

# Incentive Program No. 46 – A Program to Encourage Seed Capital Investments in Companies at High Risk Sectors

## 1. Background

- 1.1 The Israel Innovation Authority (hereafter: "**The Innovation Authority** ") directly and indirectly assists and encourages technological innovation in the Israeli industry by a variety of funding programs, incentive tools, and actions.
- 1.2 To assure the continued establishment and development of startup companies in Israel, the Innovation Authority has formulated the following Incentive Program to Encourage seed Investments in startup companies in High-Risk Sectors, backed by Venture Capital investors (hereafter: "**the Incentive Program**").
- 1.3 The objective of this Incentive Program is to expand the funding sources available for startup companies operating in high-risk sectors through value-added Israeli and international venture capital investors while leveraging the Government funding to continue their development and growth.

## 2. Definitions

In this Incentive Program, the definition appearing in this section will be distinguished for the following terms, except if it is otherwise defined in the Innovation Law or the Incentive Program. A term not explicitly defined in this Incentive Program will be given the meaning pursuant to the Innovation Law.

### 2.1 "**Warrant**"

As defined in Section 8.4 hereafter.

### 2.2 "**Peripheral area** "

Areas of Development Area A, that were determined according to Section 40D of the Law for the Encouragement of Capital Investments 1959.

### 2.3 "**Application**"

Application to receive a grant pursuant to this Incentive Program.

### 2.4 "**Seed capital investment**"

An investment in the initial stages of the operation of a target company, which at the time of making the investment, its principal activity or its designated activity, is research or development - as defined in the Innovation Law, and where the risk of an investment in it is higher than what is accepted in other investments.

## 2.5 "Cash capital investment"

One of the two following alternatives:

- 2.5.1 An acquisition of shares of a target company, that have the rights of (at least) ordinary shares of the target company, in consideration for an immediate transfer of financing to the target company, as a result of which the investor immediately becomes a shareholder according to terms defined above, at the full value of such financing.
- 2.5.2 Transfer of immediate financing to a target company, against a right to receive (at least) ordinary shares of the target company in the future, at the full value of such financing.

## 2.6 "Research Committee" or " the Committee"

As per its meaning in Section 3 hereafter.

## 2.7 "Related company"

as defined in the Securities Law, 1968.

## 2.8 "Target company"

An Israeli Corporation, that complies with the conditions of Section 6.1.1 hereafter, in which an investor intends to invest in the framework of this Incentive Program.

## 2.9 "Innovation Law"

The Law for the Encouragement of Industrial Research, Development and Technological Innovation- 1984.

## 2.10 "Amount of the approved grant"

Amount of the grant that will be given to the target company by the Innovation Authority, pursuant to this Incentive Program.

## 2.11 "Applicant"

A target company that has submitted an application for receipt of a grant in the framework of this Incentive Program.

## 2.12 "Approval recipient"

A target company whose application for receipt of a grant was approved, as specified in Section 7 hereafter.

## 2.13 "Investor"

Israeli or foreign corporation which is a venture capital fund.

## 2.14 "Group with preferred financing terms"

As defined in Incentive Program No. 1 of the Innovation Authority - R&D Fund.

## 2.15 "Venture capital fund"

As defined in the Securities Law-1968.

#### 2.16 "Annual interest"

Interest at a variable rate, to the extent of the annual LIBOR interest for dollar deposits, as published on the first trading day of each year, or an alternative publication that, according to a notification of the Bank of Israel to the public, determines the aforementioned interest.

#### 2.17 "Lead investor"

A Partner in a venture capital fund who leads the investment in a target company, in the framework of this Incentive Program.

#### 2.18 "Control"

According to its meaning in the Securities Law-1968.

#### 2.19 "Plan"

A Plan proposed by the applicant according to which a cash capital investment will be made by an investor in the applicant submitting the application, for the grant from the Innovation Authority.

#### 2.20 "Approved Plan"

A Plan approved by the Committee pursuant to the provisions of this Incentive Program.

#### 2.21 "Exercise period of the Warrant"

Period whose beginning will be determined by the Research Committee, and whose end will be the earlier of the following dates:

- 2.21.1 End of three years from the date determined by the Research Committee;
- 2.21.2 The date on which a "material change" will be made;
- 2.21.3 The date on which the target company will return the entire grant amount, and the addition of annual interest, with the investor's acquiescence.

### 3. The Committee

#### 3.1 Composition of the Committee

The Research Committee for purposes of this Incentive Program will be the Research Committee that operates by force of Innovation Authority Incentive Program No. 3 - Technological Incubators.

#### 3.2 Acting Chairperson of the Committee

- 3.2.1 One of the Committee members from the Innovation Authority personnel, who will be appointed by the head of the Innovation Authority and the Director General of the Innovation Authority, will be authorized to serve in the role of acting Chairperson of the Innovation Authority Committee.

- 3.2.2 An employee of the Innovation Authority as stated in Section 3.2.1 above may serve as acting Chairperson of the Committee, subject to providing written authorization of the Innovation Authority prior to the specific discussion by the Committee.

### **3.3 The functions and authorities of the Committee**

The Committee has the authority to make any decision that is necessary to activate this Incentive Program (for as long as it does not contradict the provisions of the Innovation Law, the regulations, the rules, the procedures, and the provisions that were stipulated by force of it), and this includes:

- 3.3.1 To discuss every application submitted to the Incentive Program.
- 3.3.2 To carry out any action for evaluation and assessment of the applicant and the investor's presentations.
- 3.3.3 To approve, entirely or partially, or to reject any application filed in the Incentive Program framework, including evaluation of compliance of the applicant and the application itself with the threshold conditions and the ranking of the applications pursuant to the criteria.
- 3.3.4 To make any decision related to the Innovation Authority grant, which includes determination of conditions, time schedules and milestones for the applications that will be approved.
- 3.3.5 To monitor the fulfillment of the letter of approval's conditions and the commitments of the approval recipient and the investor.
- 3.3.6 To entirely or partially approve or reject any change that will be requested to be made in relation to the original application.
- 3.3.7 To determine and publish rules and procedures for this Incentive Program.
- 3.3.8 To initiate surveys, research and all other activities that could assist in activation of this Incentive Program.

### **3.4 Compensation**

The public representative members of the Committee will be entitled to compensation for their participation in meetings of the Committee, this pursuant to a procedure that will be determined by the Innovation Authority Council for this purpose.

## **4. Communication with the public**

The procedure for submitting applications will be carried out in one or more of the three ways specified below, as published in a notice to the public on the Innovation Authority Internet website:

### **4.1 A public call**

- 4.1.1 The Innovation Authority will, from time to time, publish notices to the public to submit applications for receipt of grants.
- 4.1.2 All of the applications submitted up to the last date for submission will be brought to the Committee and evaluated one against the other,

pursuant to the allotted budget. Applications submitted late will be rejected.

#### 4.2 **Current annual submission**

4.2.1 Current submission for a grant will be permitted throughout the entire year, pursuant to the provisions and rules stated in the Incentive Program procedures.

4.2.2 In each period the Incentive Program procedures will be determined, the applications received until that date will be brought before the Committee, and they will be examined pursuant to the Incentive Program and according to the allotted budget.

#### 4.3 **Submitting on predetermined dates**

4.3.1 Submitting applications will be permitted on a number of predetermined dates during the year, pursuant to Incentive Program procedures' provisions and rules.

4.3.2 All applications submitted until the last date of submission will be brought before the Committee and examined one against the other pursuant to the allotted budget. Applications submitted late will be rejected.

4.4 The Innovation Authority will be permitted to earmark the procedure for submitting applications for specific high-risk technological sectors, -inter alia for aspects specified in the sub-sections of Section 6.2.1.1 below, in each of the submission procedures (as specified in Section 4 hereafter).

## 5. **Submitting an Application**

5.1 An application for receipt of a grant will be made subject and pursuant to the provisions and rules of this Incentive Program and its procedures, and in accordance with the conditions that will be specified in the notice to the public that will be published on the Innovation Authority Internet website.

5.2 An application to receive a grant will be submitted to the Innovation Authority on a designated form, prepared according to the rules and the procedures that the Committee has determined or will determine from time to time, and it is contingent on additional documents, as per the Committee's demand or any factor that it has authorized.

5.3 The forms for submitting an application to receive a grant will be available for downloading from the Authority's Internet website.

## 6. Examination of an Application

### 6.1 Threshold conditions for providing the grant

Both application and applicant must comply, to the satisfaction of the Research Committee, with all of the following threshold conditions **on a cumulative basis**. It is made clear and emphasized that the threshold conditions must be complied with on the application submission date and throughout the entire period of execution of the Approved Plan and that it is sufficient that non-compliance with one of the following threshold conditions will lead to the disqualification of the entire application or cancellation of the Approved Plan, as the case may be:

- 6.1.1 The applicant is a corporation lawfully incorporated and registered in Israel, and operates pursuant to the laws of the State of Israel.
- 6.1.2 The cumulative amount of the investment's financial scope executed by the applicant up to the application submission date, including convertible loans and convertible financing, is lower than NIS 3.5 million.  
For purposes of this Section 6.1.2:
  - **Convertible loan**" - a loan integrating a Warrant component for converting the entire loan into shares of the applicant.
  - **"Convertible financing"**- transfer of immediate financing to the applicant, against a future right to receive shares of the applicant, at the full value of that financing.
- 6.1.3 The applicant's primary or designated activity is research or development- as defined in the Innovation Law.
- 6.1.4 No financial assistance was received, directly or indirectly, either from a governmental body or from the Innovation Authority to execute the application's subject portfolio, which was not according to the provisions of this Incentive Program. No additional benefit will be provided with respect to an approved portfolio for which a benefit was given in the past as per the Incentive Program.
- 6.1.5 The applicant may not have an application to receive a benefit that is being examined in one of the Innovation Authority's Incentive Programs, including any sub-program.
- 6.1.6 The applicant and its controlling shareholders comply with the Industrial Research and Development Regulations' requirements (Conditioning of Approvals-Minimum Wage2011).
- 6.1.7 The applicant is not an owner of restricted accounts, and is not in the process of receivership, freezing of proceedings, liquidation, etc.
- 6.1.8 A Term Sheet has been signed between the applicant and the investor to execute a cash capital investment by the investor in the applicant (hereafter: **"the term sheet"**) according to which at least 50% of the scope of the investor's investment will be for the research and development framework during a period of up to 3 years, and at least 50% of this scope will be executed in Israel by the applicant. Also, it

includes providing a Warrant (as specified in Section **8.4** hereafter) to the investor.

- 6.1.9 The applicant has committed to own the technology that will result from the research and development according to the Approved Plan and any right derived from it, including intellectual property rights, from the moment they are created. In an application that includes joint ownership of knowledge, as this term is defined in Incentive Program No. 1, all owners have committed as aforementioned.

## 6.2 **Criteria**

The Committee will consider the applications that have passed the threshold **conditions**, and will assess their quality pursuant to the following criteria:

### 6.2.1 **applicant and the subject plan of the application**

- 6.2.1.1 Extent of the technological and business risk of the applicant and the subject plan's technological sector, including the following aspects:
- 6.2.1.1.1 Technological innovation-in the applicant's Plan;
  - 6.2.1.1.2 Regulation in the sector
  - 6.2.1.1.3 Long implementation time in the sector
  - 6.2.1.1.4 Entry into new, emergent market
  - 6.2.1.1.5 Application's activity in a technological sector where there is a shortage of seed venture capital investors.
- 6.2.1.2 The applicant's business-economic growth potential resulting from the investment.

