

**Incentive Program No. 29 Procedures –
Technological Innovation Labs Program (Pilot)**

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In accordance with Section 15.2 of the Incentive Program's Directives, these procedures are an integral part of the Incentive Program. If there is any contradiction between the provisions of the Incentive Program's Directives and these procedures, the provisions of the Incentive Program's Directives take precedence.

These procedures constitute a complementary document to the following Israel Innovation Authority procedures, *mutatis mutandis*:

Procedure 200-01 – Activity rules for the period of time from the submission of a support application through to the end of the R&D period

Procedure 200-02 – Submitting R&D support applications

Procedure 200-03 – Financial system management for purposes of R&D and submitting performance reports during and at the end of the R&D period

Procedure 200-04 – Reporting and payment of royalties

Procedure 200-05 – Approvals and special requests

The terms in this document are considered to have the same definition as in the Incentive Program unless explicitly indicated otherwise.

THIS TRANSLATION HAS NO LEGAL VALIDITY AND ALTHOUGH EVERY EFFORT HAS BEEN MADE TO ENSURE ITS ACCURACY, THE ISRAEL INNOVATION AUTHORITY DOES NOT ASSUME ANY RESPONSIBILITY WHATSOEVER AS TO ITS ACCURACY AND IS NOT BOUND BY ITS CONTENTS. ONLY THE ORIGINAL HEBREW TEXT PUBLISHED IN THE ISRAEL INNOVATION AUTHORITY WEB SITE IS BINDING AND READERS ARE ADVISED TO CONSULT THE AUTHORITATIVE HEBREW TEXT IN ALL MATTERS THAT MIGHT AFFECT THEM.

Chapter 1. Innovation Lab

1.1 Innovation Lab approval process

- 1.1.1 A Bidder that wishes to serve as an Innovation Lab under charter of a competitive bidding process published by virtue of Incentive Program No. 29 - Technological Innovation Labs Program (pilot) (hereinabove and hereinafter: "**the Incentive Program**") will complete a candidacy application form to serve as an Innovation Lab (**Appendix No. 1**) and will attach to its bid the documents set forth in Section 4.4 of the Incentive Program, including the following forms:
- A) An affidavit by the Specialized Company's signatory (**Appendix No. 2**).
 - B) A submission surety bond (hereinafter: "**The Surety**") Incentive Program (**Appendix No. 3**).
 - C) An affidavit made by the Bidder's signatory and of each of its shareholders, certified by an attorney, stating that none of them has a limited account and is not under receivership proceedings, suspension of proceedings, liquidation etc. (**Appendix No. 4**).
 - D) A statement of compliance with the requirements of the Encouragement of Research and Development in the Industry (Conditioning of Approvals – Minimum Wage) Regulations, 5771-2011 (**Appendix No. 5**).
 - E) A commitment by the Bidder's signatory, certified by an attorney, to fulfill the requirements of the provisions of the Incentive Program (**Appendix No. 6**).
 - F) A report of forecasted sources and uses for setting up the technological infrastructure and the ongoing operation of the Innovation Lab for a three-year operating term (**Appendix No. 7**).
- 1.1.2 An Innovation Lab will be selected in a competitive bidding process, in accordance with the provisions of the Incentive Program, for a license term of three years (hereinafter: "**the License Term**").
- 1.1.3 Notification of the Committee's decision will be given to the selected Innovation Lab, in writing, and will include a description of the special conditions and milestones as may have been decided upon. In addition, a notice will be sent to the other Bidders that did not win.
- 1.1.4 If the Committee selects an Innovation Lab, the Innovation Lab will sign a letter of commitment to the Israel Innovation Authority (Hereinafter: "**The Innovation Authority**") as stated in Section 1.1.4.A and submit the forms required for the approval and operation of the Lab to the Contracts

Department at The Innovation Authority (hereinafter: "**the Contracts Department**"), as follows:

- A) A letter of commitment signed by the Innovation Lab's signatory (**Appendix No. 8**).
- B) A form for opening or updating a Beneficiary's details, together with the documents specified in the form. The form includes money transfer instructions (**Appendix No. 9**).
- C) An expanded CPA approval of accurate bookkeeping as required under the law.
- D) Income Tax Assessor's confirmation of an exemption from withholding of tax at source.

1.1.5 The operation of an Innovation Lab will be in accordance with the provisions of the Incentive Program, the procedures described herein, the letter of commitment and the Committee's decisions, beginning at the start of the License Term and continuing until the last Lab Company completes its period of operations.

1.1.6 A detailed annual report depicting the Innovation Lab's activity will be submitted to the Startup Division every 12 months, commencing on the start date of the License Term and up until the end of the engagement term (**Appendix No. 10**). The annual report will be submitted within 3 months of the end of each engagement year.

1.1.7 An Innovation Lab selected and approved for a License Term will be entitled to a Grant both to cover expenses for establishing technological infrastructure, including making it accessible to project companies at the Lab, and to cover the Lab's ongoing operating expenses over the License Term, in accordance with the provisions of the Incentive Program and subject to the Innovation Lab actually accepting Lab Companies. To remove any doubt, accepting Lab Companies refers to a Lab Company for which the Committee approved a Grant to perform a Lab Project and to whom a letter of approval was issued.

