OF A TRANSACTION. SO IT HAS VERY SPECIFIC LANGUAGE
 ABOUT POST CLOSING, PARTICULARLY IF IT'S A MERGER
 AND ACQUISITION THAT REQUIRES APPROVAL BY THE
 GOVERNMENT.

7 I THINK IF THE CONVERSION OF THE -- IF THE 8 LOAN HAS TO BE PAID OUT BASED ON A FINANCING, IT 9 SHOULDN'T BE TRIGGERED TO BE THE CLOSE OF THE FINANCING, BUT IT SHOULD TRIGGER SOMETHING LIKE A 10 11 12-MONTH AMORTIZATION BECAUSE YOU REALLY DON'T WANT 12 TO HAVE A SITUATION WHERE THE NEW FINANCING, AS I 13 THINK MATT WENT THROUGH THIS, YOU DON'T WANT TO TAKE 14 THE MONEY AND GIVE IT AWAY IMMEDIATELY. BUT IF YOU 15 NEED TO ACCELERATE IT, AT LEAST DO IT OVER A 16 12-MONTH PERIOD SO THAT YOU CAN PLAN YOUR CASH FLOW 17 APPROPRIATELY.

18 AND I THINK, AS BOTH GREG AND MATT SAID, 19 THE PIVOTAL TRIAL RULE IS PROBLEMATIC ON ANY NUMBER 20 OF LEVELS. THE DEFINITION OF PIVOTAL IS IN THE EYE 21 OF THE BEHOLDER, SO IT'S A HARD THING TO PUT IN AN 22 AGREEMENT. IN CELL THERAPY, PIVOTAL TRIALS CAN BE 23 PHASE II SOMETIMES, AND A PHASE III TRIAL CAN BE 24 ACTUALLY NONPIVOTAL. SO I THINK, AS WE LEARNED FROM 25 HAVING MILESTONE AGREEMENTS OVER THE YEARS,

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1	DEFINITION OF CLINICAL MILESTONES IS JUST FULL OF
2	LAND MINES. IT SHOULD EITHER BE SOMETHING LIKE AN
3	APPROVAL WHERE EVERYBODY KNOWS WHAT IT IS WHEN THEY
4	SEE IT, THE FDA SAYS YES OR NO. BUT OTHERWISE
5	YOU'RE GOING TO FORCE PEOPLE, IN EFFECT, TO DELAY A
6	PIVOTAL TRIAL BECAUSE IT TRIGGERS A LOAN REPAYMENT,
7	AND THAT WOULD BE A PERVERSE DISINCENTIVE.
8	AND I THINK THAT, AGAIN, MY LAST COMMENT,
9	IF YOU'RE GOING TO HAVE ANY OF THOSE THINGS
10	ACCELERATE, IT SHOULDN'T BE 60 OR 90 OR 30 DAYS. IT
11	SHOULD START A DEFINED AMORTIZATION PROCESS OVER
12	TIME BECAUSE THE LAST THING YOU WANT TO DO IS PUT
13	THE COMPANY IN FINANCIAL PERIL WHILE IT'S MOST
14	VULNERABLE, WAITING FOR THE FDA, TRYING TO LAUNCH A
15	PRODUCT, ALL THOSE THINGS. BUT IF YOU PUT IT OVER
16	12 MONTHS OR SO, YOU CAN PLAN APPROPRIATELY FOR
17	THAT. AND I THINK YOU CAN THEN GO OUT AND FINANCE
18	THAT BECAUSE THEN YOU NOW YOU CAN REBORROW THAT
19	MONEY COMMERCIALLY ONCE YOU HAVE A REGULATORY
20	APPROVAL.
21	AND I THINK WE ARE RUNNING LATE, SO I'M
22	GOING TO STOP.
23	CHAIRMAN ROTH: THANK YOU. THOSE ARE
24	GREAT COMMENTS, BRUCE. SO I'M GOING TO SUGGEST A
25	PROCESS HERE THAT WE MIGHT GET INTO TO A DISCUSSION
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1	AND KEEP IT A BIT ORGANIZED SO WE MAKE SURE WE
2	LOGICALLY FLOW THROUGH THIS. FIRST, THANKS TO ALL
3	THE SPEAKERS. I THOUGHT YOU DID A TERRIFIC JOB.
4	(APPLAUSE.)
5	CHAIRMAN ROTH: AND THAT WILL ALLOW OUR
6	COLLEAGUES IN THE AUDIENCE THAT WANT TO MAKE
7	ADDITIONAL COMMENTS ON SPECIFIC ITEMS. BUT WHEN I
8	LISTENED TO THIS, THERE ARE REALLY THREE DISCUSSION
9	AREAS THAT I THINK WE NEED TO PURSUE. FIRST IS THE
10	RECOURSE, NONRECOURSE, WHAT DO WE MEAN BY THAT AND
11	HOW DO WE DEFINE IT? AND THE SECOND DEALS WITH
12	WARRANT COVERAGE. YOU KNOW, WHAT'S APPROPRIATE FOR
13	RECOURSE AND A NONRECOURSE? SO THAT WOULD FLOW FROM
14	OUR DISCUSSION ON RECOURSE LOAN. THE THIRD IS TERM.
15	AND HOW DO WE DEFINE A TERM THAT IS REASONABLE, BUT
16	ALLOW FOR PEOPLE THAT NEED A, QUOTE, LONGER TERM AND
17	FIGURE OUT WHAT THOSE TRIGGERS SHOULD BE?
18	SO THERE'S A LOT OF DISCUSSION AROUND OUR
19	PHASE III TRIGGER NOT BEING APPROPRIATE. I WILL
20	TELL YOU THAT THAT WAS WIDELY DISCUSSED ABOUT
21	WHETHER WE JUST SET IT ALL AT SEVEN YEARS AND THAT'S
22	IT, AND THERE'S NO EARLY TRIGGERS AND SO ON, BUT
23	THERE WERE A NUMBER OF OTHER IMPORTANT COMMENTS
24	ABOUT SOME OF THE FOLLOW-ON FINANCING TRIGGERS THAT
25	WOULD APPLY TO BOTH THE SIX-YEAR AND THE TEN-YEAR.

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1	SO WITH THE COMMITTEE'S INDULGENCE, DOES
2	THAT SOUND LIKE A REASONABLE WAY TO GO FORWARD?
3	MR. GOLDBERG: IT CERTAINLY DOES TO ME. I
4	WOULD JUST LIKE TO MAKE SURE THAT WE ADDRESS THE
5	PROPOSAL THAT MATT MADE, WHICH IS THE INCENTIVES TO
6	PERHAPS REDUCE WARRANT COVERAGE WITH EARLY
7	REPAYMENT, WHATEVER THE TERM IS ESTABLISHED TO BE.
8	CHAIRMAN ROTH: LET'S WORK THAT INTO ITEM
9	2. SO IF ANY OTHER THOUGHTS ON THIS? MAYBE
10	WE'LL START THE CONVERSATION AROUND RECOURSE AND
11	NONRECOURSE, AND FORGIVE ME IF I CAN'T REMEMBER WHO
12	SAID WHAT. THERE WAS A QUESTION ABOUT WHAT OUR
13	INTERPRETATION OR WHAT OUR MEANING IS FOR RECOURSE
14	AND NONRECOURSE. AND I'LL TRY TO SAY IT, AND MY
15	COLLEAGUES WILL CORRECT ME IF I'M WRONG HERE.
16	THE RECOURSE LOAN WAS BASICALLY ALL OF
17	THESE ARE PRODUCT LOANS BECAUSE THAT'S WHAT GETS
18	REVIEWED SCIENTIFICALLY, SO THEY'RE ALL BASED ON A
19	PRODUCT. IN THE CASE OF A RECOURSE LOAN, WHETHER
20	THAT PRODUCT FAILS OR NOT, YOU STILL OWE US THE
21	MONEY AT THE END OF THE TERM. SO THAT WAS THE
22	CONCEPT.
23	THE NONRECOURSE, IF THAT PRODUCT FAILED,
24	YOU DON'T OWE US ANYTHING. WE KEEP YOUR WARRANTS,
25	BUT THAT'S IT. SO THE FORGIVENESS PART IS WHAT WE
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1	MEAN BY IF WE FUNDED THIS PRODUCT, IT WENT AHEAD, IT
2	FAILED, YOU'RE ABANDONING IT, THERE'S NOTHING GOING
3	TO BE SOLD TO SOMEBODY ELSE, IT'S GONE. IF IT'S
4	SOLD, IT WOULD FOLLOW THAT SALE, THAT LOAN TERM.
5	SO LET'S STOP THERE AND MAYBE OPEN THE
6	DISCUSSION. AND FEEL FREE, GUYS, I'LL TRY TO CALL
7	ON YOU SO WE MAKE SURE THE RECORDER GETS EVERYTHING
8	DOWN. AND IF YOU COME UP TO THE MICROPHONES IN THE
9	BACK, PLEASE STATE YOUR NAME SO WE CAN GET IT.
10	COMMENTS ON RECOURSE.
11	MR. BONFIGLIO: IS THERE A CASHLESS
12	EXERCISE FEATURE IN THESE WARRANTS?
13	CHAIRMAN ROTH: WE HAD THIS DISCUSSION,
14	AND MY RECOLLECTION OF THAT IS NO. SO I PICKED UP
15	ON THAT RIGHT AWAY. WE HAD THAT DISCUSSION, BUT THE
16	IDEA WAS THAT WE WOULD BUY THE WARRANTS AND THEN WE
17	WOULD SELL THEM. ONE OTHER CAVEAT HERE. WE CAN'T
18	OWN STOCK AS A STATE AGENCY, SO THIS HAS TO BE DONE
19	BY A THIRD PARTY. SO IT HAS TO BE DONE AS AN
20	IMMEDIATE SOMEBODY HAS GOT TO BUY THE STOCK FROM
21	US AND SELL IT.
22	MR. BONFIGLIO: SO HOW LONG? DOES THE
23	AGENCY CONTEMPLATE GOING INTO THE SECONDARY MARKET
24	IMMEDIATELY WITH THE WARRANTS?
25	CHAIRMAN ROTH: WE WOULD NOT THE
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1	CONTEMPLATION WAS THAT WE BOB IS GOING TO HELP ME
2	HERE. THE CONTEMPLATION WAS THAT WE WOULD NOT
3	EXERCISE THOSE UNTIL WE KNEW THAT THEY COULD BE SOLD
4	BECAUSE WE CANNOT HOLD EQUITY AS A STATE AGENCY.
5	MR. KLEIN: WE HAVE A CONTRACTUAL RIGHT,
6	BUT WE SIMULTANEOUSLY WOULD HAVE A TRANSACTION WHERE
7	WE WOULD EXERCISE OUR ACCESS TO THE RIGHT, ASSIGN
8	IT, AND THAT PARTY BUYING THAT RIGHT FROM US WOULD
9	THEN EXERCISE THE WARRANTS OR HOLD THE WARRANTS AND
10	EXERCISE THEM LATER. THE INTENT WOULD BE FOR US TO
11	HOLD THE WARRANTS UNTIL THERE WAS MAJOR VALUE
12	CREATION AND ONLY TRY AND GO TO THE MARKET AT THAT
13	TIME. HOLD THE RIGHTS TO THE WARRANTS IS THE PROPER
14	WAY TO STATE IT.
15	CHAIRMAN ROTH: OTHER COMMENTS ON
16	RECOURSE/NONRECOURSE? DO WE NEED TO SPEND MORE TIME
17	ON THAT DEFINITION OR YOU FEEL COMFORTABLE?
18	MR. BONFIGLIO: I'M STILL HONESTLY UNCLEAR
19	ON WHAT RECOURSE MEANS IN THE CONTEXT OF NOT HAVING
20	ANY IP RIGHTS. IF YOU CAN GO AGAINST THE COMPANY,
21	WHAT ARE YOU GOING AGAINST IF YOU DON'T HAVE RIGHTS
22	TO THE IP? WHERE WOULD YOU STAND? THIS ONLY
23	MATTERS IF THE COMPANY UNRAVELS. WE'RE TALKING
24	ABOUT A BANKRUPTCY OR A LIQUIDATION SETTING. SO
25	WHAT HAPPENS IN THAT SCENARIO? YOU DON'T HAVE IP

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1	RIGHTS OR DO YOU HAVE IP RIGHTS?
2	CHAIRMAN ROTH: WE DON'T HAVE IP RIGHTS.
3	WE DON'T PUT A LIEN AGAINST ANYTHING, AND WE'RE NOT
4	SUBORDINATED. ALL OF THOSE THINGS, WE MAY HAVE TO
5	ADJUST THAT IF WE CHANGE THE WARRANT COVERAGE.
6	THERE'S SOME THINGS WE MAY HAVE TO CONSIDER THERE.
7	BUT THE CONCEPT WAS OR THE THOUGHT WAS THIS IS A
8	PRODUCT LOAN. AND IN ONE SCENARIO THAT PRODUCT CAN
9	FAIL, THE COMPANY STILL OWES US THE MONEY AT THE END
10	OF THE TERM. THAT'S THE DIFFERENCE.
11	IN THE SECOND SCENARIO WHERE THERE'S
12	GREATER WARRANT COVERAGE, IF THE PRODUCT FAILS, YOU
13	DON'T OWE US ANYTHING.
14	MR. KLEIN: SO I THINK BRUCE COHEN WAS
15	VERY POIGNANT ABOUT IT. THE FACT THIS IS A
16	NONCOLLATERALIZED LOAN MAKES IT HIGHLY ADVANTAGEOUS.
17	SO ESSENTIALLY WE HAVE RECOURSE TO THE COMPANY. IN
18	A LIQUIDATION WE'RE NOT PROTECTED. WE DON'T HAVE A
19	COLLATERAL POSITION.
20	CHAIRMAN ROTH: WE WOULD COME AHEAD OF
21	EQUITY.
22	MR. KLEIN: WE WOULD COME AHEAD OF EQUITY
23	BUT
24	MR. SCOTT: ALL THE OTHER DEBT, RIGHT.
25	MR. KLEIN: ALL THE OTHER DEBT WOULD
	65

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1	CHAIRMAN ROTH: THAT'S CORRECT. ALL THE
2	OTHER DEBT WOULD HAVE PREFERENCE TO US. WE WOULD
3	HAVE PREFERENCE TO EQUITY.
4	MR. KLEIN: EXCEPT FOR DEBT THAT WE HAD
5	NOT SUBORDINATED AGAINST. FOR EXAMPLE, IF SOMEONE
6	BORROWED SOMETHING FOR A COMPLETELY DIFFERENT
7	PRODUCT AND WE HAD NOT SUBORDINATED TO THAT DEBT, WE
8	WOULD PROBABLY BE PARI PASSU WITH THAT SITUATION.
9	IN A GENERAL SENSE, BUT IN ALL PROBABILITY, THEY
10	WOULD HAVE A COLLATERALIZED POSITION, SO THEY WOULD
11	IN FACT BE SUPERIOR.
12	CHAIRMAN ROTH: ANY AUDIENCE QUESTIONS OR
13	COMMENTS? THIS COULD GO EASY.
14	MR. KLEIN: DO YOU WANT COMMENTS FROM
15	THE
16	CHAIRMAN ROTH: I ASKED FOR THE AUDIENCE.
17	MR. KLEIN: FOR THE GENERAL COUNSEL.
18	MR. MC GLYNN: MARTIN MCGLYNN. I AM THE
19	PRESIDENT AND CEO OF STEM CELLS, INC. I DO HAVE A
20	FEW COMMENTS THAT ARE SPECIFIC TO SOME OF THE
21	TOPICS, NOT IMMEDIATELY ON POINT WITH REGARD TO
22	RECOURSE VERSUS NONRECOURSE. SO IF THAT'S
23	ACCEPTABLE TO THE CHAIR, I'D BE HAPPY TO.
24	CHAIRMAN ROTH: SO LET ME ASK THE NATURE
25	OF THE COMMENTS. ARE THEY ON THE WARRANT COVERAGE
	66

1	OR
2	MR. MC GLYNN: IN GENERAL WITH REGARD TO
3	CIRM LOAN PROGRAM.
4	CHAIRMAN ROTH: WHAT I'D LIKE TO DO IS
5	MAKE SURE WE CAN FINISH THE BUSINESS THAT WE HAVE TO
6	DO TODAY. BUT I DO HAVE A FOURTH AGENDA ITEM, WHICH
7	IS TO OPEN IT UP FOR MORE GENERAL GLOBAL COMMENTS
8	BECAUSE WE HAD A FEW THAT WEREN'T SPECIFICALLY ON
9	LOAN TERMS THAT I THINK WERE IMPORTANT AND WE NEED
10	TO DO THOSE.
11	MS. BAUM: I JUST WANTED TO NOT HAVE A
12	COMMENT, BUT MAYBE I HAD A PROBING QUESTION. WE
13	TALKED ABOUT THE DEFINITIONS OF RECOURSE AND
14	NONRECOURSE. THERE ARE CONDITIONS FOR WHEN THERE'S
15	SURRENDER, AND I JUST WANT TO MAKE SURE THAT THERE
16	ISN'T FURTHER QUESTIONS ON THE CONDITIONS FOR
17	SURRENDER THAT ANY OF THE SPEAKERS, AUDIENCE MIGHT
18	HAVE BECAUSE I DO NOTE THAT SOMEBODY HAD MENTIONED
19	THE NEED FOR BEING VERY CLEAR AS TO WHAT THE TERMS
20	ARE. SO I WANT TO MAKE SURE THAT OUR REGULATIONS
21	ARE VERY CLEAR SO THAT THIS WON'T BECOME A HURDLE
22	FOR FOLLOW-ON FINANCING. ARE THERE ANY MY
23	QUESTION IS ARE THERE ANY QUESTIONS ON IT.
24	CHAIRMAN ROTH: I'M NOT SURE HOW IN-DEPTH.
25	NONE OF YOU ADDRESSED THAT IN PARTICULAR. BUT THE

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1	QUESTION WAS WHAT DO WE DO WITH INTELLECTUAL
2	PROPERTY ON AN ABANDONED PRODUCT OR A SURRENDERED
3	PRODUCT? AND I DON'T REMEMBER, ELONA, EXACTLY WHAT
4	WE SAID THAT WE WOULD DO IN THAT CASE. I KNOW THERE
5	WAS A CONCERN ABOUT CIRM OWNING INTELLECTUAL
6	PROPERTY.
7	MS. BAUM: WE DON'T OWN IT, BUT I THINK
8	THERE'S TERMS WITHIN THE LAP, THE LOAN
9	ADMINISTRATION POLICY, FOR PROCEEDING TO A REVIEW
10	FOR WHEN THERE WOULD BE SURRENDER. BUT IF THERE'S
11	NO QUESTIONS ON THAT, THEN I DON'T NEED TO
12	CHAIRMAN ROTH: IN GENERAL AND WE CAN
13	LOOK AT THIS IN MORE DETAIL, AND IF YOU HAVE
14	THOUGHTS ON THAT, LET US KNOW; BUT, IN GENERAL,
15	THERE IS A REVIEW TO MAKE SURE THAT SOMEHOW THERE'S
16	NOT A GAME BEING PLAYED HERE JUST TO TRY TO GET OUT
17	FROM UNDER THE LOAN, AND THAT IT'S GOING TO GO
18	SOMEWHERE SOMEHOW TO SOMEBODY ELSE. SO WE HAVE A
19	REVIEW OF THAT, AND IT'S JUST INTENDED TO MAKE SURE
20	ABANDONMENT REALLY MEANS STOP, AND THERE'S NO IP
21	THAT WILL BE LICENSED DOWN THE ROAD.
22	MR. BONFIGLIO: I HAVE TO QUALIFY WITH NOT
23	HAVING READ IN DETAIL THESE REGULATIONS OR THE
24	REGULATIONS THAT ELONA JUST REFERRED TO, BUT I KNOW
25	IT'S NOT UNCOMMON FOR COMPANIES TO PUT A PROGRAM ON
	68

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1THE SHELF BECAUSE IT IS NOT DEMONSTRATING THE KIND2OF PROGRESS THAT THE COMPANY HAD EXPECTED AGAINST3THEIR CAPITAL AVAILABILITY WITHOUT HAVING DRAWN A4CONCLUSION THAT THE PRODUCT NECESSARILY FAILED. YOU5MIGHT RESURRECT THAT PROGRAM TWO, THREE, FIVE YEARS6LATER. AND SO SOME ACCOMMODATION OR CLARITY NEEDS7TO BE BUILT INTO YOUR REGULATIONS ABOUT HOW TO8HANDLE THAT SITUATION.9CHAIRMAN ROTH: I REMEMBER SPECIFICALLY,10GREG, THAT WE DID HAVE THIS CONVERSATION, AND WE DID11COME UP WITH A WAY TO TRY TO ADDRESS THAT. MAYBE	
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<ul> <li>8 HANDLE THAT SITUATION.</li> <li>9 CHAIRMAN ROTH: I REMEMBER SPECIFICALLY,</li> <li>10 GREG, THAT WE DID HAVE THIS CONVERSATION, AND WE DID</li> <li>11 COME UP WITH A WAY TO TRY TO ADDRESS THAT. MAYBE</li> </ul>	
9 CHAIRMAN ROTH: I REMEMBER SPECIFICALLY, 10 GREG, THAT WE DID HAVE THIS CONVERSATION, AND WE DID 11 COME UP WITH A WAY TO TRY TO ADDRESS THAT. MAYBE	
10 GREG, THAT WE DID HAVE THIS CONVERSATION, AND WE DID 11 COME UP WITH A WAY TO TRY TO ADDRESS THAT. MAYBE	
11 COME UP WITH A WAY TO TRY TO ADDRESS THAT. MAYBE	
12 SOMEBODY REMEMBERS. I'M SORRY I DON'T HAVE IT.	
13 MR. HARRISON: THERE IS A SUSPENSION	
14 PROVISION THAT A COMPANY CAN APPLY FOR IF IT JUST	
15 INTENDS TO SHELVE THE PRODUCT AND THEN PERHAPS BRING	
16 IT BACK TO LIFE A COUPLE OF YEARS DOWN THE ROAD. SO	
17 THAT IS COVERED IN THE REGULATIONS.	
18 MR. BONFIGLIO: DO YOU RECALL WHAT THE	
19 TRIGGER OR THE TIMELINE IS?	
20 MR. HARRISON: I DON'T BELIEVE THERE'S A	
21 SPECIFIC TIME LIMITATION ON THAT.	
22 CHAIRMAN ROTH: I MEAN IT'S IN OUR BEST	
23 INTEREST TO STAY INVOLVED. WE'D LIKE TO SEE THE	
24 PROGRAM GO AHEAD. IF IT DOES GET SHELVED, THEN WE	
25 CAME UP WITH A PROVISION THAT YOU COULDN'T DO THAT	
69	

1	JUST TO AVOID HAVING TO REPAY THE LOAN AND LET THE
2	LOAN TERM EXPIRE.
3	MR. BONFIGLIO: THERE ARE TWO BROAD
4	SCENARIOS WHERE A PROGRAM GETS SHELVED. ONE IS
5	BECAUSE YOUR CURRENT CAPITAL CAN'T SUPPORT THAT
6	ONGOING EFFORT. THE OTHER IS THE RESULTS OF YOUR
7	INITIAL TECHNOLOGY DEVELOPMENT ARE NOT MEETING YOUR
8	MILESTONES. IF YOU'RE IN THE LATTER, THEN YOU MAY
9	LIKELY COME BACK, YOU MIGHT COME BACK COUPLE YEARS
10	LATER, COUPLE MONTHS LATER AND REFORMULATE THE WHOLE
11	PROGRAM. AT THAT POINT YOU'RE WORKING ON THE SAME
12	THERAPEUTIC APPLICATION AND FROM THE CORE
13	TECHNOLOGY, BUT WITH AN ENTIRELY NEW PROGRAM. HOW
14	DOES THAT GET HANDLED? IS THAT CONSIDERED A RESTART
15	OF THE PROGRAM THAT TRIGGERS THE LOAN OBLIGATIONS
16	AGAIN, OR IS THAT A NEW PROGRAM?
17	CHAIRMAN ROTH: SO MY RECOLLECTION, GREG,
18	IS IF THE PRODUCT AIM IS THE SAME, JUST A NEW
19	FORMULATION, EVERYTHING STAYS AS IS. SO THE TERM
20	WOULD COME UP.
21	ONE THING THAT WE HAVEN'T SAID. THESE ARE
22	CONDITIONS. OBVIOUSLY WE EXPECT THINGS TO HAPPEN IN
23	THE FUTURE WHERE WE'LL HAVE TO COME IN AND
24	NEGOTIATE. SOME OF THAT WILL BE DONE BY CIRM, AND
25	OTHERS MAY GO TO MICHAEL'S COMMITTEE TO BE REVIEWED.
	70

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1	THOSE ARE HARD TO WRITE. SO WE DIDN'T TRY TO WRITE
2	THEM. INSTEAD, WE SAID WE KNOW WE'RE LIKELY GOING
3	TO HAVE TO DEAL WITH UNUSUAL CONDITIONS OUT THERE.
4	MR. BONFIGLIO: I DON'T WANT TO BEAT THIS
5	TO DEATH. MAY I ASK ONE OTHER QUESTION MAYBE
6	SPECIFIC TO A COMPANY THAT'S IN THE ROOM HERE,
7	NOVACEL. NOVACEL IS CURRENTLY WORKING ON AN
8	ENCAPSULATION TECHNOLOGY. LET'S JUST SAY THAT YOU
9	GUYS PROVIDED A LOAN TO THEM BASED ON THEIR
10	ENCAPSULATION TECHNOLOGY AND THEY DON'T GET IT OVER
11	THE GOAL LINE. THEY PUT THAT TECHNOLOGY ON THE
12	SHELF. ALONG THE WAY THEY'RE WORKING ON BETA CELLS
13	THAT MIGHT BE IMMUNE TOLERIZED SO YOU DON'T NEED AN
14	ENCAPSULATION TECHNOLOGY. BOTH ARE ADDRESSING
15	DIABETES, BOTH ARE ADDRESSING BETA REPLACEMENT, VERY
16	DIFFERENT PROGRAMS WITH DIFFERENT DEVELOPMENTAL
17	EFFORTS.
18	WOULD THE LOAN IF THEY PUT THE
19	ENCAPSULATION PROGRAM THAT HAD BEEN FUNDED BY THE
20	LOAN ON THE SHELF, WOULD THE TOLERIZED BETA CELL
21	PROGRAM TRIGGER LOAN REPAYMENT OBLIGATIONS?
22	CHAIRMAN ROTH: GREG, BOB ADVISES ME WE
23	PROBABLY SHOULDN'T DISCUSS A SPECIFIC PROGRAM
24	BECAUSE THAT LOAN IS STILL IN NEGOTIATION.
25	MR. BONFIGLIO: FAIR ENOUGH.
	71

1 CHAIRMAN ROTH: WE WON'T DO THAT, BUT WE 2 CAN DEAL --3 MR. BONFIGLIO: THE CONCEPT IS WHAT I'M 4 AFTER. 5 CHAIRMAN ROTH: THE CONCEPT, I THINK WE 6 HAVE TALKED THROUGH AND DETERMINED THAT IF THE AIM 7 IS STILL THE SAME, THE PRODUCT IS STILL THE SAME, 8 THEN OUR LOAN TERMS WOULD STAY IN PLACE. AGAIN, IT 9 WOULD DEPEND IF IT'S A RECOURSE OR NONRECOURSE. IN THE NONRECOURSE STATE, THIS BECOMES MORE OF AN 10 11 ISSUE. IN THE RECOURSE STATE, IT DOESN'T. SO THAT'S IT. 12 13 ITEM 2, LET'S MOVE TO THE WARRANT 14 COVERAGE, WHICH IS RELATED, THEN, TO THESE RECOURSE 15 VERSUS NONRECOURSE AND SEE. 16 MR. GREENWOOD: MY NAME IS DAVID 17 GREENWOOD. I DO HAVE A QUESTION ON THE WARRANT 18 INSTRUMENT IF NOW IS THE TIME. 19 CHAIRMAN ROTH: GO AHEAD. 20 MR. GREENWOOD: THOSE OF YOU FAMILIAR WITH 21 WARRANTS KNOW THEY CAN GET COMPLICATED, AND THEY'RE 22 ALSO HIGHLY VALUABLE. I'M HAPPY TO TAKE THIS 23 CONVERSATION OFF LINE. BUT I THINK YOU SAID 24 TEN-YEAR WARRANTS. THAT MAKES THEM A VERY VALUABLE 25 FINANCIAL INSTRUMENT TO THE HOLDER WHETHER OR NOT 72

1	THEY ARE IN THE MONEY. SO IT'S IMPORTANT TO KNOW
2	WHAT YOU ARE GOING TO DO WHEN YOU HOLD THIS WARRANT.
3	IF IT IS IF YOU INTEND TO MONETIZE IT
4	EARLY ON, AND I CAN UNDERSTAND WHY YOU MIGHT BE
5	MOTIVATED TO DO THAT, THAT'S AN ISSUE. IT COULD BE
6	PROBLEMATIC, IN FACT, BECAUSE MOST OF US LIKE TO
7	KNOW WHO HOLDS OUR EQUITY, PARTICULARLY WHEN THAT
8	INSTRUMENT IS A NATURAL HEDGE. WE'RE NOT GOING TO
9	SACRIFICE OUR STOCK PRICE TO SOMEONE WHO WANTS TO
10	HOLD A TEN-YEAR INSTRUMENT WHEN IT FACILITATES A
11	SHORTING PROGRAM.
12	SO YOU NEED TO THINK THROUGH, YOU KNOW,
13	WHAT THOSE ISSUES ARE. YOU CAN SOMETIMES NEGOTIATE
14	FOR PROHIBITION ON SHORTING ACTIVITY, THINGS OF THAT
15	NATURE. IT'S VERY HARD TO ENFORCE. SO FOR MY
16	COMPANY TO ISSUE A TEN-YEAR WARRANT THAT IS
17	IMMEDIATELY SOLD TO XYZ OR ABC CO. WITHOUT ANY
18	CONTROLS OR REALLY A WAY TO ENFORCE THAT CONTROL
19	PROBABLY RULES IT OUT AS AN INSTRUMENT ALTOGETHER.
20	IT'S A HIGHLY VALUABLE INSTRUMENT, PARTICULARLY TEN
21	YEARS.
22	IF YOU KNOW BLACK-SCHOLES, THERE'S TWO
23	THINGS THAT DRIVE BLACK-SCHOLES VALUE, VOLATILITY
24	AND TERM OF THAT WARRANT. THIS IS A VERY LONG-DATED
25	WARRANT. AND A TRADER WILL HOLD THAT WARRANT. IT
	73

1	COULD BE 3 X IN THE MONEY, 4 X IN THE MONEY. IF
2	IT'S LONG DATED, THEY'RE NOT GOING TO DEAL WITH IT.
3	THERE'S ANOTHER WAY TO CAPTURE THAT VALUE
4	AND STILL RETAIN THAT WARRANT. AND THEY CAN USE IT
5	REPEATEDLY AND IN SERIAL FORMS IN A SHORTING PROGRAM
6	AND MAKE A LOT OF MONEY. AGAIN, IT'S HIGHLY
7	TECHNICAL, BUT IT BECOMES IMPORTANT AT THE END OF
8	THE DAY.
9	MR. KLEIN: I THINK IT'S AN EXTREMELY
10	VALUABLE POINT THAT'S BEING MADE, AND WE SHOULD
11	FOLLOW UP WITH YOU BECAUSE WE'RE NOT UNDER PRESSURE
12	TO CAPTURE THESE VALUES SHORT TERM, AND CERTAINLY IT
13	CAN BE DESTRUCTIVE TO A COMPANY TO HAVE THIS BE USED
14	TO MANIPULATE SHORT-TERM, REPEATED SHORT-TERM PLAYS.
15	SO WE SHOULD BRAINSTORM WITH YOU HOW TO DEAL WITH
16	THIS. VERY THOUGHTFUL COMMENT. THANK YOU.
17	CHAIRMAN ROTH: OTHER COMMENTS FROM THE
18	TASK FORCE? ANY OF OUR GUESTS? SO LET'S MOVE MORE
19	INTO THE MANY OF YOU HAD THOUGHTS AND DISCUSSIONS
20	AROUND WARRANT COVERAGE, AND I WOULD SUM IT UP IN
21	SORT OF TWO WAYS. THERE'S THE WARRANT COVERAGE
22	AROUND THE RECOURSE LOAN, WHICH I DIDN'T HEAR A LOT
23	OF THAT'S NOT REASONABLE. IS THAT A FAIR STATEMENT?
24	MR. BONFIGLIO: IT'S REASONABLE. IF IT'S
25	AT THE HIGH END OF THE ARRANGEMENT, IT'S REASONABLE.
	74
	/4