### 6.2.2 **Criteria - the investor**

- 6.2.2.1 The investor's or lead partner's scope of experience with seed venture capital investments in technological companies and projects in general, and in technological companies and projects in sectors as stated in Section **6.2.1.1** in particular.
- 6.2.2.2 The scopes of the investments executed by the investor up to the application date, in and outside of Israel.
- This criterion will not be evaluated in relation to investors that are venture capital funds established 12 months prior to executing the investment.
- 6.2.2.3 Availability of capital sources designated for the investor's seed capital investments on application submission date.
- 6.2.2.4 The investor's extent of specialization in business orientation (structuring and designing the business model, product-market fit, market penetration, building traction, etc.).

- 6.3 In each of the application's evaluation stages, the Research Committee will be permitted to use the opinion of various experts in the Innovation Authority and/or externally, including opinions of professional examiners on behalf of the Innovation Authority.
- 6.4 The Research Committee or someone on its behalf, including external factors, will be permitted, during the examination and assessment process, to contact the applicant and/or the investor, with a request for clarifications or additional information and documents necessary for the application's evaluation. The applicant and/or investor, as the case may be, will submit to the Research Committee, or anyone authorized on its behalf, any additional information and document that will be requested, necessary to evaluate the application. They will be an integral part of the application's documentation.
- 6.5 The Research Committee will be permitted to invite the applicant and/or investor or someone on their behalf, to present the application before it.
- 6.6 The Committee, according to its exclusive discretion, will be permitted to reject any application that it considers being unreasonable. Additionally, the Committee will be permitted, in its exclusive discretion, within the framework of the criterion, to consider a reduction of the application's score, due to working data or assumptions or a proposal for a plan or of any part of it, specified in the application, that it will have found to be unreasonable.

## 7. The Committee's Decision and Authority

- 7.1 After an application's evaluation, as specified above, the Committee will make a decision whether to approve or reject the application. Notification regarding the above decision will be sent to the applicant.
- 7.2 If the Committee has approved the application or part of it:
  - 7.2.1 The Committee will determine the amount of the grant approved and its percentage of the total capital investment round in cash to be invested together with the investor as the approval recipient, as specified in Section 8 hereafter.
  - 7.2.2 The applicant and the investor will be required to sign a letter of commitment in a format to be determined by the Committee.
  - 7.2.3 Application approval will become effective after the Authority has signed the letter of approval, that will include, among other things, the amount of the approved grant and its percentage of the investor's investment and additional conditions-should the Committee will set them (for this Incentive Program: "**the letter of approval**") .
- 7.3 After having given the grant, as specified in Section 8 hereafter, the Committee will be permitted at any time to evaluate and verify that the approval recipient is fulfilling the conditions of the letter of approval as well as the conditions specified in Section 6.1.8 above.



## 8. Conditions of the Grant

- 8.1 Within the framework of the Incentive Program, the benefit will be provided in the format of a grant (in this Incentive Program "**the grant**") that will be given to the approval recipient, subject to executing the cash capital investment (as defined in Section 2.5 above) by the investor in the approval recipient, and pursuant to the conditions of the investment as agreed in the term sheet.

To remove any doubt, it is made clear that owners' loans or an investment in cash equivalent or any investment that is not against the receipt of rights to shares of the approval recipient will not be considered an investment according to this Section.

It is also made clear that a cash capital investment, as stated in this Section 8.1, is only an investment made after filing the grant application, pursuant to what is agreed in the term sheet between the parties. Past investments made by the approval recipient will not be recognized until the date of application submission for receipt of the grant.

- 8.2 The Innovation Authority's grant provided to the approval recipient will be at a ratio of 4:6 (6- the amount of the cash capital investment of the investor in the grant recipient, 4-the amount of the grant to be provided by the Innovation Authority) and up to a maximum grant amount of NIS 3,500,000 (hereafter: "**maximum grant amount**"). This is pursuant to the criterion specified in Section 6.2 and to the exclusive discretion of the Committee.

