

Criteria for Evaluation of Recourse Loan

Background

On January 30, 2009, the Board adopted the Loan Administration Policy (the “LAP”) to implement CIRM’s loan program. The LAP became effective on June 15, 2009, and will remain in effect for 270 days from that date.

The LAP requires an applicant for a loan to specify whether it is applying for a recourse loan or a non-recourse loan. The LAP defines a “recourse loan” as a “loan which the Loan Recipient organization is obligated to repay, notwithstanding the status of the CIRM-funded project.” A “non-recourse” loan is defined as a “loan which the Loan Recipient organization is obligated to repay, subject to suspension or forgiveness of all or part of the loan based on the status of the CIRM-funded project.”

The LAP requires the recipient of a recourse loan to repay CIRM, with accrued interest, regardless of the success of the CIRM-funded project. The recipient of a non-recourse loan, by contrast, may request forgiveness of the loan under circumstances specified in the LAP.

As a premium for CIRM’s risk, the recipient of a non-recourse loan is required to provide CIRM with warrants equal to the *lesser* of 100% of the amount of the loan or 20% of the loan recipient’s shares, on a fully diluted basis. Recipients of recourse loans are required to provide CIRM with warrant coverage equal to 10% of the amount of the loan.

Finally, the LAP provides that an applicant for a recourse loan must indicate whether it would accept a non-recourse loan if the applicant “does not meet the credit standards for Recourse Loans.” The LAP states that “[e]valuation of applications for Recourse Loans will consider the ability of the applicant organization to repay the loan,” but it does not identify the criteria that will be employed to make that determination. The criteria below are drawn from the LAP, public discussions during the course of meetings of the Biotech Loan Task Force and the Finance Subcommittee, and input from CIRM staff (*see, e.g.*, Loan Task Force Meeting Transcripts at 1/16/08 at p. 59, 81; 3/11/08 at p. 31, 33).

Criteria

CIRM’s Disease Research Team Awards program is the first program for which loans are available. As a result, CIRM views this program as a prototype that offers CIRM the opportunity to obtain experience. Based on the knowledge gained by implementing this prototype, CIRM expects to propose modifications to the program to improve and strengthen it. Therefore, the criteria proposed below are provisional only and are not intended to establish a precedent. Rather, CIRM intends to refine these criteria based on the experience we gain and present them to the Finance Subcommittee and the Board for consideration and approval.

Disease Team Research Awards I -- Prototype
Proposed Criteria for Evaluation of Eligibility for a Recourse Loan

Application Number:

Factors

Scientific Merit of Project

- What was Applicant's GWG score?
- What is the quality of Applicant's scientific management team, including but not limited to investigators and consultants, for this project?

Comment:

Ability to Repay Loan

- What is applicant's current revenue stream?
- Do applicant's investors include a large biotech company or large pharmaceutical company?
- Does Applicant have any products in Clinical Trials?
- Does Applicant have any other products in development? At what stage?
- Does Applicant own any patents?
- Does Applicant have affiliates or subsidiaries that share responsibility for the loan?

Comment:

Financial Ability to Complete the Project through Phase III

- Does Applicant have other sources of financing for the project apart from CIRM's loan?
- Does Applicant have a collaboration in place with a pharmaceutical/biotechnology company?
- Does the Applicant's current management team have a successful track record in raising capital?

Comment:

Financial Health of Applicant

- Does Applicant have additional cash on hand (aside from the CIRM loan) to operate for at least six to twelve months?
- Is Applicant current on its accounts payable?
- Has Applicant been able to secure venture funding or federal grants in the past?
- Is the Applicant involved in any pending litigation, and if so, what is the Applicant's exposure

Comment: