

Silicon Valley Bank

A Wells Fargo Financial Group

# RFP# CIRM 2210 Delegated Underwriter Proposal

June 08, 2009

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## CIRM – RFP# 2210

Silicon Valley Bank is pleased to provide the following proposal to CIRM in response to RFP#2210. As a financial institution providing debt financing to pre-revenue life science companies for the past 25 years SVB is uniquely qualified to act as a Delegated Underwriter and Warrant Servicing Provider on behalf of CIRM. SVB has the ability and infrastructure to originate loans throughout California as well as to handle the volume of loans expected to be generated over the next few years.

We are confident that our history of serving entrepreneurs and the life science community will prove valuable to CIRM and to this new loan program. Additionally, SVB is one of the few companies that has a large warrant portfolio and can manage and monitor a such a portfolio on behalf of CIRM while utilizing its current infrastructure.

The following is intended to provide an overview of our approach to pricing and servicing of both loans and warrants. Given the complexities of putting such a program in place, SVB will provide any additional insight or clarification sought by CIRM.

We look forward to becoming a valued business partner with CIRM.

# SVB Financial Group Overview

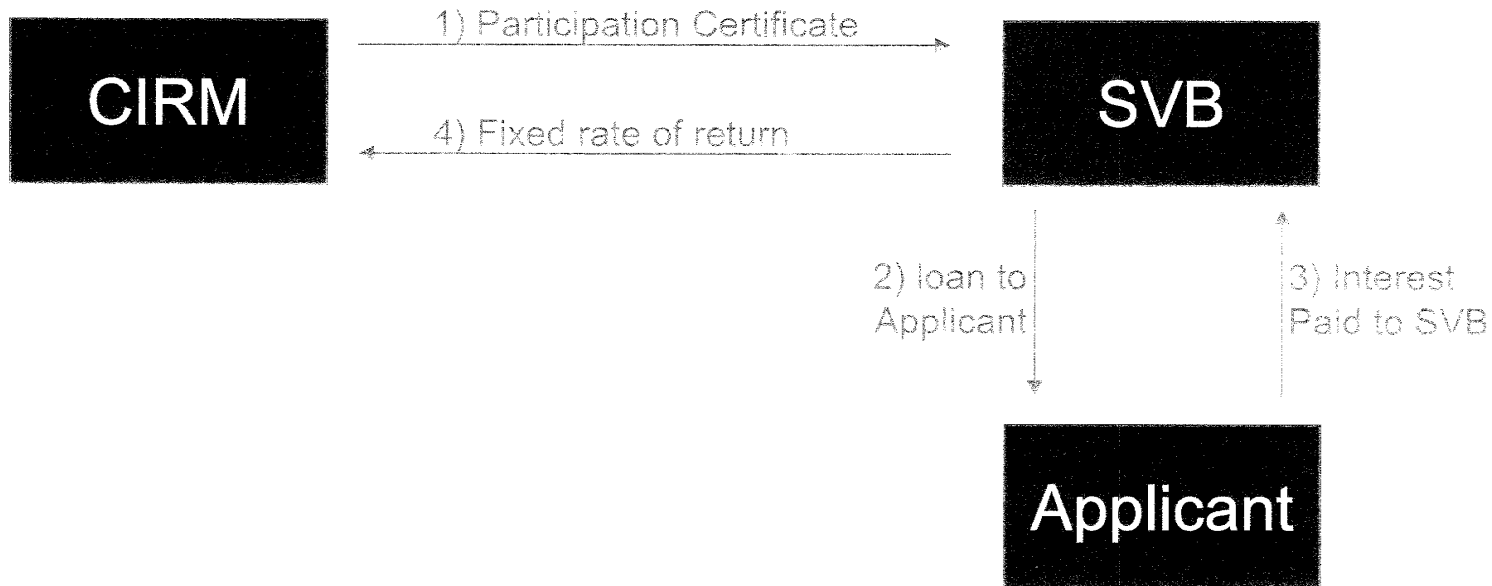
SVB Financial Group has been helping entrepreneurs and enterprising companies succeed for over 25 years, offering diversified and complementary financial products and services to technology and life science companies.