- 8.3 Despite the aforesaid, the Committee will be permitted to approve a grant at a ratio of 1:1 (the cash capital investment of the investor in the approval recipient identical to grant's amount provided by the Innovation Authority), up to the maximum grant amount, pursuant to the criteria specified in Section 6.2 and according to its exclusive discretion, should one or more of the following cases be present:

8.3.1 If at least 33% of the share capital of the approval recipient (on a fully diluted basis, pre-investment) is held, directly or indirectly, by one or more entrepreneur from the Groups with Preferred Financing Terms, as specified in Section 2.14 above;

8.3.2 If the approval recipient's place of operations is in the peripheral areas, as defined in Section 2.2 above.

- 8.4 Simultaneously with providing the grant to the approval recipient, the approval recipient will issue a warrant (in this Incentive Program: "**the warrant**"), that will provide the investor with the right to execute an additional cash capital investment in the approval recipient, at the value of the entire grant amount given by the Innovation Authority to the approval recipient, with the addition of annual interest of 5%, pursuant to what is stipulated in Section 7 of the Interest and Linkage Ruling Law, 1961, from the date of receipt of the grant (hereafter:

"**the warrant proceeds**"). The warrant will be in effect until the end of the exercise period of the warrant.

- 8.5 In case this option is exercised by the investor, the approval recipient will transfer the warrant proceeds to the Innovation Authority. It is made clear that the Investor's exercise of the warrant and payment of the warrant proceeds to the Innovation Authority will bring the approval recipient's obligations vis-a-vis the Innovation Authority to an end with regards to reporting to and royalty payment, as determined in Section **8.6** below. The obligations of the approval recipient pursuant to Section 9 below will continue to apply.
- 8.6 Should the investor not exercise the warrant given to him by the approval recipient by the end of the exercise period of the warrant; the grant is to be repaid to the Innovation Authority by the approval recipient, by means of royalty payments from all of its revenues, pursuant to the provisions of the Innovation Law, its regulations, rules, and procedures. The provisions of the Innovation Authority's Incentive Program No.1, the R&D Fund, and the procedures and rules determined by force of it, will apply to the Innovation Authority grants and the assistance provided in this Incentive Program, pertaining to reporting and payment of the royalties, commencing from the end of the warrant's exercise period.
- 8.7 The obligation to report to the Committee on the occurrence of a "material change" as per its meaning in Section **8.8** below and on the end of the warrant's exercise period, as defined in Section **2.21** above, will apply to the approval recipient, as stipulated in the Incentive Program's procedures.
- 8.8 A material change in the approval recipient, that will cause the expiration of the warrant according to the Incentive Program, will occur in the below specified cases:
  - 8.8.1 Sale of all or most of the assets of the approval recipient and/or related corporations under its control, or providing an exclusive and irrevocable use license to commercialize assets of the approval recipient and/or related corporations under its control.
  - 8.8.2 Capital raising of NIS 42 million or more by the approval recipient, after receiving the grant from this Incentive Program;
  - 8.8.3 Failure of the approval recipient's compliance with one of the Incentive Program's conditions of Section 6.1 .
- 8.9 During or at the end of the warrant exercise period, the approval recipient is to itemize the technological knowledge and the rights derived from it, including intellectual property rights, created by it during the warrant exercise period. The Incentive Program's procedures will determine the format of the detail.

## 9. Technology and Production

The provisions of the Innovation Law, its regulations, rules, and procedures, and the provisions of Incentive Program No. 1 - R&D Fund and the procedures and rules that were set by force of it, will apply to the benefit provided in the framework of this Incentive Program, for the purposes:

- 9.1 Ownership of the technology resulting from the research and development as per an Approved Plan and any right derived from it.
- 9.2 Production in Israel and an obligation not to transfer production elsewhere, without receiving the Research Committee's approval in advance.
- 9.3 The obligation not to transfer the technology or rights derived from the technology developed in the framework of the Approved Plan to another, in or outside of Israel, without receiving the Research Committee's approval in advance.

Approvals of applications, that are not applications for approval of a Plan, which will be submitted relative to subjects specified in this section, will be brought for discussion to the Research Committee operating by force of Incentive Program No.1 - R&D Fund.

## 10. Double Support

It is prohibited to obtain additional assistance from the Innovation Authority and/or from a governmental factor, directly or indirectly, for the Approved Plan components.

## 11. The Innovation Authority's Supervisory and Enforcement Authorities

The approval recipient and the investor, at any time, will allow the Innovation Authority or anyone on its behalf, including external factors on its behalf, to audit their operations and to supervise compliance with the conditions of the letter of approval, on dates and under conditions that will be determined by the Innovation Authority and anyone on its behalf, and will act according to the Innovation Authority's guidelines, as provided from time to time.

In the framework of the above audits, the Innovation Authority or anyone on its behalf will be permitted to obtain an opinion from different factors, and during the examination and assessment of the approval recipient and/or the investor, to request clarifications or request to receive additional information and documents that they will deem necessary. The approval recipient and/or the investor, as the case may be, will submit any additional information or document that will be requested as above to the Innovation Authority or to anyone, which will be authorized for this on its behalf.

## 12. Re-discussion

- 12.1 The Committee will hold a re-discussion of any of its decision if within 45 days from the date of receipt of the notice of the Committee's decision; the applicant will submit a written reasoned request to hold a re-discussion with regards to the decision which has been made by this Committee.
- 12.2 Applicant's submission of a request for re-discussion requires payment of a fee pursuant to regulations that have been determined for this purpose by force of the Innovation Law.

## 13. Cancellation of the assistance

Without detracting from any of the Incentive Program provisions, the provisions of the Innovation Law, including chapter H of the Innovation Law, concerning the cancellation of the assistance, will apply to the benefit that will be given in the framework of this Incentive Program.

## 14. Budget

- 14.1 It is made clear that the Innovation Authority Council is permitted from time to time to update the amounts and the percentages that are stated for this Incentive Program.
- Providing assistance and activating the Incentive Program are subject to annual budget approval, budget limitations, and the approved budget for the Incentive Program.
- 14.2 If the Innovation Authority's budget has not yet been approved on the date of application approval, the approval is subject to the existence of a budget in the appropriate budget regulation. No final decision will be made regarding the protection of the investments until after the approval of the budget by the relevant factors.

## 15. General

- 15.1 The provisions of the Innovation Law, its regulations, rules, procedures, conditions, and the provisions that were determined by the force of it (if determined), will apply to this Incentive Program, with the necessary changes of including the provisions of Mark D of Chapter C of the Innovation Law (Research Committee), Chapter C1 of the Innovation Law (Obligation for Caution and Obligation of Trust of an Office Holder of the Innovation Authority), Section 15BB of the Innovation Law (Application of Laws), Section 15DD of the Innovation Law (Income of the Innovation Authority), Chapter D of the Innovation Law (Approval of Applications to Provide Benefits), Chapter E of the Innovation Law and Chapter H of the Innovation Law (General Provisions), and this includes Section 47A of the Innovation Law (Penalties). The procedures of the Incentive Program, as they will be determined and published from time to time by the Committee, including in the matter of submitting the applications and their discussion, will be an integral part of this Incentive Program. In a case of a

contradiction or discrepancy between the provisions of this Incentive Program and the procedures, this Incentive Program's provisions will take precedence.

- 15.2 In any event, this Incentive Program should not be considered to be a commitment on behalf of the Innovation Authority to approve applications to be submitted or to transfer any payment.
- 15.3 Procedures, rules, provisions, etc., which will be set in relation to this Incentive Program will be published on the Internet website of the Authority.
- 15.4 The approval recipient may not assign, endorse, sell, pledge or transfer in any other way the benefit given to it by force of this Incentive Program.

## 16. Inception

The inception of this Incentive Program is on \_\_\_\_\_.