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1	CHAIRMAN ROTH: THEN ON THE OTHER SIDE,
2	AND I THINK THIS IS WHERE PERCEPTION COMES IN, OUR
3	PERCEPTION WAS THAT THE NONRECOURSE LOANS WERE
4	HIGHLY RISKY LOANS THAT WOULD BE MADE, AND THAT MOST
5	OF OUR APPLICANTS WOULD BE APPLYING FOR NONRECOURSE
6	LOANS. THEY DIDN'T WANT THE LIABILITY IF THE
7	PRODUCT DIDN'T WORK OUT; AND, THEREFORE, THEY WOULD
8	OPT FOR THE HIGHER WARRANT COVERAGE OVER A PERIOD OF
9	TIME. THAT MAY HAVE BEEN A BAD ASSUMPTION
10	PARTICULARLY ON MY PART THAT THAT WOULD BE THE WAY
11	IT GOES.
12	BUT THE OTHER DRIVER FOR THIS IS THE
13	PRICEWATERHOUSECOOPERS MODEL, THAT WE SPENT A LOT OF
14	TIME ON, ANTICIPATED A VERY HIGH FAILURE RATE
15	PARTICULARLY IN THE NONRECOURSE LOANS, THAT THERE
16	COULD BE 60, 70 PERCENT FAILURE. AND, THEREFORE,
17	THE WARRANT COVERAGE FOR THE 30 PERCENT THAT WORKED
18	ACTUALLY MADE THIS PROGRAM VIABLE. WITHOUT IT, IT
19	WASN'T REALLY VIABLE. AND SO THAT'S WHERE WE GOT
20	то.
21	WHAT I HEARD TODAY WAS THERE MAY BE
22	INTERMEDIATE STEPS THAT WE CAN DEFINE. AND I'M
23	GOING TO GIVE YOU A BIAS HERE AND THEN OPEN IT UP.
24	MY BIAS IS I WANT TO MAKE SURE THAT ANY APPLICANT
25	THAT'S COMING IN KNOWS IN ADVANCE WHETHER THEY
	75

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1	QUALIFY FOR A RECOURSE LOAN. AND IF THEY DON'T,
2	WHAT ARE THE STEPS, IF WE DECIDE TO GO THAT WAY IN A
3	NONRECOURSE LOAN, THAT MIGHT TAKE THE COVERAGE FROM
4	WHAT WE WERE TALKING ABOUT, YOU KNOW, FIRST MONEY
5	IN, KIND OF VALLEY OF DEATH PRODUCT TO SOMETHING
6	THAT MAYBE IS A LITTLE MORE INTERMEDIATE OR
7	DIFFERENT. SO WITH THAT, ANY OF THE COMMITTEE
8	MEMBERS LIKE TO COMMENT ON THAT? MICHAEL, YOU
9	WANTED TO MAKE SURE WE CONSIDERED THIS.
10	MR. GOLDBERG: BUT I DON'T HAVE ADDITIONAL
11	COMMENT.
12	CHAIRMAN ROTH: YOU HAVE SOME THOUGHTS ON
13	IT?
14	MR. KLEIN: WELL, I THINK, DUANE, YOU HAD
15	ACTUALLY INTRODUCED SOME SIMILAR THOUGHTS TO THE
16	ONES THAT PERHAPS, MATT, DID YOU GIVE US THE
17	SCHEDULE, THE GRADIENT SCHEDULE, RELATED TO CAPITAL
18	LEVELS, INVESTED CAPITAL LEVELS? AND I ACTUALLY
19	THOUGHT, DUANE, YOUR COMMENTS AS ALSO REFLECTED BY
20	MATT'S COMMENTS MAKE A LOT OF SENSE HERE, THAT WE
21	SHOULD PROVIDE SOME GRADIENTS THAT ARE REASONABLY
22	RELATED TO THE INVESTED CAPITAL IN THE COMPANY. IT
23	GIVES US A MORE FLEXIBLE TOOL APPROPRIATELY SCALED
24	TO THE INVESTMENT AT RISK FROM THE PRIVATE SECTOR.
25	CHAIRMAN ROTH: AND, AGAIN, MY ASSUMPTION
	76

1	THERE WAS WE WOULD REALLY HAVE OBJECTIVE CRITERIA.
2	I DON'T WANT TO HAVE TO GUESS OR ASK STAFF TO BE IN
3	A POSITION TO CONSTANTLY HAVE TO NEGOTIATE WHAT THE
4	WARRANT COVERAGE IS. WE OUGHT TO BE ABLE TO DEFINE
5	IT. OTHERWISE I THINK IT'S VERY DIFFICULT AND
6	TIME-CONSUMING FOR US.
7	DR. PLUNKETT: WHAT IS THE CURRENT LINE
8	BETWEEN THE RECOURSE AND THE NONRECOURSE? I
9	ACTUALLY FAILED TO FIND THAT.
10	CHAIRMAN ROTH: THERE IS NONE. THAT'S ONE
11	OF THE REASONS WE WANTED TO HAVE THE MEETING,
12	BECAUSE THE ASSUMPTION THAT I JUST DESCRIBED IN THE
13	BEGINNING MAYBE WAS WRONG. AND MAYBE WE'VE GOT TO
14	QUALIFY VERY SPECIFICALLY WHO, IN FACT, CAN APPLY
15	FOR A RECOURSE LOAN BECAUSE, YOU KNOW, THEORETICALLY
16	SOMEBODY COULD TAKE THE POSITION WE'LL TAKE A
17	RECOURSE LOAN, 10-PERCENT COVERAGE, AND IF IT
18	DOESN'T WORK, WE'LL JUST TAKE BANKRUPTCY.
19	THEREFORE, NO UPSIDE, BUT NO DOWNSIDE. WE DIDN'T
20	ANTICIPATE THAT, AND I THINK IN THE PROCESS OF
21	FINE-TUNING HERE, WE'VE GOT TO COME UP WITH A BLEND
22	THAT SAYS IF YOU TAKE A RECOURSE LOAN AND IT'S
23	10-PERCENT COVERAGE, THAT'S ONE THING AND ONE
24	QUALIFICATION. OTHERWISE, WE DON'T THINK YOU
25	QUALIFY FOR A RECOURSE LOAN BECAUSE THE WARRANT

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1	COVERAGE IS GOING TO BE HIGHER, OR MAYBE WE SAY YOU
2	CAN TAKE A RECOURSE, BUT THERE'S OTHER CONDITIONS
3	THAT HAVE TO ENTER INTO THAT IN TERMS OF OUR SECURED
4	INTERESTS OR OTHER THINGS THAT WE DON'T CURRENTLY
5	HAVE.
6	SO A COMPANY, A BRAND-NEW START-UP COMPANY
7	COMES IN AND WANTS A RECOURSE LOAN AND WE HAVE NO
8	RECOURSE WHATSOEVER IN TERMS OF WHAT I THINK GREG
9	WAS TALKING ABOUT, THAT PROBABLY DOESN'T WORK FOR US
10	IN OUR MODEL.
11	MR. GOLDBERG: CAN I PROPOSE MAYBE A STRAW
12	MAN ON THIS? AND THAT IS THAT I THINK FOR RECOURSE
13	LOANS, WE OUGHT TO HAVE A STANDARD THAT'S SIMILAR TO
14	THE STANDARD THAT PETE WOULD HAVE AS AN ARM'S LENGTH
15	ISSUER OF CREDIT. SO YOU'RE EITHER CREDITWORTHY OR
16	YOU'RE NOT AS DEFINED BY A SET OF BALANCE SHEET
17	CRITERIA. AND IF YOU, THEREFORE, ARE NOT ELIGIBLE
18	FOR A RECOURSE LOAN, YOU AUTOMATICALLY ARE ELIGIBLE
19	FOR A NONRECOURSE LOAN.
20	THE OBJECTION WE HEAR ABOUT THE
21	NONRECOURSE LOAN PRINCIPALLY IS THE LEVEL OF WARRANT
22	COVERAGE. DIFFERENT PEOPLE DISAGREE ON THAT. SOME
23	PEOPLE THINK IT IS REASONABLE. CERTAINLY IT EXISTS
24	AT THAT LEVEL IN THE MARKET FOR CERTAIN SORTS OF
25	CONDITIONS.

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1	BUT I THINK THE NOTION THAT MATT
2	INTRODUCED IS A GOOD ONE, WHICH IS IF BETWEEN THE
3	PERIOD OF TIME THE COMPANY HAS TAKEN A NONRECOURSE
4	LOAN, PERHAPS WITH RELUCTANCE GIVEN THE LEVEL OF
5	WARRANT COVERAGE, AND OVER TIME AS THEY HAVE BEGUN
6	TO SUCCEED AS AN ORGANIZATION AND RAISE MORE
7	CAPITAL, THEY SHOULD BE ABLE TO, I THINK, UNDER
8	THOSE CONDITIONS PAY DOWN THE DEBT EARLY. AND WE
9	COULD HAVE A GRADUATED SCHEDULE THAT WOULD PROVIDE
10	SOME RELIEF ON THE WARRANT COVERAGE, NOT FULL RELIEF
11	PERHAPS, BUT CERTAINLY PARTIAL RELIEF. OR MAYBE
12	THEY COULD OVERBUY, YOU KNOW. FOR INSTANCE, IF IT'S
13	A \$10 MILLION NONRECOURSE LOAN WITH A
14	HUNDRED-PERCENT WARRANT COVERAGE, MAYBE IF THEY PAID
15	US 20 MILLION, THE WARRANT COVERAGE WOULD GO AWAY.
16	THEY COULD BUY THEMSELVES OUT OF THE WARRANT
17	COVERAGE PERHAPS AND HAVE THAT PROBLEM SOLVE ITSELF.
18	CHAIRMAN ROTH: ONE OTHER POINT THAT I
19	WANT TO MAKE SURE WE GET ON THE TABLE. THESE LOANS
20	ARE MILESTONE DRIVEN ON THE PRODUCTS. AND,
21	THEREFORE, THE WARRANT COVERAGE IS GOING TO FOLLOW
22	THE CASH. SO WHEN WE MAKE A CASH PAYMENT, THAT'S
23	THE NEW SET PRICE ON THOSE WARRANTS. IT ISN'T SET
24	WAY UP FRONT. IT'S SET UP FRONT ON THOSE WARRANTS.
25	AND THEN WE CONTINUE TO GO. IF YOU DO ADDITIONAL

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1	FINANCE, THERE'S NEW SET PRICE, THAT'S WHERE IT
2	WOULD BE SET.
3	DR. PENHOET: YOU KNOW, IN THE NONRECOURSE
4	CASE, SOMEBODY WOULD HAVE TO BUILD A PUNDIT SQUARE
5	TO FIGURE OUT WHAT ALL THE SQUARES WOULD LOOK LIKE.
6	BUT, YOU KNOW, IF YOU'RE IN THE HUNDRED-PERCENT
7	WARRANT COVERAGE CATEGORY PROBABLY MEANS YOU RAISED
8	ALMOST NO MONEY FROM ANY OTHER SOURCE. SO THIS
9	AGENCY HAS TAKEN ALL THE RISK IN THIS THING. UNDER
10	THOSE CIRCUMSTANCES IT STARTS TO LOOK PRETTY MUCH
11	LIKE A GRANT.
12	I FAIL TO SEE I DO LIKE MATT'S IDEA OF
13	SOME SORT OF ACCELERATION, ESSENTIALLY AN INCENTIVE
14	FOR COMPANIES TO PAY US BACK EARLY. BUT THE
15	20-PERCENT CAP FOR ANY COMPANY THAT'S REASONABLY
16	WELL CAPITALIZED, UNLESS WE'VE MADE A HUGE LOAN TO
17	THEM, IS, YOU KNOW, THAT'S I WOULD TAKE IT EVERY
18	DAY IF I WAS CEO OF ONE OF THESE COMPANIES AS LONG
19	AS THE I THINK THE ISSUE OF THE LIFETIME OF THE
20	WARRANT IS AN ISSUE WE SHOULD PROBABLY TALK ABOUT OR
21	OUR ABILITY TO SELL DURING THAT LIFETIME AND WHEN
22	THE TRIGGER WOULD HAPPEN. I THINK SOME YOU CAN
23	GO THROUGH, THERE'S A SLIDING SCALE ON THE
24	PROPORTION OF OUR MONEY RELATIVE TO OTHER MONEY THAT
25	GETS YOU VARIOUS DIFFERENT ANSWERS. WHERE TO PUT

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1	THE CAP ARGUES THAT IT CAN'T BE GROSSLY OUT OF WHACK
2	WITH RESPECT TO THE REST OF THE CAPITALIZATION OF
3	THE COMPANY.
4	MR. BONFIGLIO: THE 20-PERCENT CAP, FROM
5	MY PERSPECTIVE, IS HELPFUL, BUT I'M NOT SURE I
6	UNDERSTAND YOUR COMMENT ABOUT THIS LOOKING LIKE A
7	GRANT. TO ME IT LOOKS MORE LIKE AN EQUITY
8	INVESTMENT, NOT A GRANT. YOU'RE GETTING A
9	HUNDRED-PERCENT WARRANT COVERAGE. YOU'RE GETTING
10	EQUITY FOR YOUR MONEY.
11	DR. PENHOET: CAPPED AT 20 PERCENT OF THE
12	CAPITALIZATION OF THE COMPANY. SO IT MEANS YOU ONLY
13	GET A HUNDRED PERCENT IF WE PUT IN LET'S SAY WE
14	PUT IN \$10 MILLION AND THE WHOLE COMPANY IS ONLY
15	WORTH ONLY RAISED \$10 MILLION. WELL, THAT'S A
16	CIRCUMSTANCE WHERE WE'RE TAKING HALF THE RISK OF THE
17	ENTIRE THING. IT LOOKS MORE LIKE EQUITY UNDER THOSE
18	CIRCUMSTANCES.
19	MR. KLEIN: IN TERMS OF THIS DISCUSSION,
20	I'D LIKE TO REMIND EVERYONE THAT THERE IS A
21	BENCHMARK OUT THERE OF LOANS WITH WARRANTS THAT
22	WE'RE FOLLOWING AND WE CAN'T DO EQUITY. SO WE ARE
23	NOT TRYING TO DO EQUITY. THESE ARE LOANS, AND THESE
24	WARRANTS ARE A RISK ADJUSTMENT PREMIUM TO THOSE
25	LOANS. AND WE SHOULD LOOK AT IT IN THAT CONTEXT.
	81

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2 THE NONRECOURSE LOANS	TO BE CLEAR, I WOULD SAY THAT ARE DEFINITELY MUCH CLOSER TO OSER TO THE KIND OF DEBT THE MARKET FROM FOLKS LIKE US
	OSER TO THE KIND OF DEBT
3 EQUITY THAN THEY'RE CL	
	THE MARKET FROM FOLKS LIKE US
4 FINANCING AVAILABLE ON	
5 AND OTHERS. AND EVEN	THE RECOURSE LOANS, AGAIN,
6 GIVEN THE TERMS, TO TH	E EARLIER POINT, LOOK A LOT
7 MORE LIKE EQUITY THAN	THEY DO A DEBT INSTRUMENT. SO
8 THAT WOULD BE THE ARGU	MENT, THAT THE WARRANT
9 COVERAGE IS VERY I	THINK IS VERY ATTRACTIVE FOR
10 OUR CLIENTS, BORROWERS	
11 CHAIRMAN ROT	H: BOB'S POINT IS THAT THE
12 WAY WE VIEWED THAT IS	RISK PREMIUM. THAT'S HOW WE
13 GET OUR RISK PREMIUM O	N THESE VERY EARLY.
14 MR. COHEN:	I DIDN'T READ THE DOCUMENTS IN
15 GREAT DETAIL, BUT THE	WARRANT INSTRUMENT DOESN'T
16 HAVE ANTIDILUTION PROT	ECTION.
17 CHAIRMAN ROT	H: IT DOES NOT.
18 MR. COHEN:	SO THAT SORT OF GOES TO WHY
19 IT'S A PRETTY GOOD DEA	L. THE VALUE OF THOSE
20 WARRANTS CAN GET WASHE	D AWAY PRETTY EASILY. AND
21 THESE KINDS OF COMPANI	ES TEND TO HAVE AN OCCASIONAL
22 DOWN ROUND WHERE THE V	ALUE OF THE WARRANTS JUST GOES
23 UP IN SMOKE.	
24 CHAIRMAN ROT	H: THAT WAS ANOTHER SORT OF
25 GENERAL TOPIC, THE DEA	TH SPIRAL CONVERSATION. I
	82

1	THINK, GREG, YOU BROUGHT IT UP. I DON'T SEE HOW
2	THAT HAPPENS HERE BECAUSE WE DO NOT HAVE ANY
3	DILUTION.
4	MR. COHEN: IT DOESN'T BECAUSE THE
5	WARRANTS DON'T PLAY. THEY JUST FALL OUT OF THE
6	MONEY. THEY GET DILUTED AWAY TO NOTHING, AND THE
7	BIGGEST PROBLEM IS THE NUMBER OF DECIMALS ON THE
8	BALANCE SHEET TO KEEP TRACK OF THEM.
9	MR. BONFIGLIO: RIGHT. YOU CAN ENVISION A
10	BUNCH OF SCENARIOS WHERE CIRM IS COVERED IN THIS.
11	AND I'M SURE PWC DID A WONDERFUL JOB OF ANALYZING
12	THE FIELD, BUT I DON'T THINK IT'S COMMON. IF YOU
13	ARE LOOKING AT VENTURE DEBT, WHICH IS ONE OF THE
14	PREMIERE BANKS IN THE AREA, AT THE 10-PERCENT
15	WARRANT COVERAGE, HOW IS A HUNDRED PERCENT IN MARKET
16	UNLESS YOU FOLD IN DEATH SPIRAL PIPE'S WHERE A
17	HUNDRED-PERCENT COVERAGE IS THERE? I DON'T THINK
18	ANY GUYS IN THE VENTURE COMMUNITY DOING CONVERTIBLE
19	DEBT ARE GETTING A HUNDRED-PERCENT WARRANT COVERAGE
20	UNLESS YOU HAVE OVERPRICED THE COMPANY AND ARE USING
21	THE WARRANTS TO BRING THE VALUATION BACK DOWN INTO A
22	RANGE THAT WOULD BE REASONABLE FOR EVERYBODY.
23	THAT'S MY ONLY POINT. THERE ARE A LOT OF
24	SCENARIOS WHERE CIRM COMES OUT ON THE RIGHT END, THE
25	ANTIDILUTION PROTECTIONS ARE GREAT. THAT'S A GOOD
	83

1	MITIGATOR. THE 20-PERCENT CAP IS ALSO A REALLY GOOD
2	MITIGATOR. BUT ON THE FACE OF IT, A HUNDRED PERCENT
3	IS PRETTY RICH.
4	CHAIRMAN ROTH: AGAIN
5	DR. PENHOET: TO BOB'S POINT, THE
6	COMPANIES IN THE NONRECOURSE CATEGORY COULD NEVER
7	BORROW A PENNY FROM ANYONE. THAT'S OFF THE TABLE.
8	SO THEY COULD SELL STOCK FOR THE SAME AMOUNT OF
9	MONEY. IT'S A HUNDRED-PERCENT COVERAGE PLUS THE
10	WARRANTS.
11	MR. BONFIGLIO: NO REPAYMENT OBLIGATION.
12	DR. PENHOET: AND NO REPAYMENT OBLIGATION
13	WHATSOEVER.
14	CHAIRMAN ROTH: SUBORDINATED.
15	DR. PENHOET: WE'RE IN UNCHARTED
16	TERRITORY.
17	MR. SCOTT: EVEN RECOURSE LOANS, AGAIN,
18	THOSE ARE NOT MARKET. WE COULDN'T DO THOSE LOANS
19	ANYWAY, AND I THINK MOST OF OUR COMPETITORS COULDN'T
20	TOUCH THOSE LOANS. THAT'S KIND OF APPLES AND
21	ORANGES COMPARING THE WARRANT COVERAGE WE LOOK FOR.
22	CHAIRMAN ROTH: I'LL ALSO REMIND YOU THAT
23	OUR PURPOSE IS NOT TO BE DOING WHAT THEY DO. IT'S
24	EARLIER AND HIGHER RISK. WE HOPE THEY WOULD FOLLOW.
25	THE SCENARIO THAT WAS LAID OUT CAN HAPPEN, BUT WE
	84

1	WOULD HOPE THAT IT BE MORE THAT THEY'RE FOLLOWING
2	OUR LOANS AND THAT WE'D BE SUBORDINATED TO THOSE.
3	MR. BONFIGLIO: I UNDERSTAND ALL OF THE
4	INSTITUTIONAL REASONS WHY YOU NEED TO DO IT. I'M
5	JUST SUGGESTING THAT FOR SOMEBODY COMING IN TO
6	FINANCE THE COMPANY, LOOKING AT A LOAN WITH A
7	HUNDRED-PERCENT WARRANT COVERAGE, WHETHER IT'S
8	RECOURSE OR NOT, IT'S GOING TO BE AN ISSUE. THERE
9	WILL BE WAYS TO TALK AROUND IT. YOU'RE GOING TO
10	HAVE THIS PERVERSE INCENTIVE TO RECAP THE COMPANY IN
11	THE NEXT ROUND OF FINANCING.
12	CHAIRMAN ROTH: ALSO, GREG, THE 20-PERCENT
13	CAP. AGAIN, WE WILL DEAL MICHAEL AND THE STAFF
14	WILL HAVE TO WORK ON THINGS LIKE THAT. WE DO NOT
15	I THINK IT'S SO CLEAR THAT WE DO NOT WANT TO BE AN
16	IMPEDIMENT TO FOLLOW-ON FINANCING. AND WHATEVER
17	WE'VE GOT TO DO TO DO THAT, BUT WANT TO MAKE SURE
18	THAT WE DON'T TRY AND ANTICIPATE EVERY LITTLE THING
19	BECAUSE I DON'T KNOW HOW TO WRITE THAT REG THAT WE
20	CAN GET PEOPLE TO AGREE TO. THAT'S PART OF THE
21	RATIONALE.
22	MS. BAUM: CAN I JUST ADD A REMARK ON THAT
23	BECAUSE EARLIER THAT YOU SAID THAT CLARITY IS MOST
24	DESIRABLE. AND THAT'S BECAUSE YOU DIDN'T WANT TO
25	HAVE STAFF ENGAGED AD NAUSEAM ON NEGOTIATIONS, BUT I
	85

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1	THINK THAT YOU CAN COUNT ON STAFF TO BE FULLY
2	PREPARED TO DO SO IF THAT'S THE ROUTE THAT WE FEEL
3	WE NEED TO GO IN ORDER TO MAKE THIS A WORKABLE
4	PROGRAM.
5	DR. TROUNSON: DUANE, THE OTHER PRIMARY
6	PHILOSOPHICAL NOTE HERE IS THAT IT'S GOT TO BE VERY
7	ATTRACTIVE FOR THE INDUSTRY BECAUSE OTHERWISE WE'RE
8	EFFECTIVELY SAYING WHAT GREG SAID, THAT WE'RE
9	BARRING THEM FROM ENTERING BECAUSE, YOU KNOW, IF
10	THERE'S NO CHOICE TO GO AND HAVE A GRANT AND YOU
11	KNOW THE LOAN IS UNATTRACTIVE, THAT'S A DISBARMENT
12	FROM BEING INVOLVED. AND THAT'S NOT WHAT WE
13	PARTICULARLY WE DON'T WANT THAT. THE MISSION IS
14	TO GET THOSE PEOPLE WHO ARE ACTIVELY AT A CUTTING
15	EDGE FOR OUR MISSION TO GET THEM IN. SO WHATEVER WE
16	GOT TO DO, I THINK WE GOT TO BEND TO MAKE IT TO AS
17	ATTRACTIVE AS POSSIBLE.
18	I DO THINK WE WILL ALWAYS HAVE TO HAVE
19	SOME DEGREE OF NEGOTIATION BECAUSE I DON'T THINK YOU
20	CAN ALWAYS YOU CAN ALWAYS FIGURE OUT EXACTLY THE
21	WHOLE PANACEA OF WHAT EVERY COMPANY IS GOING TO
22	FACE, BUT ESSENTIALLY IF WE CAN GET IT ON THE
23	ATTRACTIVE SIDE.
24	CHAIRMAN ROTH: YOU'RE MAKING AN
25	ASSUMPTION, ALAN, THAT IT'S NOT. I DIDN'T HEAR THAT
	86

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1	FROM ANYBODY TODAY SO FAR.
2	MR. KLEIN: I THINK ALAN MAY BE GOING TO
3	WHERE MATT WAS, THAT CREATING PROPORTIONALITY TO THE
4	INVESTED CAPITAL, WE ESSENTIALLY MAY AVOID AN
5	ADVERSE SELECTION ON THE NONRECOURSE LOANS BECAUSE
6	WE MAY BE ABLE WITH THAT TIERED APPROACH TO GET
7	COMPANIES WITH MORE CAPITAL AND GIVE THEM A
8	PROPORTIONALLY LOWER AMOUNT OF WARRANT COVERAGE. SO
9	IT'S A WAY TO MATCH UP THE RISK LEVEL WITH THE
10	RETURN FOR THE AGENCY AND NOT JUST GET THE HIGHEST
11	RISK COMPANIES IN THAT CATEGORY. AND I THINK,
12	DUANE, THAT MIGHT HAVE BEEN YOUR IDEA.
13	CHAIRMAN ROTH: I JUST WANTED TO CLARIFY
14	GREG'S POINT IN THE BEGINNING HAD TO DEAL WITH HOW
15	YOU GET INTO THE PROCESS, NOT THAT IT WAS
16	UNATTRACTIVE. THAT'S WHY THEY WEREN'T GETTING IN.
17	I THINK WHAT YOU SAID, IF I HEARD IT, IS, YOU KNOW,
18	WE DON'T HAVE A WAY FOR PEOPLE TO COME IN AND
19	PARTICIPATE AT THE DEGREE THAT YOU WOULD LIKE TO
20	SEE. BUT I DON'T WANT TO PUT WORDS IN YOUR MOUTH.
21	MR. BONFIGLIO: THAT IS EXACTLY WHAT I WAS
22	TRYING TO SAY. RIGHT NOW UNLESS YOU ARE A GRANT
23	RECIPIENT, YOU CAN'T PARTICIPATE IN THE LOAN
24	PROGRAM. TO BE A GRANT RECIPIENT, YOU HAVE TO
25	RESPOND TO AN RFA. UNLESS AN RFA HAS HIT YOUR

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1	TECHNOLOGY AND YOU'VE BEEN SELECTED, YOU'RE EXCLUDED
2	FROM THE PROGRAM. SO THIS IS REALLY A SUPPLEMENT
3	FOR GRANTEES, AND THAT'S WHAT IT IS. UNFORTUNATELY,
4	GIVEN THE DEVELOPMENT THUS FAR, WE'VE HAD LESS THAN
5	SIX, SEVEN COMPANIES TOTAL THAT RECEIVED GRANTS, AND
6	THAT'S 10 PERCENT.
7	MR. KLEIN: IT'S NOT A SUPPLEMENT FOR
8	GRANTEES. IT IS AN ALTERNATIVE TO A GRANT.
9	DR. PENHOET: I THINK IT SPEAKS TO THE
10	GENERAL ISSUE. PEOPLE HAVE BROUGHT UP MANY TIMES,
11	NOT MANY TIMES, BUT NUMEROUS THAT WE SHOULD THERE
12	ARE PEOPLE WHO BELIEVE WE SHOULD HAVE A PROGRAM LIKE
13	SBIR FOR COMPANIES ONLY, INCLUDING LOANS AND GRANTS.
14	THAT'S THE ISSUE THAT WE'RE REALLY TALKING ABOUT.
15	CHAIRMAN ROTH: THAT'S EXACTLY THE POINT.
16	DR. PENHOET: SO WE NEED TO ADDRESS THAT
17	PROBABLY IN ANOTHER FORUM.
18	MR. BONFIGLIO: ED, THAT'S EXACTLY THE
19	ISSUE. I'M NOT TRYING TO QUIBBLE WITH THE GRANT
20	VERSUS LOAN FOR FOLKS WHO HAVE ALREADY BEEN THROUGH
21	THE REVIEW PROCESS THAT HAVE NOW BEEN GIVEN AN
22	AWARD. THEY GET TO MAKE THEIR CHOICE AND THEY CAN
23	MAKE IT BASED ON THE ECONOMICS. MY BROADER POINT IS
24	THAT WE'VE EXCLUDED 90 PERCENT OF THE MARKET FROM
25	PARTICIPATION IN THIS PROGRAM AND WE OUGHT TO FIND A
	88

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1	VEHICLE FOR ALLOWING THOSE FOLKS TO PARTICIPATE.
2	MR. GOLDBERG: I DISAGREE WITH YOU, GREG,
3	RESPECTFULLY. AND THAT IS BECAUSE I THINK OUR
4	MISSION IS TO FOLLOW A SCIENTIFIC PLAN, AND THE
5	SCIENTIFIC PLAN IS DRIVEN BY THE RFA'S. AND THIS
6	PROGRAM IS SIMPLY TO ENABLE A FINANCING MECHANISM
7	THAT'S SUBORDINATE TO THAT. I THINK WHAT ED RAISES
8	AND WHAT YOU ARE SUGGESTING IS SOMETHING VERY
9	DIFFERENT. I'M NOT QUITE SURE IT'S EVEN WITHIN OUR
10	CHARTER AS AN AGENCY TO DO, BUT IT'S CERTAINLY
11	SEPARATE FROM THE WAY WE'VE BEEN THINKING ABOUT THE
12	LOAN PROGRAM FROM ITS INCEPTION.
13	DR. PENHOET: I'M NOT ARGUING ONE WAY OR
14	THE OTHER, BUT I BELIEVE WE DO HAVE THE ABILITY TO
15	HAVE AN RFA FOR COMPANIES ONLY. I THINK WE CAN
16	DEFINE THAT IF WE WANT TO.
17	MR. SHEEHY: WE HAVE DISCUSSED THE SBIR
18	PROGRAM. AND I DO WE HAD AN EXTRAORDINARY
19	PRESENTATION FROM NIAT, THE NATIONAL, WHERE THEY
20	CREDIT THAT WITH HAVING ADVANCED MADE SIGNIFICANT
21	ADVANCES IN THE FIELD OF HIV. THERE IS SOMETHING TO
22	BE SAID FOR COMPANY DEVELOPMENT WITHIN A PARTICULAR
23	THERAPEUTIC APPROACH THAT HAS VALUE IN AND OF ITSELF
24	NOTWITHSTANDING SPECIFIC RFA OR SPECIFIC THERAPY
25	GOALS, JUST DEVELOPING THIS CADRE OF COMPANIES