- Over 11,000 clients worldwide, 27 domestic offices with international subsidiaries in the U.K., Israel, India and China.
- 2008 net income was \$78 million. Currently have over \$10 billion in assets, \$8 billion in deposits, and \$5 billion in loans.
- Total family of funds exceeds \$1.0 billion.
- Publicly traded on NASDAQ as SIVB with a current market cap of over \$950 million.
- Strong capital position with Tier-1 capital of 13.8%.
- SVB Financial Group's business units include Silicon Valley Bank, SVB Analytics, SVB Capital, SVB Global.
  - These business units provide commercial banking, loans, services, 409a valuations, direct equity investments, foreign exchange and international business expertise.

## SVB / CIRM Structural Overview

- Applicants initially screened and chosen by CIRM.
- SVB will review and evaluate each Applicant referred by CIRM.
- SVB will provide Applicant and CIRM with a term sheet outlining terms & Structure.
- Upon approval by CIRM and SVB, SVB provides loan directly to Applicant.
  - Structure to be set by CIRM – amount, funding schedule, 6 or 10 year note
- CIRM provides SVB cash pledge (Participation Certificate) to secure Loan.
- SVB pays CIRM required rate of return on Participation Certificate.
- SVB Charges the Applicant CIRM's required return plus a spread.
  - See Page 6 for pricing details
- CIRM receives all warrants, warrants to be serviced by SVB's derivative group.
- SVB will require banking relationship of Applicant or a higher spread.
- Upon maturity, SVB may provide take-out financing that does not require CIRM collateral or support.
- SVB provides CIRM with detailed monthly reporting on each loan.
  - See page 10 for an example

## SVB / CIRM Structure (Org Chart)



- 1) CIRM to provide SVB with cash pledge via Participation Certificate.
- 2) SVB provides loan directly to Applicant.
- 3) Applicant pays SVB fixed interest payment on a monthly basis.
- 4) SVB pays CIRM a fixed rate of return on the Participation Certificate.

# Proposed Pricing ('000s)

<u>Loan Size</u>	<u>Spread *</u>
Up to \$999,999	2.00% to 3.25%
\$1,000,000 to \$4,999,999	1.50% to 2.50%
\$5,000,000 to \$9,999,999	1.00% to 1.75%
\$10,000,000 or more	0.75% to 1.25%

Loan Fees - none

Warrant Administration Fee - 5.0% of the warrant value at the time the warrant is exercised

\* Indicates the spread over CIRM's required rate of return. The lower spread will be applied to those applicants that maintain their primary banking relationship with SVB.

# Key Functions Provided by SVB

- **Underwriting / financial due diligence**
  - Lien and tax search.
  - Credit history and management team background search.
  - Complete due diligence as required: review and evaluate the management team, business plan, financial projections, milestone expectations.
  - Understand development cycle of key products/services as well as the ultimate market these products/services are expected to serve.
  - Evaluate total capital needed and exit expectations.
- **Loan Documentation**
  - Draft and negotiate industry standard loan and security agreement with Applicant.
  - Ensure perfection on all assets including intellectual property.
- **Loan Administration**
  - Monitor compliance on a monthly basis: milestones, covenants, loan and security agreement, remaining months liquidity analysis.
- **Disbursements and Collections**
  - Disbursements to be made based upon required financial milestones and CIRM approval along with receipt of Participation Certificate.
  - Collection of interest and principal.
- **Warrant Monitoring**
  - CIRM warrant portfolio will be tracked and valued monthly at its "fair value".
  - Quarterly update of warrant portfolio including cap tables, additional equity rounds.

# Loan Administration

- Through a monthly Compliance Certificate, each Applicant will rep and warrant that they are:
  - In good standing and in full compliance with all Government regulations.
  - Their financial records are kept in accordance with GAAP and submitted to SVB as required.
  - That any inventory is kept in good market conditions.
  - That all taxes are paid as required.
  - That insurance is kept in good standing for both collateral and the business and that SVB is named as lender's lost payee.
  - That IP is properly documented and registered.
  - That any changes in management are reported to SVB promptly.
  - That all rental payments for real property are made on time and are current.



## Loan Administration (Con't)

- Through Negative Convents in the loan documents, Company is not allowed to do any of the following without SVB's consent (or CIRM's consent as required)
  - Dispose of equipment, assets or IP.
  - Change their business model, management or location of collateral.
  - Enter into a merger or acquisition.
  - Enter into other indebtedness.
  - Allow any other lien to exist against the company or collateral.
  - Make investment, or pay dividends.

