

# CERTIFIED COPY

BEFORE THE  
CITIZENS FINANCIAL ACCOUNTABILITY OVERSIGHT COMMITTEE  
ORGANIZED PURSUANT TO THE  
CALIFORNIA STEM CELL RESEARCH AND CURES ACT  
REGULAR MEETING

LOCATION: CALIFORNIA PUBLIC UTILITIES COMMISSION  
505 VAN NESS AVENUE  
SAN FRANCISCO, CALIFORNIA

DATE: TUESDAY, NOVEMBER 27, 2007  
9 A.M.

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

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since 1987

## BARRISTERS' REPORTING SERVICE

1072 SOUTH EAST BRISTOL STREET SUITE 100  
SANTA ANA HEIGHTS CALIFORNIA 92707

714.444.4100 FAX 714.444.4411 1800.622.6092

www.depo1.com E-MAIL: depo@depo1.com

## BARRISTERS' REPORTING SERVICE

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BARRISTERS' REPORTING SERVICE

1 SAN FRANCISCO, CALIFORNIA; TUESDAY, NOVEMBER 27, 2007

2 9 A.M.

3

4 CHAIRMAN CHIANG: IT IS 9:07, AND I'D LIKE TO  
5 CONVENE THE CITIZENS FINANCIAL ACCOUNTABILITY OVERSIGHT  
6 COMMITTEE. LET US BEGIN BY PAYING TRIBUTE TO OUR COUNTRY  
7 IN SAYING THE PLEDGE OF ALLEGIANCE.

8 (THE PLEDGE OF ALLEGIANCE.)

9 CHAIRMAN CHIANG: ITEM NO. 2, WE WILL  
10 ADMINISTER THE OATH OF OFFICE FOR THE NEWLY APPOINTED  
11 CFAOC MEMBERS, DR. GURBINDER SADANA AND DR. LOREN LIPSON  
12 IS THE SECOND MEMBER. BEFORE I ADMINISTER THE OATH,  
13 DR. LIPSON UNFORTUNATELY HAD A COMMITMENT TO BE AN EXPERT  
14 WITNESS FOR A TRIAL BEING HELD ON THE EAST COAST AND IS,  
15 THEREFORE, UNAVAILABLE.

16 IN ADDITION, SHOULD ANYONE FROM THE PUBLIC LIKE  
17 TO MAKE PUBLIC REMARKS, YOU ARE ENCOURAGED TO DO SO. WE  
18 WILL TAKE PUBLIC REMARKS AT THE END OF EACH ITEM. PLEASE  
19 LIMIT YOUR REMARKS TO THREE MINUTES OR LESS. FOR ANY  
20 PARTICULAR ITEM, PLEASE GO TO THE BACK AND SIGN IN SO  
21 THAT WE CAN ESTABLISH YOUR WILLINGNESS AND WANT TO  
22 TESTIFY. AND ALSO PLEASE TURN OFF YOUR CELL PHONES.

23 DR. SADANA, PLEASE STAND AND LET ME ADMINISTER  
24 THE OATH OF OFFICE.

25 (THE OATH WAS THEN ADMINISTERED TO DR.

BARRISTERS' REPORTING SERVICE

1 SADANA.)

2 CHAIRMAN CHIANG: CONGRATULATIONS. IS THERE  
3 ANY PUBLIC COMMENT ON THIS ITEM?

4 MR. SIMPSON: YES, MR. CHAIRMAN.

5 CHAIRMAN CHIANG: GOOD MORNING. PLEASE  
6 INTRODUCE YOURSELF FOR THE RECORD.

7 MR. SIMPSON: GOOD MORNING. I'M JOHN SIMPSON  
8 WITH THE FOUNDATION FOR TAXPAYER AND CONSUMER RIGHTS. I  
9 HEAD OUR STEM CELL PROJECT OVERSIGHT AND ACCOUNTABILITY  
10 PROJECT, WHICH IS FUNDED BY THE NATHAN CUMMINGS  
11 FOUNDATION.

12 CHAIRMAN CHIANG: EXCUSE ME, JOHN. IS YOUR  
13 MICROPHONE ON?

14 MR. SIMPSON: IS IT BETTER NOW? I APOLOGIZE.  
15 SAW A RED LIGHT THERE. I THOUGHT IT WAS SOMETHING ELSE.  
16 I SEE I NEED A GREEN.

17 IN ANY EVENT, WE HAVE TRIED TO ENSURE THAT THE  
18 PEOPLE OF CALIFORNIA HAVE AFFORDABLE ACCESS TO THE CURES  
19 FOR WHICH THEY'RE PUTTING OUT THE MONEY. AS PART OF THAT  
20 PROJECT, WE'VE DONE THINGS LIKE CHALLENGE SOME VERY  
21 RESTRICTIVE HUMAN EMBRYONIC STEM CELL PATENTS. AND ALSO  
22 AS PART OF THAT EFFORT, I APPEARED BEFORE YOU LAST YEAR  
23 AND CHALLENGED THE SEATING OF ONE OF THE BOARD MEMBERS,  
24 JOHN HEIN, WHO AT THE TIME I SAID I THOUGHT WAS A GREAT  
25 INDIVIDUAL, BUT HE DID NOT HAVE THE QUALIFICATIONS

BARRISTERS' REPORTING SERVICE

1 SPECIFIED IN THE LAW. I'M DELIGHTED TO SEE THAT  
2 APPARENTLY THAT CHALLENGE FELL ON LISTENING EARS BECAUSE  
3 THE SPEAKER HAS APPOINTED A NEW VERY QUALIFIED CANDIDATE  
4 TO THE BOARD, AND WE'RE DELIGHTED TO SEE THAT THAT HAS  
5 HAPPENED. AND I JUST WANTED TO WELCOME HIM HERE AND SAY  
6 THAT I'M GLAD THAT THE PROCESS SEEMS TO WORK WHERE THE  
7 PUBLIC SPEAKS UP AND POINTS THINGS OUT. AND AT LEAST  
8 WITH THIS COMMITTEE, THE COMMITTEE SEEMS TO BE  
9 RESPONSIVE. SO I THANK YOU VERY MUCH.

10 CHAIRMAN CHIANG: THANK YOU, JOHN. NEXT ITEM.  
11 INTRODUCE THE ITEM.

12 MR. O'TOOLE: YES. THE NEXT ITEM IS THE CALL  
13 TO ORDER AND ROLL CALL.

14 CHAIRMAN CHIANG: OKAY. PLEASE TAKE ROLL.

15 MR. O'TOOLE: CHAIRMAN JOHN CHIANG.

16 CHAIRMAN CHIANG: AYE.

17 MR. O'TOOLE: DANIEL BRUNNER.

18 MR. BRUNNER: HERE.

19 MR. O'TOOLE: JIM LOTT. MYRTLE POTTER.

20 MS. POTTER: HERE.

21 MR. O'TOOLE: GURINDER SADANA.

22 DR. SADANA: HERE.

23 CHAIRMAN CHIANG: VERY GOOD. WE HAVE A QUORUM  
24 PRESENT. NEXT ITEM IS OPENING STATEMENT. LET ME BEGIN.

25 I WOULD LIKE TO THANK EVERYBODY FOR ATTENDING

## BARRISTERS' REPORTING SERVICE

1     TODAY, AND I WOULD LIKE TO WELCOME ONE OF OUR NEW  
2     MEMBERS, DR. SADANA, TO THIS IMPORTANT REVIEW COMMITTEE.  
3     THREE YEARS AGO THIS VERY MONTH CALIFORNIA SHOWED THEIR  
4     OVERWHELMING SUPPORT FOR STEM CELL RESEARCH WHEN THEY  
5     APPROVED PROPOSITION 71. NOT ONLY DID CALIFORNIA VOTERS  
6     SUPPORT STEM CELL RESEARCH, THEY ALSO SAID THEY WERE  
7     WILLING TO PAY FOR IT AND COMMITTED MORE THAN \$3 BILLION  
8     IN PUBLIC FUNDS, WHICH WILL BE CLOSER TO \$6 BILLION WITH  
9     BOND FINANCING, TO PURSUE THIS PROMISING RESEARCH.

10           I TOO STRONGLY BELIEVE THAT STEM CELL RESEARCH  
11     HOLDS THE KEY TO CURES FOR CHRONIC AND LIFE-THREATENING  
12     DISEASES THAT AFFECT MILLIONS OF AMERICANS. THE MEMBERS  
13     OF THIS COMMITTEE NOT ONLY HAVE THE OPPORTUNITY, BUT HAVE  
14     THE OBLIGATION TO PROVIDE EXPERT FISCAL REVIEW AND  
15     GUIDANCE TO THE INSTITUTE FOR REGENERATIVE MEDICINE AND  
16     THEREBY ENSURING ITS FISCAL PRACTICES ARE SOUND AND THAT  
17     THE INVESTMENT OF PUBLIC FUNDS MADE BY CALIFORNIA VOTERS  
18     IS FIERCELY PROTECTED AS WE CONTINUE TO MAKE INROADS INTO  
19     THIS REVOLUTIONARY FIELD OF SCIENCE AND MEDICINE.

20           WOULD ANY OTHER MEMBERS LIKE TO MAKE COMMENTS?

21           NEXT ITEM. WE WILL DISCUSS THE MINUTES OF THE  
22     SEPTEMBER 14, 2006, CFAOC MEETING. ARE THERE ANY  
23     QUESTIONS OR SUGGESTED AMENDMENTS TO THE MINUTES? MAY I  
24     HAVE A MOTION TO APPROVE?

25           MR. BRUNNER: SO MOVED.

## BARRISTERS' REPORTING SERVICE

1 CHAIRMAN CHIANG: WE HAVE A MOTION. DO WE HAVE  
2 A SECOND?

3 DR. SADANA: SECOND.

4 CHAIRMAN CHIANG: IS THERE OBJECTION? WITHOUT  
5 OBJECTION, THE MOTION PASSES. VERY GOOD.

6 THE NEXT ITEM IS THE CONFLICT OF INTEREST CODE  
7 PURSUANT TO FPPC REGULATION 187512(C)(3). THIS REQUIRES  
8 ACTION.

9 I AM INTERESTED IN NOTICING THE OFFICE OF  
10 ADMINISTRATIVE LAW IN HAVING THE MEMBERS OF THIS BODY  
11 ADOPT A CONFLICT OF INTEREST CODE. I WOULD LIKE TO  
12 EXPLAIN WHY I BELIEVE IT IS ABSOLUTELY IMPORTANT THAT WE  
13 OPERATE IN A FULLY TRANSPARENT MANNER.

14 THE PURPOSE OF THIS COMMITTEE IS TO REVIEW  
15 FINANCIAL RECORDS IN AN OPEN AND PUBLIC FORUM. IF WE  
16 REQUIRE TRANSPARENCY FROM OTHER VISIONS, WE CERTAINLY  
17 CANNOT MAINTAIN A DOUBLE STANDARD FOR OURSELVES. BECAUSE  
18 WE ARE CHARGED WITH OVERSEEING HOW THE INSTITUTE IS  
19 SPENDING MORE THAN \$3 BILLION IN PUBLIC FUNDS TO FURTHER  
20 THIS PROMISING RESEARCH, WE MUST ENSURE THAT WE ON THE  
21 BOARD ARE ABOVE REPROACH, AND I BELIEVE WE ARE, AND THAT  
22 THE CITIZENS OF CALIFORNIA HAVE THE UTMOST CONFIDENCE IN  
23 OUR ABILITY TO PROTECT THEIR EXTREMELY GENEROUS  
24 INVESTMENT AND TO ALWAYS ACT IN THE PUBLIC'S BEST  
25 INTEREST.

## BARRISTERS' REPORTING SERVICE

1           LAST YEAR THIS COMMITTEE VOTED TO HOLD ITS  
2 MEMBERS ACCOUNTABLE TO THE PUBLIC BY ABIDING BY ITS  
3 ECONOMIC DISCLOSURE LAWS. IT WAS THE RIGHT ACTION THEN,  
4 AND I BELIEVE IT WOULD BE THE RIGHT ACTION TODAY.

5           I BELIEVE WE HAVE TED PRIMM, I DON'T BELIEVE, I  
6 SEE WE HAVE TED PRIMM WITH US HERE TODAY FROM THE  
7 ATTORNEY GENERAL'S OFFICE. MR. PRIMM, THANK YOU FOR  
8 BEING HERE. WOULD YOU PLEASE TELL US ABOUT THESE  
9 CONFLICT OF INTEREST DISCLOSURES AND WHAT RELEVANCE AND  
10 PURPOSE THEY SERVE ON COMMITTEES SUCH AS THIS ONE?

11           MR. PRIMM: WELL, THE PURPOSE OF THE CONFLICT  
12 OF INTEREST CODE IS TO MAKE SURE THAT THE PRIVATE  
13 FINANCIAL INTERESTS OF THE MEMBERS OF A BODY ARE  
14 DISCLOSED TO THE PUBLIC FOR TWO REASONS. I GUESS, ONE TO  
15 LET THE PUBLIC KNOW WHAT FINANCIAL INTERESTS ARE INVOLVED  
16 IN CASE THEY WANT TO MONITOR ANY POTENTIAL CONFLICTS AND  
17 ALSO AS A WAY OF REMINDING THE INDIVIDUALS WHO ARE ON THE  
18 BOARD OF WHAT THEIR FINANCIAL INTERESTS ARE SO THAT  
19 THEY'RE AWARE OF THOSE AND DON'T COMMIT ANY CONFLICTS  
20 ALONG THE WAY.

21           NOW, ONCE YOU ADOPT A CONFLICT OF INTEREST  
22 CODE, THEN YOUR DISCLOSURE IS GOVERNED BY WHAT'S IN THE  
23 CONFLICT OF INTEREST CODE. PRIOR TO THAT TIME, AS A NEW  
24 AGENCY, THERE'S A PROVISION IN THE POLITICAL REFORM ACT  
25 THAT REQUIRES YOU TO DISCLOSE -- TO PROVIDE FULL CATEGORY



## BARRISTERS' REPORTING SERVICE

1 1 DISCLOSURE OF YOUR INTERESTS UP UNTIL THE TIME THAT YOU  
2 ACTUALLY ADOPT THE CODE. SO THAT'S THE PROVISION YOU'RE  
3 UNDER AT THE CURRENT TIME.

4 CHAIRMAN CHIANG: COULD YOU FURTHER ELABORATE  
5 ABOUT SPECIFICALLY WHAT IS REQUIRED UNDER THAT CATEGORY?

6 MR. PRIMM: UNDER THE INTERIM SITUATION THAT  
7 WE'RE IN RIGHT NOW?

8 CHAIRMAN CHIANG: THAT'S CORRECT.

9 MR. PRIMM: OKAY. GOVERNMENT CODE SECTION  
10 87302.6 REQUIRES THAT NEW AGENCIES FILE IN THE SAME WAY  
11 THAT THE GOVERNOR AND THE LEGISLATURE DO PENDING THE  
12 ADOPTION OF A CODE. NOW, THE CODE COULD CONCEIVABLY HAVE  
13 A NARROWER SET OF DISCLOSURES. IN YOUR PARTICULAR CASE  
14 AND WHAT YOU'RE RECOMMENDING, YOU WOULD HAVE THE SAME  
15 LEVEL OF DISCLOSURE AFTER THE ADOPTION OF THE CODE AS YOU  
16 HAVE UNDER THIS PROVISION. AND THAT MEANS THAT YOU  
17 DISCLOSE ON YOUR ANNUAL STATEMENTS OF ECONOMIC INTEREST  
18 ALL SOURCES OF INCOME, ALL INTEREST IN REAL PROPERTY, AND  
19 ALL INVESTMENTS.

20 CHAIRMAN CHIANG: THANK YOU VERY KINDLY. ARE  
21 THERE ANY QUESTIONS FOR MR. PRIMM? ARE THERE ANY  
22 COMMENTS? IS THERE A MOTION?

23 MR. LOTT: SO MOVED.

24 CHAIRMAN CHIANG: WE HAVE A MOTION TO NOTICE TO  
25 THE OAL THAT WE'RE GOING TO SUBJECT OURSELVES TO THE FPPC

**BARRISTERS' REPORTING SERVICE**

1 CONFLICTS REGULATIONS. IS THERE A SECOND?

2 MS. POTTER: SECOND.

3 MR. SIMPSON: IS THERE PUBLIC COMMENT?

4 CHAIRMAN CHIANG: I'M SORRY. THERE'S A SECOND.

5 WE HAVE A SECOND. WE WILL TAKE PUBLIC COMMENT.

6 MR. SIMPSON: LAST YEAR'S ACTION, I THINK,  
7 ESSENTIALLY WAS A DEFAULT ACTION. THIS APPEARS TO BE AN  
8 AFFIRMATIVE ONE, WHICH IS A GOOD STEP FORWARD. JOHN  
9 SIMPSON FOR THE FOUNDATION FOR TAXPAYER AND CONSUMER  
10 RIGHTS. MY ONLY QUESTION WOULD BE WHETHER YOU WOULD  
11 NARROW THE REQUIREMENTS SO THAT THEY WOULD BE DIFFERENT  
12 THAN THOSE, FOR INSTANCE, OF THE ICOC BOARD? AND I WOULD  
13 ADVOCATE THAT YOU SHOULD END UP WITH ESSENTIALLY THE SAME  
14 CONFLICT OF INTEREST AND DISCLOSURE REQUIREMENTS AS THE  
15 ICOC HAS.

16 AS I UNDERSTAND IT NOW, THIS WILL SAY THAT YOU  
17 WILL HAVE TO BE DRAFTING SOME SPECIFIC DISCLOSURE  
18 REQUIREMENTS; IS THAT CORRECT, MR. ATTORNEY GENERAL?

19 MR. PRIMM: WELL, THE PROVISIONS THAT ARE IN  
20 THIS CODE ARE THE SAME AS THE PROVISIONS FOR THE MEMBERS  
21 OF THE ICOC.

22 MR. SIMPSON: THANK YOU.

23 CHAIRMAN CHIANG: THANK YOU. WE HAVE A MOTION  
24 AND A SECOND. IS THERE ANY OBJECTION? WITHOUT  
25 OBJECTION, THE MOTION PASSES. THANK, EVERYBODY.

## BARRISTERS' REPORTING SERVICE

1                   NEXT ITEM IS THE STATUS UPDATE OF THE  
2   CALIFORNIA INSTITUTE OF REGENERATIVE MEDICINE'S FINANCIAL  
3   STATEMENTS, GRANT AWARDS PROCESS, BEST PRACTICE  
4   CONSIDERATIONS, AND CIRM'S INTELLECTUAL PROPERTY  
5   REGULATIONS.

6                   WHO WILL BE SPEAKING ON BEHALF OF CIRM? THANK  
7   YOU FOR BEING HERE, BOB, AND PLEASE INTRODUCE YOURSELF.

8                   MR. KLEIN: GOOD MORNING. IT'S A PRIVILEGE TO  
9   ADDRESS THIS OVERSIGHT BODY. IN THE HISTORY OF STATE  
10   GOVERNMENT, IT'S UNIQUE TO HAVE AN OVERSIGHT BODY FOR A  
11   SPECIFIC AGENCY. AND CERTAINLY IT EMPHASIZES OUR  
12   TRANSPARENCY AND WILLINGNESS TO PROVIDE AS MUCH  
13   INFORMATION AS WE CAN DEEM POSSIBLE TO THE STATE AND AS  
14   MUCH INFORMATION AS THIS AUGUST BODY WOULD DEEM THAT WE  
15   SHOULD BE PROVIDING TO THE STATE. SO IT'S A DOUBLE-CHECK  
16   IN MAKING SURE THAT ON FINANCIAL MATTERS THE STATE'S  
17   INFORMED.

18                  SO IT'S A PRIVILEGE TO BE HERE THIS MORNING,  
19   PARTICULARLY IN SAN FRANCISCO. AND SINCE LAST YEAR,  
20   CALIFORNIA HAS BECOME THE LEADING FUNDER OF EMBRYONIC  
21   STEM CELL STEM RESEARCH IN THE WORLD, WHICH IS A GREAT  
22   ACCOMPLISHMENT FOR A STATE. CALIFORNIA HAS 50 PERCENT OF  
23   ALL THE BIOTECH RESEARCH CAPACITY IN THE NATION, AND AS A  
24   NATION HAS MORE CAPACITY THAN ANY OTHER NATION IN THE  
25   WORLD. SO IT IS OUR PRIVILEGE THIS NEXT FEBRUARY TO HOST

## BARRISTERS' REPORTING SERVICE

1 21 NATIONS AND CALIFORNIA IN A CONFERENCE IN SAN  
2 FRANCISCO ON THE GLOBAL STRATEGY FOR STEM CELL RESEARCH  
3 TO ADVANCE MEDICINE ACROSS A BROAD ARRAY OF CHRONIC  
4 ILLNESS AND INJURY.

5 IN THOSE 21 NATIONS, THERE'S CHINA AND FRANCE,  
6 WHICH WERE ADMITTED TO THIS CONCURRENTLY WITH THE STATE  
7 OF CALIFORNIA, SO CALIFORNIA IS DOING VERY WELL ON A  
8 GLOBAL BASIS IN TERMS OF RESPECT FOR THE INSTITUTION THAT  
9 THE VOTERS OF THE STATE HAD THE VISION TO APPROVE.

10 THIS MORNING I'D LIKE TO FOCUS FIRST UNDER ITEM  
11 7 ON OUR FINANCIAL STATEMENTS AND FINANCIAL MANAGEMENT  
12 REPORTS FROM OUR AUDITORS, WHICH IS, OF COURSE, THE CORE  
13 MISSION OF THIS OVERSIGHT ENTITY. THESE ARE FOR THE  
14 2005-2006 FINANCIAL AUDIT. I WOULD LIKE TO EMPHASIZE  
15 THAT WE HAVE JUST GONE THROUGH AN RFP PROCESS. AND FOR  
16 THIS COMING YEAR, WE WILL HAVE A SYSTEM WHEREBY WITHIN 60  
17 DAYS AFTER THE CONTROLLER CLOSES THE BOOKS FOR THIS  
18 AGENCY, BECAUSE THE CONTROLLER KEEPS THE BOOKS, ISSUES  
19 ALL THE CHECKS FOR OUR AGENCY, THAT WE WILL HAVE OUR  
20 OUTSIDE AUDITOR IN PLACE DOING SOME WORK PERHAPS IN  
21 PREPARATION BEFORE THE BOOKS ARE CLOSED, BUT WE SHOULD  
22 HAVE, BEFORE WE MEET NEXT YEAR, THAT YEAR'S AUDIT  
23 COMPLETED. BUT THE FISCAL YEAR '06-'07 AUDIT IS NOW JUST  
24 IN PROGRESS. THEY'RE JUST AT THE TRIAL BALANCE STAGE,  
25 AND WE'RE VERY PLEASED THAT WE WILL BE ABLE TO HAVE THAT

BARRISTERS' REPORTING SERVICE

1 DONE RIGHT AFTER THE FIRST OF THE YEAR.

2 SO IN OUR INTRODUCTIONS THIS MORNING, WE HAVE  
3 TWO MEMBERS OF THEIR TEAM PRESENT, AND BETWEEN THEM  
4 THEY'LL DIVIDE THEIR RESPONSIBILITIES. AND WITH THE  
5 PERMISSION OF THE CHAIR, WHERE IT SAYS FINANCIAL  
6 STATEMENTS, HOPEFULLY THEY CAN PRESENT BOTH THE FINANCIAL  
7 STATEMENTS AND THE ITEMS APPEARING UNDER ITEM NO. 8 SO  
8 THEY CAN MAKE THEIR WHOLE PRESENTATION AT ONCE. IS THAT  
9 ACCEPTABLE, MR. CHAIR?

10 CHAIRMAN CHIANG: I BELIEVE THAT'S POSSIBLE. I  
11 WANTED TO MAKE SURE THAT DEPUTY AG, MR. PRIMM, IF THEY  
12 WANTED TO ENGAGE IN DISCUSSION, BOB, IF YOU WOULD  
13 ARTICULATE SPECIFICALLY, FINANCIAL STATEMENTS AND --

14 MR. KLEIN: COULD WE HAVE THE AUDITORS PRESENT  
15 THEIR PORTION OF ITEM 7 AND ITEM 8 AT THE SAME TIME?

16 MR. PRIMM: I DON'T SEE ANY REASON WHY NOT.  
17 THEY'RE BOTH ON THE AGENDA, RIGHT?

18 MR. KLEIN: THAT'S CORRECT.

19 MR. PRIMM: YOU CAN MOVE YOUR AGENDA AROUND  
20 HOWEVER YOU WANT UNLESS YOU'VE SAID SOMETHING ON YOUR  
21 AGENDA THAT PREVENTS YOU FROM DOING SO.

22 CHAIRMAN CHIANG: OKAY. WE HAVE NOT.

23 MR. KLEIN: THANK YOU, MR. CHAIRMAN. THANK  
24 YOU, MR. PRIMM.

25 WITH THAT, I'D LIKE TO INTRODUCE OUR AUDITORS.

## BARRISTERS' REPORTING SERVICE

1 WE HAVE BOTH THE DIRECTOR AND MANAGER HERE. HEATHER  
2 JONES IS DIRECTOR OF OUR AUDITING FIRM, AND SHELLY  
3 WALKER-DAVEY IS THE MANAGER.

4 MS. JONES: GOOD MORNING. HEATHER JONES WITH  
5 MACIAS, GINI & O'CONNELL. I'M HERE WITH SHELLY DAVEY,  
6 WHO IS THE AUDIT MANAGER WITH MACIAS, GINI & O'CONNELL.  
7 OUR FIRM IS A STATEWIDE CPA FIRM HEADQUARTERED IN  
8 SACRAMENTO. WE ALSO HAVE OFFICES IN SAN DIEGO, LOS  
9 ANGELES, SAN FRANCISCO BAY AREA. OUR CURRENT CLIENTS  
10 INCLUDE THE CITIES AND COUNTIES OF SAN FRANCISCO, SAN  
11 DIEGO, SACRAMENTO, THE CITY OF OAKLAND. WE'RE ALSO  
12 CURRENTLY ENGAGED TO PERFORM THE FINANCIAL AUDIT FOR THE  
13 TWO LARGEST RETIREMENT SYSTEMS IN THE NATION, BOTH  
14 CALPERS AND THE STATE TEACHERS RETIREMENT SYSTEM.

15 AS YOU KNOW, WE WERE ENGAGED TO PERFORM THE  
16 AUDIT OF THE JUNE 30, '06, FINANCIAL STATEMENTS. AS PART  
17 OF THAT AUDIT, WE'RE ISSUING THREE SEPARATE PRODUCTS.  
18 THE FIRST IS OUR OPINION ON THE FINANCIAL STATEMENTS.  
19 THE SECOND IS A REPORT ON INTERNAL CONTROLS AND  
20 COMPLIANCE. AND THE THIRD PRODUCT IS A REPORT TO  
21 MANAGEMENT WHICH INCLUDES COMMUNICATIONS THAT WE'RE  
22 REQUIRED TO MAKE TO THIS COMMITTEE ALONG WITH OUR CURRENT  
23 YEAR OBSERVATIONS AND RECOMMENDATIONS.

24 I'D LIKE TO START OFF BY IDENTIFYING  
25 MANAGEMENT'S VERSUS THE AUDITOR'S RESPONSIBILITY.

## BARRISTERS' REPORTING SERVICE

1 MANAGEMENT, BOTH CIRM AND THE STATE CONTROLLER'S OFFICE,  
2 ARE RESPONSIBLE FOR PREPARING THE FINANCIAL STATEMENTS,  
3 THEY'RE RESPONSIBLE FOR ADOPTING ACCOUNTING POLICIES, FOR  
4 DEVELOPING SIGNIFICANT ESTIMATES, FOR ESTABLISHING  
5 INTERNAL CONTROLS, AND FOR FOLLOWING UP AND MONITORING  
6 KNOWN FINDINGS AND WEAKNESSES BROUGHT TO THEIR ATTENTION.

7 AS THE AUDITORS PERFORMING AN AUDIT UNDER  
8 GOVERNMENT AUDITING STANDARDS, WE'RE REQUIRED TO CONDUCT  
9 OUR AUDIT IN ORDER TO PROVIDE YOU WITH REASONABLE  
10 ASSURANCE THAT YOUR FINANCIAL STATEMENTS ARE FREE OF  
11 MATERIAL MISSTATEMENT. ALSO, AS A PART OF GOVERNMENT  
12 AUDITING STANDARDS, WE'RE REQUIRED TO CONSIDER, ALTHOUGH  
13 WE DO NOT OPINE ON, YOUR INTERNAL CONTROLS AND COMPLIANCE  
14 WITH LAWS, REGULATIONS, CONTRACTS, AND GRANTS TO THE  
15 EXTENT THAT THEY MAY HAVE A MATERIAL IMPACT ON YOUR  
16 FINANCIAL STATEMENTS.

17 WITH THAT SAID, I'M PLEASED TO SAY THAT WE HAVE  
18 ISSUED AN UNQUALIFIED OPINION FOR THE JUNE 30, '06,  
19 FINANCIAL STATEMENTS, OTHERWISE KNOWN AS A CLEAN OPINION.  
20 WE NOTED NO SIGNIFICANT DEFICIENCIES OR MATERIAL  
21 WEAKNESSES IN INTERNAL CONTROL. HAD WE NOTED ANY OF  
22 THOSE ITEMS, WE WOULD HAVE BEEN REQUIRED TO COMMUNICATE  
23 THOSE TO YOU IN WRITING.

24 WE HAVE, HOWEVER, OBSERVED A COUPLE OF AREAS IN  
25 THE FINANCIAL REPORTING PROCESS AND IN THE DEBT

## BARRISTERS' REPORTING SERVICE

1 COMPLIANCE AND GRANT COMPLIANCE AREAS WHERE WE FEEL THAT  
2 INTERNAL CONTROLS COULD BE IMPROVED OR EFFICIENCIES COULD  
3 BE GAINED. AGAIN, I WANT TO EMPHASIZE THAT THOSE DO NOT  
4 RISE TO THE LEVEL OF SIGNIFICANT, AT LEAST NOT IN THE  
5 FINANCIAL STATEMENT ARENA.

6 ALSO WANT TO CONFIRM WITH YOU THAT THERE WERE  
7 NO SIGNIFICANT AUDIT ADJUSTMENTS, NOTHING THAT WE  
8 CONSIDERED TO BE MAJOR TO THE FINANCIAL REPORTING  
9 PROCESS. WE HAD NO DISAGREEMENTS WITH MANAGEMENT AND NO  
10 DIFFICULTIES IN PERFORMING OUR AUDIT.

11 IT REQUIRES A GREAT AMOUNT OF COORDINATION  
12 BETWEEN THE INSTITUTE'S MANAGEMENT, THE STATE  
13 CONTROLLER'S OFFICE, AND THE AUDIT FIRM TO MAKE AN AUDIT  
14 HAPPEN, TO GET THROUGH AN AUDIT PROCESS. AND WE REALLY  
15 APPRECIATE THE COOPERATION THAT WAS EXTENDED TO US.

16 WITH THAT, I'D BE HAPPY TO ANSWER ANY QUESTIONS  
17 YOU MAY HAVE ABOUT THE '06 AUDIT.

18 CHAIRMAN CHIANG: JUST A QUICK STATEMENT. I'M  
19 ALWAYS EXCITED TO HEAR THAT THE REPORT IS UNQUALIFIED.

20 MS. JONES: SOUNDS BAD, BUT IT'S GOOD.

21 CHAIRMAN CHIANG: IT'S VERY TROUBLING ON THE  
22 OTHER HAND WHEN YOU HEAR OTHERWISE. VERY GOOD. ARE  
23 THERE ANY QUESTIONS FROM MY COLLEAGUES? VERY GOOD.

24 WOULD CIRM LIKE TO PROVIDE A RESPONSE TO YOUR  
25 AUDITOR'S REPORT?



BARRISTERS' REPORTING SERVICE

1 MS. JONES: THANK YOU.

2 CHAIRMAN CHIANG: THANK YOU VERY KINDLY.

3 MR. KLEIN: I THINK THAT THE KEY ITEM IS THAT  
4 WE HAVE TAKEN PROACTIVE MEASURES, AS I INDICATED IN THE  
5 OPENING, TO MAKE CERTAIN THAT WE GET THESE REVIEWS DONE  
6 MORE EXPEDITIOUSLY. SO WE HAVE ACTUALLY RECEIVED THE  
7 RESPONSE TO A REQUEST FOR PROPOSAL THAT WILL ALLOW US TO  
8 GET OUR AUDIT FOR THIS '07-'08 YEAR DONE WITHIN 60 DAYS,  
9 AT LEAST SUBMITTED TO THE CONTROLLER'S OFFICE, WHICH THEN  
10 REVIEWS IT AND GIVES US COMMENTS, WITHIN 60 DAYS AFTER  
11 THE STATE CONTROLLER CLOSES THEIR BOOKS. THIS YEAR THE  
12 STATE CONTROLLER CLOSED THE BOOKS ON AUGUST 23D SO THAT  
13 WOULD ESSENTIALLY HAVE PUT IT LATE IN OCTOBER. OUR GOAL  
14 IS TO MAKE SURE, NOW THAT WE HAVE GONE THROUGH THE STATE  
15 SUPREME COURT AND GOTTEN ALL OF OUR COURT CLEARANCES  
16 BEHIND US, THAT WE CAN STAFF UP TO A LEVEL THAT WE CAN  
17 MAKE SURE ADMINISTRATIVELY WE'RE WORKING ON AS MUCH A  
18 CURRENT TIME BASIS AS POSSIBLE.

19 IT WOULD BE -- IT'S A GREAT IMPROVEMENT TO HAVE  
20 THE STATE SUPREME COURT TELL US THAT WE HAVE AN  
21 UNQUALIFIED OPINION, THAT WE'RE CONSTITUTIONAL, AND WE'RE  
22 DOING EVERYTHING CORRECTLY, PARTICULARLY WHEN THE  
23 OPPOSITION HAS ALLEGED THAT THERE'S 45 OR 55 INADEQUACIES  
24 THAT THE COURT SAID WE WERE ABSOLUTELY PERFORMING  
25 CORRECTLY AND ABSOLUTELY PERFORMING CONSTITUTIONALLY.

## BARRISTERS' REPORTING SERVICE

1 WITH THAT BEHIND US, WITH OUR FIRST \$250 MILLION IN BONDS  
2 BEING ISSUED AS A FIRST FOR THE NATION, WE'RE IN A  
3 POSITION NOW TO STAFF UP AND GET TO A LEVEL  
4 ADMINISTRATIVELY THAT WE CAN BE CURRENT WITH THE BEST  
5 SCIENCE IN THE COUNTRY.

6 SO IT'S A PLEASURE AND WE ARE HOPEFUL THAT  
7 WE'RE WORKING WITH THE SAME AUDITING FIRM NEXT YEAR. WE  
8 CONTINUE TO LEARN. WE'RE A YOUNG AGENCY, BUT WE CONTINUE  
9 TO TRY AND IMPROVE, AND IT'S A GREAT PRIVILEGE TO HAVE  
10 THE BENEFIT OF THE CONTROLLER'S OFFICE DOING OUR CHECKS  
11 AND OUR BOOKS FOR US AS WE GO.

12 I'D LIKE TO, IF I CAN, MR. CHAIRMAN, GO ON TO  
13 THE BALANCE OF ITEM 7 AT THIS TIME IF THAT'S ACCEPTABLE.

14 CHAIRMAN CHIANG: BOB, LET'S HAVE THE  
15 CONTROLLER'S OFFICE SPEAK ALSO TO THE AUDIT.

16 MS. MOORE-HUDNAL: GOOD MORNING, CONTROLLER  
17 CHIANG AND COMMITTEE MEMBERS. I'M CASSANDRA  
18 MOORE-HUDNAL. I'M THE CHIEF OF FINANCIAL AUDITS.

19 AS YOU KNOW, THE CONTROLLER IS REQUIRED TO  
20 REVIEW THE ANNUAL AUDIT AND PUBLISH REPORTS OF RESULTS OF  
21 OUR REVIEW. THIS IS REQUIRED PURSUANT TO HEALTH AND  
22 SAFETY CODE SECTION 125529.30. WE PUBLISHED OUR RESULTS  
23 IN APRIL OF 2007.

24 THE OBJECTIVE OF OUR REVIEW WAS TO DETERMINE  
25 WHETHER THE AUDIT WAS PERFORMED IN ACCORDANCE WITH

## BARRISTERS' REPORTING SERVICE

1      GENERALLY ACCEPTED AUDITING STANDARDS PUBLISHED BY THE  
2      AMERICAN INSTITUTE OF CERTIFIED PUBLIC ACCOUNTANTS,  
3      GOVERNMENT AUDITING STANDARDS PUBLISHED BY THE CONTROLLER  
4      GENERAL OF THE UNITED STATES, AND THE CALIFORNIA BUSINESS  
5      AND PROFESSIONS CODE.

6                      OUR METHODOLOGY WAS TO COMPARE THE FIRM'S AUDIT  
7      WORK AS DOCUMENTED IN THEIR WORKING PAPERS TO THE AUDIT  
8      STANDARDS AND STATE LAW TO ENSURE THAT THE FIRM'S  
9      CONCLUSIONS AND OPINION THAT THE FINANCIAL STATEMENTS OF  
10     CIRM'S FINANCIAL POSITION WERE FAIRLY STATED AND  
11     SUPPORTED AND CORRECT.

12                     CHAIRMAN CHIANG:   LOVE TO HEAR YOU SPEAK  
13     FINANCIAL.

14                     MS. MOORE-HUDNAL:   WE FOUND THAT MACIAS, GINI &  
15     O'CONNEL'S AUDIT WAS PERFORMED IN ACCORDANCE WITH THE  
16     MAJORITY OF AUDITING STANDARDS AND REQUIREMENTS.   WE  
17     NOTED ONE EXCEPTION.   THAT WAS A TECHNICAL ISSUE.

18                     CHAIRMAN CHIANG:   ACTUALLY IF YOU COULD ELEVATE  
19     A LITTLE BIT MORE.

20                     MS. MOORE-HUDNAL:   WE NOTED ONE EXCEPTION THAT  
21     WAS A TECHNICAL ISSUE THAT DID NOT IMPACT THE QUALITY OF  
22     THE AUDIT OR THE INDEPENDENT AUDITOR'S CONCLUSION.   AND  
23     THE FIRM AGREED WITH OUR CONCLUSION, AND IT WAS SIMPLY A  
24     MATTER OF NOT REFERRING TO THE MANAGEMENT LETTER IN THE  
25     REPORT ON INTERNAL CONTROL.   DO YOU HAVE ANY QUESTIONS?

## BARRISTERS' REPORTING SERVICE

1 CHAIRMAN CHIANG: ANY QUESTIONS FROM THE  
2 MEMBERS? THANK YOU VERY KINDLY.

3 MS. MOORE-HUDNAL: THANK YOU.

4 CHAIRMAN CHIANG: BEFORE WE PROCEED BACK TO  
5 ITEM 7, AS BOB REQUESTED, I'M GOING TO MAKE A COMMENT. I  
6 THINK THIS IS A VERY GOOD TIME TO DISCUSS OUR FINANCIAL  
7 REVIEWS, MORE SPECIFICALLY, IN LIGHT OF THE UNQUALIFIED  
8 OPINION, THE TIMING OF THESE REVIEWS. I THINK IN LIGHT  
9 OF THAT, IT WOULD BE GREAT FOR US TO CATCH UP. I  
10 UNDERSTAND THAT IN THE PAST THERE WERE SOME DELAYS THAT  
11 OCCURRED BECAUSE OF THE NEED TO HIRE AN INDEPENDENT  
12 FINANCIAL AUDITOR. I WANT TO THANK CIRM FOR MOVING THAT  
13 PROCESS FORWARD. I THINK, HOWEVER, THERE MAY BE  
14 QUESTIONS WHY THAT IN NOVEMBER OF 2007 THAT WE ARE  
15 REVIEWING AN AUDIT OF CIRM FOR THE 2005-2006 FISCAL YEAR.

16 I BELIEVE THAT IN ORDER TO HAVE TRUE  
17 TRANSPARENCY AND ACCOUNTABILITY, THE CFAOC MUST HAVE THE  
18 ABILITY TO PROVIDE A TIMELY AUDIT AND REVIEW OF CIRM'S  
19 FINANCIAL ACTIVITIES AND AUDITS. THEREFORE, I THINK  
20 WE'RE ALL ON THE SAME PAGE. I WANT TO ASK THE CFAOC AND  
21 CIRM STAFF TO WORK VERY CLOSELY TOGETHER AND COME UP WITH  
22 A SCHEDULE THAT WILL ENSURE THAT WE HAVE TIMELY FINANCIAL  
23 REVIEWS. I THINK IT WOULD BE PRUDENT TO HAVE ANOTHER  
24 CFAOC MEETING THIS SPRING TO REVIEW THE 2006 AND 7  
25 FINANCIAL AUDIT, AND THE STATE CONTROLLER'S OFFICE WILL

## BARRISTERS' REPORTING SERVICE

1 REVIEW THAT AUDIT.

2 BEST OF ALL, THEN NEXT NOVEMBER WE'LL BE ON  
3 TRACK TO REVIEW THE LATEST FINANCIAL REPORT, WHICH WILL  
4 BE THE 2007-2008 FISCAL YEAR. THAT WAY WE CAN CONTINUE  
5 TO HOLD THE CFAOC'S ANNUAL MEETINGS EACH NOVEMBER TO  
6 REVIEW THE REPORTS FROM THE FISCAL YEAR ENDING THAT PRIOR  
7 JUNE 30TH.

8 BOB, YOU CAN PROCEED AND WE'LL DISCUSS THE  
9 SUBSTANCE OF ITEM NO. 7.

10 MR. SIMPSON: CAN WE GIVE A COMMENT ON ITEM 8?

11 MR. KLEIN: WE HAVE TWO ITEMS.

12 CHAIRMAN CHIANG: WE MERGED THEM, JOHN.

13 MR. KLEIN: WE'RE ABOUT TO FINISH ITEM 7.

14 FIRST OF ALL, I'D LIKE TO SAY THAT IT IS GOING TO BE A  
15 PRIVILEGE TO MEET THE SCHEDULE THAT THE CONTROLLER'S  
16 OFFICE PUTS FORWARD. TO GO FROM A STAFF OF 25, WHICH IS  
17 ONLY HALF OF OUR AUTHORIZED 50, TO INCREASE OUR STAFF TO  
18 THE LEVEL THAT WE CAN PERFORM AT THE LEVEL YOU WISH US TO  
19 PERFORM AND WE WISH TO PERFORM ON A TIMELY BASIS WILL BE  
20 A REAL PRIVILEGE, AND WE'RE LOOKING FORWARD TO THAT AUDIT  
21 OVERSIGHT REVIEW IN THE SPRING.

22 IN PROVIDING AN OVERALL CONTEXT FOR OUR  
23 FINANCIAL PERFORMANCE, WE HAVE A NUMBER OF OTHER ITEMS  
24 UNDER ITEM 7 ON THE AGENDA THAT I'D LIKE TO TURN TO DR.  
25 RICHARD MURPHY. HE IS THE INTERIM PRESIDENT OF THE

## BARRISTERS' REPORTING SERVICE

1 CALIFORNIA INSTITUTE OF REGENERATIVE MEDICINE. HE HAS  
2 HAD AN EXTRAORDINARY CAREER. MOST RECENTLY HE WAS THE  
3 PRESIDENT OF THE SALK INSTITUTE LOCATED IN THE SAN DIEGO  
4 REGION WHERE HE HAS SERVED WITH GREAT DISTINCTION AND  
5 LEADERSHIP OF A WORLD-CLASS RESEARCH INSTITUTION. IT'S  
6 ONE OF THE WORLD LEADERS IN EMBRYONIC AND ADULT STEM CELL  
7 RESEARCH. BEFORE THAT HE BUILT THE MONTREAL NEUROLOGICAL  
8 INSTITUTE AT MCGILL UNIVERSITY INTO A WORLD LEADER IN  
9 CANADA. AND HE HAD A VERY DISTINGUISHED CAREER THAT  
10 STARTED ALL THE WAY BACK AT HARVARD UNIVERSITY. BUT TO  
11 READ HIS LIST OF DISTINCTIONS WOULD KEEP US HERE FOR THE  
12 BALANCE OF THE HEARING, SO I'D LIKE TO TURN IT OVER TO  
13 HIM AT THIS POINT TO LEAD US THROUGH THE BALANCE OF THIS  
14 ITEM ON THE AGENDA. THANK YOU, DR. MURPHY.

15 DR. MURPHY: THANK YOU, CHAIRMAN KLEIN.  
16 CHAIRMAN CHIANG, THANK YOU. IT HAS BEEN A PLEASURE FOR  
17 ME TO BE ASSOCIATED WITH THE ICOC AND ALSO WITH CIRM. I  
18 WAS A MEMBER OF THE ICOC FOR THREE YEARS BEFORE BECOMING  
19 THE INTERIM PRESIDENT. AND LAST YEAR, AS I WAS A MEMBER  
20 OF THE ICOC, I WROTE AN OP ED PIECE FOR THE *UNION TRIBUNE*  
21 IN SAN DIEGO IN WHICH I DESCRIBED CIRM AS A GREAT BARGAIN  
22 FOR THE PEOPLE OF CALIFORNIA BECAUSE SO MUCH WAS GETTING  
23 DONE WITH SUCH A SMALL SKELETON STAFF AT THAT TIME.

24 NOW THAT I'M THE PRESIDENT OF THE INSTITUTE  
25 UNTIL THE PERMANENT PRESIDENT COMES, I WOULD LIKE TO

## BARRISTERS' REPORTING SERVICE

1     REWRITE THAT ARTICLE AND TURN IT INTO A BOOK.   CIRM  
2     REALLY IS A GOOD NEWS STORY FOR THIS STATE.   IT HAS  
3     ACCOMPLISHED A TREMENDOUS AMOUNT IN SUPPORTING STEM CELL  
4     RESEARCH.

5                 WHAT I THOUGHT I WOULD DO IS TO VERY BRIEFLY  
6     DESCRIBE FOR YOU THE MECHANISMS, AS ITEM NO. 7 SAYS, OF  
7     THE GRANT AWARDS PROCESS, VERY BRIEFLY THE MECHANISMS  
8     THAT WE NOW USE THAT WERE IN PLACE, PUT IN PLACE BY  
9     CHAIRMAN KLEIN AND PRESIDENT ZACH HALL PRIOR TO MY  
10    ARRIVING.

11                IN EVERY CASE BEFORE CIRM PUTS OUT A GRANT,  
12    THERE IS A CONCEPT PAPER DONE FOR THE ICOC.   WHAT THE  
13    CONCEPT PAPER DOES IS BASICALLY EXPLAIN TO THE ICOC WHAT  
14    IS NEEDED IN THE STEM CELL FIELD.   THE ICOC IS EDUCATED  
15    AND MAKES AN APPROVAL ON GOING FORWARD.   WHAT THEN  
16    HAPPENS IS STAFF PUTS TOGETHER A REQUEST FOR APPLICATIONS  
17    IN WHICH THEY LIST FOR THE SCIENTIFIC COMMUNITY WHAT KIND  
18    OF GRANTS THAT CIRM WILL BE PUTTING OUT.

19                ASSOCIATED WITH THAT REQUEST FOR APPLICATIONS  
20    IS A GRANT ADMINISTRATION POLICY WHICH IS PUT IN PLACE SO  
21    ALL APPLICANTS KNOW WHAT THE RULES WILL BE GOVERNING THE  
22    APPLICATION THAT WILL BE SUBMITTED.   THE APPLICATION IS  
23    THEN PUT OUT.   PEOPLE ARE INVITED TO APPLY, AND THEN THE  
24    APPLICATION GOES TO THE GRANTS REVIEW GROUP, THE WORKING  
25    GROUP.   AND AS YOU MAY KNOW, THE WORKING GROUP IS MADE UP

## BARRISTERS' REPORTING SERVICE

1 15 DISTINGUISHED SCIENTISTS ALL FROM OUTSIDE OF  
2 CALIFORNIA. THIS GROUP HAS VERY CLEARLY IDENTIFIED THEIR  
3 CONFLICTS, THEY'RE LEADERS IN THE FIELD, AND THEY GO  
4 THROUGH THE ASSESSMENT OF THESE GRANTS IN A VERY  
5 METICULOUS WAY. AND FOR EACH GRANT THERE ARE TWO OR  
6 THREE INTERNAL GRANT REVIEWERS AND THERE ARE MULTIPLE  
7 GRANT REVIEWERS WHO CAN ACTUALLY BE PHONED IN TO GIVE  
8 THEIR REVIEWS AS WELL.

9 SO IT IS AN EXTREMELY WELL-ORGANIZED AND  
10 WELL-PROTECTED MECHANISM. AND I THINK THE GRANT  
11 REVIEWERS ARE VERY PLEASED WITH THE WAY THIS GOES. THEY  
12 KNOW THAT THE WORK IS GOOD. THEY KNOW THAT THEY'RE DOING  
13 THIS AT ARM'S LENGTH. AND AT THE ONE GRANTS REVIEW THAT  
14 I ATTENDED THIS PAST NOVEMBER, I WAS EXTREMELY IMPRESSED  
15 WITH THE QUALITY OF HOW IT WAS DONE, THE QUALITY OF THE  
16 REVIEWS, AND THE QUALITY OF THE REVIEWERS.

17 ONCE THE RECOMMENDATIONS ARE MADE BY THE GRANTS  
18 PANEL, RECOMMENDATIONS ARE THEN MADE TO THE ICOC, WHICH  
19 THEN REVIEWS THE RECOMMENDATIONS AND MAKES ITS OWN  
20 RECOMMENDATION FOR FUNDING CERTAINLY BASED UPON THE  
21 SCIENTIFIC REVIEWS PUT FORWARD BY THE EXTERNAL PANEL, BUT  
22 ALSO QUITE INDEPENDENTLY THEY WILL LOOK AT SUBTLETIES OF  
23 THE SYSTEM AND MAKE RECOMMENDATIONS ACCORDING TO THAT.

24 AFTER THE GRANTS ARE AWARDED, WELL, THERE IS A  
25 PROCESS WHEN THE GRANTS HAVE BEEN APPROVED AND THEN THE



## BARRISTERS' REPORTING SERVICE

1 ICOC -- SORRY -- THE CIRM STAFF WILL LOOK AT THE DETAILS  
2 OF THE GRANT AND LOOK TO BE SURE THAT ALL OF THE RULES  
3 AND REGULATIONS OF THOSE GRANTS HAVE BEEN MAINTAINED.  
4 AND ONLY WHEN WE KNOW THE RULES AND THE APPLICANTS HAVE  
5 FOLLOWED ALL THE RULES, ALL OF THAT IS IN PLACE, IS THE  
6 GRANT AWARDED. OUR GRANTS PEOPLE THEN ARE RESPONSIBLE  
7 FOR RECEIVING PROGRESS REPORTS FROM ALL OF THE WINNERS OF  
8 THE GRANTS TO BE CERTAIN THAT THE FINANCIAL SIDE OF THE  
9 HOUSE IS IN ORDER AND ALSO THAT THE SCIENTIFIC SIDE OF  
10 THE HOUSE IS IN ORDER AS WELL.

11 THAT PROCESS HAS WORKED EXTREMELY WELL FOR AT  
12 LEAST FOUR SETS OF GRANTS: COMPREHENSIVE GRANTS, WHICH  
13 WERE GRANTS ON STEM CELL RESEARCH MADE TO ESTABLISHED  
14 INVESTIGATORS IN THE FIELD; SEED GRANTS, WHICH WERE MADE  
15 TO INVESTIGATORS WHO WERE JUST GETTING INTO THE STEM CELL  
16 FIELD AND HAD GOOD IDEAS FOR NEW DIRECTIONS IN THE FIELD;  
17 FACILITIES GRANTS WERE MADE. THESE WERE MINOR SMALL  
18 FACILITIES SO THAT EXISTING ORGANIZATIONS THAT DID NOT  
19 HAVE FACILITIES TO DO STEM CELL RESEARCH THAT WERE  
20 RESTRICTED, FRANKLY, BY FEDERAL POLICY DID GET MONIES TO  
21 CARRY OUT STEM CELL RESEARCH IN SMALL AREAS. ASSOCIATED  
22 WITH SOME OF THESE FACILITIES GRANTS WERE ACTUALLY  
23 TRAINING GRANTS TO TRAIN PEOPLE HOW TO DO STEM CELL  
24 RESEARCH, AND THESE TRAINING COURSES WOULD BE OFFERED BY  
25 THE ORGANIZATIONS THAT RECEIVED FUNDING. AND ALSO

## BARRISTERS' REPORTING SERVICE

1 TRAINING GRANTS FOR NEW POST DOCS AND GRADUATE STUDENTS.

2 I THINK THIS IS ONE OF THE MOST IMPORTANT  
3 THINGS THAT CIRM HAS DONE. AS YOU MAY KNOW, THE NATIONAL  
4 INSTITUTE OF HEALTH HAS CUT BACK DRAMATICALLY ON THE  
5 FUNDING TO YOUNG INVESTIGATORS IN THIS COUNTRY. THE  
6 AVERAGE AGE OF A YOUNG INVESTIGATOR GETTING HIS OR HER  
7 FIRST NIH GRANT IS 43 YEARS OLD. WHAT CIRM HAS BEEN ABLE  
8 TO DO IS GIVE THESE YOUNG INVESTIGATORS AT THE AGES OF 30  
9 TO 35 THEIR FIRST GRANT. AND I THINK THAT'S A MAJOR  
10 ADVANTAGE OF SCIENTISTS NOW WORKING IN CALIFORNIA AS  
11 OPPOSED TO THE REST OF THE COUNTRY.

12 IN DECEMBER WE WILL BE ANNOUNCING ANOTHER \$65  
13 MILLION APPROXIMATELY IN GRANTS THAT WILL BE AWARDED TO  
14 NEW INVESTIGATORS. THESE ARE THE YOUNG ASSISTANT  
15 PROFESSOR INVESTIGATORS WHO ARE NOW GETTING INTO STEM  
16 CELL RESEARCH, JUST BEGINNING THEIR ACADEMIC CAREERS.  
17 AND THEN SOMETIME NEXT SPRING OR EARLY IN THE SUMMER  
18 WE'LL BE ANNOUNCING ANOTHER APPROXIMATELY \$250 MILLION IN  
19 GRANTS FOR MAJOR FACILITIES FOR ORGANIZATIONS AROUND THE  
20 STATE.

21 IN SHORT, CIRM IS NOW GOING TO BE CLOSE TO \$500  
22 MILLION IN GRANTS FUNDED BY NEXT SUMMER, WHICH IS A  
23 REMARKABLE RECORD IN MY VIEW. AS CHAIRMAN KLEIN SAID,  
24 CALIFORNIA HAS BECOME THE WORLD LEADER IN STEM CELL  
25 RESEARCH AS A RESULT OF THIS KIND OF FUNDING. AND I CAN

## BARRISTERS' REPORTING SERVICE

1     ASSURE THAT YOU THAT THE PROCESS IS BEING DONE WELL, IT'S  
2     BE DONE METICULOUSLY, AND I THINK THE HIGHEST QUALITY  
3     SCIENCE IS BEING FUNDED.

4             ON ITEM 7 IS ALSO A COMMENT MADE ABOUT BEST  
5     PRACTICES. ONE OF THE THINGS, OF COURSE, THAT WE ARE  
6     CONCERNED ABOUT ARE THE ETHICAL ISSUES THAT SURROUND STEM  
7     CELL RESEARCH. ONE OF THE MOST EXCITING THINGS ABOUT THE  
8     ANNOUNCEMENT MADE LAST WEEK, THAT WE CAN NOW INDUCE STEM  
9     CELLS FROM CELLS FROM YOU AND ME, SAYS THAT MANY OF THE  
10    ETHICAL CONCERNS THAT WE HAVE BEEN CONCERNED ABOUT WILL  
11    OVER TIME BECOME LESS IMPORTANT. BUT RIGHT NOW WHEN  
12    WE'RE WORKING WITH AIDS AND WE'RE WORKING WITH PRIMARY  
13    MATERIAL FROM HUMANS, THE ETHICAL CONCERNS ARE, IN FACT,  
14    VERY IMPORTANT.

15            SO WE HAVE A STANDARDS WORKING GROUP, AND THAT  
16    STANDARDS WORKING GROUP HAS BEEN MEETING CONSTANTLY TO  
17    LOOK AT THE ETHICAL ISSUES. AND, IN FACT, IT HAS NOW  
18    BECOME REALLY A WORLD STANDARD FOR THE ETHICAL POLICIES  
19    THAT REGULATE STEM CELL RESEARCH. AND, IN FACT, I'M TOLD  
20    THAT THE STATE OF ILLINOIS ADOPTED CALIFORNIA'S POLICIES  
21    IN WHOLE CLOTH BECAUSE OF THEIR QUALITY. AND I CAN TELL  
22    YOU THAT WE ARE ALWAYS TALKING WITH OTHER STATES AND  
23    OTHER COUNTRIES ABOUT THE ETHICAL CONCERNS THAT WE ALL  
24    HAVE SO THAT WE CAN HAVE A POLICY THAT WE'RE ALL PROUD OF  
25    AND CAN LIVE WITH.

## BARRISTERS' REPORTING SERVICE

1 WE WILL ALSO BE DOING AN IMPACT STUDY THAT IS  
2 ACTUALLY CURRENTLY BEING CARRIED ON -- YOU WILL HEAR A  
3 LITTLE BIT ABOUT THAT TODAY -- TO LOOK AT THE ECONOMIC  
4 IMPACT OF CIRM AND CIRM-FUNDED RESEARCH ON THE STATE OF  
5 CALIFORNIA.

6 SO WITH THAT BRIEF OUTLINE, MR. CHAIRMAN, I'LL  
7 BE HAPPY TO ANSWER ANY QUESTIONS THAT YOU HAVE ABOUT THE  
8 PROCESS, BUT I CAN TELL YOU, FROM MY POSITION AS INTERIM  
9 PRESIDENT OF THE INSTITUTE, I'M VERY, VERY PLEASED WITH  
10 CIRM. I THINK CALIFORNIA IS BEING WELL SERVED, AND THE  
11 MISSION THAT WE ALL HAVE OF USING STEM CELLS HOPEFULLY TO  
12 IMPROVE THE HEALTH OF PEOPLE WITH INCURABLE DISEASES IS  
13 WELL ON ITS WAY.

14 CHAIRMAN CHIANG: THANK YOU, DR. MURPHY. ALONG  
15 THOSE LINES OF YOUR MOST RECENT COMMENTS, IN LIGHT OF THE  
16 DEVELOPMENTS THAT TOOK PLACE IN THE LAST WEEK, WHAT  
17 IMPACT DO YOU BELIEVE THIS LINE OF RESEARCH WILL HAVE ON  
18 EMBRYONIC STEM CELL RESEARCH? AND HOW WILL IT IMPACT  
19 CIRM'S ACTIVITIES?

20 DR. MURPHY: WELL, I THINK IN THREE WAYS. ONE,  
21 THE SCIENCE IS WONDERFUL. JUST THINK OF THIS, THAT CELLS  
22 IN YOU AND ME THAT ARE WORKING IN OUR SKIN RIGHT NOW OR  
23 IN ANY OTHER PART OF OUR BODY HAVE THE ABILITY TO TURN  
24 THE CLOCK BACK. SO WHAT THESE WORKERS DID WAS THEY TOOK  
25 SKIN CELLS, THEY ADDED TO THESE -- AFTER GROWING THEM UP

## BARRISTERS' REPORTING SERVICE

1 IN A DISH, THEY ADDED TO THESE SKIN CELLS VIRUSES THAT  
2 CONTAINED FOUR SPECIFIC GENES. AND THESE FOUR SPECIFIC  
3 GENES WERE ABLE TO TAKE THESE ADULT CELLS AND TURN THE  
4 CLOCK BACK AND MAKE THEM EMBRYONIC CELLS. AS FAR AS WE  
5 CAN TELL, THESE EMBRYONIC CELLS ARE VERY, VERY CLOSE TO  
6 HUMAN EMBRYONIC STEM CELLS.

7 SO THE SCIENCE OF THAT IS WONDERFUL BECAUSE IT  
8 SAYS WE CAN MANIPULATE GENES WITHIN A CELL AND TELL THAT  
9 CELL TO GO BACK IN TIME. AND INSTEAD OF BEING A SKIN  
10 CELL, GO BACK TO A POINT WHERE IT CAN BECOME ANY CELL IN  
11 THE BODY. THAT'S EXCITING. IN THE FIELD OF STEM CELL  
12 RESEARCH, THAT'S A MOON LANDING, I CAN ASSURE YOU. IT'S  
13 GOING TO VERY MUCH AFFECT THE FIELD.

14 THE OTHER THING THAT'S IMPORTANT IS THERE WERE  
15 NO EGGS INVOLVED IN THAT. SO IT REALLY CUTS INTO THE  
16 MORAL ISSUES THAT GOOD PEOPLE DISAGREE ON. AS YOU KNOW,  
17 THERE ARE FOLKS WHO SAY, WELL, IF YOU'VE GOT A HUMAN EGG  
18 AND A SPERM OR A NUCLEUS IN A HUMAN EGG, THAT HUMAN EGG  
19 IS A PERSON, AND SO THEREFORE IT HAS TO BE PROTECTED.  
20 THERE ARE OTHERS WHO SAY, NO, THAT EGG IS A GROUP OF  
21 CELLS, AND IT'S NOT GOING TO BECOME A PERSON UNTIL YOU  
22 INCUBATE IT FOR NINE MONTHS IN THE UTERUS OF A WOMAN.  
23 THAT DISCUSSION IS ALL OVER IF, IN FACT, THESE INDUCED  
24 PLURIPOTENT CELLS THAT WE JUST TALKED ABOUT ARE FOR REAL.

25 THE THIRD THING, HOWEVER, TO REALIZE IS THAT

## BARRISTERS' REPORTING SERVICE

1     THIS IS A VERY IMPORTANT FINDING, BUT HOW DID THEY MAKE  
2     THE FINDING?  THEY MADE THE FINDING BY GOING BACK TO  
3     HUMAN EMBRYONIC STEM CELLS AND DISCOVERING AT LEAST THREE  
4     OF THESE GENES IN THESE HUMAN EMBRYONIC STEM CELLS AND  
5     THEN SAYING, WAIT A MINUTE, IF WE TOOK THOSE GENES AND  
6     PUT THEM INTO ADULT CELLS, COULD THEY DO THE SAME THING?  
7     WHAT THEY FOUND IS THEY COULD.

8                 SO THE POINT OF SAYING THAT IS THAT THE HUMAN  
9     EMBRYONIC STEM CELLS ARE THE GOLD STANDARD STILL.  AND WE  
10    WON'T KNOW IF THESE INDUCED CELLS ARE REALLY WHAT WE HOPE  
11    THEY ARE UNTIL WE CAN DO VERY CLEAR COMPARISONS WITH THE  
12    HUMAN EMBRYONIC STEM CELLS, THE GOLD STANDARD.  AND ONE  
13    OF THE PAPERS THAT CAME OUT SHOWED THAT THERE ARE  
14    DIFFERENCES BETWEEN THESE INDUCED CELLS AND THE EMBRYONIC  
15    CELLS, AND THOSE DIFFERENCES ARE OUT OF ABOUT 26,000  
16    GENES, THERE ARE ABOUT A THOUSAND GENES THAT DIFFER IN  
17    THE INDUCED CELLS VERSUS THE EMBRYONIC CELLS.  SO ARE  
18    THOSE THOUSAND GENES IMPORTANT FOR TOTAL PLURIPOTENCY;  
19    THAT IS, THE ABILITY TO BECOME A CELL OR NOT?  WE DON'T  
20    KNOW THAT.

21                SO, MR. CHAIRMAN, TO ANSWER YOUR QUESTION, I  
22    THINK WHAT THIS IS GOING TO MEAN IS THAT CIRM IS GOING TO  
23    CONTINUE ON ITS PATHWAY OF FUNDING WORK ON HUMAN  
24    EMBRYONIC STEM CELLS BECAUSE THEY ARE THE GOLD STANDARD  
25    AND THEY DO TELL US WHAT TOTAL PLURIPOTENCY MEANS, BUT AT

## BARRISTERS' REPORTING SERVICE

1 THE SAME TIME, WE HOPE WE'LL BE FUNDING NEW WORK ON THESE  
2 INDUCED PLURIPOTENT CELLS AS WELL. SO WE SEE TWO  
3 PARALLEL TRACTS OF RESEARCH GOING FORWARD. AND WE THINK  
4 THAT THEY'RE GOING TO BE COMPLEMENTARY. THE INDUCED  
5 PLURIPOTENT SCIENTISTS, PEOPLE STUDYING THOSE CELLS, ARE  
6 GOING TO BE LOOKING AT THE HUMAN EMBRYONIC STEM CELL  
7 PEOPLE AND VICE VERSA, AND WE THINK THAT CALIFORNIA,  
8 WHICH HAS THE ABILITY TO FUND BOTH PATHWAYS, IS GOING TO  
9 BE IN AN IDEAL POSITION.

10 I SHOULD END THAT ANSWER BY TELLING YOU THAT  
11 BOTH DR. YAMANAKA AND DR. THOMPSON, DR. YAMANAKA FROM  
12 KYOTO AND DR. THOMPSON FROM WISCONSIN, ARE BOTH OPENING  
13 LABORATORIES HERE IN CALIFORNIA. DR. YAMANAKA HERE IN  
14 SAN FRANCISCO AND DR. THOMPSON AT UC SANTA BARBARA. SO  
15 THAT TELLS YOU THAT CALIFORNIA REALLY IS A VERY, VERY  
16 GOOD PLACE TO BE DOING THIS WORK.

17 CHAIRMAN CHIANG: THAT'S GREAT NEWS. AGAIN,  
18 ALONG THOSE LINES, HOW DOES IT IMPACT FUTURE BOND  
19 ALLOCATIONS? YOU SAID YOU'RE GOING TO BE FINANCING BOTH  
20 AREAS. HOW DOES THAT DEVIATE FROM WHAT YOU, IF YOU HAD A  
21 PLAN, ORIGINALLY INTENDED TO DO? AND THEN HOW DO YOU  
22 DETERMINE SCOPE AND PRIORITY?

23 DR. MURPHY: I THINK WE'VE ALWAYS BEEN DRIVEN  
24 IN PRIORITY BY THE QUALITY OF SCIENCE. WHAT WE TRY TO DO  
25 IS FUND THE VERY BEST SCIENCE. WHO COULD HAVE PREDICTED

## BARRISTERS' REPORTING SERVICE

1 A YEAR AGO THAT RIGHT NOW WE'D BE LOOKING AT INDUCED  
2 PLURIPOTENT CELLS? AND I CAN GUARANTEE YOU A YEAR FROM  
3 NOW WE'LL BE LOOKING AT ENTIRELY NEW THINGS. IT'S VERY,  
4 VERY DIFFICULT TO PREDICT.

5 I THINK MY ANSWER WOULD BE WE'RE GOING TO BE  
6 FUNDING THE BEST SCIENCE. WE'RE GOING TO BE LETTING THAT  
7 SCIENCE DIRECT US IN THE MOST PRODUCTIVE PATHWAYS TO COME  
8 TO CURES AS QUICKLY AS WE CAN OR TO COME TO USING THESE  
9 CELLS TO STUDY DISEASE AS QUICKLY AS WE CAN. AND MY OWN  
10 FEELING IS THAT IT SHOULD NOT AFFECT THE BOND SALES AT  
11 ALL BECAUSE WHAT WE'RE GOING TO BE DOING IS JUST MOVING  
12 AHEAD MUCH MORE QUICKLY AS A RESULT OF THESE ADVANCES.

13 CHAIRMAN CHIANG: TALK ABOUT FUTURE BOND SALES.  
14 WHAT'S THE STATUS OF THE \$150 MILLION LOAN FROM THE  
15 GENERAL FUND TO THE INSTITUTE?

16 DR. MURPHY: LET ME HAVE CHAIRMAN KLEIN ANSWER  
17 THAT, SIR.

18 MR. KLEIN: WE HAVE NOW REPAID THE \$150 MILLION  
19 LOAN TO THE STATE WITH INTEREST, WE'RE PROUD TO SAY.  
20 WE'VE ALSO REPAID OUR BOND ANTICIPATION NOTES, WHICH WERE  
21 AN INNOVATIVE PROGRAM OF GAP FINANCING THAT SOME OF THE  
22 GREAT CIVIC LEADERS IN THE STATE LIKE ELI BROAD AND IRWIN  
23 JACOBS AND JOHN MOORE AND JOHN DOERR HAD PURCHASED TO  
24 MAKE SURE THAT DURING THE LITIGATION WE COULD MOVE  
25 FORWARD WITH OUR GRANT PROGRAM. SO ALL OF THOSE LOANS



BARRISTERS' REPORTING SERVICE

1 HAVE BEEN REPAID.

2 CHAIRMAN CHIANG: THAT'S GREAT. THE STATE  
3 COULD USE THE MONEY.

4 I HAVE A QUESTION THAT STAFF WANTED ME TO  
5 RAISE. WHEN THIS COMMITTEE MET LAST YEAR, THERE WAS SOME  
6 DISCUSSION ABOUT ACCESS TO WORKING PAPERS. AND CIRM WAS  
7 TO WORK WITH THEIR COUNSEL TO ENSURE THAT THE  
8 CONTROLLER'S OFFICE WILL HAVE ACCESS TO THOSE PAPERS  
9 WITHOUT LIMIT TO ITS REVIEW. WHAT HAS YOUR LEGAL COUNSEL  
10 DETERMINED?

11 MR. KLEIN: WE'RE TALKING ABOUT THE AUDIT  
12 PAPERS. I'M GOING TO HAVE TAMAR PACHTER ADDRESS THAT,  
13 AND HOPEFULLY IT'S EXACTLY WHAT YOU'D LIKE TO HEAR.

14 MS. PACHTER: THANK YOU. WE HAVE NOW INCLUDED,  
15 MR. CHAIR, IN ALL OUR CONTRACTS, INCLUDING OUR CONTRACTS  
16 WITH OUR INDEPENDENT AUDITOR, LANGUAGE THAT SPECIFICALLY  
17 GIVES BOTH THE BUREAU OF STATE AUDITS AND THE STATE  
18 CONTROLLER ACCESS TO ANY AND ALL WORKPAPERS THAT ARE  
19 INVOLVED IN THE AUDIT. SO THAT SHOULD NOT BE A PROBLEM  
20 ANY LONGER.

21 CHAIRMAN CHIANG: VERY GOOD. MEMBERS HAVE  
22 COMMENTS?

23 MS. POTTER: I HAVE A QUESTION ABOUT THE  
24 ECONOMIC IMPACT REPORT THAT YOU REFERENCE. I'D LIKE TO  
25 KNOW A LITTLE BIT MORE ABOUT THAT. IT SEEMS TO ME THAT

## BARRISTERS' REPORTING SERVICE

1 CAN BE JUST A VERY, VERY IMPORTANT DELIVERABLE IN TERMS  
2 OF COMMUNICATING THE FULL VALUE ESPECIALLY TO THE  
3 CITIZENS OF THE STATE.

4 MR. KLEIN: WELL, THINKING THAT YOU MIGHT ASK  
5 THAT QUESTION, THAT'S ONE OF THOSE ITEMS THAT REPRESENTS  
6 THE PANELS IN FRONT OF YOU. SO LET ME TRY AND HIT ON  
7 THAT FOR A MOMENT BEFORE MOVING TO INTELLECTUAL PROPERTY,  
8 WHICH IS AN ISSUE THAT YOU ASKED ABOUT AS A PANEL LAST  
9 YEAR.

10 SO AT THE TIME OF THE PROPOSITION 71 ELECTION,  
11 THERE WAS AN ECONOMIC STUDY THAT WAS HEADED BY LAWRENCE  
12 BAKER, AN ECONOMIST AT STANFORD MEDICAL SCHOOL, AND A  
13 GROUP CALLED ANALYSIS GROUP THAT PROJECTED FUTURE  
14 BENEFITS AS A POTENTIAL TO CALIFORNIA. NOW, THE BALLOT  
15 ITSELF SAID THAT THESE BENEFITS, OF COURSE, AS  
16 PROJECTIONS WERE PURELY SPECULATIVE; AND IT DID NOT, IN  
17 FACT, REFERENCE THESE NUMBERS IN THE BALLOT ARGUMENT, BUT  
18 THE LEGISLATIVE ANALYST WROTE A REPORT ON THEM THAT  
19 REVIEWED THEIR METHODOLOGY AND WAS QUITE SOUND.

20 SO IN TERMS OF THE OVERVIEW FOR YOU OF FUTURE  
21 ECONOMIC BENEFITS FOR CALIFORNIA, THE PANELS IN FRONT OF  
22 YOU ARE IN TWO FORMS: PRESENT VALUE, THAT IS, WHAT'S THE  
23 PRESENT VALUE ECONOMICALLY IN TODAY'S DOLLARS OF THOSE  
24 BENEFITS? AND WHAT'S THE FUTURE VALUE 35 YEARS INTO THE  
25 FUTURE? AS YOU KNOW, AS, IN FACT, THE CHAIRMAN NOTED,

## BARRISTERS' REPORTING SERVICE

1 THE BALLOT MEASURE IS STATED ALL IN FUTURE DOLLARS. SO  
2 IT CAPTURES THE WHOLE INTEREST FOR 35 YEARS AS AN  
3 ADDITIONAL \$3 BILLION. WHAT THE VOTERS REALLY APPROVED  
4 WAS 6 BILLION, THREE BILLION IN PRINCIPAL AND 35 YEARS OF  
5 INTEREST FOR ANOTHER \$3 BILLION.

6 BUT WHAT YOU SEE IN FRONT OF YOU IN THE PANEL  
7 BREAKS DOWN THE POTENTIAL BENEFITS. ABOUT 4 PERCENT ARE  
8 TAX REVENUES FOR THE STATE EXPECTED TO COME FROM DIRECT  
9 SPENDING. THAT IS, THE ACTUAL GRANTS THAT ARE PUT OUT TO  
10 THE GRANTEE ORGANIZATIONS, WHETHER A SCIENTIST AT UC  
11 BERKELEY OR UC IRVINE, UC SAN DIEGO OR STANFORD OR USC,  
12 THAT SPENDING ITSELF WILL CREATE THE TAX REVENUE TO THE  
13 STATE OF ABOUT 4 PERCENT OF THE TOTAL BENEFIT. YOU CAN  
14 SEE IT ON THE CHART.

15 SECONDLY, IT'S EXPECTED OVER TIME DURING THAT  
16 35-YEAR PERIOD THAT THE BIOTECH SECTOR WILL JOIN IN THIS,  
17 AND THERE WILL BE SUBSTANTIAL GROWTH, LIKE THERE WAS WITH  
18 RECOMBINANT DNA. AT THE TIME IN 1977 WHEN THE  
19 RECOMBINANT DNA FIELD WAS FOUNDED, THERE WERE 17,000  
20 BIOTECH JOBS IN THE STATE. TODAY, AS OF ACTUALLY TWO  
21 YEARS AGO, THERE WERE 267,000 BIOTECH JOBS IN THE STATE.  
22 IT'S THE SECOND HIGHEST JOB CREATOR IN THE STATE. IN  
23 FACT, MYRTLE POTTER, WHEN SHE WAS AT GENENTECH, HAD A  
24 GREAT DEAL TO DO WITH LEADING THAT AS THE HEAD OF THEIR  
25 DEVELOPMENT DIVISION ON A GLOBAL BASIS.

## BARRISTERS' REPORTING SERVICE

1                   SO IF YOU LOOK AT THE PIE CHART, IT SHOWS THAT  
2   34 PERCENT OF THE REVENUES ARE EXPECTED TO COME FROM TAX  
3   REVENUES GENERATED FROM THE GROWTH OVER THE 35 YEARS IN  
4   THE BIOTECH SECTOR. THE ROYALTY REVENUE AT A 2-PERCENT  
5   ROYALTY RATE WAS EXPECTED TO CREATE IN FUTURE DOLLARS  
6   CUMULATIVELY OVER THE NEXT 35 YEARS 537 MILLION TO A  
7   BILLION DOLLARS. REALIZE THAT'S IN FUTURE DOLLARS. THE  
8   OTHER CHART IS VERY IMPORTANT TO LOOK AT.

9                   THE OTHER CHART YOU SEE SAYS THAT WHILE THE  
10  PERCENTAGE OF BENEFIT IS THE SAME, 8 PERCENT FROM ROYALTY  
11  REVENUES, IT'S 189 MILLION IN PRESENT VALUE. THERE'S  
12  BEEN QUITE A BIT OF REPORTING IN THE NEWSPAPERS THAT'S  
13  CONFUSED FUTURE DOLLARS AND PRESENT DOLLARS, AND IT SAID,  
14  WELL, THIS WILL NEVER PRODUCE MORE THAN \$250 MILLION IN  
15  CURRENT REVENUE. WELL, THAT'S TRUE, BUT THEY'RE NOT  
16  REALIZING THEY'RE PROVING OUR CASE BECAUSE WE'RE  
17  PROJECTING IN PRESENT DOLLARS, IT'S 189 MILLION.

18                  THE GREATEST BENEFIT TO THE STATE, IF WE JUST  
19  GET A 1-PERCENT COST REDUCTION IN SEVEN OUT OF 70  
20  DIFFERENT AREAS OF CHRONIC DISEASE AND INJURY, 1-PERCENT  
21  BENEFIT, SOMEBODY GETS OUT OF THE HOSPITAL 1 PERCENT  
22  EARLIER, SOMEONE WITH PARALYSIS HAS A PARTIAL USE OF  
23  MAYBE THEIR HAND OR SOMETHING SO THEY CAN HELP CARE FOR  
24  THEMSELVES, JUST MARGINAL INCREASES IN THE EFFECTIVE  
25  THERAPIES FOR PATIENTS, NOT CURING THEM, WHICH WOULD BE A

## BARRISTERS' REPORTING SERVICE

1 HOME RUN, BUT CONSERVATIVELY STATED A 1-PERCENT BENEFIT  
2 OVER TIME ACCOUNTS FOR 54 PERCENT OF ALL THE PROJECTED  
3 BENEFIT.

4 SO UNDERSTANDING EMBRYONIC STEM CELLS AND ADULT  
5 STEM CELLS, IF WE CAN REALLY MOVE FORWARD ON THERAPIES  
6 HERE THAT HAVE ANY MATERIAL IMPROVEMENT IN HEALTH, WE  
7 REALLY CAN HELP STOP THE MASSIVE GROWTH OF THE \$14  
8 BILLION IN 2004 DOLLARS THAT THE STATE PAYS OUT FOR  
9 HEALTHCARE BENEFITS. NOW, WHAT WE HAVE DONE IS ASKED  
10 INTERNALLY AND PUT INTO OUR STRATEGIC PLAN THAT WE WILL  
11 DO AN UPDATE OF THIS. WE'LL PUT OUT AN RFA RIGHT AFTER  
12 THE FIRST OF THE YEAR OR MAYBE RIGHT BEFORE THE FIRST OF  
13 THE YEAR TO GET SEVERAL FIRMS TO BID ON DOING A FULL  
14 UPDATE OF THESE PROJECTIONS. THAT UPDATE SHOULD BE DONE  
15 BY YOUR FALL MEETING NEXT YEAR WHERE WE HOPE TO PROVIDE  
16 YOU WITH AN UPDATED ANALYSIS.

17 CERTAINLY WHEN WE WERE WORKING WITH STANFORD  
18 MEDICAL SCHOOL IN THESE PROJECTIONS, IT WAS NOT EXPECTED  
19 THAT CALIFORNIA WOULD BE THE LEADER OF 21 NATIONS IN THE  
20 WORLD IN STEM CELL RESEARCH. THIS IS A ROLE THAT IS FAR  
21 BEYOND WHAT'S EXPECTED. AND IN THE PEER REVIEW PROCESS  
22 THAT DR. MURPHY HAS REFERENCED HERE, YOU HAVE IN FRONT OF  
23 YOU, AND THERE IS AT THE BACK OF THE ROOM, A LIST OF PEER  
24 REVIEW SCIENTISTS THAT PARTICIPATE IN OUR REVIEW, AS DR.  
25 MURPHY SAID, TO AVOID CONFLICTS, THEY'RE ALL OUT OF

## BARRISTERS' REPORTING SERVICE

1 STATE. AND WHEN YOU LOOK AT THAT LIST, YOU WILL SEE THAT  
2 OF OUR PRIMARY REVIEWERS, THREE ARE FROM HARVARD  
3 UNIVERSITY. WE'RE ATTRACTING THE BEST PEOPLE IN THE  
4 COUNTRY.

5 AND IF YOU LOOK AT OUR ALTERNATES, YOU WILL SEE  
6 THAT INCLUDES A NUMBER OF PEOPLE FROM CANADA, A SCIENTIST  
7 FROM SWEDEN. PEOPLE ARE PREPARED TO MOVE ACROSS THE  
8 ENTIRE WORLD TO HELP CALIFORNIA IN THIS LEADERSHIP. AND  
9 AS YOU WILL NOTE, DR. ALAN TROUNSON, A LEADING  
10 RESEARCHER, EMBRYONIC STEM CELL RESEARCHER, IN AUSTRALIA,  
11 WE'VE SUCCESSFULLY RECRUITED TO BE OUR NEW PRESIDENT, AND  
12 HE WILL START, IN FACT, TOWARDS THE END OF DECEMBER.

13 SO WE'RE AT THE HEAD OF AN ECONOMIC REVOLUTION.  
14 HOPEFULLY IT'S HALF AS SUCCESSFUL AS RECOMBINANT DNA. WE  
15 HOPE TO LEARN FROM WHAT MYRTLE POTTER DID IN THAT  
16 REVOLUTION. BUT IF WE COULD PRODUCE HALF THEIR NUMBER OF  
17 JOBS, WE'D BE FAR BEYOND PROJECTIONS THAT YOU SEE HERE IN  
18 ECONOMIC BENEFIT, BUT WE WILL HAVE AN UPDATE COMING.

19 CHAIRMAN CHIANG: BOB, TWO FOLLOW-UP QUESTIONS  
20 TO YOUR COMMENTS. THE FIRST, I AM NOT QUITE CLEAR IN  
21 REGARDS TO THIS ECONOMIC STUDY. WAS THAT WORK PERFORMED  
22 BY STAFF INTERNALLY, OR WAS THAT AS EXTERNAL?

23 MR. KLEIN: THAT'S AN EXTERNAL STUDY THAT WAS  
24 DONE BY LAWRENCE BAKER OF STANFORD IN THE STANFORD  
25 MEDICAL SCHOOL ALONG WITH A GROUP CALLED THE ANALYSIS

## BARRISTERS' REPORTING SERVICE

1 GROUP, AN EXTERNAL GROUP THAT SPECIALIZES IN HEALTHCARE  
2 STUDIES NATIONALLY AND INTERNATIONALLY.

3 CHAIRMAN CHIANG: VERY GOOD. THE SECOND  
4 QUESTION FOLLOWING UPON YOUR COMMENTS WAS WHAT'S VERY  
5 EXCITING FOR ME IS WE'RE DRAWING WORLD-CLASS TALENT TO  
6 CALIFORNIA. I WAS ALWAYS AFRAID OF THE BRAIN DRAIN,  
7 LOSING THAT TALENT ACROSS THE WORLD AS THE WORLD BECOMES  
8 MORE GLOBALLY COMPETITIVE, WHICH IS, FRANKLY, A GOOD  
9 THING. BUT WHAT TYPE OF PRACTICES IS THE INSTITUTE  
10 ENGAGED IN TO MAKE SURE THAT WE HAVE NOT ONLY WORLD-CLASS  
11 TALENT, BUT WE'RE ENGAGED IN, AS I TRY TO HARP ON MY  
12 STAFF, THAT WE HAVE WORLD-CLASS FISCAL OPERATIONS IN OUR  
13 INSTITUTIONS? SO ARE YOU CREATING THEM? ARE YOU  
14 MIMICKING THEM? ARE YOU DRAWING FROM OTHER INDUSTRIES?  
15 WHAT IS THE INSTITUTE DOING?

16 MR. KLEIN: WELL, THE FIRST THING THAT WE DID  
17 IMMEDIATELY AFTER THE ELECTION IS WE ASKED THE NATIONAL  
18 ACADEMIES OF SCIENCE TO COME TO CALIFORNIA WITH THE BEST  
19 AND THE BRIGHTEST OF THE NATION AND PROVIDE US A BEST  
20 PRACTICES CONFERENCE. IN FACT, AS DR. MURPHY SAID, WE  
21 NOW HAVE THE GOLD STANDARD IN MEDICAL AND ETHICAL  
22 STANDARDS FOR THE COUNTRY, BUT WE OWE A GREAT DEAL TO  
23 NATIONAL ACADEMIES OF SCIENCE WHO ON DECEMBER 5TH AND  
24 6TH, APPROXIMATELY FIVE WEEKS AFTER THE ELECTION, BROUGHT  
25 A HANDPICKED TEAM FROM THROUGHOUT THE NATION TO HELP US

## BARRISTERS' REPORTING SERVICE

1 ESTABLISH THE GRANT POLICY, TO HELP US ESTABLISH, FOR  
2 EXAMPLE, THE PROCEDURE OF USING ONLY OUT-OF-STATE  
3 SCIENTISTS FOR OUR PEER REVIEW TO AVOID BIAS IN THAT  
4 PROCESS.

5 SO WE HAVE LEARNED A GREAT DEAL FROM THE  
6 NATIONAL ACADEMY OF SCIENCES IN BEST PRACTICE. FRANKLY,  
7 WE WENT TO THE CONTROLLER'S OFFICE WITH YOUR PREDECESSOR,  
8 STEVE WESTLY, AND WITH THE BENEFIT OF THE CONTROLLER'S  
9 OFFICE, THE CONTROLLER'S OFFICE HAS HELPED US SET UP OUR  
10 ACCOUNTING SYSTEM. AS I SAID, CUTS ALL OF OUR CHECKS,  
11 RUNS OUR BOOKS FOR US. SO WE KNOW THAT WE'RE BENEFITING  
12 FROM THE YEARS AND YEARS OF TREMENDOUS EXPERIENCE IN  
13 MAKING SURE THAT WHENEVER A DISBURSEMENT IS MADE, THAT  
14 IT'S FULLY VETTED AND IT'S PROPERLY RECORDED. BUT WE'RE  
15 TRYING TO LEARN. AS I SAID, WE'RE A YOUNG AGENCY.  
16 TRYING TO LEARN FROM THE BEST. WE'VE LEARNED FROM  
17 RECOMMENDATIONS OF BUREAU OF STATE AUDIT. THE  
18 LEGISLATURE HAD THEM DO AN AUDIT, AND WE WORKED WITH THEM  
19 OVER THE LAST YEAR TO IMPROVE OUR SYSTEMS BASED ON THEIR  
20 RECOMMENDATIONS. WE'VE LEARNED FROM OUR AUDITORS FROM  
21 THEIR RECOMMENDATIONS, AND WE CONTINUE TO LEARN TO MAKE  
22 SURE THAT WE GROW QUALITATIVELY.

23 I THINK DR. MURPHY MAY HAVE A POINT.

24 DR. MURPHY: CHAIR CHIANG, I THINK THE POINT  
25 YOU MAKE IS A VERY IMPORTANT ONE. HOW ARE WE GETTING



## BARRISTERS' REPORTING SERVICE

1 GOOD, NEW SCIENTISTS TO COME TO CALIFORNIA? AND ONE OF  
2 THE THINGS I LEARNED LONG AGO AS AN ADMINISTRATOR IS THAT  
3 ADMINISTRATORS DON'T HAVE ANY CONTROL OVER THAT. WHAT  
4 REALLY HAS CONTROL IS GOOD SCIENCE. AND I THINK WHAT  
5 WE'RE SEEING IS AS CIRM MAKES CALIFORNIA A HAVEN FOR  
6 PEOPLE WHO ARE INTERESTED IN DOING STEM CELL SCIENCE, AS  
7 WELL AS DEVELOPMENTAL BIOLOGY, THAT IS, UNDERSTANDING HOW  
8 THE BODY DEVELOPS, WHICH IS KEY TO STEM CELL SCIENCE,  
9 MORE AND MORE YOUNG PEOPLE ARE BEING ATTRACTED TO  
10 CALIFORNIA ORGANIZATIONS.

11 AS I MENTIONED, WE'RE NOW IN THE PROCESS OF  
12 EVALUATING GRANTS FOR MAJOR FACILITIES AT OUR  
13 UNIVERSITIES AND INSTITUTES IN CALIFORNIA. KEY TO THAT  
14 WILL BE CREATING NEW SPACE. AND WHEN THAT NEW SPACE IS  
15 ONLINE, OUR ORGANIZATIONS ARE GOING TO BE AGGRESSIVELY  
16 GOING AFTER YOUNG PEOPLE ESPECIALLY TO COME TO THESE  
17 INSTITUTIONS TO FILL THE LABS. SO WHILE THE  
18 ADMINISTRATION ISN'T DOING THIS, THE SCIENCE IS. AND THE  
19 POLICIES OF FUNDING GOOD STEM CELL SCIENCE AND MAKING IT  
20 POSSIBLE FOR THE SCIENTISTS TO DO THEIR WORK IS THE BEST  
21 ATTRACTANT WE CAN HAVE FOR BRINGING NEW TALENT TO  
22 CALIFORNIA AND IT'S WORKING.

23 WITH THAT STILL SAID, I CAN TELL YOU THAT THE  
24 COUNTERVAILING FORCE IS THE NATIONAL INSTITUTE OF HEALTH,  
25 THE NATIONAL INSTITUTE OF HEALTH HAS HAD FLAT FUNDING FOR

## BARRISTERS' REPORTING SERVICE

1 THE LAST FIVE YEARS IN THE FACE OF 8 OR 9 OR 10 PERCENT  
2 INFLATION IN SCIENCE NEEDS. SO FEDERAL FUNDING IS GOING  
3 DOWN WHILE CALIFORNIA FUNDING IS NOW BECOMING WELL-KNOWN  
4 AND CALIFORNIA IS BECOMING WELL-KNOWN AS THE PLACE TO GO,  
5 ESPECIALLY FOR YOUNG PEOPLE, TO GET THEIR CAREERS GOING.  
6 SO I THINK IT'S AN IDEAL SITUATION FOR US TO BE DOING  
7 EXACTLY WHAT YOU JUST SAID.

8 CHAIRMAN CHIANG: THIS RAISES A VERY TOUCHY  
9 ISSUE. AS WE DRAW MORE PEOPLE TO CALIFORNIA, WHICH WE  
10 WANT TO HIGHLY ENCOURAGE, HOW DO WE FULFILL OUR PUBLIC  
11 RESPONSIBILITY AS TO TRANSPARENCY AND DISCLOSURE OF THAT  
12 FUNDING?

13 MR. KLEIN: MR. CHAIRMAN, IN OUR BOARD  
14 APPROVALS, EVERY GRANT THAT COMES WITH A RECOMMENDATION  
15 TO FUND OR TO FUND IF THERE ARE AVAILABLE FUNDS, THE  
16 INSTITUTION'S NAME AND THE SCIENTIFIC SCORE BY THIS  
17 INDEPENDENT GROUP IS PUBLICLY DISPLAYED AT THE TIME THAT  
18 THIS GRANT IS APPROVED. SO COMING OUT OF ANY APPROVAL WE  
19 KNOW EVERY INSTITUTION AND WHAT THEIR SCORE WAS, AND WE  
20 HAVE A PUBLIC DEBATE OVER THE FUNDING OF THESE. IN MANY  
21 CASES THE BOARD ACTUALLY HAS TAKEN DIFFERENT STRATEGIC  
22 PRIORITIES AND NOT FUNDED SOME RECOMMENDED, FUNDED SOME  
23 THAT WERE RECOMMENDED. IF ONE OF THE GRANTS WAS NOT  
24 RECOMMENDED FOR FUNDING AND IS CHOSEN TO BE FUNDED, THEN  
25 THAT HAS TO BE DISCLOSED AS WELL.

## BARRISTERS' REPORTING SERVICE

1                   SO THERE'S NEVER ANY GRANT, ANY LOAN, OR ANY  
2   POLICY THAT'S APPROVED IN CALIFORNIA WITHOUT PUBLIC  
3   DEBATE AND A PUBLIC HEARING BY THE GOVERNING BOARD. AND  
4   ANY TIME ANY CALIFORNIA DOLLARS ARE APPROVED, THAT  
5   SCORE -- THAT INSTITUTION AND ITS SCORE ARE DISCLOSED.  
6   I'D LIKE TO DISTINGUISH THE FACT, AND MAYBE DR. MURPHY  
7   WOULD LIKE TO COMMENT, THAT IF, IN FACT, SOMEONE IS NOT  
8   RECOMMENDED FOR FUNDING AND DENIED FUNDING, WE DO NOT  
9   DISCLOSE THAT INSTITUTION'S NAME OR THEIR SCORE BECAUSE  
10  THE INTENT IS NOT TO DISCOURAGE PEOPLE WHO COME UP WITH  
11  REALLY BRIGHT CONCEPTUAL IDEAS, BUT MAYBE AREN'T WELL  
12  DEVELOPED ENOUGH. WE DON'T WANT TO TAKE A SITUATION  
13  WHERE SOMEONE IS UP FOR TENURE AND PUBLICLY CASTIGATE  
14  THEM AND GIVE THEM A VERY LOW SCORE BECAUSE IT COULD  
15  DESTROY THEIR ABILITY TO PROGRESS.

16                  IF WE LOOK BACK HISTORICALLY THROUGH THE  
17  DEVELOPMENT OF SCIENCE, EVEN, FOR EXAMPLE, THE ISSUE WITH  
18  ULCERS, FOR YEARS THE THEORY ON HOW ULCERS WERE CREATED  
19  WAS PUBLICLY CASTIGATED. IT TOOK A NUMBER OF YEARS TO  
20  PROVE HOW ULCERS WERE CREATED. AND IF WE HAD BEEN THE  
21  FUNDING AGENCY AND FOR YEARS POUNDING ON THIS WITH VERY  
22  LOW SCORES, IT WOULD, IN FACT, DISCOURAGE THAT PROFESSOR,  
23  MAYBE EVEN DENY THEM TENURE BECAUSE OF THE STIGMA.

24                  I KNOW THAT YOU HAVE MEMBERS, INCLUDING MYRTLE  
25  POTTER, THAT KNOW THIS PROCESS PRETTY WELL. SO WE'RE

BARRISTERS' REPORTING SERVICE

1 TRYING TO ANY TIME THERE'S A DOLLAR APPROVED, A FULL  
2 DISCLOSURE, BUT PROTECT THOSE PEOPLE WHO MAY HAVE TO COME  
3 BACK SEVERAL TIMES TO REALLY HAVE ENOUGH PROOF WHERE WE  
4 CONSIDER IT FOR PUBLIC DOLLARS.

5 CHAIRMAN CHIANG: ANY ADDITIONAL QUESTIONS FROM  
6 BOARD MEMBERS?

7 MR. KLEIN: MR. CHAIRMAN, ARE YOU READY FOR DR.  
8 PENHOET AND THE INTELLECTUAL PROPERTY AT THIS POINT?

9 CHAIRMAN CHIANG: YES.

10 MR. KLEIN: HE STEPPED OUT FOR 30 SECONDS HERE.

11 MR. SIMPSON: WOULD YOU TAKE PUBLIC COMMENT ON  
12 ANY OF THE PART OF THIS THAT'S GONE SO FAR?

13 CHAIRMAN CHIANG: SURE, JOHN. GO AHEAD.

14 MR. SIMPSON: JOHN SIMPSON, FOUNDATION FOR  
15 TAXPAYER AND CONSUMER RIGHTS. I JUST ALSO WANTED TO, YOU  
16 SPOKE ABOUT THE AUDIT, AND BEFORE THAT GOT OUT OF MY  
17 MIND, IT'S AWKWARD LANGUAGE, BUT I'M DELIGHTED IT'S  
18 UNQUALIFIED. I THINK THAT THAT'S A GREAT COMMENDATION  
19 FOR CIRM.

20 AND I ALSO NOTE THAT IT WAS ON A PERIOD WHEN  
21 THINGS WEREN'T REALLY UP AND REVVING. SO YOUR  
22 RECOMMENDATION, MR. CHAIRMAN, THAT THINGS GET BACK IN  
23 SYNCH IS WONDERFULLY APPROPRIATE, AND WE GREATLY  
24 APPRECIATE THAT.

25 THE OTHER THING, THERE'S BEEN REFERENCE TO,

## BARRISTERS' REPORTING SERVICE

1 YOU'RE ABOUT TO HEAR ABOUT THE IP STANDARDS, AND THERE'S  
2 BEEN REFERENCE TO THE MEDICAL STANDARDS. AND I THINK  
3 THIS HAS BEEN A GOLD STANDARD OF INVOLVING THE PUBLIC,  
4 THE AFFECTED PEOPLE, IN DEVELOPING THOSE STANDARDS. I  
5 HAVE NOT ALWAYS AGREED WITH THE OUTCOME, AS THE CHAIRMAN  
6 KNOWS VERY WELL, BUT THE PROCESS HAS BEEN VERY GOOD. THE  
7 STAKEHOLDERS HAVE BEEN INVITED IN AND HAVE DEVELOPED --  
8 HAD A KEY ROLE IN DEVELOPING THOSE POLICIES, SOME OF  
9 WHICH ARE STILL WORKING THEIR WAY THROUGH THE OFFICE OF  
10 ADMINISTRATIVE LAW. THAT'S A GOOD THING.

11 I DO NEED TO SAY ONE THING ABOUT THE GRANTS  
12 APPROVAL PROCESS. I DON'T -- I DON'T AGREE WITH THE  
13 ARGUMENT ABOUT INDIVIDUAL RESEARCHERS WHO ARE GOING AFTER  
14 PUBLIC MONEY. I THINK EVERYONE SHOULD BE DISCLOSED;  
15 HOWEVER, I UNDERSTAND THE ARGUMENT. WHAT I DO NOT  
16 UNDERSTAND AND WHAT I FEAR WAS GLOSSED OVER SLIGHTLY IS  
17 THAT \$227 MILLION OF GRANTS THAT ARE GOING TO BUILD NEW  
18 BUILDINGS AT RESEARCH INSTITUTIONS AND UNIVERSITIES. ALL  
19 WE KNOW IS THAT 17 INSTITUTIONS HAVE APPLIED. WE DON'T  
20 KNOW WHAT INSTITUTIONS. WE DON'T KNOW HOW MUCH THEY'RE  
21 ASKING FOR, WHAT TYPE OF FACILITIES GRANT THEY WANT. WE  
22 WON'T KNOW UNTIL WAY DOWN THE PROCESS.

23 THE WAY IT'S SET UP IS APPARENTLY THAT SOMEHOW,  
24 YOU KNOW, THEY CAN BE THROWN OUT FOR BAD SCIENCE AND NOT  
25 EMBARRASSED, BUT IN A SECOND STAGE, IF THEY SHOW THEY

## BARRISTERS' REPORTING SERVICE

1 CAN'T BUILD A DECENT BUILDING, THEN IT'S OKAY TO NAME  
2 THEM. SOMETHING IS WRONG HERE WHEN WE HAVE -- THERE'S A  
3 DIFFERENCE BETWEEN A STANFORD OR A UC OR A BURNHAM. WHEN  
4 THEY APPLY AS AN INSTITUTION, THAT OUGHT TO BE PUBLIC  
5 KNOWLEDGE. AND I WOULD ENCOURAGE THIS COMMITTEE TO TAKE  
6 AFFIRMATIVE ACTION TO RECOMMEND THAT THE 17 INSTITUTIONS  
7 BE IDENTIFIED.

8 I BELIEVE THERE'S A LETTER THAT'S COME TO THE  
9 PANEL FROM THE *CALIFORNIA STEM CELL REPORT* MAKING THE  
10 SAME POINT. THERE'S NO PUBLIC POLICY REASONS SERVED BY  
11 THIS. IF THERE IS, IN FACT, SOME PARTICULAR PROPRIETARY  
12 INFORMATION IN AN APPLICATION, THAT CAN EASILY BE  
13 REDACTED, BUT NOT TO KNOW WHAT 17 INSTITUTIONS HAVE  
14 APPLIED MAKES NO SENSE. THANK YOU VERY MUCH.

15 CHAIRMAN CHIANG: DO YOU WANT TO RESPOND?

16 MR. KLEIN: YES. THANK YOU, MR. CHAIRMAN.  
17 FIRST OF ALL, AS MR. SIMPSON REFERENCED ON THE MAJOR  
18 FACILITIES, THEY'RE NOW GOING THROUGH JUST THE SCIENCE  
19 REVIEW. SO WE CAN'T DISCLOSE HOW MANY DOLLARS THEY'RE  
20 APPLYING FOR BECAUSE THEY HAVEN'T APPLIED FOR DOLLARS.  
21 THEY HAVEN'T DESCRIBED -- THE FACILITIES PORTION OF THE  
22 APPLICATION WHERE THEY ACTUALLY COMPETE FOR DOLLARS WILL  
23 START IN FEBRUARY. BUT AT OUR JANUARY MEETING, AFTER OUR  
24 SCIENTIFIC REVIEW, EVERY INSTITUTION THAT IS RECOMMENDED  
25 TO GO FORWARD THAT ACTUALLY WILL HAVE THE ABILITY TO

BARRISTERS' REPORTING SERVICE

1 COMPETE FOR STATE DOLLARS WILL BE FULLY DISCLOSED EVEN  
2 BEFORE THEY SUBMIT THEIR REQUEST FOR DOLLARS.

3 IN FEBRUARY THEY WILL SUBMIT THEIR APPLICATIONS  
4 DESCRIBING THEIR FACILITY IN DETAIL AND THE DOLLARS.  
5 RIGHT NOW WHAT'S HAPPENING IS THAT THEY HAVE SUBMITTED  
6 APPLICATIONS THAT ADDRESS THEIR SCIENTIFIC PROGRAMS, WHO  
7 THEY'RE RECRUITING FROM AROUND THE WORLD, WHO THEY'RE  
8 RECRUITING FROM THE NATION, SOME VERY PROPRIETARY ISSUES.  
9 IF YOU CAN IMAGINE, A LOT OF PEOPLE WOULD LIKE TO KNOW  
10 WHO THEY'RE RECRUITING TO TRY AND GIVE THEM A  
11 COUNTEROFFER TO KEEP THEM IN SOME COUNTRY OR TO KEEP THEM  
12 IN ANOTHER INSTITUTION. BUT --

13 MS. POTTER: MR. KLEIN, DO YOU HAVE, IN WHAT  
14 YOU HAVE IN YOUR HANDS RIGHT NOW, THEY DO STATE THAT THEY  
15 INTEND TO APPLY FOR FUNDING, CAPITAL FUNDING, FOR  
16 BUILDINGS IN THE STAGE THAT YOU'RE IN RIGHT NOW.

17 MR. KLEIN: AT THE STAGE THAT THEY'RE IN RIGHT  
18 NOW, THEY KNOW THAT THEY CANNOT APPLY UNLESS THEY COME  
19 OUT OF THE SCIENTIFIC REVIEW WITH A HIGH SCORE.

20 MS. POTTER: I UNDERSTAND.

21 MR. KLEIN: SO THEY'RE NOT EVEN QUALIFIED TO  
22 APPLY FOR FUNDING. DR. MURPHY, WOULD YOU LIKE TO COMMENT  
23 ON THIS? THIS IS A POLICY THAT THE SCIENTIFIC STAFF  
24 LEADS US WITH.

25 DR. MURPHY: I RESPECT JOHN'S COMMENTS ON THIS,

## BARRISTERS' REPORTING SERVICE

1 AND HE AND I HAVE TALKED ABOUT IT. THE REALITY IS THAT  
2 ANY COMPETITION, SCIENTIFIC COMPETITION, HAS TO RELY ON  
3 CONFIDENTIALITY TO GIVE THE APPLICANTS AN ABILITY TO BE  
4 AS CREATIVE AS THEY WANT AND TO CONVINCE THE REVIEWERS  
5 THAT ANY IDEA THEY HAVE, WHICH IS PROPRIETARY, IS AN  
6 EXCITING IDEA, AND THEY NEED TO HAVE THAT DONE IN A VERY  
7 CONFIDENTIAL WAY.

8 IN THIS COMPETITION THERE'S ALSO SOMETHING  
9 ADDITIONAL. THE ORGANIZATIONS THAT CAN APPLY FOR GRANTS  
10 CAN APPLY EITHER FOR BASIC SCIENCE OR FOR CLINICAL  
11 SCIENCE OR FOR TRANSLATIONAL SCIENCE AND CAN APPLY FOR  
12 ALL THREE IN SOME CASES. WHAT IF OUR SCIENTIFIC GROUP  
13 SAYS, LOOK, PARTS 1 AND PART 2 WERE TERRIFIC, BUT PART 3,  
14 THE CLINICAL PART OF THAT APPLICATION, ISN'T VERY GOOD.  
15 NOW, THAT DOESN'T SAY THAT THAT ORGANIZATION ISN'T A GOOD  
16 CLINICAL ORGANIZATION. IT BASICALLY SAYS THAT THE GRANT  
17 THEY PUT IN WAS NOT COMPETITIVE COMPARED TO THE OTHER  
18 GRANTS.

19 SO IF I WERE RUNNING ONE OF THOSE ORGANIZATIONS  
20 THAT WERE APPLYING FOR ALL THREE PARTS, I WOULD WORK  
21 VERY, VERY HARD TO MAKE THREE COMPELLING PARTS OF THE  
22 APPLICATION; BUT IF ONE FAILED, I WOULD NOT WANT THE  
23 REPUTATION OF MY ORGANIZATION TO BE TARNISHED IN A WAY  
24 THAT HAD NOTHING TO DO WITH THE GRANT ITSELF. SO THAT  
25 WAS PART OF THE REASONING WE HAD FOR MAINTAINING



## BARRISTERS' REPORTING SERVICE

1 CONFIDENTIALITY ON THESE GRANTS.

2 BOB IS RIGHT. AS SOON AS THESE GRANTS GO  
3 THROUGH SCIENTIFIC REVIEW AND ARE EVALUATED BY THE ICOC,  
4 THE IDENTITIES OF THESE ORGANIZATIONS WILL BE REVEALED  
5 AND THOSE PARTS FOR WHICH THEY WERE HIGHLY RATED WILL BE  
6 REVEALED AS WELL.

7 CHAIRMAN CHIANG: I UNDERSTAND BOTH SIDES.  
8 BEING A PUBLIC SERVANT, I TEND TO LEAN VERY HEAVILY  
9 TOWARDS PUBLIC DISCLOSURE. I UNDERSTAND THAT WE ALSO  
10 OPERATE IN A SCIENTIFIC AND PROPRIETARY WORLD. HOW DO  
11 YOU NOT DISCLOSE A PROPRIETARY, LEADING EDGE THOUGHT IN  
12 THAT PROCESS? SO IT'S A CONSIDERED DEBATE. FRANKLY, I'D  
13 LIKE TO HAVE US ENGAGE IN FURTHER DISCUSSION AS TO WHAT  
14 CAN WE DO. AND I AM SENSITIVE. I DON'T OPERATE IN THE  
15 WORLD OF SCIENCE AND THE APPEARANCE OR PERCEPTION OF  
16 FAILURE, RIGHT. AND SO I'D LIKE TO HAVE ADDITIONAL  
17 DISCUSSION AS TO PERHAPS PUBLIC DISCLOSURE OF WHY A GRANT  
18 WAS NOT GIVEN, AND SO PERHAPS PROVIDING ADDITIONAL  
19 DISCLOSURE. IF WE COULD FIND A BETTER BALANCE, AT LEAST  
20 FROM MY PERSPECTIVE AT THIS POINT IN TIME.

21 WE'VE HAD CONSIDERABLE DISCUSSION. WHEN I WAS  
22 TALKING TO MYRTLE VERY BRIEFLY AT THE VERY BEGINNING, I  
23 AM VERY ENCOURAGED IN THIS AREA. AS CALIFORNIA'S CHIEF  
24 FISCAL OFFICER, I'M ALWAYS TRYING TO ADVANCE CALIFORNIA'S  
25 FISCAL OPERATIONS ECONOMIC ADVANTAGE. AND AS I INDICATED

## BARRISTERS' REPORTING SERVICE

1 TO MYRTLE, I JUST SEE THIS AS IN THE IMMEDIATE FUTURE ONE  
2 OF TWO GREAT PROMISING WORLD COMPETITIVE AREAS FOR  
3 CALIFORNIA, GREEN TECHNOLOGY AND STEM CELL RESEARCH.  
4 ALONG WITH THAT COMES A VERY, VERY IMPORTANT  
5 RESPONSIBILITY AS TO HOW IT IS VIEWED.

6 AS YOU POINTED OUT, WE HAVE 25 NATIONS LOOKING  
7 TO CALIFORNIA. AND SO PART OF THIS IS HOW DO WE  
8 DEMONSTRATE THAT WE'RE ENGAGED IN THE BEST PRACTICES?  
9 HOW DO WE HAVE WORLD-CLASS PRACTICES? AND VERY  
10 IMPORTANTLY, HOW DO WE PROTECT THE INTEGRITY OF THIS  
11 PROCESS?

12 SO LET ME RAISE SOMETHING THAT TOOK PLACE  
13 RECENTLY. LAST WEEK THERE WAS NEWS ABOUT ONE OF THE ICOC  
14 MEMBERS, BOB, YOU AND I HAD THAT CONVERSATION, AND  
15 PERHAPS THE INTERACTION WHICH CONSTITUTED A PROHIBITED  
16 COMMUNICATION WHICH MAY CONSTITUTE TECHNICALLY OR IN VERY  
17 REAL TERMS A CONFLICT OF INTEREST INVOLVING A GRANT. I  
18 DON'T KNOW SPECIFICALLY WHAT HAPPENED, AND THAT'S WHY I  
19 THINK IT'S VERY, VERY IMPORTANT THAT WE HAVE A FULL  
20 DISCLOSURE OF THAT ACTIVITY BECAUSE I THINK WE HAVE TO  
21 MAKE SURE THAT IF THERE ARE PERCEIVED OR REAL BLEMISHES  
22 OR CONFLICTS, THAT WE RESOLVE THOSE IMMEDIATELY AND  
23 QUICKLY SO THAT WE CAN PROTECT THE IMPORTANT, POWERFUL,  
24 AND BEAUTIFUL WORK OF WHAT IS TAKING PLACE WITH STEM CELL  
25 RESEARCH.

## BARRISTERS' REPORTING SERVICE

1           OBVIOUSLY THERE'S BEEN CONSIDERABLE ATTENTION  
2   DRAWN BY SOME OF THE MEDIA PUBLICATIONS, RIGHTFULLY SO.  
3   THEY'VE ENCOURAGED CERTAIN ACTIONS TO TAKE PLACE. I  
4   WANTED TO MAKE SURE, SINCE WE ARE PART OF THIS PROCESS,  
5   THAT WE ENCOURAGE A FULL EXAMINATION OF THIS. I KNOW  
6   OTHERS HAVE CALLED FOR IT, BUT I THINK IT'S -- CERTAINLY  
7   I'LL TAKE RESPONSIBILITY AND NOT ASK ALL THE BOARD  
8   MEMBERS, BUT I THINK WE OUGHT TO SEEK CLARIFICATION FROM  
9   THE FPPC AS TO WHAT THE SPECIFIC FACTS OF THAT  
10   INTERACTION ARE AND WHAT WE CAN DRAW FROM THAT  
11   EXPERIENCE, THAT EXAMPLE, SO WE NO LONGER HAVE A  
12   PERCEIVED OR REAL CONFLICT IN THE FUTURE. AND THAT,  
13   FRANKLY, THE WORK THAT WILL TAKE PLACE WILL BE AN  
14   EXAMINATION OF THE SCIENTIFIC AND FINANCIAL WORK WHICH IS  
15   SO VITAL TO CALIFORNIA'S FUTURE.

16           SO I WILL BE SENDING, I WILL WORK WITH STAFF,  
17   I'M INSTRUCTING STAFF ACTUALLY AT THIS POINT TO DRAFT A  
18   LETTER FOR A FULL REVIEW OF THIS MATTER.

19           MR. KLEIN: THANK YOU, MR. CHAIRMAN. I'D LIKE  
20   TO SAY WE WELCOME THE REVIEW. IT'S IMPORTANT FOR US AS A  
21   YOUNG AGENCY TO CONTINUE TO LEARN. AND AS WE LEARN, EVEN  
22   WITH HIGHLY ATYPICAL SITUATIONS, WHICH THAT WAS,  
23   FORTUNATELY OUR FIREWALLS AND PROTECTION SYSTEMS FOR  
24   CONFLICTS WORKED. AS YOU KNOW, THAT GRANT WAS ACTUALLY  
25   DENIED SEVERAL MONTHS AGO AND WAS PUBLICLY ANNOUNCED THE

## BARRISTERS' REPORTING SERVICE

1 DENIAL A COUPLE OF MONTHS AGO. AND IT WAS DENIED ON A  
2 FACTUAL ERROR. BUT IT'S VERY IMPORTANT EVEN TO MAKE SURE  
3 WE HAVE STRICT TECHNICAL COMPLIANCE EVEN THOUGH THIS  
4 GRANT WAS RATED THE SECOND HIGHEST IN THE WHOLE STATE.  
5 SO WE HAVE VERY STRICT STANDARDS. THOSE FIREWALLS AND  
6 PROTECTIONS PROVED THEMSELVES. THAT GRANT WAS DENIED  
7 DESPITE ITS VERY HIGH SCIENTIFIC STANDARDS BECAUSE OF A  
8 TECHNICAL ERROR IN THE GRANT. AND WE WELCOME THE  
9 GUIDANCE FROM THE FPPC SO WE CAN LEARN AND GO FORWARD, AS  
10 YOU SAY, WITH TRANSPARENCY AND MAKE SURE THAT EVERYONE  
11 UNDERSTANDS WE'RE ABSOLUTELY FOCUSED ON THE MERITS AND  
12 ACHIEVING THOSE MERITS.

13 CHAIRMAN CHIANG: NOT ONLY DOES THIS PROTECT  
14 THE PUBLIC POLICY ELEMENTS, THE PUBLIC INTERESTS, THE  
15 INSTITUTE'S INTEREST, WHAT I DON'T WANT TO BE LOST IS IT  
16 ALSO PROTECTS ALL THE APPLICANTS' INTERESTS, RIGHT,  
17 BECAUSE WE DO NEED CLEAR STANDARDS TO BE UNDERSTOOD SO  
18 THAT THEY CAN PARTICIPATE IN THE PROCESS AND THAT WE CAN  
19 HAVE THE BEST SCIENCE ADVANCED.

20 MR. KLEIN: THANK YOU VERY MUCH, MR. CHAIRMAN.  
21 MR. CHAIRMAN, AT THIS POINT, BEFORE WE END THIS  
22 PARTICULAR ITEM AND GO INTO PUBLIC COMMENT, COULD WE  
23 PROVIDE YOU THE INTELLECTUAL PROPERTY PRESENTATION YOUR  
24 PANEL ASKED FOR LAST YEAR BECAUSE WE'RE ABOUT TO GO FROM  
25 ONLY FUNDING NONPROFIT INSTITUTIONS, WHICH WE HAVE FUNDED

## BARRISTERS' REPORTING SERVICE

1 TO DATE, TO FUNDING AS WELL FOR-PROFIT INSTITUTIONS WHO  
2 COMPETE ON THE BEST SCIENCE TO SEE HOW WE CAN ADVANCE  
3 MEDICAL THERAPIES. AND SO IT'S IMPORTANT THAT THE  
4 INTELLECTUAL PROPERTY POLICY THAT WILL PROVIDE A RETURN  
5 TO THE STATE, WHETHER IT'S A NONPROFIT GRANT OR A  
6 FOR-PROFIT GRANT, BE CLEAR RULES, CLEARLY UNDERSTOOD BY  
7 ALL THE PARTIES.

8 AND AS I SHOWED IN THE PRESENTATION, WHILE THIS  
9 IS ONLY 8 PERCENT OF THE TOTAL BENEFIT TO THE STATE  
10 ECONOMICALLY, IT'S AN IMPORTANT PRECEDENT BECAUSE NO ONE  
11 ELSE IN THE NATION DOES IT. SO CALIFORNIA IS AGAIN THE  
12 LEADER. THE NATIONAL INSTITUTES OF HEALTH PROVIDE \$28  
13 BILLION A YEAR IN SUPPORT. FEDERAL GOVERNMENT DOESN'T  
14 GET ANY LICENSING OR ROYALTY INCOME. SO CALIFORNIA IS  
15 AGAIN BLAZING THE TRAIL. AND I'D LIKE DR. ED PENHOET,  
16 WHO IS NOT ONLY THE VICE CHAIR OF THIS BOARD, BUT HE'S  
17 ALSO THE PRESIDENT OF THE GORDON AND BETTY MOORE  
18 FOUNDATION, A \$5 BILLION ENTERPRISE ON ITS OWN, CRUSADING  
19 FOR BETTER EDUCATION, BETTER ENVIRONMENT FOR OUR NATION  
20 AND OUR WORLD, IF HE WOULD -- HE HAS LED THIS TASK FORCE  
21 OF THE BOARD, AND I'D LIKE HIM TO DO THIS PRESENTATION IF  
22 THAT'S ACCEPTABLE.

23 CHAIRMAN CHIANG: YES, PLEASE. LOOK FORWARD TO  
24 THIS.

25 DR. PENHOET: THANK YOU, CONTROLLER CHIANG AND

## BARRISTERS' REPORTING SERVICE

1 OTHER MEMBERS OF THE COMMITTEE, FOR THIS OPPORTUNITY TO  
2 BRING YOU UP TO DATE ON WHAT WE'VE BEEN DOING IN THE  
3 INTELLECTUAL PROPERTY ARENA. BEFORE I START THAT  
4 DISCUSSION, I WOULD LIKE TO ADD A COMMENT TO THE QUESTION  
5 YOU ASKED EARLIER ABOUT THE PROGRESS OF THIS WHOLE  
6 ENTERPRISE WITHIN THE STATE.

7 I THINK ONE OF THE IMPORTANT DISTINCTIONS THAT  
8 WE HAVE HERE IS THAT OUR ACTIONS NOW ARE GUIDED BY A  
9 STRATEGIC PLAN, WHICH IS VERY COMPREHENSIVE. IT INCLUDES  
10 THE ROLE OF BASIC RESEARCH, OF TRAINING, OF FACILITIES,  
11 OF THE TRANSLATIONAL MEDICINE, ETC., AND IT'S TRULY  
12 UNUSUAL.

13 MOST FEDERAL FUNDING COMES FROM AGENCIES WHICH  
14 SUPPORT GOOD RESEARCH, BUT DON'T REALLY HAVE AN OVERALL  
15 STRATEGIC PLAN THAT THEY FOLLOW. I THINK ONE OF THE  
16 IMPORTANT DISTINCTIONS OF CIRM IS THAT THERE IS A  
17 WELL-DEVELOPED STRATEGIC PLAN THAT FORMS THE BASIS FOR  
18 OUR PROGRAMS. SO WHEN WE PUT OUT RFA'S FOR TRAINING, AN  
19 RFA FOR DEVELOPING NEW CELL LINES, THEY'RE ALL PART OF AN  
20 OVERALL STRATEGY GOING FORWARD. I THINK THAT'S A VERY  
21 IMPORTANT DISTINCTION THAT WILL BE VERY IMPORTANT TO THE  
22 STATE GOING FORWARD.

23 SO I AM HERE TO -- ONE OTHER COMMENT. BOB SAID  
24 WE GET PEOPLE FROM HARVARD WHO ARE THE BEST IN THE FIELD.  
25 I THINK OUR CALIFORNIA COLLEAGUES WOULD BE RELUCTANT TO

## BARRISTERS' REPORTING SERVICE

1 AGREE THAT THE BEST STEM CELL RESEARCHERS ARE AT HARVARD.  
2 SO, BOB, EXCUSE ME FOR CORRECTING YOU, BUT WE HAVE THE  
3 BEST STEM CELL RESEARCHERS IN CALIFORNIA.