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1	PUSHING STUFF DOWN THE LINE.
2	I HAVE BEEN FRUSTRATED THAT WE HAVEN'T
3	BEEN ABLE TO MAKE ANY PROGRESS ON GETTING ANY
4	SORT YOU KNOW, WE ALWAYS COME UP WITH ED'S
5	COMMENT, WELL, WE'VE TALKED ABOUT IT. AND THEN
6	PEOPLE LIKE GREG COME BACK TO US AND SAY, WELL,
7	YOU'RE NOT GETTING COMPANIES INVOLVED. AND THEN WE
8	SAY, WELL, WE'LL TALK ABOUT THIS AT ANOTHER FORUM.
9	AND WE NEVER HAVE THE FORUM. WE NEVER GET TO ANY
10	DECISION POINT ON THIS. WE PRODUCED ANOTHER
11	STRATEGIC PLAN, AND WE KEEP KIND OF WALKING AROUND
12	THIS. AND WE COME BACK HERE AND WE KEEP DECIDING
13	ALL THESE MECHANISMS TO GET MONEY IN, BUT WE STILL
14	HAVEN'T GOT THE MECHANISM TO GET APPROVAL FOR
15	COMPANIES TO DO THE WORK.
16	AND I DON'T THINK OUR PRESENT RFA PEER
17	REVIEW PROCESS IS GOING TO SUBSTANTIALLY CHANGE THE
18	NUMBER OF COMPANIES FROM SEVEN. I JUST DON'T. AND
19	THAT IS KIND OF AN EXISTENTIAL QUESTION THROUGHOUT
20	THE ENTIRE PROCESS. WE DON'T HAVE TO DEAL WITH THAT
21	TODAY. BUT IF WE DON'T SET A POINT IN THE NEAR
22	FUTURE TO DEAL WITH THIS, WE'RE GOING TO BE HERE A
23	YEAR FROM NOW HAVING THE SAME CONVERSATION.
24	CHAIRMAN ROTH: SO I'M GOING TO TRY, SINCE
25	WE HAVE A SPECIFIC TASK THAT WE HAVE TO GET DONE,
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1	AND I'M CAREFUL BECAUSE JEFF JUST SAID WE NEVER TALK
2	ABOUT IT AND HE'S RIGHT, BUT WITH HIS INDULGENCE,
3	I'M GOING TO MOVE ON. LET'S HAVE A DISCUSSION ABOUT
4	THE TERM. WE FRAMED THE ISSUE. WE ARE TRYING TO
5	FIGURE OUT IF WE DO TEN-YEAR LOANS, WHICH SEEMED
6	LONG, COULD WE ACCELERATE THOSE UNDER CERTAIN
7	CONDITIONS. SO WE CAME UP WITH THIS SIX-YEAR, NO
8	ACCELERATION. AND TWO THINGS GOT TAKEN IN, CHANGE
9	OF CONTROL AND THEN THIS MAJOR FINANCING.
10	I THINK THERE'S AGREEMENT ON MOST OF OUR
11	PART THAT OUR INTENTION WAS THAT IT BE A FAIRLY
12	SIGNIFICANT FINANCING THAT WOULD TRIGGER THAT. AND
13	SO THE 60 MILLION IS PROBABLY INAPPROPRIATE, BUT I'D
14	BE INTERESTED IN THOUGHTS OF THE COMMITTEE OR ANY OF
15	THE PANELISTS OR AUDIENCE ABOUT WHAT AN APPROPRIATE
16	TRIGGER MIGHT BE ON A SIX-YEAR LOAN FOR FOLLOW-ON
17	FUNDING.
18	SO ASSUME WE MADE A \$5 MILLION LOAN. HOW
19	MUCH MONEY WOULD THE COMPANY RAISE BEFORE THEY WOULD
20	HAVE TO REPAY OUR SIX MILLION OR \$5 MILLION IN
21	INTEREST?
22	MR. KLEIN: SO, DUANE, WHEN YOU SAY THE
23	COMPANY RAISE, I THINK THE KEY THING THAT WE'VE
24	DISCUSSED BEFORE IS A LIQUIDITY EVENT BECAUSE IT'S
25	NOT THE AGGREGATE RAISE OVER TWO OR THREE YEARS, BUT
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1	A LIQUIDITY EVENT THAT GIVES THEM A CERTAIN LEVEL OF
2	LIQUIDITY AT ANY ONE TIME BECAUSE OUR GOAL, IN
3	CONJUNCTION WITH THE SPEAKERS, IS NOT TO CREATE A
4	BARRIER TO A PHASE I TRIAL OR A PHASE II TRIAL OR
5	PHASE III AND THAT FACT. WHETHER THERE'S A MERGER
6	AND ACQUISITION, WHICH MAY HELP, AS HAS BEEN STATED,
7	WE WANT TO KNOW IS THERE A LIQUIDITY EVENT AT THAT
8	TIME, THAT THERE'S A 15 OR 20 TIMES MULTIPLE OF CASH
9	IN THE COMPANY AT THAT TIME SO THAT THEY CAN REPAY
10	THE LOAN WITHOUT UNDERMINING THE PROGRESS OF THE
11	THERAPEUTIC THAT WE'RE WORKING ON.
12	CHAIRMAN ROTH: SO JUST TO CLARIFY,
13	THOUGH, OUR CURRENT LOAN ADMINISTRATION POLICY WOULD
14	HAVE IT BE AN ACCUMULATION. SO IT SAYS LOAN
15	RECIPIENT SOURCES, FOLLOW-ON FINANCING THAT EXCEEDS
16	THE LESSER OF 60 MILLION OR 20 TIMES THE AMOUNT OF
17	THE LOAN. SO THE 60 MILLION CLEARLY HAS TO BE
18	LOOKED AT. BOB IS BRINGING IN A NEW ISSUE, WHICH IS
19	A SINGLE FINANCING 20 TIMES THE LOAN OR IS IT A
20	CUMULATIVE FINANCING.
21	MR. KLEIN: IF IT'S LIQUIDITY IN PLACE IS
22	REALLY THE ISSUE. SO IF A COMPANY HAS AGGREGATED
23	SUBSTANTIAL LIQUIDITY, WE KNOW THEY CAN REPAY THE
24	LOAN WITHOUT DETRACTING FROM THE SCIENTIFIC
25	PROGRESS, WHICH IS OUR MUTUAL MISSION.
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1	MR. BONFIGLIO: THAT'S GOT TO BE THE
2	TRIGGER. YOU CAN'T SIMPLY AGGREGATE PRIOR
3	FINANCINGS AND TRIGGER IT OFF BECAUSE THAT MAY HAVE
4	NO RELATIONSHIP WHATSOEVER TO THE CASH THE COMPANY
5	HAS, THE ABILITY TO REPAY. AND THE CHANGE OF
6	CONTROL NUMBER IS ENTERPRISE VALUE. AGAIN,
7	ENTERPRISE VALUE MAY HAVE NOTHING TO DO WITH CASH ON
8	HAND AND MAY PUT THE COMPANY IN A VERY DIFFICULT
9	POSITION TO BE ABLE TO REPAY THE LOAN.
10	SO I THINK I WOULD AGREE WITH BOB'S
11	PERSPECTIVE THERE, THAT YOU REALLY NEED TO TIE THIS
12	TRIGGER TO LIQUIDITY IN THE BUSINESS, BUT THAT'S
13	JUST ME.
14	CHAIRMAN ROTH: ANY OF THE
15	DR. PENHOET: AS A PRACTICAL MATTER,
16	PEOPLE ARE GOING TO PAY IT BACK WHEN THEY HAVE
17	CHEAPER COST OF CAPITAL SOME WAY. MATT'S NOT GOING
18	TO LIKE THIS IDEA, BUT THE WARRANTS COULD ACTUALLY
19	GO IN BOTH DIRECTIONS. GROW IF YOU DON'T PAY IT
20	BACK AND SHRINK IF YOU DO PAY IT BACK. THEN THE
21	LOAN WOULD GET MORE AND MORE EXPENSIVE OVER TIME.
22	THAT WOULD BE ONE WAY TO ACTUALLY DEAL WITH THIS
23	ISSUE ON A SIMPLY FINANCIAL BASIS.
24	CHAIRMAN ROTH: JUST
25	DR. PENHOET: LIKE YOU, I DON'T LIKE THE
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1	TRIGGER FOR STARTING PHASE III. IT SEEMS TO ME
2	THAT'S THE WORST TIME TO ASK SOMEBODY TO PAY BACK
3	MONEY IF THEY'RE REALLY
4	CHAIRMAN ROTH: THANK YOU, ED. THAT WAS
5	MY IDEA. THANK YOU. THAT WAS MY IDEA. SERIOUSLY
6	THOUGH, IN THIS SPACE WE NEED SOME CREATIVE THINKING
7	FROM MEMBERS AND FROM THE COMMUNITY. CERTAINLY I
8	THINK WE'RE GOING TO END UP WITH SOME DEFINITION OF
9	CHANGE OF CONTROL AND WHAT THAT MEANS. AND YOU'VE
10	GIVEN US A FEW IDEAS. IF IT'S A CASH DEAL, THOSE
11	KINDS OF THINGS, IT'S ACCELERATED AND IT BECOMES
12	DUE, BUT WE NEED HELP HERE.
13	MY QUESTION TO THE COMMITTEE OR THE TASK
14	FORCE, I DON'T REMEMBER HOW WE GOT THIS PARTICULAR
15	EARLY REPAYMENT TRIGGER IN THE SIX-YEAR CATEGORY.
16	MY RECOLLECTION WAS THAT THERE WAS ONLY ONE
17	INITIALLY IN THE SIX-YEAR CATEGORY, BUT I COULD BE
18	WRONG ABOUT THAT. HERE'S THE THOUGHT PROCESS. SIX
19	YEARS, THAT'S A REASONABLE TERM. I WAS LOOKING FOR
20	TRIGGERS EXCEPT FOR CHANGE OF CONTROL, WHICH I THINK
21	WE HAVE TO HAVE, BUT I WAS LOOKING FOR OTHER
22	TRIGGERS TO TAKE THAT TEN-YEAR ONE AND MOVE IT UP SO
23	THAT IT DOESN'T JUST SIT THERE. WE'D LIKE TO PUT
24	THE MONEY BACK TO WORK BEFORE TEN YEARS. SO IF WE
25	HAD TO CHOOSE A NUMBER, I THINK WE'D HAVE CHOSEN A

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1	LOWER A SHORTER TERM, PROBABLY SIX. BUT WE PUT
2	THE TEN IN THINKING, WELL, TEN PLUS SOME TRIGGERS,
3	WHAT SHOULD THOSE TRIGGERS BE.
4	YOU'VE ALL MADE SOME VERY GOOD POINTS
5	ABOUT THAT TODAY, BUT WE'RE GOING TO NEED SOME
6	ADDITIONAL THOUGHTS ON YOUR PART AND ANY IN THE
7	AUDIENCE OR ANY OF THE MEMBERS ON THAT.
8	DR. PLUNKETT: I LIKE ROBERT'S IDEA OF
9	SORT OF A BALANCE SHEET METRIC OF SOME MULTIPLE OF
10	THE AMOUNT REPAID. THE WAY IT'S WRITTEN NOW IS THE
11	LESSER OF 60 MILLION, OR I CAN'T REMEMBER IF IT WAS
12	15 OR 20 X THE AMOUNT LOANED. SO IT'S THAT KIND OF
13	EITHER/OR THAT MADE ME SCRATCH MY HEAD BECAUSE,
14	AGAIN, I'M THINKING OF THIS IN THE PERSPECTIVE OF
15	KIND OF A LARGER DISEASE TEAM TWO-ISH OR THREE-ISH
16	TYPE AWARD. AND SO I THINK THOSE OTHER POINTS COME
17	INTO PLAY.
18	I AM ALSO NOT SURE WHO WOULD GO FOR A
19	SIX-YEAR VERSUS A TEN-YEAR TERM FOR ANYTHING SIZABLE
20	OVER A COUPLE OF MILLION DOLLARS EVEN IF THE
21	INTEREST RATE AND THE WARRANT COVERAGE WERE LESS. I
22	KNOW YOU HAD A LOWER INTEREST RATE, BUT SIMILAR
23	WARRANT COVERAGE. SO I'M JUST NOT SURE ABOUT THE
24	RELATIVE ATTRACTIVENESS OF THAT BECAUSE OF WHEN IT
25	WOULD COME DUE.

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1	CHAIRMAN ROTH: YOUR TERMS, I THINK YOU
2	SAID, WERE THREE YEARS.
3	MR. SCOTT: TYPICALLY THREE TO FOUR YEARS.
4	CHAIRMAN ROTH: VENTURE DEBT. THAT'S THE
5	CONUNDRUM WE HAVE IS THAT WE'D LIKE TO SEE THE MONEY
6	COME BACK WHEN IT CAN SO WE CAN DEPLOY IT AGAIN.
7	AND TEN YEARS IS AN AWFUL LONG TIME FOR THIS AGENCY
8	GIVEN WHERE WE'RE AT IN OUR SPEND CYCLE. SO WE'D
9	LIKE SOME THOUGHTS, CREATIVE THINKING.
10	MR. SHEEHY: WELL, IT JUST SEEMS LIKE
11	MAYBE INSTEAD OF A STICK, THAT THE IDEA OF
12	INCENTIVES IS MORE VALUABLE IN TERMS OF MOTIVATING
13	PEOPLE TO PAY BACK. IF YOU'RE TRYING TO RECYCLE
14	SPENDING, INSTEAD OF SPENDING ALL THIS ENERGY
15	THINKING ABOUT HOW WE CAN WHIP PEOPLE, BEAT PEOPLE
16	INTO GIVING IT BACK, WHY DON'T WE THINK OF WAYS TO
17	ENCOURAGE THEM? THIS IS THE FIRST TIME THAT THIS
18	HAS COME UP IS THINKING ABOUT INCENTIVES TO PAY BACK
19	EARLY. BECAUSE THAT ACHIEVES OUR POLICY GOAL BY
20	ANOTHER MECHANISM.
21	CHAIRMAN ROTH: I'M NOT SURE WE'RE GOING
22	TO SOLVE THAT TODAY, BUT WE'D CERTAINLY LIKE SOME
23	CREATIVE THINKING AROUND THAT.
24	ANY OTHER TOPICS THAT WE SHOULD HIT ON THE
25	TERM SHEET, THE TERMS THAT WE PUT OUT THERE? I
	96

1	FOUND THIS TO BE TERRIBLY HELPFUL.
2	MR. KLEIN: I THINK MARTIN
3	CHAIRMAN ROTH: I'M GOING TO GO TO THE
4	GENERAL NEXT, BUT I JUST WANT TO WRAP UP HERE TO SEE
5	IF THERE'S ANY OTHER MAJOR ISSUES. WE'VE GOT A LOT
6	OF FINE-TUNING IN THIS COMMITTEE, OR MICHAEL'S
7	SUBCOMMITTEE WILL BE MEETING TO TRY TO TAKE THIS
8	INPUT AND PUT IT OUT AGAIN IN A NEW FORMAT.
9	MR. MC GLYNN: MARTIN MCGLYNN AGAIN JUST
10	SPECIFICALLY ON THIS SUBJECT. I THINK WE SHOULD
11	ALSO BE THINKING IN TERMS OF THE DIFFERENCES BETWEEN
12	THE DYNAMICS OF FUNDING AND FINANCING AND KEEPING A
13	PUBLIC COMPANY RUNNING VERSUS KEEPING A PRIVATELY
14	OWNED COMPANY RUNNING. AND WHEN YOU GET INTO THE
15	EQUITIES ARENA AND WARRANTS ARE AT PLAY, THE LENGTH
16	OF TERM IS CRITICAL, AS DAVID GREENWOOD HAS ALREADY
17	STATED. I DON'T THINK ANY PUBLIC COMPANY WOULD WANT
18	TO HAVE TEN-YEAR WARRANTS FLOATING AROUND THAT CAN
19	BE IMPLICATED IN THE SECONDARY MARKET.
20	THE IDEA OF INCENTING PEOPLE TO REPAY
21	EARLY, I THINK, IS ONE WORTHY OF STUDY TO PROVIDE
22	THE INCENTIVES TO ALLOW COMPANIES TO PULL THE
23	TRIGGER AND REPAY THE MONEY EARLIER, GET IT BACK
24	INTO CIRCULATION. IT'S A GREAT IDEA.
25	I ALSO THINK THAT WHEN YOU PUT THE
	97
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1	RULES WHEN YOU PUT THE TERMS AND CONDITIONS OUT,
2	WHETHER IT'S RECOURSE OR NONRECOURSE, LET THE
3	APPLICANT MAKE THAT DETERMINATION WHICH ECONOMICS
4	WORKS BEST. AND THEN PUT THE PROVISIONS IN THERE
5	THAT INCENT THE COMPANIES TO MAKE THE RIGHT DECISION
6	FOR THAT COMPANY AT THAT TIME GIVEN WHERE IT IS IN
7	THE DEVELOPMENT CYCLE AND GIVEN WHERE IT IS WITH
8	REGARD TO OTHER FINANCING OPTIONS.
9	LAST THING YOU WANT TO DO IS TO HAVE LOANS
10	ON THE BOOKS THAT ARE GOING TO PROHIBIT OTHERS FROM
11	PUTTING MONEY IN EITHER THROUGH LOAN CAPITAL OR
12	EQUITY. THAT'S ALL I HAVE TO SAY ON THAT SUBJECT.
13	THANK YOU.
14	CHAIRMAN ROTH: CLARIFICATION, THOUGH.
15	THAT'S WHERE WE WERE IN TERMS OF LETTING THE
16	APPLICANTS DECIDE, BUT THE CONCERN IS THE APPLICANT
17	WILL CHOOSE THE RECOURSE LOAN AND IF IT GOES SOUTH
18	WILL JUST TAKE BANKRUPTCY. SO THEY TOOK A RECOURSE
19	LOAN ON THE BASIS THAT THEY ONLY WANTED THE
20	10-PERCENT WARRANT COVERAGE. SO THAT'S THE CONCERN
21	I HAVE RIGHT NOW IS I DIDN'T THINK ANYBODY WOULD DO
22	THAT THAT HAD THIS VERY EARLY STAGE IDEA, BUT, IN
23	FACT, THAT MAY HAPPEN.
24	AND, AGAIN, I GO BACK, BANKRUPTCY TWO
25	YEARS AGO, WE STARTED TALKING ABOUT THIS WAS KIND OF
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1	A RARE THING. IT'S NOT ANYMORE. AND SO THE CONCEPT
2	WOULD BE LET'S TAKE THE RECOURSE LOAN.
3	MR. MC GLYNN: WELL, I UNDERSTAND THE
4	CONCERN, AND IT'S A REAL ONE. HOWEVER, WITHOUT
5	PUTTING GREATER BURDEN ON THE STAFF, THERE ARE WAYS
6	AND MEANS THAT YOU CAN ACTUALLY DO SANITY CHECKS ON
7	THESE SITUATIONS AND JUST NOT APPROVE THEM.
8	CHAIRMAN ROTH: YEAH. I WOULD LIKE TO DO
9	THAT, BUT I THINK THOSE ARE, AGAIN, VERY HARD
10	CRITERIA TO WRITE. I WOULD LIKE THE APPLICANTS TO
11	BE ABLE TO SEE WHERE THEY FIT IN THIS, WHATEVER WE
12	END UP WITH. AND YOUR INPUT IS FINE. I THINK
13	THAT'S THE KIND OF THING THAT WE NEED TO TRY TO
14	FIGURE OUT HOW WE CAN STAIRSTEP. THIS INCENTIVES
15	IDEA IS NEW AND I THINK AN IMPORTANT ONE. AND WE'LL
16	TRY TO DO THAT. BUT YOU UNDERSTAND THE CONCERN I'M
17	RAISING.
18	MR. MC GLYNN: I DO.
19	CHAIRMAN ROTH: AGAIN, GUYS, WITHOUT
20	WARRANT COVERAGE, MEANINGFUL WARRANT COVERAGE, THIS
21	PROGRAM DOES NOT WORK. IT WON'T WORK FOR ANY OF US.
22	WE'LL JUST WE MIGHT AS WELL DO GRANTS AND FORCE
23	EVERYBODY IN THE IP BECAUSE THERE WOULDN'T BE ANY
24	MONEY TO RECYCLE. SO WHAT WE'RE TRYING TO DO IS
25	FIGURE OUT HOW WE CAN STAY OUT OF THE WAY, AND

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1	CERTAINLY WE DO NOT WANT TO HINDER FOLLOW-ON
2	FINANCING. WE WANT TO INCENT THAT, BUT AT THE SAME
3	TIME MAKE SURE THAT, YOU KNOW, IF THIS THING WORKS
4	and the 30 percent we predict, that we get some
5	UPSIDE ON IT TOO.
6	MR. MC GLYNN: AGAIN, THERE WILL BE
7	MISSES. NO MATTER WHICH WAY, NO MATTER HOW MANY
8	DAYS, WEEKS, OR MONTHS THAT YOU SPEND ON TRYING TO
9	CROSS THE T'S AND DOT THE I'S, THERE ARE GOING TO BE
10	MISSES. THERE ARE GOING TO BE PEOPLE WHO ARE GOING
11	TO BE VERY CLEVER AND FIGURE THE WAYS OUT. AT THE
12	END OF THE DAY, WHAT YOU REALLY WANT TO DO IS TO
13	BRING PEOPLE INTO THE GAME AND BRING THEM IN
14	QUICKLY. EVEN DESPITE THEMSELVES, THEY MAY NOT
15	REALIZE THAT THEY BETTER GET IN OR ELSE THEY'RE
16	GOING TO FAIL.
17	MR. KLEIN: I THINK UNDER THIS STAIRSTEP
18	APPROACH IN TERMS OF CAPITAL, COMPANIES THAT HAVE
19	BEEN IN EXISTENCE FOR SOME TIME WOULD EFFECTIVELY
20	HAVE THE ABILITY TO CHOOSE NONRECOURSE OR RECOURSE
21	BECAUSE IF YOU CAN QUALIFY FOR RECOURSE, YOU WOULD
22	ALSO MEET ALL THE CRITERIA AUTOMATICALLY FOR
23	NONRECOURSE. AND IT IS ONLY THE SMALLEST COMPANIES
24	THAT COULDN'T MEET THOSE STANDARDS TO BE ABLE TO
25	CHOOSE A RECOURSE LOAN. IT'S JUST IF THEY'RE IN

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1	IF THEY'VE JUST BARELY BEGUN RAISING CAPITAL, IT'S
2	PROBABLY INAPPROPRIATE.
3	CHAIRMAN ROTH: OTHER COMMENTS? ANY OTHER
4	GENERAL COMMENTS FROM ANY OF THE MEMBERS OF THE TASK
5	FORCE OR THE GUEST LIST? AUDIENCE? HEARING NONE,
6	WE'RE GOING TO ADJOURN THE MEETING. THANK YOU ALL
7	SO MUCH FOR YOUR INPUT. IT WAS TERRIFIC, VERY
8	HELPFUL. AND WE HOPE YOU WILL FOLLOW THROUGH AND
9	SEND US SOME E-MAILS ON THIS SUBJECT, PARTICULARLY
10	THOSE THINGS THAT WE DIDN'T REALLY COME UP WITH SOME
11	GOOD ANSWERS ON.
12	MR. KLEIN: DUANE, DID WE GET A COPY OF
13	THE SLIDES SO THAT IT CAN BE PART OF THE TRANSCRIPT
14	SO THAT PEOPLE CAN VIEW THESE?
15	CHAIRMAN ROTH: WE'LL GET RELEASES FROM
16	EVERYBODY TO USE THEM. THANK YOU AGAIN, GUYS. IT
17	WAS TERRIFIC.
18	(APPLAUSE.)
19	(THE MEETING WAS THEN ADJOURNED AT
20	02:15 P.M.)
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	<b>1072 BRISTOL STREET, COSTA MESA, CALIFORNIA 92626</b>

#### 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 LOAN 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

#### PAUL BREST HALL MUNGER HALL STANFORD UNIVERSITY STANFORD, CALIFORNIA ON WEDNESDAY, DECEMBER 9, 2009

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.

BETH C. DRAIN, CSR 7152 BARRISTER'S REPORTING SERVICE 1072 BRISTOL STREET SUITE 100 COSTA MESA, CALIFORNIA (714) 444-4100

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