## Sample Monthly Report

- The following page shows a sample report that SVB will prepare for CIRM
  - SVB will work with CIRM to refine the report to meet CIRM's specific requirements
- Report will be provided to CIRM monthly following receipt of financial statements
- SVB will also provide additional detail on each Applicant as requested
- Report will be provided along with monthly financial statements of each Applicant
  
- Report clarifications and foot notes
  - CRR refers to the Credit Risk Rating that SVB applies to each loan
  - Wallet Share refers to how much of the Applicants cash is managed through SVB
  - RML refers to Remaining Months Liquidity
  - R-T refers to Real Time data, not data from the previous months financial statement

CIRM - SVB Portfolio Review as of 4/14/2009

**Company Information**

Name	CIF	Risk Stage	Niche	Product/Service	Subniche
COMPANY NAME		Venture	Products	Stem Cell Research	Other

**Overview** (include any pertinent information, i.e. round information, downgrade/upgrade information, etc)

**Facility Information**

Facility Name	Facility Type	Current SVB Commitment	SVB Outstanding	Draw Period Expiration	Maturity Date	CRR	Facility Notes
Term Loan	Term Loan	5,000.0	5,000.0	1/1/2011	1/1/2016	3	

**Financial Statement Information** \* R-T = Real Time.

FS Date	R-T * Wallet Sh ***	RML */ **	Month-End Cash Burn	SVB R-T * Unrestr'd Cash	MFA Unrestr'd Cash	Month-End Availability	R-T * Total SVB Cash
11/30/2008							
12/31/2008							
1/31/2009							
2/28/2009							

**Private Company Info**

Top Investors	Owner-ship %

FS Date	Periods	Revenue		Gross Margin	Net Profit		Change - Fixed Assets	Financial Statement Notes
		Plan	Actual	Actual (%)	Plan	Actual		
11/30/2008								
12/31/2008								
1/31/2009								
2/28/2009								

**Public Company Info**

Ticker Symbol
Stock price
52 week high
52 week low
Market Cap

**Compliance** Y / N / NA

Overall?	Reporting?	Covenant?	Borr'g Base?	Days Past Due	Compliance Notes
Y	Y	NA	Y	N	

**Financial Covenants**

Date Tested	Covenant	Monetary		Non-Monetary	
		Requirement	Actual	Requirement	Actual

**Internal Covenants/Performance Triggers**

Date Tested	Covenant / Trigger	Value

**Accounts Receivable and Accounts Payable**

Availability	Date	Standard	EXIM	Field Exam Date	Dilution %
Borrowing Base					
Net Available					
Borrowing Base					
Net Available					
Borrowing Base					
Net Available					

A/R and A/P Aging Trend	12/31/2008		1/31/2009		2/28/2009	
A/R Age						
1 - 30						
31 - 60						
61 - 90						
Over 90						
Total	0.0	0.0%	0.0	0.0%	0.0	0.0%

A/R Concentrations	12/31/2008		1/31/2009		2/28/2009	
A/P Age						
1 - 30						
31 - 60						
61 - 90						
Over 90						
Total	0.0	0.0%	0.0	0.0%	0.0	0.0%


A/R Concentrations	0-60	61-90	Over 90	Total	% of Aging
Name					

## Open Items

- CIRM's required rate of return
- Loan documentation and documentation fee structure
- Intercreditor between SVB and CIRM
- Communication Directive
  - How and when does SVB need to communicate with CIRM outside of the monthly reporting
- Conflict Policy
- Specific requirements for management of warrant portfolio
- Other items as needed

## Contacts

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# Disclosures

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SVB Asset Management, a registered investment advisor, is a non-bank affiliate of Silicon Valley Bank and member of SVB Financial Group. Products offered by SVB Asset Management are not FDIC insured, are not deposits or other obligations of Silicon Valley Bank, and may lose value.

SVB Securities is a non-bank affiliate of Silicon Valley Bank and member of SVB Financial Group. Member FINRA, SIPC. Products offered by SVB Securities are not FDIC insured, are not deposits or other obligations of Silicon Valley Bank, and may lose value.

Silicon Valley Bank  
A Member of SVB Financial Group

ATTACHMENT 1

Proposer References

Submission of this attachment is mandatory. Failure to complete and return this attachment with your bid may cause your bid to be rejected and deemed non-responsive.

List below three references for services performed within the last five years, which are similar to the scope of work to be performed in this contract.

**REFERENCE 1**

Name of Firm <i>Export-Import Bank of the United States</i>			
Street Address <i>811 Vermont ST Va</i>		City <i>Washington</i>	State <i>DC</i>
Contact Person <i>Nelson Ramirez</i>		Telephone Number <i>202-565-3785</i>	
Dates of Service <i>10+ years</i>		Value or Cost of Service <i>\$300 million</i>	
Brief Description of Service Provided <i>Sub is one of the largest originators + administrators of the EXIM loan guarantee program with a "Super-delegated" authority of \$300 million (the largest of any commercial bank).</i>			

**REFERENCE 2**

Name of Firm			
Street Address	City	State	Zip Code
Contact Person		Telephone Number	
Dates of Service		Value or Cost of Service	
Brief Description of Service Provided			

**REFERENCE 3**

Name of Firm			
Street Address	City	State	Zip Code
Contact Person		Telephone Number	
Dates of Service		Value or Cost of Service	
Brief Description of Service Provided			



ATTACHMENT 2

Payee Data Record  
(STD 204)

STATE OF CALIFORNIA DEPARTMENT OF FINANCE

**PAYEE DATA RECORD**

(Required when receiving payment from the State of California in lieu of IRS W-9)  
STD 204 (Rev. 8-2003)

1	<p><b>INSTRUCTIONS:</b> Complete all information on this form. Sign, date, and return to the State agency (department/office) address shown at the bottom of this page. Prompt return of this fully completed form will prevent delays when processing payments. Information provided in this form will be used by State agencies to prepare information Returns (1099). See reverse side for more information and Privacy Statement.</p> <p><b>NOTE:</b> Governmental entities, federal, State, and local (including school districts), are not required to submit this form.</p>		
2	<p><b>PAYEE'S LEGAL BUSINESS NAME</b> (Type or Print) Silicon Valley Bank</p> <p><b>SOLE PROPRIETOR - ENTER NAME AS SHOWN ON SSN</b> (Last, First, M.I.) _____ <b>E-MAIL ADDRESS</b> benlombard@svb.com</p> <p><b>MAILING ADDRESS</b> _____ <b>BUSINESS ADDRESS</b> 185 Berry St Lobby 2 Suite 340</p> <p><b>CITY, STATE, ZIP CODE</b> _____ <b>CITY, STATE, ZIP CODE</b> San Francisco CA 94107</p>		
3	<p><b>ENTER FEDERAL EMPLOYER IDENTIFICATION NUMBER (FEIN):</b> 974-218752181</p> <p><input type="checkbox"/> PARTNERSHIP      <b>CORPORATION:</b></p> <p><input type="checkbox"/> ESTATE OR TRUST      <input type="checkbox"/> MEDICAL (e.g., dentistry, psychotherapy, chiropractic, etc.)</p> <p>   <input type="checkbox"/> LEGAL (e.g., attorney services)</p> <p>   <input type="checkbox"/> EXEMPT (nonprofit)</p> <p>   <input checked="" type="checkbox"/> ALL OTHERS</p> <p><input type="checkbox"/> INDIVIDUAL OR SOLE PROPRIETOR</p> <p><b>ENTER SOCIAL SECURITY NUMBER:</b> _____</p> <p style="text-align: right; font-size: small;">(SSN required by authority of California Revenue and Tax Code Section 18546)</p>		<p><b>NOTE:</b> Payment will not be processed without an accompanying taxpayer I.D. number.</p>
4	<p><input checked="" type="checkbox"/> California resident - Qualified to do business in California or maintains a permanent place of business in California.</p> <p><input type="checkbox"/> California nonresident (see reverse side) - Payments to nonresidents for services may be subject to State income tax withholding.</p> <p style="margin-left: 20px;"><input type="checkbox"/> No services performed in California.</p> <p style="margin-left: 20px;"><input type="checkbox"/> Copy of Franchise Tax Board waiver of State withholding attached.</p>		
5	<p>I hereby certify under penalty of perjury that the information provided on this document is true and correct. Should my residency status change, I will promptly notify the State agency below.</p> <p><b>AUTHORIZED PAYEE REPRESENTATIVE'S NAME</b> (Type or Print) _____ <b>TITLE</b> _____ Benjamin Lombard Sr. Sr. M.</p> <p><b>SIGNATURE</b> _____ <b>DATE</b> 6/30/09 <b>TELEPHONE</b> 415 512 4232</p>		
6	<p>Please return completed form to:</p> <p>Department/Office: _____</p> <p>Unit/Section: _____</p> <p>Mailing Address: _____</p> <p>City/State/Zip: _____</p> <p>Telephone: (____) _____ Fax: (____) _____</p> <p>E-mail Address: _____</p>		