4 CHAIRMAN CHIANG: I'M PARTIAL TO CALIFORNIA.

5 DR. PENHOET: SO THANK YOU, JOHN SIMPSON, FOR  
6 YOUR COMMENTS ABOUT THIS PROCESS. FIRST OF ALL, JUST TO  
7 BRING YOU UP TO DATE ON WHAT WE HAVE DONE TO DEVELOP THE  
8 POLICIES WE NOW HAVE LARGELY IN PLACE. FIRST OF ALL, IT  
9 HAS BEEN A VERY BROADBASED AND THOROUGH DISCUSSION WITH  
10 MANY DIFFERENT CONSTITUENCIES. I THINK, AS YOU HAVE BEEN  
11 INFORMED IN THE PAST, OUR INTELLECTUAL PROPERTY POLICIES  
12 ACTUALLY HAVE NO PRECEDENT ANYWHERE IN THE COUNTRY  
13 BECAUSE THE FEDERAL GOVERNMENT DOES NOT ASK FOR A RETURN  
14 TO THE GOVERNMENT FOR ANY OF ITS INVESTMENTS IN SCIENCE,  
15 BASIC OR OTHERWISE.

16 IN THIS CASE PROP 71 SPECIFIED THAT THERE WOULD  
17 BE A RETURN TO THE STATE. AND IN ADDITION TO THAT, WHILE  
18 WE TOOK ON THE NARROW ISSUE OF RETURN TO THE STATE, WE  
19 ALSO WITHIN THE INTELLECTUAL PROPERTY POLICIES ADDRESSED  
20 MANY OF THE ISSUES ASSOCIATED WITH ACCESS, WITH MARCH-IN  
21 RIGHTS, AND A VARIETY OF OTHER THINGS THAT YOU WILL SEE.

22 SO WE ENGAGED STAKEHOLDERS THE INDUSTRY, FROM  
23 THE CONCERNED CITIZENS GROUPS, FROM THE INSTITUTIONS  
24 DIRECTLY AFFECTED, AND THE NONPROFIT WORLD, ETC. WE HAVE  
25 HAD, AS IT SAYS HERE, 15 PUBLIC MEETINGS OVER THE LAST

## BARRISTERS' REPORTING SERVICE

1 TWO AND A HALF YEARS SEEKING INPUT AND, FRANKLY, SOME  
2 CONSENSUS ON THIS ISSUE. I CAN TELL YOU TODAY WE HAVE AN  
3 UNUSUAL CONSENSUS IN THE SENSE THAT THERE'S PROBABLY NO  
4 ONE IN THE STATE WHO IS HAPPY WITH THESE POLICIES BECAUSE  
5 THEY DON'T GO FAR ENOUGH IN ANY DIRECTION TO MAKE ANY OF  
6 THESE CONSTITUENCIES TOTALLY HAPPY, BUT I DO BELIEVE WE  
7 HAVE REACHED A MIDDLE GROUND WHICH WILL BE EFFECTIVE AND  
8 WHICH WILL ALLOW US TO PROCEED IN A GOOD WAY GOING  
9 FORWARD.

10 BECAUSE THERE IS REALLY NO PRECEDENT FOR THIS  
11 ANYWHERE, WE DID A LOT OF HOMEWORK. IN ADDITION TO THE  
12 PUBLIC MEETINGS, WE'VE SURVEYED BEST PRACTICES OF FUNDING  
13 AGENCIES THROUGHOUT THE WORLD, BOTH GOVERNMENTAL AND  
14 INCREASINGLY FOUNDATIONS WHO ARE PLAYING AN IMPORTANT  
15 ROLE IN THIS FUNDING OF SCIENCE GOING FORWARD. WE  
16 INTERVIEWED MORE THAN A HUNDRED DIFFERENT PEOPLE,  
17 ASSEMBLED A VERY SUBSTANTIAL BODY OF INFORMATION ABOUT  
18 WHAT OTHER ORGANIZATIONS ARE DOING AND WHAT THE PLUSES  
19 AND MINUSES OF THEIR APPROACH HAVE BEEN. SO IT'S BEEN A  
20 VERY COMPREHENSIVE EFFORT.

21 IF I CAN HAVE THE NEXT SLIDE, SCOTT. WE HAVE  
22 DEVELOPED AT THIS POINT TWO DIFFERENT POLICIES, ONE FOR  
23 NONPROFIT ORGANIZATIONS AND ONE FOR FOR-PROFIT. BECAUSE  
24 MANY OF THE FIRST GRANTS WERE ESSENTIALLY DESIGNED FOR  
25 NONPROFIT AGENCIES, TRAINING GRANTS, ETC., WE TACKLED



## BARRISTERS' REPORTING SERVICE

1 THAT PROBLEM FIRST. THE POLICY WAS APPROVED IN FEBRUARY  
2 OF '06. THE REGULATIONS WERE ADOPTED IN DECEMBER OF '06.  
3 AND THE OAL APPROVED THESE EFFECTIVE JULY 2007. SO THE  
4 POLICY FOR NONPROFITS HAS GONE THROUGH THE ENTIRE PROCESS  
5 AND HAS BECOME EFFECTIVE AND IS CURRENTLY STATE LAW,  
6 WHICH, FRANKLY, IS QUITE DIFFERENT THAN ANY OTHER FEDERAL  
7 AGENCY, FOR EXAMPLE, WHERE THE POLICIES OF NIH ARE NIH  
8 POLICIES, BUT THEY DON'T CARRY THE FULL FORCE OF LAW.  
9 THESE REGULATIONS ARE LEGAL REQUIREMENTS UPON OUR  
10 GRANTEES.

11 WE'VE ENGAGED IN PARALLEL IN SOME AREAS IN  
12 SEQUENCE IN OTHER AREAS DEVELOPING A POLICY FOR WHEN WE  
13 MAKE GRANTS TO PROFIT-MAKING ORGANIZATIONS. IN THE CASE  
14 OF THE BIOTECH INDUSTRY, MANY OF THEM ARE HOPEFULLY  
15 PROFIT-MAKING ORGANIZATIONS SOME DAY, BUT THEIR GOAL IS  
16 TO BE A PROFIT-MAKING ORGANIZATION.

17 THIS POLICY WAS APPROVED LAST DECEMBER.  
18 REGULATIONS HAVE BEEN DRAFTED. WE'VE HAD SEVERAL  
19 DIFFERENT PUBLIC COMMENT PERIODS, AND WE HOPE TO ADOPT  
20 THESE AT OUR DECEMBER BOARD MEETING THE WEEK AFTER NEXT  
21 AND ACHIEVE OAL APPROVAL IN THE SPRING OF '08. SO ONE OF  
22 YOUR DIRECTIONS TO US AS A GROUP IN THE LAST MEETING WAS  
23 THAT WE GET ON WITH THE FOR-PROFIT PIECE, AND WE'RE  
24 PLEASED TO BE ABLE TO TELL YOU I THINK WE'RE VIRTUALLY AT  
25 THE END OF THAT PROCESS WITH A LOT OF HELP FROM SCOTT

## BARRISTERS' REPORTING SERVICE

1 TOCHER, WHO IS HERE BY MY SIDE, AND FROM MY DEPUTY MARY  
2 MAXON ON THE CIRM WHO'S DONE A LOT OF WORK ON THIS  
3 SUBJECT.

4 LET ME JUST REVIEW FOR YOU COMMON ELEMENTS  
5 BETWEEN THE TWO POLICIES. WHETHER IT'S FOR-PROFIT OR  
6 NONPROFIT, THERE ARE MANY ELEMENTS IN COMMON BETWEEN THE  
7 TWO. ONE IS SHARING OF INFORMATION. THIS WAS EXTREMELY  
8 IMPORTANT. WE HAD MANY DISCUSSIONS ABOUT THIS. WE WANT  
9 AS MUCH SHARING OF INFORMATION, FIRST OF ALL, FOR ITS  
10 TRANSPARENCY ON WHAT'S GOING ON WITH THE FUNDING, BUT  
11 ESPECIALLY TO FACILITATE THE WORK OF OTHERS BECAUSE  
12 SCIENCE IS BUILT ON THE SHOULDERS OF PEOPLE WHO DID  
13 SCIENCE BEFORE. NEW SCIENCE IS BUILT ON OLD SCIENCE.  
14 AND THE BEST NEW SCIENCE TAKES ADVANTAGE OF WHAT'S BEEN  
15 LEARNED BY OTHERS. SO WE WANTED TO MAKE SURE THAT OUR  
16 GRANTEES SHARED INFORMATION AND MATERIALS WITH OTHER  
17 SCIENTISTS TO EMPOWER THEIR WORK.

18 SO WE HAVE ELEMENTS IN OUR POLICY THAT DEAL  
19 WITH PUBLICATION, WITH BIOMEDICAL MATERIALS WHICH HAVE  
20 BEEN PUBLISHED, AND IN THE CASE OF WHEN PEOPLE HAVE  
21 SPECIFICALLY TAILORED STRATEGIES, THAT THE LICENSE  
22 RIGHTS, ETC., AND THE LICENSEES ARE BOUND BY THE SAME  
23 REQUIREMENTS AS OUR GRANTEES ARE BOUND BY. SO THERE'S A  
24 LOT OF ELEMENTS OF OUR POLICY -- OBVIOUSLY I DON'T HAVE  
25 TIME TO TAKE YOU THROUGH. IT'S A VERY LONG DOCUMENT

## BARRISTERS' REPORTING SERVICE

1     HERE, BUT THESE ARE CRITICAL ELEMENTS WITH RESPECT TO  
2     SHARING OF INFORMATION.

3             BY THE WAY, I MIGHT ADD THAT WHEN PEOPLE FILE  
4     PATENTS, THE PATENTS BECOME PUBLISHED IN DIFFERENT  
5     ENVIRONMENTS, BUT IN 12 TO 18 MONTHS AFTER THE PATENTS  
6     ARE AWARDED, SO A PATENT IS A PUBLICATION AT THE END OF  
7     THE DAY.

8             WE HAVE SPENT A LOT OF TIME ON THE WHOLE ACCESS  
9     ISSUE. I KNOW IT'S VERY IMPORTANT TO THE LEGISLATURE IN  
10    CALIFORNIA. WE HAVE TRIED TO BALANCE THE INTERESTS OF  
11    VARIOUS DIFFERENT PARTIES HERE. FIRST OF ALL, WE DO HAVE  
12    AN ELEMENT OF OUR POLICY WHICH DEMANDS THAT LICENSEES  
13    MUST PROVIDE COMMERCIAL PRODUCTS TO UNINSURED  
14    CALIFORNIANS. THERE'S A LOT OF DEBATE ABOUT HOW TO DO  
15    THIS, AND WE HAVE COME DOWN ON THE SIDE OF SAYING THAT IF  
16    COMPANIES DEVELOP PRODUCTS WITH CIRM FUNDING, THAT THOSE  
17    PRODUCTS HAVE TO BE AVAILABLE IN ACCESS PROGRAMS WHICH  
18    ARE STANDARD IN THE INDUSTRY AT THE TIME THAT THOSE  
19    PRODUCTS BECOME COMMERCIAL. AND MOST BIOTECH COMPANIES  
20    AND MOST PHARMA COMPANIES HAVE SUCH PROGRAMS. GENENTECH  
21    HAS HAD A VERY GOOD ONE FOR MANY YEARS TO TREAT PEOPLE  
22    WHO CAN'T AFFORD THE NORMAL PRICE FOR DRUGS FOR ONE  
23    REASON OR ANOTHER, BUT LACK OF INSURANCE IS THE PRIMARY  
24    REASON.

25            THAT SAID, THE LICENSEES OF OUR TECHNOLOGY WILL

## BARRISTERS' REPORTING SERVICE

1 HAVE TO PROVIDE ACCESS AS WILL PEOPLE WHO SELF-DEVELOP  
2 THEIR OWN PRODUCTS IN CALIFORNIA. ONE OF THE UNDERLYING  
3 FACTORS IN DEVELOPING A FOR-PROFIT POLICY IS WE WANTED TO  
4 ACTUALLY BUILD IN SOME INCENTIVES FOR CALIFORNIA  
5 COMPANIES TO DEVELOP THE PRODUCTS AND SELL THEM  
6 THEMSELVES RATHER THAN LICENSE THEIR TECHNOLOGY TO THIRD  
7 PARTIES OUTSIDE THE STATE. SO YOU WILL SEE OTHER ASPECTS  
8 OF THAT ARE GOING FORWARD, BUT WHETHER A PARTY IS A  
9 LICENSEE OF A CALIFORNIA INVENTION OR COMMERCIALIZES IT  
10 THEMSELVES, THEY HAVE THE SAME OBLIGATION TO PROVIDE  
11 THOSE MATERIALS TO UNINSURED CALIFORNIANS.

12 WE HAVE A PROGRAM IN PLACE THAT PROVIDES FOR  
13 DISCOUNTED PRICING TO ALL PUBLICLY FUNDED PURCHASERS.  
14 THIS TURNED OUT TO BE A VERY DIFFICULT ASPECT OF THIS.  
15 WE CURRENTLY ARE PEGGING THIS PROGRAM TO THE OPERATION OF  
16 CALRX, WHICH HAS BEEN PASSED, BUT NOT FUNDED, AS YOU  
17 KNOW. WE LOOKED AT MANY ALTERNATIVES FOR PROVIDING LOW  
18 PRICES FOR PUBLICLY FUNDED PURCHASES, AND THIS WE THINK  
19 IS THE BEST SOLUTION GOING FORWARD. HOWEVER, I HAVE TO  
20 TELL YOU IF CALRX NEVER COMES INTO BEING, WE WILL HAVE TO  
21 MODIFY THIS POLICY SOMEDAY WHEN THESE PRODUCTS COME TO  
22 MARKET.

23 AND THEN FINALLY, WE HAD A LOT OF DEBATE ABOUT  
24 WHAT LEVEL OF FUNDING WOULD TRIGGER THESE OBLIGATIONS TO  
25 PROVIDE ACCESS. AND WE DECIDED THAT THE FIRST DOLLAR IN.

## BARRISTERS' REPORTING SERVICE

1 IF ANY ORGANIZATION TAKES A SINGLE DOLLAR OF CIRM  
2 FUNDING, THAT THEY'RE SO-CALLED IN FOR A PENNY, IN FOR A  
3 POUND, THEY HAVE TO ESSENTIALLY ABIDE BY THESE ACCESS  
4 REGULATIONS IRRESPECTIVE OF THE AMOUNT OF FUNDING WHICH  
5 CAME FROM CIRM.

6 WE DO HAVE MARCH-IN RIGHTS TO ENSURE THAT THE  
7 INVENTIONS ACTUALLY GET UTILIZED. WE CAN ENFORCE  
8 COMPLIANCE WITH AN ACCESS PLAN. WE CAN ENFORCE PUBLIC  
9 USE REQUIREMENTS AND DISCOUNT PROVISIONS, AND WE CAN  
10 ALLEVIATE PUBLIC HEALTH EMERGENCY NEEDS IF THEY'RE  
11 DECLARED BY THE GOVERNOR. I DON'T BELIEVE THAT'S EVER  
12 BEEN DONE IN THE STATE OF CALIFORNIA, BUT THAT IS A  
13 FEATURE HERE WHICH WE CAN COUNT ON IF NEED BE.

14 JUST TO GIVE YOU SOME SENSE OF THE MAJOR  
15 DIFFERENCES BETWEEN THE FOR-PROFIT COMMUNITY AND THE  
16 NONPROFIT IN TERMS OF WHAT WILL EVENTUALLY LEAD TO  
17 REVENUES FOR THE STATE AND THE DIRECT REPAYMENT TO THE  
18 STATE SHOWN ON THIS SLIDE. SO IF YOU LOOK AT THE  
19 RIGHT-HAND SIDE OF YOUR SCREEN, YOU SEE IN THE CASE --  
20 WHEN WE FUND A NONPROFIT, THEY CARRY OUT PRIMARILY BASIC  
21 SCIENCE OR APPLIED SCIENCE TO SOME DEGREE, BUT THEY HAVE  
22 NO ABILITY THEMSELVES TO COMMERCIALIZE PRODUCTS. IN  
23 ORDER FOR ANY DISCOVERY MADE BY A NONPROFIT TO REACH THE  
24 MARKETPLACE, THEY HAVE TO LICENSE THEIR TECHNOLOGY TO A  
25 COMPANY OF ONE SORT OR ANOTHER WHO WILL USE THAT

## BARRISTERS' REPORTING SERVICE

1     TECHNOLOGY AS THE BASIS FOR A PRODUCT OR A PRODUCT LINE.

2                     SO IN THIS CASE THE ONLY POSSIBILITY FOR  
3     REMUNERATION TO THE INVENTOR IN A GIVEN NONPROFIT  
4     ORGANIZATION WOULD BE AS A RESULT OF ROYALTIES OR OTHER  
5     FORMS OF PAYMENT THAT ARE ASSOCIATED WITH A LICENSE TO A  
6     COMMERCIAL ENTERPRISE BECAUSE THEY HAVE NO ABILITY TO  
7     COMMERCIALIZE IT THEMSELVES. THAT'S DIFFERENT IN THE  
8     CASE OF A FOR-PROFIT ENTITY, AS YOU CAN SEE ON THE  
9     LEFT-HAND SIDE OF THE SLIDE. BASIC SCIENCE IS DONE IN A  
10    FOR-PROFIT ORGANIZATION, QUITE GOOD BASIC SCIENCE  
11    OFTENTIMES. IF IT LEADS TO INVENTIONS, THE COMPANY HAS  
12    THE SAME ABILITY TO LICENSE THAT TECHNOLOGY TO A THIRD  
13    PARTY AS A NONPROFIT DOES, AND THAT FREQUENTLY DOES  
14    HAPPEN FOR A VARIETY OF DIFFERENT REASONS, EITHER THE  
15    COMPANY CAN'T AFFORD THE LARGE PHASE 3 CLINICAL TRIALS  
16    REQUIRED TO COMMERCIALIZE THE PRODUCT OR IT DOESN'T FIT  
17    WITH THEIR PRODUCT LINE. FOR ONE REASON OR ANOTHER,  
18    COMPANIES WILL LICENSE THEIR TECHNOLOGY TO THIRD PARTIES.

19                    HOWEVER, AND INCREASINGLY SO AS THE BIOTECH  
20    INDUSTRY MATURES, THE COMPANIES ACTUALLY TAKE THIS  
21    INVENTION, TURN IT INTO A PRODUCT, DO PRECLINICAL WORK  
22    PRODUCT DEVELOPMENT, AND EVENTUALLY MARKET THE PRODUCT  
23    THEMSELVES. CALIFORNIA HAS BEEN FORTUNATE TO HAVE A  
24    NUMBER OF VERY FINE BIOTECHNOLOGY COMPANIES THAT HAVE  
25    GONE THROUGH THIS ENTIRE PROCESS AND ARE TODAY FULLY WHAT

## BARRISTERS' REPORTING SERVICE

1 WE'VE CALLED A FULLY INTEGRATED COMPANY, DOING EVERYTHING  
2 FROM RESEARCH THROUGH DEVELOPMENT TO MARKETING.  
3 GENENTECH IS THE PREMIERE EXAMPLE OF THAT. AMGEN,  
4 CHIRON, A NUMBER OF COMPANIES IN CALIFORNIA NOW  
5 SUCCESSFULLY HAVE TRAVERSED THIS ENTIRE PATHWAY AND  
6 BECOME ROBUST COMMERCIAL ENTERPRISES.

7 WE THINK IT'S IMPORTANT THAT WE ENCOURAGE  
8 COMPANIES TO ACTUALLY CARRY THESE ACTIVITIES OUT IN  
9 CALIFORNIA RATHER THAN LICENSE THEIR TECHNOLOGY BECAUSE A  
10 LOT OF THE ECONOMIC ACTIVITY ASSOCIATED WITH THE BUSINESS  
11 IS ACTUALLY CONTAINED IN THE BOXES THAT ARE BELOW THE  
12 BLUE CIRCLE IN THE MIDDLE HERE, THE PRECLINICAL WORK,  
13 PRODUCT DEVELOPMENT, AND OBVIOUSLY MARKETING AND  
14 MANUFACTURING IS ANOTHER KEY ISSUE.

15 SO AS WE THOUGHT ABOUT THE WHOLE PROCESS FOR  
16 THE FOR-PROFIT POLICY, WE WANTED TO BUILD SOME INCENTIVE,  
17 AND WE COULDN'T DO IT IN AN OVERLY GENEROUS WAY, BUT SOME  
18 INCENTIVES, AT LEAST, FOR COMPANIES TO FORWARD INTEGRATE  
19 THEMSELVES AND BECOME ROBUST, FULLY INTEGRATED COMPANIES  
20 HOPEFULLY IN CALIFORNIA.

21 SO HOW ABOUT THE RETURN TO THE STATE? THIS IS  
22 THE OTHER BIG ISSUE WITH RESPECT TO THE ECONOMICS IS HOW  
23 THE STATE WILL BENEFIT IN A DIRECT WAY FROM THE INVENTION  
24 OF TECHNOLOGY AND ITS APPLICATION IN THE COMMERCIAL  
25 WORLD. SO IN THIS CASE OF NONPROFITS, AS I SAID BEFORE,

## BARRISTERS' REPORTING SERVICE

1     THEY HAVE ONLY ONE WAY TO GET REVENUE.  THAT'S TO LICENSE  
2     THEIR TECHNOLOGY TO A COMPANY, HOPEFULLY HAVE THAT  
3     COMPANY SUCCESSFULLY DEVELOP THE TECHNOLOGY, AND AT THAT  
4     POINT RECEIVE ROYALTIES ON THE SALES OF PRODUCTS.  AND  
5     WHEN THEY DO, WE WILL ASK THEM TO SHARE WITH US 25  
6     PERCENT OF THEIR NET REVENUES FROM THOSE ROYALTY-BEARING  
7     AGREEMENTS THAT THEY HAVE WITH COMPANIES.  SO 25 PERCENT  
8     GOES TO THE STATE, 75 PERCENT IS RETAINED BY THE INVENTOR  
9     ORGANIZATION.

10           WE ALSO REQUIRE AGAIN, AS I SAID BEFORE, THAT  
11     THEY SHARE PUBLICATION-RELATED BIOMEDICAL MATERIALS.  IN  
12     THIS CASE WITH A NONPROFIT, AS I SAID, NO  
13     SELF-DEVELOPMENT IS ANTICIPATED.  IT COULD OCCUR ON A  
14     RARE BASIS.  A LOT OF BONE MARROW TRANSPLANTS, WHICH IS  
15     STEM CELL TRANSPLANT, BY THE WAY, GOES ON WHOLLY WITHIN  
16     SOME MEDICAL CENTERS THAT SPECIALIZE IN THAT TECHNOLOGY.  
17     BUT FOR THE MOST PART, STEM CELL THERAPIES WILL BE  
18     DEVELOPED IN THE COMPANY ENVIRONMENT, NOT IN THE  
19     NONPROFIT ENVIRONMENT.

20           IN THE CASE OF THE FOR-PROFIT, THE LICENSE, IF  
21     A FOR-PROFIT ENTITY DECIDES TO LICENSE TECHNOLOGY TO A  
22     THIRD PARTY --

23           MR. BRUNNER:  COULD I ASK A QUESTION ON THE  
24     NONPROFIT?  INVENTORS ARE THE INDIVIDUAL SCIENTISTS?

25           DR. PENHOET:  YES.



BARRISTERS' REPORTING SERVICE

1 MR. BRUNNER: NOT THE ORGANIZATION?

2 DR. PENHOET: YES. THANK YOU FOR ASKING.

3 THAT'S A CLARIFICATION. INVENTORS ARE THE INDIVIDUAL  
4 SCIENTISTS WHO INVENT SOMETHING. TYPICALLY IN MOST  
5 CALIFORNIA NONPROFITS THE LICENSE TO THE TECHNOLOGY IS  
6 MADE BY THE INSTITUTION, BUT THEY HAVE A POLICY WHICH  
7 SAYS THEY WOULD SHARE LICENSING REVENUES WITH THE ACTUAL  
8 INVENTORS WHO ARE THE, IN SOME CASES, FACULTY GRADUATE  
9 STUDENTS, POST DOCS, AND TYPICALLY THAT'S ABOUT A THIRD  
10 OF THE REVENUES GO TO THE INVENTORS THEMSELVES. SO THEY  
11 GET A SHARE OF THE INVENTION REVENUE STREAM. IN THIS  
12 CASE WE GET 25 PERCENT OF THE REVENUES WHICH ARE NOT  
13 GIVEN TO THE INVENTORS THEMSELVES, BUT IT IS THE  
14 INDIVIDUAL INVENTOR.

15 MR. BRUNNER: I THINK YOU MAY HAVE ANSWERED THE  
16 SECOND PART OF MY QUESTION, AND THAT IS THE ORGANIZATION  
17 THAT HAS MADE THE APPLICATION ALSO GETS PART OF THE  
18 REVENUE OUT OF THIS; FOR INSTANCE, UC SAN FRANCISCO.

19 DR. PENHOET: A GOOD EXAMPLE. THEY BENEFIT THE  
20 MOST ACTUALLY FROM BIOTECH INVENTIONS, SO THERE IS A  
21 CLEAR HISTORY THERE. I'LL GIVE YOU A SPECIFIC EXAMPLE.  
22 THE HEPATITIS B VACCINE, WHICH IS BROADLY USED, WAS  
23 INVENTED AT UC SAN FRANCISCO AND LICENSED EVENTUALLY TO  
24 MERCK. IF MERCK PAYS UC SAN FRANCISCO A DOLLAR, UC SAN  
25 FRANCISCO, AND IT HAD BEEN FUNDED BY CIRM, IT WAS NOT, OF

## BARRISTERS' REPORTING SERVICE

1 COURSE, IF IT HAD BEEN FUNDED BY CIRM AND MERCK PAID UCSF  
2 A DOLLAR, UCSF WOULD PAY THE INVENTORS 35 CENTS, LET'S  
3 SAY, WHICH WOULD BE THEIR FACULTY MEMBERS. THEY WOULD  
4 HAVE 65 CENTS LEFT. THEY WOULD SEND 25 PERCENT OF THE 65  
5 CENTS TO US AFTER PAYING THE INVENTORS.

6 MR. BRUNNER: THANK YOU.

7 DR. PENHOET: SO WE WOULD GET A QUARTER OF  
8 THAT, WHICH IS 16 CENTS, I GUESS.

9 BUT IN THE CASE OF THE FOR-PROFIT ENTITIES, IF  
10 THEY LICENSE TO THIRD PARTIES, THEY HAVE THE SAME  
11 REQUIREMENT TO GIVE 25 PERCENT OF WHATEVER THEY GET, BUT  
12 IN THEIR CASE THEY ACTUALLY DON'T PAY INVENTORS GENERALLY  
13 WITHIN THEIR COMPANIES, BUT THEY'VE HAD TO PAY FOR ALL  
14 THE EXPENSES OF THE INVENTORS, INCLUDING THEIR SALARIES,  
15 ETC., GOING FORWARD. THEY'RE REQUIRED TO SHARE THEIR  
16 PUBLICATION-RELATED MATERIALS. AND WE HAVE A DIFFERENT  
17 FORMULA NOW IF THEY SELF-DEVELOP RATHER THAN LICENSE OUT,  
18 AND THAT'S PROBABLY THE MOST IMPORTANT UNIQUE PART OF THE  
19 REQUIREMENTS FOR THE FOR-PROFIT COMPANIES IS THE  
20 DIFFERENCE IN HOW THEY PAY US.

21 SO FIRST OF ALL, THEY HAVE A FINITE RETURN OR A  
22 CAP RETURN. AND AT THE TIME OF THE CREATION OF REVENUES,  
23 THEY WILL PAY US BACK THREE TIMES AS MUCH MONEY AS WE PUT  
24 INTO THEIR PROJECT, WHATEVER IT IS. IF THEY TOOK \$1,  
25 THEY'RE STILL REQUIRED TO MEET ALL THE ACCESS

BARRISTERS' REPORTING SERVICE

1 REQUIREMENTS, THE SHARING REQUIREMENTS, AND ALL THE OTHER  
2 THINGS I SPOKE OF; BUT IF THEY COMMERCIALIZE SOMETHING,  
3 THEY HAVE A TOTAL EXPOSURE TO US OF THREE TIMES MORE  
4 MONEY THAN THEY TOOK FROM US IN THE FIRST PLACE. IF IT  
5 BECOMES A VERY SUCCESSFUL PRODUCT, THEY WILL PAY US THREE  
6 TIMES AGAIN IF THEY REACH \$250 MILLION IN SALES IN A  
7 GIVEN YEAR. AND IF IT BECOMES A VERY SUCCESSFUL PRODUCT,  
8 AND IT REACHES \$500 MILLION A YEAR, THEY WILL PAY ANOTHER  
9 THREE TIMES, AND OVER \$500 MILLION PAY A 1-PERCENT  
10 ROYALTY IF IT'S COVERED BY A PATENT.

11 SO IF IT BECOMES A \$500 MILLION PRODUCT, WE  
12 WILL GET NINE TIMES OUR MONEY BACK PLUS 1 PERCENT OF  
13 EXCESS OVER \$500 MILLION FROM THE COMPANY.

14 MS. POTTER: IS THIS CONSTANT DOLLARS, THIS 250  
15 MILLION, THE 500 MILLION, IS THAT IN CURRENT DOLLARS?

16 DR. PENHOET: THAT'S IN CURRENT DOLLARS.

17 MS. POTTER: OKAY.

18 DR. PENHOET: SO WE DON'T HAVE AN INFLATIONARY  
19 FACTOR BUILT IN, MS. POTTER. YOU KNOW, IF WE HAVE A  
20 HIGHLY INFLATIONARY PERIOD, I ASSUME THAT WE MIGHT HAVE  
21 TO GO BACK AND READJUST THESE NUMBERS, BUT THOSE ARE THE  
22 NUMBERS THAT WE HAVE AT THE PRESENT TIME.

23 AND THEN IF I COULD HAVE THE NEXT SLIDE, SCOTT.  
24 THIS JUST GIVES YOU A PICTORIAL REPRESENTATION OF THE  
25 WORDS I JUST SPOKE TO YOU. IF IT'S COMMERCIALIZED AND

## BARRISTERS' REPORTING SERVICE

1 BLOCKBUSTER STATUS IS ACHIEVED, IF YOU GO DOWN TO THE  
2 LEFT-HAND SIDE, IT GIVES THE FLOW CHART FOR -- IF WE  
3 INVESTED LESS THAN \$5 MILLION IN THE INVENTION, THEN IT'S  
4 WHAT I JUST TOLD YOU. IF WE HAVE INVESTED, CIRM HAS  
5 INVESTED MORE THAN FIVE MILLION AND THERE'S NO PATENT,  
6 THEN IT GOES TO THE LOWER LEFT-HAND BOX. IF THERE IS A  
7 PATENT INVOLVED, THEN IT GOES TO THE RIGHT-HAND BOX, AS  
8 YOU CAN SEE HERE.

9 SO IT'S A LITTLE BIT OF A COMPLICATED SCHEME  
10 THAT I THINK ADDRESSES THE MAJOR CONCERNS THAT WE HEARD  
11 FROM BOTH SIDES IN THIS THING. I THINK THE MOST  
12 IMPORTANT THING TO REALIZE IS THAT INDUSTRY, ONE OF THEIR  
13 MOST IMPORTANT POINTS WAS THEY REALLY NEED TO KNOW WHAT  
14 THEIR TOTAL EXPOSURE WOULD BE BECAUSE WE STILL EXPECT  
15 THAT THEIR PRIMARY SOURCES OF FUNDING WON'T BE US. IT  
16 WILL BE THE VENTURE CAPITAL COMMUNITY, ETC., AND THEY  
17 NEED SOME ASSURANCE ABOUT WHAT THEIR TOTAL EXPOSURE WOULD  
18 BE TO GO FORWARD. AND THEY HAVE THE OPTION TO CHOOSE, BY  
19 THE WAY, WHETHER THEY LICENSE IT OR WHETHER THEY  
20 COMMERCIALIZE THE PRODUCTS THEMSELVES.

21 SO WE'VE ESSENTIALLY, AS I SAID, JUST TO  
22 REVIEW, WE HAVE A GROUP OF POLICIES WHICH ARE COMMON FOR  
23 THE FOR-PROFIT AND NOT-FOR-PROFIT. THEY HAVE TO DO WITH  
24 ACCESS, WITH SHARING BIOMEDICAL MATERIALS, WITH PRICING  
25 FOR GOVERNMENTAL AGENCIES, ETC. THOSE ARE COMMON TO BOTH

## BARRISTERS' REPORTING SERVICE

1 POLICIES. THE PRIMARY DIFFERENCE IS IN THE CASE OF  
2 FOR-PROFIT ENTITIES, WE HAVE THIS SCHEME THAT'S IN FRONT  
3 OF YOU HERE. AND THAT'S WHAT WE HAVE ENDED UP WITH AFTER  
4 A LOT OF DISCUSSION WITH MANY DIFFERENT GROUPS.

5 I THINK IT DOES REPRESENT A REASONABLE  
6 COMPROMISE BETWEEN THE GOALS OF VARIOUS DIFFERENT GROUPS  
7 INVOLVED, ALTHOUGH, AS I SAID BEFORE, WE DON'T HAVE  
8 ANYBODY TOTALLY HAPPY WITH IT AT THE MOMENT. I THINK  
9 MOST PEOPLE ACCEPT IT AS A REASONABLE COMPROMISE. IT'S  
10 QUITE DIFFERENT THAN ANYTHING THAT'S BEEN DONE BEFORE.  
11 THE FEDERAL GOVERNMENT STILL DOESN'T REQUIRE ANY DIRECT  
12 RETURN, BUT I THINK PEOPLE ACCEPT THIS AS A FAIR BARGAIN.  
13 IF THEY'RE GOING TO GET THEIR WORK FUNDED BY THE STATE OF  
14 CALIFORNIA, THEN A DIRECT RETURN TO THE STATE IS  
15 REASONABLE AND, FRANKLY, WAS CALLED FOR IN PROP 71.

16 BE HAPPY TO ANSWER ANY OTHER QUESTIONS YOU  
17 HAVE.

18 CHAIRMAN CHIANG: THANK YOU. ANY QUESTIONS.

19 MS. POTTER: I JUST HAVE A COUPLE OF COMMENTS,  
20 AND IT TOUCHES ON THE BENEFIT THAT MAY BE SLIGHTLY  
21 UNDERESTIMATED. AND WHERE IS BOB? BOB HAD MENTIONED  
22 THAT EARLIER IN HIS COMMENTS. BUT ONE OF THE THINGS THAT  
23 HIT ME AS YOU WERE GOING THROUGH YOUR PRESENTATION, THE  
24 ANALYSIS OF NOT ONLY THE ROYALTY STREAM THAT WILL BE  
25 COMING TO THE STATE, BUT THE TECHNOLOGY BENEFIT TO PUBLIC

## BARRISTERS' REPORTING SERVICE

1 UNIVERSITIES, NONPROFIT UNIVERSITIES, COULD BE RATHER  
2 SUBSTANTIAL. AND I DON'T KNOW IF THAT WAS CAPTURED IN  
3 THE ANALYSIS THAT BOB WALKED THROUGH.

4 I THINK THERE'S ONE OTHER PIECE AS WELL, AND  
5 THAT IS THAT, AND MY MEMORY MAY BE A LITTLE FUZZY BECAUSE  
6 IT'S BEEN A LONG TIME SINCE I'VE WORKED WITH MEDICAID  
7 LEGISLATION AND PRICING, BUT THE REQUIREMENT FOR THE  
8 COMPANIES TO SET THESE PRODUCTS AT A CERTAIN PRICE LEVEL  
9 FOR THE STATE OF CALIFORNIA WILL BY DEFINITION PROVIDE  
10 BENEFIT TO THE FEDERAL GOVERNMENT BECAUSE I THINK THE LAW  
11 STILL REQUIRES THAT THE FEDERAL GOVERNMENT BE GRANTED  
12 BEST PRICING OR AT LEAST PRICING THAT DOESN'T EXCEED  
13 WHAT'S OFFERED TO STATES. IT MAY HAVE CHANGED A LITTLE  
14 BIT, BUT THAT IS A HUGE, HUGE BENEFIT THAT I HAVEN'T  
15 HEARD TALKED ABOUT.

16 DR. PENHOET: YOU ARE RIGHT ABOUT THAT. AND WE  
17 HAD TO BE VERY CAREFUL IN CONSTRUCTING THIS. AND ONE OF  
18 THE REASONS WE ENDED UP WITH CALRX AS THE GUIDELINE FOR  
19 WHAT WE DO IS THAT IN ORDER TO ACTUALLY OPERATE IN A  
20 FEDERAL SYSTEM AT THE MOMENT TO ENSURE LOWEST PRICES FOR  
21 FEDERALLY ACCESSED DRUGS AND OTHER THERAPIES, YOU HAVE TO  
22 HAVE IT. IT'S AN ENORMOUSLY COMPLEX SYSTEM OF REBATE,  
23 AND YOU'VE DEALT WITH THIS ONE IN YOUR LIFE AT GENENTECH,  
24 OF REBATES AND A BASKET OF PRODUCTS, ETC. AND IT TURNED  
25 OUT IT WAS UNWORKABLE FOR US SIMPLY TO USE THE MEDICAID

BARRISTERS' REPORTING SERVICE

1 BEST PRICE FROM THE FEDERAL STATUTES BECAUSE WE WOULD HAVE  
2 HAD TO PUT A WHOLE VERY COMPLICATED SYSTEM IN PLACE IN  
3 ORDER TO MEASURE WHAT THAT WAS. WE'VE TRIED TO COME UP  
4 WITH THE BEST SURROGATE WHILE NOT TRIPPING A TOTALLY  
5 DESTRUCTIVE BEST PRICE

6 MS. POTTER: EXACTLY.

7 DR. PENHOET: AS YOU CAN IMAGINE, AS A  
8 PRACTICAL MATTER, IF TOO MANY PEOPLE HAVE MOST FAVORED  
9 NATION CLAUSES IN THEIR AGREEMENTS, AND EACH ONE AGREES  
10 TO A BETTER PRICE, AND PRETTY SOON THE PRICE BECOMES  
11 ZERO, AND SO WE WANTED TO BE CAREFUL NOT TO TRIP THAT  
12 SORT OF DESTRUCTIVE PRICING SPIRALING DOWN TO NO PRICE.

13 BUT IF CALRX NEVER BECOMES IMPLEMENTED, AND IT  
14 MIGHT NOT FOR A VARIETY OF DIFFERENT REASONS, WE WILL  
15 HAVE TO GO BACK AND REVISIT THIS ISSUE FOR SURE.

16 MS. POTTER: VERY WELL THOUGHT OUT.

17 DR. PENHOET: THIS IS A DIRECT RETURN TO THE  
18 STATE. WE DO TEND TO SOMETIMES FORGET THAT THE  
19 UNIVERSITY OF CALIFORNIA IS PART OF THE STATE OF  
20 CALIFORNIA, AND UCSF IN PARTICULAR HAS BENEFITED  
21 TREMENDOUSLY FROM THE INVENTIONS IT MADE IN THE BIOTECH  
22 WORLD, HUNDREDS OF MILLIONS OF DOLLARS. AND SO HOPEFULLY  
23 THEY'LL BE HAPPY TO SHARE SOME OF THAT DIRECTLY WITH THE  
24 STATE, BUT ALSO USE THE REST PRODUCTIVELY IN THE STATE'S  
25 INTEREST.

BARRISTERS' REPORTING SERVICE

1 CHAIRMAN CHIANG: THANK YOU VERY MUCH.

2 DR. PENHOET: THANK YOU VERY MUCH.

3 CHAIRMAN CHIANG: I THINK THAT --

4 DR. PENHOET: ONE POINT. I MAY HAVE MISSPOKE.

5 THE FUNDING THAT GENERATED FROM THIS PROGRAM GOES

6 DIRECTLY TO THE GENERAL FUND OF THE STATE, NOT TO CIRM.

7 THANK YOU, TAMAR, FOR THAT CLARIFICATION.

8 CHAIRMAN CHIANG: THANK YOU FOR YOUR

9 PRESENTATION. ANY PUBLIC COMMENT? WE'LL GO TO THE NEXT

10 ITEM, WHICH IS BSA, CIRM PRESENTATION OF THE BUREAU OF

11 STATE AUDITS REPORT REGARDING CIRM.

12 MR. CORDINER: GOOD MORNING, MR. CHAIRMAN,

13 MEMBERS. MY NAME IS DOUG CORDINER. I'M THE CHIEF DEPUTY

14 FOR THE BSA. WHAT I'D LIKE TO DO TODAY IS JUST QUICKLY

15 STEP THROUGH THE FINDINGS THAT WE HAD DURING OUR AUDIT

16 THAT WAS ISSUED IN FEBRUARY OF 2007 AND REITERATE THE

17 RECOMMENDATIONS WE MADE. AND ALSO I'D LIKE TO GIVE YOU

18 THE STATUS, ACCORDING TO CIRM, BASED ON ITS SIX-MONTH

19 RESPONSE. I'D LIKE TO PREFACE MY REMARKS ABOUT THE

20 STATUS SAYING THAT THESE ARE ASSERTIONS MADE BY CIRM.

21 WE'VE HAD NO OPPORTUNITY TO GO BACK IN AND VERIFY SOME OF

22 THESE CLAIMS. AND IN THE FUTURE WE ARE AT THE SIX-MONTH

23 POINT. OUR AUDITS HAVE A FOLLOW-UP PROCESS THAT OCCURS

24 AT 90 DAYS, SIX MONTHS, AND ONE YEAR. AND SO WE WILL BE

25 IN CONTACT WITH THE AGENCY AND HOPEFULLY WE'LL GET SOME



## BARRISTERS' REPORTING SERVICE

1 UNDERLYING INFORMATION REGARDING THE STATUS OF SOME OF  
2 THESE RECOMMENDATIONS.

3 THAT SAID, I'LL GO THROUGH THESE. AND IF YOU  
4 HAVE QUESTIONS, JUST STOP ME ANYWHERE YOU'D LIKE.

5 OUR FIRST FINDING WAS WE WERE ASKED TO LOOK AT  
6 THE STRATEGIC PLAN, AND WE FOUND THAT CIRM DID A VERY  
7 THOROUGH JOB OF STRATEGIC PLANNING OUT FOR A TIME HORIZON  
8 OF TEN YEARS. PART OF THAT PLAN INDICATES THAT THEY WERE  
9 GOING TO MEASURE THEIR SUCCESS IN REACHING THE VARIOUS  
10 GOALS SET OUT IN THAT PLAN AT A THREE- AND SEVEN-YEAR  
11 POINT IN THE PLAN'S HORIZON. WE THOUGHT THAT WAS ALL  
12 WELL AND GOOD, ALTHOUGH WE NOTED THAT WE'D LIKE TO SEE  
13 SOME ANNUAL MEASUREMENTS BASED ON GRANTEES' REPORTED  
14 INFORMATION AS TO WHERE THEY WERE AT IN REACHING THE  
15 VARIOUS GOALS. AND SO THAT WAS THE RECOMMENDATION WE  
16 MADE.

17 WE RECOMMENDED THAT THE INSTITUTE FULFILL ITS  
18 PLANS TO DEVELOP A PROCESS TO TRACK MANAGEMENT  
19 INFORMATION REPORTED INITIALLY BY GRANTEES, THEREBY  
20 PROVIDING ACCOUNTABILITY AND ENABLING IT TO ACCESS ANNUAL  
21 PROGRESS IN MEETING STRATEGIC GOALS AND INITIATIVES.

22 AND BASED ON ITS SIX-MONTH RESPONSE, THE CIRM  
23 INDICATED THAT THEY ARE -- WHAT'S CORE TO THEM DOING THIS  
24 IS TO PROVIDE A CORE ELEMENT IN ITS SCIENTIFIC  
25 INFORMATION TRACKING AND MANAGEMENT REPORTING. THEY'VE

## BARRISTERS' REPORTING SERVICE

1 ISSUED A REQUEST FOR PROPOSALS, AND THEY DID THAT IN MAY.  
2 AND THEY DREW RESPONSES FROM FIVE FIRMS, AND CIRM WILL  
3 SEEK APPROVAL OF THE APPROVED SYSTEM FROM THE GOVERNING  
4 BOARD, AND THEY ANTICIPATE THAT MEETING TO OCCUR IN  
5 OCTOBER AND DECEMBER. SO THEREFORE, WE'VE GIVEN A STATUS  
6 TO THAT OF PENDING BECAUSE THE OUTCOME IS STILL IN ISSUE.

7 THE SECOND FINDING WE HAD WAS THE COMMITTEE HAD  
8 NOT COMPLETED PROVISIONS AT THAT TIME, WHICH WAS AS OF  
9 DECEMBER, THEY HADN'T COMPLETED PROVISIONS OF ITS  
10 INTELLECTUAL PROPERTY POLICIES REGARDING DISCOUNTED  
11 PRICES AND ACCESS TO THERAPIES. AS YOU SAW IN THE  
12 OVERHEAD, APPARENTLY THEY'VE MOVED A LITTLE BIT FURTHER,  
13 BUT WHAT OUR RECOMMENDATION AT THAT TIME WAS WAS THAT THE  
14 COMMITTEE ENSURE THAT IT FOLLOWS THROUGH WITH ITS PLAN TO  
15 IDENTIFY THE APPROPRIATE STANDARD FOR PROVIDING UNINSURED  
16 CALIFORNIANS ACCESS TO THERAPIES DEVELOPED USING  
17 INSTITUTE FUNDS AND TO CONVEY CLEARLY TO GRANTEES ITS  
18 EXPECTATIONS FOR PROVIDING ACCESS TO INTELLECTUAL  
19 PROPERTY POLICIES.

20 IN ADDITION, THE COMMITTEE SHOULD IDENTIFY  
21 PRACTICAL BENCHMARKS TO USE AS A STANDARD FOR DISCOUNT  
22 PRICES FOR THERAPIES AND APPLY THAT STANDARD TO THE  
23 POLICIES FOR GRANTS FOR NONPROFIT AND FOR-PROFIT  
24 ORGANIZATIONS.

25 AGAIN, AT THE TIME -- AND THIS SIX-MONTH

## BARRISTERS' REPORTING SERVICE

1     RESPONSE IS DATED SEPTEMBER 18, 2007.  AT THAT TIME THE  
2     COMMITTEE RESPONDED THAT THEY REMAIN COMMITTED TO  
3     ENSURING THAT THERAPIES DEVELOPED BY CIRM-FUNDED RESEARCH  
4     PROJECTS ARE ACCESSIBLE TO UNINSURED PATIENTS AND IS  
5     EQUALLY COMMITTED TO SEEKING DISCOUNTED PRICES FOR  
6     CALIFORNIA PATIENTS WHOSE DRUGS AND NONDRUG THERAPIES ARE  
7     PURCHASED WITH PUBLIC FUNDS.

8             CIRM HELD INTERESTED PARTIES PUBLIC MEETINGS TO  
9     REVIEW AND CONSIDER RELEVANT REGULATORY ISSUES AND  
10    STANDARDS RAISED IN BOTH OF THESE ISSUES.  THEY STATED  
11    THAT THEY WERE CONTINUING TO DEVELOP APPROPRIATE  
12    REGULATIONS GOVERNING BOTH NONPROFIT AND FOR-PROFIT  
13    GRANTEES AIMED AT ENSURING ACCESS AND DISCOUNTS  
14    DESCRIBED.  THEREFORE, WE AGAIN GAVE IT A PENDING STATUS.

15            OUR THIRD RECOMMENDATION OR FINDING WAS A  
16    PROVISION IN THE INSTITUTE'S INTELLECTUAL PROPERTY POLICY  
17    ALLOWING RESEARCHERS ACCESS TO INSTITUTE-FUNDED  
18    INVENTIONS WARRANTS FURTHER ATTENTION.  AT THAT POINT IN  
19    TIME, THERE WAS SOME -- INITIALLY THEY WERE GOING TO GIVE  
20    UNFETTERED ACCESS, AND THEN THAT WAS TAKEN OFF THE TABLE,  
21    AND THEY INSTITUTED SOME LANGUAGE AND THERE WAS  
22    CONSIDERABLE DEBATE ABOUT SOME OF THE TERMINOLOGY USED;  
23    BUT, IN ESSENCE, THE ACCESS WILL BE GRANTED UNDER  
24    REASONABLE TERMS.  AND THERE WAS DOUBT AS TO WHAT THAT  
25    REALLY TRULY MEANT.

## BARRISTERS' REPORTING SERVICE

1                   SO WHAT WE DID THERE IS WE RECOMMENDED THAT THE  
2       COMMITTEE MONITOR THE EFFECTIVENESS OF ITS POLICY TO MAKE  
3       INSTITUTE-FUNDED PATENTED INVENTIONS READILY ACCESSIBLE  
4       ON REASONABLE TERMS TO OTHER GRANTEE ORGANIZATIONS FOR  
5       NONCOMMERCIAL PURPOSES TO ENSURE -- AND TO ENSURE THAT IT  
6       DOES NOT INHIBIT THE ADVANCE OF STEM CELL RESEARCH.

7                   BASED ON THE RESPONSE TO THAT RECOMMENDATION,  
8       CIRM SAID THAT ITS REGULATIONS REQUIRE GRANTEES WHO  
9       LICENSE CIRM-FUNDED PATENTED INVENTIONS TO MAKE SUCH  
10      INVENTIONS AVAILABLE TO OTHER GRANTEE ORGANIZATIONS AND  
11      NONCOMMERCIAL -- FOR NONCOMMERCIAL RESEARCH PURPOSES. AS  
12      PART OF ITS GRANTS MANAGEMENT PROCESS, CIRM WILL MONITOR  
13      COMPLIANCE WITH THESE REGULATIONS BY REQUIRING GRANTEES  
14      TO SUBMIT ANNUAL REPORTS THAT IDENTIFY LICENSED PATENTED  
15      INVENTIONS AS WELL AS ANY REQUEST FOR ACCESS BY OTHER  
16      SCIENTISTS FOR NONCOMMERCIAL RESEARCH PURPOSES. BASED ON  
17      THAT RESPONSE, WE GAVE THE STATUS OF PARTIAL CORRECTIVE  
18      ACTION. AGAIN, THE MONITORING, WE HAVEN'T SEEN THE  
19      OUTCOME OF THAT, SO WE WOULD NEED TO SEE THAT TO GO  
20      FURTHER IN OUR STATUS.

21                  OUR FOURTH FINDING WAS THE INSTITUTE IS STILL  
22      DEVELOPING A POLICY FOR ADMINISTERING GRANTS TO  
23      FOR-PROFIT ENTITIES. AGAIN, AS WAS JUST SAID, THEY'VE  
24      MOVED FURTHER ALONG IN THAT ENDEAVOR SINCE WE WERE IN THE  
25      AGENCY. BUT WHAT WE RECOMMENDED WAS THAT THE INSTITUTE

## BARRISTERS' REPORTING SERVICE

1 COMPLETE THE DEVELOPMENT OF ITS GRANT ADMINISTRATION  
2 POLICY TARGETED TOWARDS FOR-PROFIT ORGANIZATIONS. IT WAS  
3 IN ITS GENESIS OF DOING THAT WHEN WE LEFT.

4 AND WHAT THEY SAID IN THEIR SIX-MONTH RESPONSE  
5 WAS THAT CIRM BEGAN DRAFTING A GRANTS ADMINISTRATION  
6 POLICY FOR FOR-PROFIT INSTITUTIONS IN DECEMBER OF '06 AND  
7 PROGRESS IS BEING MADE TOWARDS ITS COMPLETION. CIRM IS  
8 HOLDING INTERESTED PARTY MEETINGS. IN FACT, IT HELD ONE  
9 ON SEPTEMBER 7TH, AND THE PURPOSE THERE WAS TO PUBLICLY  
10 DISCUSS THE ISSUES RELATED TO THIS POLICY.

11 AGAIN, WE GAVE THAT A PENDING BECAUSE WE DIDN'T  
12 KNOW WHAT THE OUTCOME AT THAT POINT WAS.

13 OUR FIFTH ISSUE WE REPORTED ON WAS THAT THE  
14 GRANTS REVIEW WORKING GROUP SUBSTANTIALLY FOLLOWED ITS  
15 POLICY WHEN IT REVIEWED TRAINING GRANTS, BUT IT LACKED  
16 VOTING RECORDS. WE REVIEWED A LOT OF THESE ACTIONS THAT  
17 WERE TAKEN REGARDING THE GRANTS, AND WHAT WE FOUND WAS,  
18 WHILE THE POLICIES SEEMED SOUND TO US, WE DIDN'T SEE THE  
19 UNDERLYING DOCUMENTATION OF THE VOTES TAKEN. TO ITS  
20 CREDIT, CIRM IMMEDIATELY INSTITUTED A CHANGE IN THEIR  
21 POLICY. THEY'VE SINCE INSTITUTED WHERE EVERY VOTING  
22 MEMBER MUST HAVE A RECORD KEPT OF THE VOTES MADE ON  
23 GRANTING ANY -- OR MAKING A GRANT.

24 SO WE GAVE STATUS TO THAT AS CORRECTIVE ACTION  
25 TAKEN.

## BARRISTERS' REPORTING SERVICE

1           ANOTHER ISSUE WE FOUND WAS THAT THE INSTITUTE  
2   IS DEVELOPING POLICIES OR PROCEDURES TO ENSURE THAT  
3   GRANTEES COMPLY WITH THE TERMS OF THEIR AWARDS. OUR  
4   RECOMMENDATION WAS TO MONITOR THE PERFORMANCE OF GRANTEES  
5   EFFECTIVELY, WE RECOMMEND THAT THE INSTITUTE COMPLETE THE  
6   IMPLEMENTATION OF ITS GRANTS MONITORING PROCESS,  
7   INCLUDING AUDITS, AND THE DEVELOPMENT OF RELATED  
8   PROCEDURES. BASICALLY WHAT WE SAW WAS THAT THERE'S BOTH  
9   A FINANCIAL ASPECT AND A PROGRAMMATIC ASPECT OF THEIR  
10  MONITORING CAPABILITY. THEY ALSO HAVE THE CAPABILITY TO  
11  GO IN AND HAVE AN AUDIT DONE OF A GRANTEE, BUT THEY  
12  DIDN'T REALLY HAVE A FULLY ROBUST PROCESS FOR DOING THAT.

13           AND WHAT THEY RESPONDED TO US WAS THAT CIRM  
14  TAKES VERY SERIOUSLY ITS OBLIGATION TO MONITOR THE  
15  PERFORMANCE OF ITS GRANTEES AS PART OF THE GRANTS  
16  MONITORING PROCESS. CIRM CONDUCTS A COMPLETE  
17  ADMINISTRATIVE REVIEW PRIOR TO ISSUING FORMAL NOTICES OF  
18  GRANT AWARD AND BEFORE FUNDS ARE RELEASED. FOR RESEARCH  
19  GRANTS, CIRM HAS ALSO DEVELOPED A CODING SYSTEM FOR  
20  MONITORING THE TYPES OF RESEARCH THAT IT FUNDS. FOR  
21  FACILITIES GRANTS, CIRM HAS DEVELOPED A SET OF  
22  PERFORMANCE MILESTONES THAT REQUIRE A COMPLETE  
23  ADMINISTRATIVE REVIEW THROUGHOUT THE LIFE OF THE GRANT.  
24  CIRM CONTINUES TO DEVELOP A WEB-BASED REPORTING SYSTEM  
25  FOR GRANTEES TO FACILITATE THE GRANTS MONITORING PROCESS.

## BARRISTERS' REPORTING SERVICE

1                   SO THEY DIDN'T SPEAK DIRECTLY TO WHAT WE WANTED  
2     TO SEE, WHICH WAS THE FINANCIAL BASE, THE PROGRAMMATIC  
3     BASE, AS WELL AS WHAT THEY INTENDED TO DO IN THE WAY OF  
4     AUDITS. SO WHAT WE SAID ON OUR STATUS HERE IS IT'S  
5     PARTIAL, AND WE NEED TO DO SOME FOLLOW-UP TO FIND OUT  
6     EXACTLY WHAT THE ADMINISTRATIVE REVIEW ENTAILS.

7                   THE NEXT ISSUE WE REPORTED ON WAS DEALING WITH  
8     FAIR POLITICAL PRACTICES COMMISSION HAS QUESTIONED THE  
9     EXCLUSION OF WORKING GROUPS FROM THE INSTITUTE'S CONFLICT  
10    OF INTEREST CODE. THE CIRM'S POSITION IS THEY DON'T HAVE  
11    TO. THEY SOUGHT AN EXEMPTION, AND IT'S IN THE LANGUAGE  
12    OF THE PROPOSITION THAT THESE WORKING GROUPS ARE NOT  
13    COVERED BY THE CONFLICT OF INTEREST POLICY AND,  
14    THEREFORE, THEY NEEDN'T HAVE DISCLOSURE.

15                  WHAT WE RECOMMENDED WAS THAT THE INSTITUTE,  
16    BECAUSE THERE WAS THIS DISAGREEMENT BETWEEN THE FPPC AND  
17    THE INSTITUTE, WE RECOMMENDED THAT THEY SEEK A FORMAL  
18    OPINION FROM THE ATTORNEY GENERAL REGARDING WHETHER THE  
19    EXEMPTIONS CREATED FOR WORKING GROUPS FROM CONFLICT OF  
20    INTEREST LAWS WERE INTENDED TO EXEMPT THEM FROM THE  
21    CONFLICT OF INTEREST PROVISIONS THAT APPLY IF THE  
22    RECOMMENDATIONS OF AN ADVISORY BODY ARE ADOPTED ROUTINELY  
23    AND REGULARLY, WHICH WAS THE FPPC'S POSITION, BY THE  
24    DECISION-MAKING BODY TO WHICH THEY ARE MADE.

25                  AND THE RESPONSE WE GOT BACK WAS THAT CIRM HAD

## BARRISTERS' REPORTING SERVICE

1 GIVEN CAREFUL CONSIDERATION TO THE RECOMMENDATION, BUT  
2 HAD DECIDED THAT IT WAS NOT APPROPRIATE TO IMPLEMENT IT.  
3 ITS POSITION IS THAT THEY NEEDN'T SEEK THAT OPINION; AND,  
4 THEREFORE, WE GAVE IT A STATUS OF NO ACTION TAKEN.

5 NEXT ISSUE WE REPORTED ON WAS THE INSTITUTE  
6 HADN'T INCLUDED IN ITS CONFLICT OF INTEREST POLICY  
7 SPECIALISTS IT MIGHT ENLIST TO ASSIST IT IN EVALUATING  
8 GRANTS APPLICATIONS. WE RECOMMENDED THAT THE INSTITUTE  
9 FOLLOW ITS PLANS TO AMEND ITS CONFLICT OF INTEREST  
10 POLICIES TO INCLUDE SPECIALISTS INVITED TO PARTICIPATE IN  
11 STEM CELL RESEARCH PROGRAM ACTIVITIES SUCH AS GRANT  
12 APPLICATION REVIEW.

13 AND THEIR RESPONSE WAS TO THAT RECOMMENDATION  
14 THAT THE CONFLICT OF INTEREST PROCEDURE FOR CIRM  
15 EMPLOYEES INCORPORATES A MECHANISM FOR IDENTIFYING ALL  
16 ENTITIES THAT HAVE APPLIED FOR FUNDING PURSUANT TO THE  
17 RFA THAT REQUIRES EMPLOYEES TO REVIEW THIS LIST AND NOTE  
18 ANY CONFLICTS AND DISQUALIFIES EMPLOYEES WHO IDENTIFY A  
19 CONFLICT OF INTEREST WITH RESPECT TO A GIVEN APPLICATION  
20 FROM REVIEWING THAT APPLICATION. I GOT ON THE -- I'M  
21 SORRY. I GOT AHEAD OF MYSELF.

22 THE RESPONSE TO THAT PARTICULAR RECOMMENDATION  
23 WAS THAT THE INSTITUTE HAS ALWAYS UNDERSTOOD THAT THE  
24 CONFLICT OF INTEREST POLICIES AND PROCEDURES APPLICABLE  
25 TO REGULAR WORKING GROUP MEMBERS APPLY EQUALLY TO



## BARRISTERS' REPORTING SERVICE

1 SPECIALISTS AND HAS TREATED SPECIALISTS ACCORDINGLY.  
2 NEVERTHELESS, THE INSTITUTE AGREED WITH THE AUDIT  
3 RECOMMENDATION, AND IN MARCH THE ICOC ADOPTED A CONFLICT  
4 OF INTEREST POLICY FOR THE GRANTS WORKING GROUP WHICH  
5 SPECIFICALLY INCLUDES SPECIALISTS. THEREFORE, WE GAVE A  
6 STATUS OF CORRECTIVE ACTION TAKEN ON THAT ONE.

7 OUR NEXT ISSUE WAS INSTITUTE EMPLOYEES MAY NOT  
8 HAVE THE INFORMATION THEY NEED TO COMPLY WITH THE  
9 CONFLICT OF INTEREST POLICY. AND WE MADE A  
10 RECOMMENDATION THAT TO PROVIDE EMPLOYEES WITH THE  
11 INFORMATION THEY NEED TO DISCLOSE ALL PERTINENT CONFLICT  
12 OF INTEREST, WE RECOMMENDED THAT THE INSTITUTE DEVELOP  
13 THE NECESSARY PROCEDURES TO ENSURE THAT ITS EMPLOYEES ARE  
14 AWARE OF THE COMPANIES THAT ARE APPLYING FOR FUNDING. AT  
15 THE TIME WE LOOKED AT IT, THAT WASN'T APPARENT, SO  
16 SOMEBODY MIGHT HAVE A CONFLICT AND NOT EVEN KNOW IT  
17 BECAUSE THEY WOULDN'T KNOW WHO IT WAS THAT WAS APPLYING  
18 FOR FUNDING IN ORDER TO RECUSE THEMSELF.

19 AND AS I JUST READ, BECAUSE I DID GET AHEAD OF  
20 MYSELF, THEY DID TAKE ACTION TO MAKE THAT INFORMATION  
21 KNOWN AND, THEREFORE, WE GAVE THAT STATUS A CORRECTIVE  
22 ACTION TAKEN AS WELL.

23 THE NEXT ISSUE IS THE INSTITUTE COULD IMPROVE  
24 STEPS TO DETECT CONFLICT OF INTEREST BEFORE MEETINGS OF  
25 THE GRANTS REVIEW WORKING GROUP. WHAT WE RECOMMENDED

## BARRISTERS' REPORTING SERVICE

1     THERE WAS THAT TO ENSURE COMPLIANCE WITH THE CONFLICT OF  
2     INTEREST POLICIES, WE RECOMMENDED THAT THE INSTITUTE  
3     REVIEW ITS PROCEDURES FOR REVIEWING GRANTS TO INCLUDE A  
4     REVIEW OF STATEMENTS OF ECONOMIC INTEREST OR THE FORM  
5     700, FOR SOME OF YOU THAT KNOW IT BETTER BY THAT TERM,  
6     FOR COMMITTEE MEMBERS AND FOR WORKING GROUPS BEFORE EVERY  
7     GRANTS REVIEW MEETING.  MOREOVER, WE RECOMMENDED IT  
8     REVISE ITS PROCEDURES FOR GRANTS REVIEW MEETINGS TO  
9     ENSURE THAT IT RETAINS DOCUMENTATION REGARDING CONFLICT  
10    OF INTEREST OF THE WORKING GROUPS, INCLUDING INFORMATION  
11    THAT IT TOOK APPROPRIATE RECUSAL ACTIONS.

12           AND THEIR RESPONSE TO THAT RECOMMENDATION WAS  
13    THE CURRENT PROCEDURES TO IDENTIFY CONFLICT OF INTEREST  
14    OF MEMBERS OF THE GRANTS WORKING GROUP INCLUDE ALL STAFF.  
15    AND IN ADDITION, CIRM NOW DOCUMENTS THE RECUSAL ACTIONS  
16    OF EACH MEMBER, INCLUDING ANY SPECIALISTS, WITH RESPECT  
17    TO EACH APPLICATION REVIEWED TO ENSURE THAT NO ONE  
18    PARTICIPATING IN THE REVIEW OF A PARTICULAR APPLICATION  
19    HAS A CONFLICT.  THE INSTITUTE MAINTAINS SUCH RECORDS FOR  
20    LATER REVIEW.

21           AGAIN, WE GAVE THAT A STATUS OF CORRECTIVE  
22    ACTION TAKEN.

23           THEN WE GOT INTO THE AREAS OF MORE ITS  
24    ADMINISTRATION OF THE GRANTS AND ONGOING TRAVEL KIND OF  
25    RECOMMENDATIONS.  THE FIRST OF THESE IS THE INSTITUTE'S

## BARRISTERS' REPORTING SERVICE

1 CONTRACTING POLICY AND TRAVEL REIMBURSEMENT POLICY DIDN'T  
2 PROVIDE ADEQUATE CONTROLS AT THE TIME WE LOOKED AT IT.  
3 WHAT WE RECOMMENDED WAS TO ENSURE THAT ADEQUATE CONTROLS  
4 OVER ITS CONTRACTING AND TRAVEL REIMBURSEMENTS, THE  
5 INSTITUTE SHOULD ENSURE THAT IT FOLLOWS ITS NEWLY REVISED  
6 POLICIES THAT ADDRESS SOME OF THE CONCERNS RAISED IN OUR  
7 AUDIT. THE INSTITUTE SHOULD ALSO AMEND ITS TRAVEL  
8 REIMBURSEMENT POLICIES FURTHER TO ADDRESS REMAINING  
9 CONCERNS THAT WE RAISED.

10 AND IN RESPONSE TO THAT, THE INSTITUTE STATED  
11 THAT UNLIKE CIRM'S -- UNDER CIRM'S POLICY AND PRACTICE,  
12 EMPLOYEES ARE NOT REIMBURSED FOR MEALS AT MEETINGS WHERE  
13 MEALS ARE PROVIDED WITHOUT PRIOR AUTHORIZATION. ONE OF  
14 THE ISSUES WE HAD IS THERE WAS DOUBLE. IT SEEMED LIKE  
15 THEY WERE GETTING A MEAL PROVIDED AND THEY WERE PUTTING  
16 IT IN FOR REIMBURSEMENT FOR THE SAME MEAL.

17 CIRM CONTINUES TO MONITOR THE TRAVEL CLAIMS OF  
18 STAFF WHO ATTEND MEETINGS TO ENSURE THAT REIMBURSEMENT IS  
19 NOT CLAIMED WHEN CIRM PROVIDES THE MEAL. THEREFORE, WE  
20 GAVE THAT A CORRECTIVE ACTION STATUS.

21 THE INSTITUTE SALARY SURVEY AND SALARY SETTING  
22 PROCESS DID NOT ENSURE THE COMPLIANCE WITH THE ACT. WE  
23 LOOKED AT -- THEY DID A SALARY SURVEY, AND IN MANY CASES  
24 IT CONTAINED SOME ERRORS AND OMISSIONS THAT WE FELT  
25 UNDERMINED ITS PURPOSE. AND SO WE RECOMMENDED TO ENSURE

## BARRISTERS' REPORTING SERVICE

1     THAT THE METHODOLOGY TO SET SALARY RANGES COMPLIES WITH  
2     THE ACT, WE RECOMMENDED THAT THE INSTITUTE FOLLOW THROUGH  
3     WITH ITS PLAN TO RESURVEY ANY POSITIONS WHOSE SALARY  
4     RANGES WERE AFFECTED BY THE ERRORS, OMISSIONS, AND  
5     INCONSISTENCIES IN ITS INITIAL SALARY SURVEY AND SALARY  
6     SETTING ACTIVITIES.

7             AND THE ACTION TAKEN THERE, AT ITS APRIL 5TH,  
8     2007, MEETING OF THE GOVERNANCE SUBCOMMITTEE OF THE ICOC,  
9     A POLICY ITEM WAS ON THE AGENDA FOR THE APRIL 10TH, 2007,  
10    MEETING, BUT THE ICOC WAS UNABLE TO TAKE UP THE MATTER  
11    DUE TO TIME CONSTRAINTS. IN THE INTERIM THE CHAIRMAN  
12    ASKED THAT -- I LOST MY PLACE. THIS WAS ANOTHER ONE THAT  
13    WAS...

14            THIS WAS A RECOMMENDATION WE MADE FOR TRAVEL  
15    REIMBURSEMENT POLICIES THAT WILL RESULT IN REIMBURSEMENT  
16    OF REASONABLE AND NECESSARY EXPENSES. WE FOUND THAT  
17    SOMETIMES THE CLAIMS PUT IN EXCEEDED WHAT WE WOULD  
18    CONSIDER TO BE REASONABLE FOR THE PURPOSES CLAIMED. AND  
19    WE RECOMMENDED THAT THEY ADDRESS THOSE CONCERNS. AND  
20    THAT GOT TABLED BECAUSE OF INSUFFICIENT TIME AT THE LAST  
21    MEETING, SO WE HAVE THAT AS A PENDING ITEM AS WELL.

22            AS FOR THE RECOMMENDATION REGARDING THE SALARY  
23    SURVEY, THE RESPONSE WE GOT WAS CIRM HAS ISSUED A REQUEST  
24    FOR PROPOSAL TO CONTRACT WITH AN EXPERIENCED FIRM TO  
25    REVIEW AND SURVEY ALL CIRM SALARIES. CIRM RECEIVED TWO

BARRISTERS' REPORTING SERVICE

1       RESPONSIVE BIDS AND SIGNED A CONTRACT WITH MERCER HUMAN  
2       RESOURCES CONSULTING ON APRIL 2D, 2007. A REPORT IS  
3       ANTICIPATED WITHIN THE NEXT FEW WEEKS AND WILL BE  
4       DISCUSSED WITH THE ICOC.

5                SO THERE, AGAIN, WE ASSIGNED A PENDING STATUS  
6       TO THAT.

7                AND WITH THAT, I WILL ENTERTAIN ANY QUESTIONS  
8       THAT YOU MIGHT HAVE.

9                CHAIRMAN CHIANG: THANK YOU FOR YOUR  
10       PRESENTATION. ANY QUESTIONS, COMMENTS? VERY GOOD.  
11       WOULD CIRM LIKE TO PROVIDE A RESPONSE?

12               DR. MURPHY: JUST ONE POINT OF CLARIFICATION.  
13       I BELIEVE THAT WHAT THE REPORT SHOWED WAS THAT THERE WAS  
14       A POTENTIAL FOR PEOPLE TO DOUBLE BILL ON MEALS, BUT I  
15       DON'T BELIEVE THERE WAS EVER A CASE WHERE THAT WAS SHOWN.  
16       BUT I THINK THE CAUTION THAT YOU RECOMMENDED THAT WE  
17       SHOULD HAVE IN PLACE, RULES THAT WOULD PREVENT SOMEONE  
18       FROM COLLECTING ON A MEAL THAT WAS ALREADY PROVIDED BY  
19       CIRM, IS VERY APPROPRIATE, BUT I DON'T BELIEVE THERE WAS  
20       EVER A CASE WHERE THAT WAS SHOWN.

21               MR. CALLOWAY: ACTUALLY THERE WERE TWO CASES WE  
22       IDENTIFIED.

23               CHAIRMAN CHIANG: IF YOU DON'T MIND, IF YOU CAN  
24       IDENTIFY YOURSELF FOR THE RECORD.

25               MR. CALLOWAY: MY NAME IS NORM CALLOWAY. I'M

## BARRISTERS' REPORTING SERVICE

1 WITH THE BUREAU OF STATE AUDITS. AS MY MEMORY SERVES ME,  
2 THERE WERE TWO CASES WHERE WE FOUND AN ATTENDEE TO A  
3 CONFERENCE HAD RECEIVED REIMBURSEMENT FOR A MEAL WHILE AT  
4 THAT SAME CONFERENCE THERE WERE MEALS PROVIDED BY CIRM  
5 FOR THE GROUP AS WELL.

6 CHAIRMAN CHIANG: THANK YOU.

7 MR. KLEIN: MR. CHAIRMAN, I'D LIKE TO SAY WE'LL  
8 STRIVE FOR PERFECTION, BUT WE'VE HAD OVER A HUNDRED  
9 PUBLIC MEETINGS. AND IF THERE'S ONLY TWO PEOPLE WHO MADE  
10 THE MISTAKE, AND I'M SURE WE WENT BACK AND CORRECTED A  
11 MISTAKE IF IT WAS MADE. OUT OF THOSE HUNDRED PUBLIC  
12 MEETINGS, WE'RE GETTING PRETTY CLOSE TO A PERFECT RECORD.

13 I WOULD LIKE TO RESPOND ON ONE OTHER POINT THAT  
14 WAS MENTIONED. AND THAT IS AS TO THE QUESTION OF AN  
15 ATTORNEY GENERAL'S OPINION ON THE ISSUE OF WHETHER THE  
16 GRANTS WORKING GROUPS ARE ADVISORY BODIES. FIRST OF ALL,  
17 IT'S IMPORTANT TO NOTE THAT THE INITIATIVE APPROVED BY  
18 SEVEN MILLION PEOPLE SAYS THAT THEY'RE ADVISORY BODIES,  
19 AND THE TRIAL COURT, COURT OF APPEALS, AND THE SUPREME  
20 COURT, WHICH HAD NOT YET ISSUED ITS OPINION AT THE TIME  
21 THEIR REPORT WAS DONE, CAME OUT AND SAID VERY  
22 SPECIFICALLY THAT THIS IS AN ADVISORY BODY AND WENT  
23 THROUGH FACTUALLY AND REVIEWED THE PEER REVIEW PROCESS  
24 THAT HAD OCCURRED TO THAT DATE AND SAID IT IS PERFORMING  
25 PROPERLY, CONSTITUTIONALLY, AND STATUTORILY AS AN

## BARRISTERS' REPORTING SERVICE

1 ADVISORY BODY.

2 FURTHERMORE, I'D LIKE TO ASK TAMAR PACHTER, OUR  
3 GENERAL COUNSEL, WHO CAME FROM THE ATTORNEY GENERAL'S  
4 OFFICE, TO COMMENT ON THE POLICY OF THE ATTORNEY  
5 GENERAL'S OFFICE AS NOT ISSUING OPINIONS ON  
6 HYPOTHETICALS; THAT IS, WE THINK THAT SINCE ALL THREE  
7 LEVELS OF OUR COURT SYSTEM HAS ACTUALLY LOOKED AT THE  
8 FACTS, IT'S HARD TO GET BETTER THAN OUR COURT SYSTEM,  
9 INCLUDING THE SUPREME COURT, AND WOULD LIKE TO DRAW YOUR  
10 ATTENTION TO WHAT THE IMPEDIMENT IS TO GETTING THE  
11 ATTORNEY GENERAL TO RULE ON HYPOTHETICALS.

12 MS. PACHTER: MORNING. I THINK AS MS. HOWELL  
13 NOTED IN HER ORIGINAL REPORT, AT THE TIME THE REPORT WAS  
14 ISSUED, THE OPINION OF THE TRIAL COURT FINDING WAS THAT  
15 THE WORKING GROUPS WERE, IN FACT, ADVISORY GROUPS AND  
16 WERE NOT SUBJECT TO. WHAT WE'RE TALKING ABOUT HERE IS  
17 THE POLITICAL REFORM ACT AND THE OTHER CALIFORNIA  
18 STATUTES THAT REGULATE CONFLICTS OF INTEREST. I DON'T  
19 WANT ANYONE TO BE LEFT WITH THE IMPRESSION THAT THE  
20 WORKING GROUPS ARE NOT SUBJECT TO ANY CONFLICT OF  
21 INTEREST REGULATION BECAUSE THEY ARE. THEY'RE SUBJECT TO  
22 VERY STRICT CONFLICT OF INTEREST POLICIES DISCLOSURES  
23 THAT WERE PASSED BY THE ICOC.

24 IN FACT, THEY ARE BROADER THAN MOST OF THE  
25 DISCLOSURES REQUIRED BY CALIFORNIA LAW IN THAT THEY'RE

## BARRISTERS' REPORTING SERVICE

1     REQUIRED TO DISCLOSE, IN ADDITION TO THEIR FINANCIAL  
2     CONFLICTS OF INTEREST, THEIR PERSONAL AND PROFESSIONAL  
3     CONFLICTS OF INTEREST. WE MAINTAIN VERY STRICT RECORDS  
4     OF THOSE WITH RESPECT TO EVERY MEETING HELD BY THE  
5     WORKING GROUP. THE MEMBERS ARE REQUIRED TO CERTIFY BOTH  
6     IN ADVANCE AND AT THE CONCLUSION OF THE MEETING THAT THEY  
7     DIDN'T PARTICIPATE IN THE REVIEW OF ANY APPLICATION WITH  
8     WHICH THEY HAVE A CONFLICT OF INTEREST. WE HAVE RECORDS  
9     OF THOSE THAT ARE AVAILABLE TO THE BSA AUDITORS AT ANY  
10    TIME TO REVIEW.

11                SO I DON'T WANT ANYBODY TO BE LEFT WITH THE  
12    IMPRESSION THAT THE WORKING GROUP MEMBERS ARE NOT SUBJECT  
13    TO CONFLICT OF INTEREST REGULATIONS. THE ONLY ISSUE HERE  
14    IS WHETHER THEY'RE SUBJECT TO THE SAME REGULATIONS THAT  
15    APPLY TO ALL OF YOU, THAT APPLY TO US AS EMPLOYEES OF THE  
16    STATE OF CALIFORNIA. THEY ARE NOT EMPLOYEES OF THE STATE  
17    OF CALIFORNIA. AND AS YOU HEARD DR. MURPHY SAY EARLIER,  
18    THEY ARE ALL OUT-OF-STATE SCIENTISTS. SO NONE OF THEM  
19    ARE CITIZENS OF THE STATE OF CALIFORNIA.

20                SO AT THE TIME MS. HOWELL WROTE THE REPORT,  
21    THERE WAS A TRIAL COURT DECISION FROM JUDGE SABRANO IN  
22    ALAMEDA COUNTY THAT SAID THE WORKING GROUPS WERE, IN  
23    FACT, ADVISORY AND THAT THE POLITICAL REFORM ACT IN  
24    SECTION 1090 DID NOT APPLY TO THEM. AND THE REPORT NOTED  
25    AT THAT TIME THAT THAT WAS AN INTERMEDIATE DECISION AND



## BARRISTERS' REPORTING SERVICE

1 WAS ON APPEAL.

2 THAT DECISION IS NOW FINAL. IT WAS AFFIRMED BY  
3 COURT OF APPEAL HERE IN SAN FRANCISCO, AND THE STATE  
4 SUPREME COURT DENIED REVIEW IN MAY. THAT'S NOW A FINAL  
5 DETERMINATION OF LAW. WE DON'T THINK REVIEW BY THE  
6 ATTORNEY GENERAL IS EITHER NECESSARY OR SOMETHING AT THIS  
7 POINT THAT THEY WOULD CONSIDER TAKING ON. EVEN IF THERE  
8 HADN'T BEEN A RULING FROM THE STATE SUPREME COURT, THE  
9 WAY THE FPPC RULES AND REGULATIONS OPERATE WITH RESPECT  
10 TO ADVISORY BODIES IS IT'S BACKWARD LOOKING. SO YOU HAVE  
11 TO LOOK BACKWARD TO SEE WHETHER THE ADVISORY BODIES'  
12 RECOMMENDATIONS HAVE, IN FACT, BEEN ADOPTED WHOLESALE BY  
13 THE DECISION MAKER.

14 AND SINCE WE HAVE NO SUCH PATTERN, AND THAT'S  
15 WHAT WE SAID TO THE AUDITORS IN OUR SIX-MONTH LETTER,  
16 SINCE IN NO CASE HAS THE ICOC ADOPTED THE RECOMMENDATIONS  
17 OF THE GRANTS WORKING GROUP WITHOUT SOME CHANGE, THERE IS  
18 NO PATTERN TO LOOK AT THAT ANYBODY COULD LOOK AT TO  
19 DETERMINE THAT THE WORKING GROUP WOULD BE SUBJECT TO  
20 EITHER THE POLITICAL REFORM ACT SECTION 1090 OR ANY OTHER  
21 STATE REGULATION OF CONFLICTS OF INTEREST.

22 SO BOTH THE DETERMINATION BY THE STATE COURTS  
23 AND THE FACT THAT THERE'S NO PATTERN MAKES IT UNNECESSARY  
24 AND HIGHLY UNLIKELY THAT THE AG'S OFFICE WOULD RENDER AN  
25 OPINION IN THIS CASE.

## BARRISTERS' REPORTING SERVICE

1           IN ADDITION, I WOULD LIKE TO NOTE THAT,  
2           ALTHOUGH SOME INITIAL RESERVATIONS WERE EXPRESSED BY THE  
3           FPPC ABOUT WHETHER THE MEMBERS OF THE GRANTS WORKING  
4           GROUP SHOULD BE SUBJECT TO THE POLITICAL REFORM ACT, THEY  
5           HAVE TAKEN NO FURTHER ACTION WITH RESPECT TO THAT AT ALL,  
6           AND THAT'S THEIR LAW.

7           IF THERE ARE ANY OTHER QUESTIONS, I'D BE HAPPY  
8           TO ANSWER THEM.

9           CHAIRMAN CHIANG: THANK YOU.

10          MR. CALLOWAY: MR. CHAIRMAN, IF I MAY. AT THE  
11          REQUEST OF DR. MURPHY, REGARDING THE MEALS THAT WERE  
12          REIMBURSED TO AN INDIVIDUAL AS WELL AS GROUP MEALS, AS I  
13          SIT HERE TODAY, MY MEMORY DOESN'T TELL ME THAT THOSE WERE  
14          CIRM STAFF. IT COULD HAVE BEEN WORKING GROUP MEMBERS OR  
15          SOMEONE ELSE. SO I DIDN'T WANT TO GIVE THE IMPRESSION  
16          THAT SOMEHOW STAFF WAS ABUSING THE TRAVEL POLICY.

17          CHAIRMAN CHIANG: VERY GOOD. THAT CONCLUDES  
18          THIS MATTER. LET ME ASK THE MEMBERS OR THE REPORTER IF  
19          YOU NEED A TEN-MINUTE BREAK.

20          THE REPORTER: THE REPORTER IS FINE.

21          CHAIRMAN CHIANG: MEMBERS? VERY GOOD. WE WILL  
22          PROCEED. WE HAVE THREE ADDITIONAL ITEMS. CONSIDERATION  
23          OF THE DRAFT AGENDA FOR THE NEXT MEETING. DO THE MEMBERS  
24          HAVE ANY REQUESTS FOR INCLUSION OF ANY SPECIFIC ITEMS FOR  
25          THE NEXT MEETING?

## BARRISTERS' REPORTING SERVICE

1 MS. POTTER: I'D LIKE TO SEE -- I'M SORRY ABOUT  
2 THAT. I'D LIKE TO SEE A DISCUSSION OF THE UPDATE AND  
3 RESPONSE TO THIS LAST AUDIT. I THINK IT WOULD BE  
4 BENEFICIAL FOR THE COMMITTEE TO SEE SOME DETAILED WORK  
5 AROUND THAT. IT STRUCK ME, AS I WAS LISTENING TO  
6 EVERYTHING, THAT YOU ARE STARTING A SMALL COMPANY IN SO  
7 MANY RESPECTS. AND, BOY, THESE LITTLE THINGS WILL JUST  
8 CHASE YOU FOR THE LONGEST TIME. BUT THE PROGRESS IS  
9 CLEAR, IT'S OBVIOUS, BUT I THINK THE COMMITTEE WOULD GET  
10 A LOT OF BENEFIT FROM AN UPDATE.

11 CHAIRMAN CHIANG: SMALL COMPANY, YOU WORK FOR  
12 GENENTECH.

13 MS. POTTER: I STARTED THREE OR FOUR OTHERS, SO  
14 I FELT YOUR PAIN. IT IS A TREMENDOUS AMOUNT OF WORK.

15 CHAIRMAN CHIANG: ANY OTHER REQUESTS? VERY  
16 GOOD. THAT CONCLUDES THAT MATTER. THE NEXT ITEM IS  
17 PUBLIC COMMENT.

18 MR. SIMPSON: JOHN SIMPSON FROM THE FOUNDATION  
19 FOR TAXPAYER AND CONSUMERS RIGHTS. MR. CHAIRMAN, I DID  
20 WANT TO THANK YOU FOR ACKNOWLEDGING THE CONFLICT OF  
21 INTEREST SITUATION THAT APPARENTLY SURFACED LAST WEEK AND  
22 CALLING FOR THE FPPC TO INVESTIGATE THAT. I WANTED TO  
23 BRING THE BOARD MEMBERS UP TO DATE A LITTLE BIT ON OUR  
24 ORGANIZATION'S POSITION. WE HAVE, IN FACT, FILED A  
25 FORMAL COMPLAINT WITH THE FPPC. WE BELIEVE THAT DR. REED

## BARRISTERS' REPORTING SERVICE

1 IN INTERVENING, AS WAS DEMONSTRATED IN AN AUGUST 2D  
2 LETTER, IN THE DELIBERATIONS SURROUNDING A GRANT THAT HIS  
3 INSTITUTION WAS TO RECEIVE OR HE HOPED WOULD RECEIVE,  
4 CLEARLY VIOLATED STATE CONFLICT OF INTEREST LAWS, CIRM'S  
5 OWN POLICIES WHICH HE HAD SIGNED. AND WE BELIEVE,  
6 FRANKLY, THAT HE SHOULD RESIGN.

7 WE WOULD GO FURTHER THAN THAT. AND IN YOUR  
8 ROLE, MR. CHAIRMAN, AS CONTROLLER, I BELIEVE YOU ARE THE  
9 APPOINTING AUTHORITY WITH THIS PARTICULAR SEAT. YOUR  
10 PREDECESSOR, STEVE WESTLY, DID, IN FACT, APPOINT DR.  
11 REED. AND I WOULD REQUEST, SIR, THAT IF HE DOES NOT  
12 RESIGN, THAT YOU REMOVE HIM.

13 THE SECOND THING THAT BECAME CLEAR AFTER THIS  
14 LETTER WAS MADE AVAILABLE THROUGH A PUBLIC RECORDS ACT  
15 WAS THAT CHAIRMAN KLEIN, IN FACT, CONSULTED WITH DR. REED  
16 AND ADVISED HIM TO WRITE THIS INAPPROPRIATE LETTER. THE  
17 CONVERSATION, WE THINK, FROM DR. REED IN ITSELF WAS  
18 INAPPROPRIATE. WE THINK BADLY THAT THE CHAIRMAN'S ROLE  
19 WAS INAPPROPRIATE, AND WE RELUCTANTLY, BECAUSE WE DO  
20 BELIEVE THAT BOB KLEIN HAS MADE TREMENDOUS CONTRIBUTIONS  
21 TO CREATING THIS AGENCY AND TO THE STEM CELL RESEARCH IN  
22 THE STATE, WE NONETHELESS, BASED ON THIS SITUATION, HAVE  
23 SUGGESTED THAT IT'S TIME FOR HIM TO STEP ASIDE AS  
24 CHAIRMAN AND RESIGN.

25 I WANTED TO PUT THAT BEFORE YOU SO YOU WERE

## BARRISTERS' REPORTING SERVICE

1 AWARE OF THAT AND HOW SERIOUSLY WE BELIEVE THIS CONFLICT  
2 WAS. AGAIN, I WOULD LIKE TO THANK YOU FOR CALLING THAT  
3 IT BE INVESTIGATED BY THE FPPC, BUT AS I SAY, WE HAVE  
4 ALSO ALREADY PUT IN A COMPLAINT ON THAT AS WELL. THANK  
5 YOU VERY MUCH.

6 CHAIRMAN CHIANG: THANK YOU, JOHN. LET ME  
7 RESPOND TO THOSE COMMENTS. LIKE YOU, I DO SHARE CONCERN  
8 ABOUT THE INTEGRITY OF THE PROCESS. SECOND  
9 CLARIFICATION. I CANNOT REMOVE MR. REED. HE IS SET FOR  
10 A PERIOD OF TIME. I CAN'T MAKE THE REQUEST THAT HE  
11 RESIGN. HOWEVER, THIRD, AS A LAWYER, I ALSO STRONGLY  
12 BELIEVE IN THE RIGHTS AFFORDED ALL PARTICIPANTS IN THIS  
13 COUNTRY OR RESIDENTS OF THIS COUNTRY AND BELIEVE THAT DUE  
14 PROCESS IS CRITICAL IN THE EXAMINATION OF THIS. AND  
15 THAT'S WHY, LIKE YOU, I WANT A FULL REVIEW BY THE FAIR  
16 POLITICAL PRACTICES COMMISSION TO EXAMINE THE FACTS AND  
17 THE CONTEXT OF THE COMMUNICATION THAT TOOK PLACE. I'D  
18 LIKE A FULL REVIEW BY AN INDEPENDENT REVIEWING AUTHORITY  
19 IN THIS PARTICULAR MATTER.

20 SO AS I POINTED OUT, UPON A REVIEW BY THE FAIR  
21 POLITICAL PRACTICES COMMISSION, I THINK IT'S CRITICAL IF  
22 THEY DO FIND WRONGDOING IN THIS PARTICULAR CIRCUMSTANCE,  
23 THAT WE WILL CALL ANOTHER MEETING FOR THIS BOARD TO  
24 REVIEW THAT PARTICULAR SITUATION AND TO COME TOGETHER,  
25 WHETHER COLLECTIVELY OR INDIVIDUALLY, WHAT SHOULD TAKE

BARRISTERS' REPORTING SERVICE

1 PLACE AND WHAT OUR RECOMMENDATIONS WOULD BE.

2 MR. REED: MY NAME IS DON REED, CALIFORNIANS  
3 FOR CURES. I AM NOT RELATED TO DR. JOHN REED, BUT I  
4 WOULD BE PROUD TO CLAIM HIM AS KIN. HE'S A GOOD MAN. I  
5 KNOW HIM A LITTLE BIT, AND HE HAS DONE A TREMENDOUS  
6 CONTRIBUTION TO THE FIELD OF SCIENCE, IN STEM CELLS IN  
7 PARTICULAR.

8 EVERY STEP OF THE CALIFORNIA INSTITUTE FOR  
9 REGENERATIVE MEDICINE HAS BEEN TAKEN UNDER THE FULL BLAZE  
10 OF PUBLIC SCRUTINY. EVERY CONCEIVABLE OBJECTION HAS BEEN  
11 MET AND RAISED AND PUBLICLY WRESTLED OUT, AND THIS WILL  
12 BE NO EXCEPTION. PERHAPS THAT IS FOR THE BEST, BUT I  
13 HAVE TO SAY THIS IS NOT MERELY A TEMPEST IN A TEAPOT.  
14 THIS IS FAR SMALLER THAN THAT. IT SEEMS TO ME TO BE  
15 VISIBLE ONLY UNDER A MICROSCOPE.

16 WHAT ACTUALLY HAPPENED, AND ONLY ACCESS TO  
17 INFORMATION I HAVE IS PUBLIC INFORMATION, IS THERE WAS  
18 A -- DR. REED, MEMBER OF THE ICOC, ACTED PERFECTLY  
19 APPROPRIATELY BY NOT INVOLVING HIMSELF IN THE  
20 DELIBERATIONS FOR HIS GRANT. THE GRANT WAS APPROVED.  
21 AFTER THAT, ON THE RECOMMENDATIONS OF STAFF, IT WAS  
22 DISAPPROVED. THE REASON GIVEN WAS THAT THE GRANT PERSON,  
23 THE GRANTEE RECIPIENT, WAS NOT A, QUOTE, UNQUOTE,  
24 FULL-TIME EMPLOYEE.

25 NOW, THAT DEFINITION, FULL-TIME EMPLOYEE, IS

## BARRISTERS' REPORTING SERVICE

1     HIGHLY SUBJECTIVE. IF THE SAME RECOMMENDATION, SAME  
2     STANDARD HAD BEEN APPLIED TO HARVARD, ACCORDING TO THE  
3     *SAN DIEGO TRIBUNE*, NONE OF THEIR SCIENTISTS WOULD HAVE  
4     BEEN ELIGIBLE, BEEN CALLED FULL-TIME EMPLOYEES EVEN  
5     THOUGH THEY ALL WORK FULL TIME FOR THE COLLEGE BECAUSE  
6     THEY ALL BRING THEIR OWN FUNDING FROM SOMEWHERE ELSE.

7                SO HERE WE HAVE A SITUATION WHERE A PERFECTLY  
8     GOOD AND VALUABLE GRANT WOULD BE TURNED DOWN BECAUSE OF A  
9     SUBJECTIVE, BASICALLY AN OPINION. SO WHAT IS THE PERSON  
10    SUPPOSED TO DO? HE CAN NO LONGER INFLUENCE IT AS AN ICOC  
11    MEMBER AND MADE NO ATTEMPT TO SO DO. HOWEVER, HE IS ALSO  
12    A PERSON WHO IS A MEMBER OF THE COLLEGE. WHAT'S HE  
13    SUPPOSED TO DO? HE CALLED UP BOB KLEIN AND SAID, "I  
14    DON'T KNOW WHAT TO DO. WHAT AM I SUPPOSED TO DO?" AND  
15    BOB SAID, "GET IT INTO THE PUBLIC ARENA. LET THE FACTS  
16    BE KNOWN." TO ME THIS IS THE JUST AND HONORABLE THING TO  
17    DO. AND THAT WAS WHAT WAS DONE.

18              THIS WAS NOT A SECRET, BEHIND-THE-DOORS DEAL.  
19    THERE WAS NO ATTEMPT TO MISLEAD. HE PUT IT IN WRITING IN  
20    A PUBLICLY ACCESSIBLE LETTER. THIS WILL BE INVESTIGATED  
21    AND RIGHTLY SO. CALIFORNIA HAS A RIGHT TO KNOW  
22    EVERYTHING THAT'S GOING ON, BUT THAT THESE TWO INCREDIBLE  
23    MEN SHOULD BE EVEN SUGGESTED THAT THEY RESIGN I FIND  
24    LUDICROUS. WE HAVE A WORD FOR SOMEONE WHO SAVES THE LIFE  
25    OF A CHILD. WE CALL THE PERSON A HERO. WHAT ABOUT

BARRISTERS' REPORTING SERVICE

1 PEOPLE WHO MAY MAKE IT POSSIBLE FOR MILLIONS OF LIVES TO  
2 BE SAVED AND SUFFERING EASED?

3 MY SON IS PARALYZED. I SEE THE HELL HE GOES  
4 THROUGH EVERY DAY. STEM CELL RESEARCH, OF WHICH  
5 CALIFORNIA IS THE NO. 1 FUNDER IN THE WORLD, OFFERS HOPE  
6 THAT HE MAY ONE DAY FULFILL CHRISTOPHER REEVE'S  
7 PREDICTION. CHRISTOPHER REEVE SENT A LETTER TO MY FAMILY  
8 WE'LL ALWAYS TREASURE. IT SAID, "ONE DAY ROMAN AND I  
9 WILL STAND UP FROM OUR WHEELCHAIRS AND WALK AWAY FROM  
10 THEM FOREVER." A CURE DID NOT COME IN TIME FOR  
11 CHRISTOPHER REEVE. OUR CHAMPION HAS FALLEN, BUT THE  
12 FLAME OF HIS FAITH STILL LIGHTS OUR WAY. WE GO FORWARD,  
13 WE WILL PREVAIL BECAUSE OF CALIFORNIA'S TREMENDOUS  
14 INITIATIVE.

15 THIS ATTEMPT AT BLIGHT ON THE NAME OF THE TWO  
16 GOOD MEN IS RIDICULOUS, AND I HOPE IT WILL BE GIVEN THE  
17 SHORT SHRIFT IT DESERVES. THANK YOU.

18 CHAIRMAN CHIANG: ANY ADDITIONAL COMMENTS?

19 DR. MURPHY: LET ME COMMENT AS WELL. MR.  
20 REED'S SUMMARY OF WHAT HAPPENED IS ABSOLUTELY CORRECT,  
21 BUT I WOULD JUST ADD ONE MORE THING. AND THAT IS, WHEN  
22 THIS LETTER, WHICH JOHN REED HAS ADMITTED WAS A MISTAKE,  
23 AND BOB SAYING TO JOHN WRITE A LETTER, WHICH NOW IN THE  
24 FULLEST OF TIME SAYS THAT WAS A MISTAKE TOO, WHEN THAT  
25 CAME TO THE INSTITUTE, THE INSTITUTE DID ITS JOB. IT



## BARRISTERS' REPORTING SERVICE

1 SAID WAS THERE A FOUL-UP, A TECHNICAL FOUL-UP? DID WE  
2 MAKE A MISTAKE? AND THE FACT WAS THAT WE DID NOT. THE  
3 GRANT, ALTHOUGH IT WAS A VERY HIGHLY RATED GRANT, WAS NOT  
4 FUNDED.

5 SO THE FIREWALL THAT WAS SET UP WORKED. AND I  
6 THINK THAT THAT IS A CREDIT TO THE STAFF, WHO ACTED  
7 EXACTLY THE WAY THEY SHOULD ACT. CERTAINLY THERE WERE A  
8 COUPLE OF MISTAKES MADE IN GETTING THIS THING TO THE  
9 INSTITUTE. BUT I THINK THE PEOPLE OF CALIFORNIA SHOULD  
10 BE VERY PROUD TO KNOW THAT THE STAFF DID EXACTLY WHAT IT  
11 SHOULD HAVE DONE UNDER THESE CIRCUMSTANCES. NO HARM WAS  
12 DONE. NO MONEY WAS FUNDED. IF WE HAD FUNDED THE GRANT,  
13 IT WOULD HAVE BEEN A DIFFERENT STORY. IT WASN'T FUNDED.  
14 THE THINGS WORKED EXACTLY AS THEY SHOULD.

15 SO I WELCOME THE INVESTIGATION AS WELL, BUT I  
16 WOULD SHARE MR. REED'S FEELING, THAT FOR THIS TO BE A  
17 MADE A MAJOR EVENT IN THE FACE OF THE MAJOR THINGS THAT  
18 ARE REALLY GOING ON IN THE STEM CELL INSTITUTE, THE VIEW  
19 OF PEOPLE WOULD BE THE WRONG COURSE OF ACTION.

20 CHAIRMAN CHIANG: THANK YOU. COMMENTS? THAT  
21 CONCLUDES PUBLIC COMMENTS. I'M SORRY. WE HAD A WRITTEN  
22 SUBMISSION THAT I WILL HAVE DAVE O'TOOLE READ INTO THE  
23 RECORD.

24 MR. O'TOOLE: THIS IS A LETTER DATED NOVEMBER  
25 25TH, 2007, FROM DAVID JENSON, PUBLISHER OF THE

## BARRISTERS' REPORTING SERVICE

1     *CALIFORNIA STEM CELL REPORT.*

2                     "TO THE CITIZENS FINANCIAL ACCOUNTABILITY  
3     OVERSIGHT COMMITTEE, THE TIME HAS COME FOR THE CALIFORNIA  
4     INSTITUTE FOR REGENERATIVE MEDICINE TO OPEN ITS DOORS TO  
5     MORE PUBLIC DISCLOSURE IN THE INTEREST OF GREATER PUBLIC  
6     ACCOUNTABILITY AND TO AVOID FURTHER DAMAGE TO ITS  
7     REPUTATION.  SUCH A MOVE WOULD ENHANCE ITS PERFORMANCE AS  
8     A CREDIBLE ADVOCATE FOR SOUND SCIENTIFIC RESEARCH AND  
9     HELP TO PREVENT FUTURE SCANDALS INVOLVING THIS \$3 BILLION  
10    PROGRAM.  I'M ASKING YOUR PANEL TO MAKE SUCH A  
11    RECOMMENDATION TO CIRM.

12                    "WITHIN THE LAST WEEK, CALIFORNIANS HAVE SEEN  
13    STORIES IN THE MEDIA CONCERNING AN ATTEMPT BY A CIRM  
14    DIRECTOR TO PRIVATELY INFLUENCE THE AWARD OF \$638,000 TO  
15    HIS INSTITUTION.  THAT ATTEMPT WAS MADE AT THE SUGGESTION  
16    OF THE CHAIRMAN OF THE CIRM OVERSIGHT COMMITTEE, ROBERT  
17    KLEIN, WHO IS ALSO AN ATTORNEY.  HIS ADVICE WAS IN CLEAR  
18    VIOLATION OF CIRM'S CONFLICT OF INTEREST POLICY, A FACT  
19    THAT HE NOW ACKNOWLEDGES.  DISCLOSURE OF A LOBBYING  
20    EFFORT FIRST REPORTED BY THE *CALIFORNIA STEM CELL REPORT*  
21    HAS GENERATED CALLS FOR THE RESIGNATION OF KLEIN AND THE  
22    DIRECTOR JOHN REED OF THE BURNHAM INSTITUTE.

23                    "ONE ORGANIZATION, THE FOUNDATION FOR TAXPAYER  
24    AND CONSUMER RIGHTS, HAS FILED A COMPLAINT WITH THE FAIR  
25    POLITICAL PRACTICES COMMISSION.  KLEIN AND REED'S ACTIONS

## BARRISTERS' REPORTING SERVICE

1 ARE PART OF A LARGER ISSUE AT CIRM. THE CONFLICTS OF  
2 INTERESTS THAT ARE BUILT INTO THE STRUCTURE BY PROP 71,  
3 WHICH THE CALIFORNIA STATE AUDITOR HAS TOUCHED ON, FOR  
4 EXAMPLE, CURRENTLY A MAJORITY OF ITS DIRECTORS, OVERSIGHT  
5 COMMITTEE MEMBERS ARE LINKED TO ITS INSTITUTIONS THAT  
6 COULD BENEFIT FROM THE \$227 MILLION IN LAB CONSTRUCTION  
7 GRANTS SCHEDULED TO BE GIVEN OUT NEXT YEAR. AND THE  
8 OVERSIGHT COMMITTEE IS THE GROUP THAT APPROVED THE  
9 CRITERIA FOR THE LAB GRANTS.

10 "CIRM HAS REFUSED TO DISCLOSE THE NAMES OF THE  
11 INSTITUTIONS THAT HAVE APPLIED FOR THE GRANTS UNTIL WELL  
12 AFTER THEY UNDERGO THE MOST IMPORTANT STAGES OF REVIEW, A  
13 MOVE THAT MAKES IT'S IMPOSSIBLE FOR THE PUBLIC TO COMMENT  
14 PROPERLY.

15 "IT IS ALSO A CASE OF UNNECESSARY SECRECY THAT  
16 ONLY FOSTERS SUSPICION AND THE WORST SORT OF SPECULATION,  
17 PARTICULARLY IN LIGHT OF KLEIN'S AND REED'S ACTIONS.  
18 CIRM'S JUSTIFICATION FOR THE SECRECY IS WEAK. IT DOES  
19 NOT WANT TO EMBARRASS ANY UNSUCCESSFUL APPLICANTS, ALL OF  
20 WHICH ARE MAJOR PUBLIC AND PRIVATE NONPROFIT  
21 INSTITUTIONS. IT IS A POLICY THAT SEEMS TO HAVE BEEN  
22 ADOPTED WITHOUT DUE CONSIDERATION FROM A SIMILAR POLICY  
23 REGARDING APPLICATIONS FROM INDIVIDUAL RESEARCHERS.  
24 HOWEVER, APPLICATIONS FROM THE MAJOR LAB GRANTS ARE MUCH  
25 DIFFERENT THAN THOSE FROM THE MEN AND WOMEN WHO DIRECT

## BARRISTERS' REPORTING SERVICE

1     STEM CELL RESEARCH LABS. THE APPLICATIONS FOR LAB  
2     CONSTRUCTION FUNDS COME FROM HUGE INSTITUTIONS, SUCH AS  
3     THE UNIVERSITY OF CALIFORNIA AND OTHER MAJOR EDUCATIONAL  
4     AND RESEARCH ENTERPRISES. THEIR NAMES AND APPLICATIONS  
5     SHOULD BE PART OF THE PUBLIC RECORD. EQUATING THE  
6     SENSITIVITIES OF UC BERKELEY ARE RATHER LIKE  
7     INSTITUTIONAL APPLICANTS FOR LAB GRANTS TO THE  
8     SENSITIVITIES OF AN INDIVIDUAL RESEARCHER WOULD SEEM TO  
9     DEFY COMMON SENSE. AND IF PROPRIETARY INFORMATION EXISTS  
10    IN THE APPLICATION, IT CAN EASILY BE EXCISED BEFORE  
11    RELEASE.

12            "IN KEEPING WITH THE SENSE OF THE STATE  
13    AUDITOR'S REPORT, CIRM SHOULD ALSO MAKE PUBLIC THE  
14    ECONOMIC DISCLOSURE STATEMENTS OF THE PERSONS WHO REVIEW  
15    THE GRANTS. PUBLIC DISCLOSURE OF THOSE DOCUMENTS WILL  
16    ASSURE BOTH SCIENTISTS WHOSE APPLICATIONS ARE BEING  
17    REVIEWED AND THE PUBLIC WHOSE MONEY IS BEING SPENT OF THE  
18    ESSENTIAL FAIRNESS OF THE PROCESS. CIRM HAS RESISTED  
19    SUCH DISCLOSURES. IT SAYS IT IS ALREADY MORE OPEN THAN  
20    THE NATIONAL INSTITUTES OF HEALTH, BUT CIRM AND THE NIH  
21    ARE NOT COMPARABLE.

22            "THE PRESIDENT AND THE CONGRESS CAN AND DO  
23    INTERVENE IN NIH MATTERS AND SETS BUDGET. IN CALIFORNIA  
24    THE GOVERNOR AND LEGISLATURE ARE BARRED FOR ALL PRACTICAL  
25    PURPOSES FROM EXERCISING SUCH OVERSIGHT BECAUSE OF THE

## BARRISTERS' REPORTING SERVICE

1 PROVISIONS OF PROP 71. EVEN THE TINIEST ALTERATIONS IN  
2 CIRM REQUIRE AN UNPRECEDENTED SUPER MAJORITY VOTE OF THE  
3 LEGISLATURE AND SIGNATURE OF THE GOVERNOR. IT'S FUNDING  
4 IS CONTINUOUSLY APPROPRIATED AND NOT SUBJECT TO THE  
5 NORMAL BUDGET PROCESS. ALL THAT MEANS IS THAT CIRM HAS A  
6 SPECIAL RESPONSIBILITY TO DEMONSTRATE ACCOUNTABILITY AND  
7 SHOW THE PUBLIC THAT IT IS PERFORMING WITH THEIR BEST  
8 INTERESTS IN MIND.

9 "I URGE YOU TO RECOMMEND TO CIRM THAT IT  
10 IDENTIFY FORTHWITH THE APPLICANTS FOR ITS UPCOMING ROUND  
11 OF LAB CONSTRUCTION GRANTS AND TO RELEASE THE STATEMENTS  
12 OF ECONOMIC INTEREST FROM ITS PANELS, GRANTEE REVIEWERS.  
13 SINCERELY, DAVID JENSON."

14 CHAIRMAN CHIANG: THANK YOU VERY MUCH. WE WILL  
15 GO TO BOB.

16 MR. KLEIN: I'D LIKE TO RESPOND TO A COUPLE OF  
17 ITEMS RAISED IN THE LETTER. FIRST OF ALL, I'D LIKE TO  
18 EMPHASIZE THAT, AS WE INDICATED BEFORE, THE NAMES OF ALL  
19 THE INSTITUTIONS ARE ALREADY SCHEDULED TO BE RELEASED AT  
20 OUR JANUARY MEETING. THAT'S BEFORE THEY CAN ACTUALLY  
21 APPLY FOR ANY MONEY, BEFORE THEY CAN ACTUALLY SUBMIT AN  
22 APPLICATION THAT EVEN TELLS US WHAT THEY'RE APPLYING FOR.  
23 SO THEY'RE ONLY IN THE SCIENTIFIC PHASE RIGHT NOW WHERE  
24 THEY'VE SUBMITTED THEIR SCIENTIFIC REVIEW OF IDEAS.

25 SECONDLY, I'D LIKE TO EMPHASIZE WHAT'S A

## BARRISTERS' REPORTING SERVICE

1 QUESTION RIGHT NOW. IT'S JUST THE TIMING OF THE RELEASE  
2 OF NAMES, AND IT'S ALREADY A PUBLIC MATTER THAT -- A  
3 MATTER OF PUBLIC POLICY THAT ANYONE SUBMITS A GRANT THAT  
4 SPECIFICALLY COMPETES FOR AN APPLICATION FOR DOLLARS  
5 UNDER THIS PROGRAM WILL BE FULLY DISCLOSED, AND THE GRANT  
6 DOLLARS WILL BE DISCLOSED. SO THAT DECISION HAS  
7 COMPLETELY BEEN MADE.

8 ADDITIONALLY, IT IS IMPORTANT TO NOTE THAT,  
9 AGAIN, DR. REED, WHO IS A DEDICATED SCIENTIST, WHO IS THE  
10 PREEMINENT WORLD RECOGNIZED LEADER IN STEM CELL DEATH, A  
11 CRITICAL ISSUE AND PROVIDES CRITICAL INFORMATION TO THE  
12 BOARD, AND AS A SCIENTIST IS THE HEAD OF AN INSTITUTE, IS  
13 THE HEAD OF AN NIH-APPROVED CANCER -- MAJOR CANCER  
14 PROJECT AND WHO SERVES AS A VOLUNTEER ON THIS BOARD  
15 CERTAINLY DID MAKE A MISTAKE IN THAT HE SHOULD HAVE JUST  
16 LET SOMEONE FROM HIS INSTITUTE WRITE THIS LETTER AND SIGN  
17 THIS LETTER.

18 WHEN HE CALLED ME ON MY CELL PHONE AND SAID  
19 THERE'S A MISTAKE THAT HAS BEEN MADE, A FACTUAL MISTAKE,  
20 I WANT TO EMPHASIZE SCIENTIFIC PEER REVIEW HAD ALREADY  
21 HAPPENED, IT WAS RATED SECOND HIGHEST BY A GROUP OF  
22 PEOPLE FROM COMPLETELY OUTSIDE THE STATE, NOT INVOLVED IN  
23 THE PROCESS, HE RECUSED HIMSELF COMPLETELY AT THE BOARD  
24 LEVEL. HE WAS NOT IN THAT PROCESS. THIS IS IN THE  
25 COMPLIANCE PROCESS LOOKING TO SEE WHETHER THE DEFINITION

## BARRISTERS' REPORTING SERVICE

1 OF FULL-TIME EMPLOYMENT WAS MET. AND IN INDICATING TO  
2 HIM THAT IT WAS A FACTUAL ERROR, I SAID, "LOOK, I'M NOT  
3 INVOLVED IN THIS PROCESS. IF THERE'S A FACT THAT'S  
4 WRONG, THERE'S A LETTER THAT NEEDS TO BE WRITTEN."

5 NOW, IN FACT, I SHOULD HAVE SAID A LETTER  
6 SHOULD BE WRITTEN AND YOU MUST BE SURE NOT TO WRITE IT  
7 YOURSELF. NOW, THOSE WORDS WOULD HAVE SAVED ME A LOT OF  
8 LEARNING; BUT, IN FACT, I DIDN'T STATE THOSE FEW WORDS.  
9 AND WE HAVE LEARNED BY THIS. DR. RICHARD MURPHY HAS  
10 STATED WE HAVE A FULL SYSTEM OF FIREWALLS AND  
11 PROTECTIONS. THEY WORKED. THIS GRANT WAS DENIED. THERE  
12 ARE NO STATE TAXPAYER DOLLARS INVOLVED. WE ARE LEARNING.  
13 WE'VE BEEN THROUGH THOUSANDS OF DECISIONS WITH LEGAL  
14 CONTENT. I AM PROUD OF THE RECORD THAT WE HAVE. WE WILL  
15 LEARN. WE WILL MAKE MISTAKES ALONG THE WAY. WHAT'S  
16 CRITICAL IS WE COMMIT OURSELVES TO LEARNING AND IMPROVING  
17 OURSELVES FOR THE PEOPLE OF THE STATE OF CALIFORNIA. AND  
18 I PASSIONATELY AM COMMITTED TO THAT TASK. BUT THANK YOU  
19 VERY MUCH FOR YOUR REVIEW AND THE PRIVILEGE OF ADDRESSING  
20 THAT COMMENT. THANK YOU.

21 CHAIRMAN CHIANG: THANK YOU. ANY OTHER PUBLIC  
22 COMMENTS? WE'LL GO ITEM NO. 12. IT'S BOARD MEMBER TIME.  
23 DO ANY BOARD MEMBERS HAVE ANY COMMENTS?

24 MR. BRUNNER: JUST LIKE TO MAKE A COUPLE OF  
25 COMMENTS. I'VE HAD THE OPPORTUNITY IN MY PROFESSIONAL

## BARRISTERS' REPORTING SERVICE

1 CAREER TO START A COMPANY AND ALSO START A STATE AGENCY  
2 THAT WAS BRAND-NEW AND WAS UNDER AN ENORMOUS AMOUNT OF  
3 PUBLIC SCRUTINY. SO I HAVE A PRETTY GOOD SENSE OF WHAT  
4 IT'S LIKE TO FULFILL THE MISSION OF THE AGENCY AND AT THE  
5 SAME TIME GO FROM BASICALLY ZERO TO A HUNDRED ON BUILDING  
6 INFRASTRUCTURE.

7 IT'S A VERY DIFFICULT PROCESS AND ONE WHERE  
8 UNFORTUNATELY I'M SITTING HERE REMEMBERING BACK ON THE  
9 MISTAKES I MADE IN DOING IT AND ADMIRING HOW FEW MISTAKES  
10 YOU'VE MADE IN PROCEEDING AHEAD WITH THIS IMPORTANT  
11 FUNCTION.

12 AS I READ THE FOUR CORNERS OF THE VARIOUS AUDIT  
13 REPORTS THAT HAVE BEEN PRESENTED TO US, I CAN SAY THAT,  
14 WHILE THERE HAVE BEEN SOME ISSUES RAISED, NONE OF THEM  
15 ARE FUNDAMENTAL. THEY'RE BASICALLY SOME PROCESS ISSUES  
16 THAT NEED CLEANING UP. THERE WILL ALWAYS BE PROCESS  
17 ISSUES THAT NEED TO BE CLEANED UP. THAT'S JUST INHERENT  
18 IN RUNNING ANY BUSINESS, WHETHER IT'S IN THE PUBLIC  
19 SECTOR OR PRIVATE SECTOR. I THINK OVERALL WHAT WE CAN  
20 GLEAN FROM THIS IS THAT YOU'VE DONE A VERY GOOD JOB. I  
21 PERSONALLY WANT TO COMPLIMENT YOU AND YOUR STAFF ON THE  
22 WORK YOU'VE DONE IN FURTHERING THIS IMPORTANT MISSION.  
23 THANK YOU.

24 CHAIRMAN CHIANG: THANK YOU. ANY COMMENT?

25 MS. POTTER: I JUST WANT TO ECHO THE COMMENTS



## BARRISTERS' REPORTING SERVICE

1 OF MY FELLOW COMMITTEE MEMBER. THE WORK IS JUST  
2 MONUMENTAL. IT'S SIMPLY MONUMENTAL. I HAVE SEEN MANY  
3 COMPANIES COME AND GO AND GROW, AND THE PACE AT WHICH  
4 THIS ORGANIZATION HAS MOVED, THE RATE AT WHICH IT'S  
5 BROUGHT ON TALENT, THE DEGREE TO WHICH YOU HAVE DRAWN  
6 TALENT FROM AROUND THE WORLD TO THIS WONDERFUL STATE FOR  
7 A CAUSE THAT WE SO SINCERELY BELIEVE IN IS JUST -- JUST  
8 SHOULD BE COMMENDED.

9 AS YOU CONTINUE TO WORK QUICKLY, YOU WILL HAVE  
10 TO BE EVEN MORE DILIGENT ABOUT MAKING SURE THAT YOUR  
11 PROCESSES ARE CLEAN AND ABSOLUTELY ABOVE REPROACH, THAT  
12 YOUR INTENT AND YOUR DESIRE COMES THROUGH A HUNDRED  
13 PERCENT. AND WHAT WILL COME WITH THAT IS THE RELATIONAL  
14 TYPES OF THINGS THAT YOU'RE GOING TO HAVE TO WORRY ABOUT,  
15 WHETHER IT'S COMMITTEE MEMBERS OR ATTENDEES AT MEETINGS,  
16 ETC., ETC. SO THE ARMS OF WHERE YOU'RE GOING TO HAVE TO  
17 REACH WILL INDEED GET VERY FAR, BUT YOU WILL HAVE  
18 ADDITIONAL STAFFING AND MORE TALENT GOING FORWARD, AND I  
19 THINK THAT CHALLENGE WILL BECOME EVEN EASIER.

20 BUT I CAN TELL YOU THAT I AM VERY PROUD, I'M  
21 VERY PROUD TO BE ON THIS COMMITTEE, I'M EXTREMELY PROUD  
22 FOR OUR WONDERFUL STATE, AND MOST IMPORTANTLY, I'M JUST  
23 THRILLED FOR THE PATIENTS WHO WILL SO GREATLY BENEFIT  
24 FROM WHAT YOU'RE DOING. SO I JUST COMMEND YOU AND ASK  
25 YOU TO JUST KEEP UP THE GOOD WORK, STAY DILIGENT, TAKE

## BARRISTERS' REPORTING SERVICE

1 FULL ADVANTAGE OF ALL THE AUDIT OVERSIGHT AND  
2 QUESTIONING. ALL THAT IS GOOD. TRANSPARENCY IS GOOD.  
3 IT IS ALL GOOD. JUST KEEP GOING STRONG AND KEEP WORKING  
4 HARD.

5 CHAIRMAN CHIANG: THANK YOU, MYRTLE. IN VIEW  
6 OF DANIEL AND MYRTLE'S COMMENTS, LET ME TAKE UP ON THAT.  
7 SO NO GOOD WORK GOES UNSUPPORTED. AND SO AS MYRTLE JUST  
8 POINTED OUT, THERE'S GOING TO BE TREMENDOUS AUDIT  
9 OVERSIGHT. AND AS THE TREASURER AND I STATED PRIOR TO  
10 TAKING OFFICE, THAT WE WERE GOING ENGAGE IN A FINANCIAL  
11 REVIEW OF ALL PROCEEDS, BOND PROCEEDS. SO I AM GOING TO  
12 DIRECT MY STAFF TO REVIEW, TO AUDIT ADDITIONALLY THE GOOD  
13 WORK AT CIRM. I WANT TO MOVE THAT WORK VERY QUICKLY,  
14 DIRECT THAT MY STAFF ENGAGE THAT WORK VERY QUICKLY SO  
15 THAT WE CAN HAVE THOSE RESULTS BROUGHT BACK IN THE SPRING  
16 MEETING.

17 AND ALONG THOSE THINGS TO HAVE COMMENTS, I'D  
18 LIKE TO FOLLOW UP ON WHAT MYRTLE SAID EARLIER AND WHAT  
19 BSA IDENTIFIED IN FOCUSING ON PREALLOCATION PROCEDURES:  
20 GRANTS MANAGEMENT, FINANCIAL RISKS, CONFLICT OF INTEREST  
21 VIOLATIONS, AND EXPENDITURE PRACTICES, AND COMPLIANCE.  
22 THIS IS VERY EXCITING. IT'S POSITIVE IN LIGHT OF WHAT  
23 THE COURT'S DECISIONS ARE, AND SO WE GET TO A PLACE WHERE  
24 WE CAN MAKE SURE THAT WE DO ENFORCE AND BRING TO LIGHT  
25 THE BEST PRACTICES THAT ARE TAKING PLACE.

BARRISTERS' REPORTING SERVICE


1 SO THAT CONCLUDES MY REMARKS. AND EVERYBODY  
2 HAVE -- WE ARE ADJOURNED AND HAVE SAFE HOLIDAYS.  
3 (THE MEETING WAS THEN ADJOURNED AT 11:44  
4 A.M.)  
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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 CITIZENS FINANCIAL ACCOUNTABILITY OVERSIGHT COMMITTEE IN THE MATTER OF ITS REGULAR MEETING HELD AT THE LOCATION INDICATED BELOW

CALIFORNIA PUBLIC UTILITIES COMMISSION  
505 VAN NESS AVENUE  
SAN FRANCISCO, CALIFORNIA  
ON  
TUESDAY, NOVEMBER 27, 2007

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