1.1.8 For the purpose of receiving a Grant as stated in Section 1.1.7 above, the Innovation Lab will submit to The Innovation Authority's Service Department (hereinafter: "**the Service department**") a Grant application (**Appendix No. 11**) together with a proposed budget in Excel file format (**Appendix No. 12**) according to the conditions set forth in Sections 1.2 and 1.3 hereunder.

1.1.9 The application will be transferred to the Startup Division and brought before the Committee for approval. If the Committee approves the Grants as mentioned above, payments to the Lab will be made against quarterly financial reports.

1.2 Principles of supporting the establishment of technological infrastructure

- 1.2.1 In the case where an Innovation Lab accepts 2 Lab Companies into the Lab, the Lab may submit a Grant application at an amount that will not exceed NIS 2 million, constituting 33% (50% for an Innovation Lab located in a Peripheral Area) of the total Recognized Expenses for establishing the required technological infrastructure.
- 1.2.2 If an Innovation Lab accepts 2 additional Lab Companies into the Lab (a total of 4 Lab Companies at least), the Lab may submit an application to receive the balance of the Grant up to a ceiling of NIS 4 million, constituting 33% (50% for an Innovation Lab located in a Peripheral Area) of the total Recognized Expenses required to establish technological infrastructure.
- 1.2.3 The technological infrastructure will include equipment in the relevant area of business activity such as: equipment for performing analyses, feasibility studies, trials etc.
- 1.2.4 The technological infrastructure will be managed according to appropriate quality assurance measures that are deemed satisfactory by the Committee.
- 1.2.5 The technological infrastructure will be made available to the Lab Companies but may also be used for collaborations with academic institutions, industrial companies and other startups.
- 1.2.6 An Innovation Lab or its shareholders are not permitted to charge Lab Companies any fees for use of the technological infrastructure or any fees to cover the costs of employing the manpower required to operate said infrastructure.
- 1.2.7 The following expenses will be recognizable for purposes of receiving a Grant for the establishment of technological infrastructure:
 - A) Equipment clause – fixed, special-purpose equipment needed for the technological infrastructure, and purchased during the License Term. To remove any doubt, the depreciation expenses will not be recognized.
 - B) Degradable materials and tools clause – expenses will be recognized for perishable materials and tools used by the Innovation Lab. For use of materials produced by the Innovation Lab itself, its shareholders or related companies, only production costs will be covered, without any profit or overhead component.
 - C) Provision for miscellaneous items - expenses will be recognized for the costs of establishing and adapting the infrastructure so that it may be used by companies, including ongoing maintenance such as repairs and renovations.

D) To remove any doubt, expenses for manpower, subcontractors and marketing are not recognized for purposes of the budget for establishing technological infrastructure.

1.2.8 Expenses for establishing the technological infrastructure may be recognized commencing on the License Term start date, including expenses incurred prior to the Grant application submission date.

1.3 Principles of supporting the ongoing operation of an Innovation Lab

1.3.1 If an Innovation Lab accepts one Lab Company in a particular license year, the Lab may submit, in the course of that year, a Grant application of an amount that will not exceed NIS 500 thousand per year, constituting 50% of the total Recognized Expenses required for the ongoing operation of the Lab that year.

1.3.2 The ongoing operation of the Innovation Lab will include, *inter alia*, the Innovation Lab's duties as set forth, *amongst others*, in Section 5 of the provisions of the Incentive Program.

1.3.3 The Innovation Lab and its shareholders may not charge the Lab Companies any fees for services provided to the companies by the Innovation Lab, with the exception of a Specialized Company, as described in Section 2.2.1.C.2 hereunder.

1.3.4 The following expenses will be recognized for purposes of receiving a Grant for the ongoing operation of an Innovation Lab:

A) Manpower clause – The Innovation Lab manager (Champion) (a full-time (100%) position may be recognized, in accordance with The Innovation Authority procedures) and dedicated staff required for the ongoing operation of the Lab. To remove any doubt, recognition of wage expenses will be in accordance with hours' reported under Section 6 of Procedure 200-03 (Management of the financial system for R&D).

B) Marketing clause – preparation of marketing materials, marketing consulting, market surveys, advertising materials, holding conferences designed to expose the Lab Companies, presenting in exhibitions, travel abroad for purposes of promoting commercialization and marketing of the Lab.

C) Miscellaneous clause – ongoing costs of operating the Innovation Lab's technological infrastructure.

1.3.5 Ongoing expenses required for the operation of an Innovation Lab may be recognized beginning on the License Term start date, including expenses incurred prior to the Grant application submission date.

1.4 Extension of the License Term

1.4.1 The Committee may approve, at its own discretion, an extension of the License Term in accordance with the following conditions:

- A) The Innovation Authority decides to extend operation of the Technological Innovation Labs Program beyond the initial three years.
- B) The extension term will be for the earlier of: three additional years at the most, or until the end of the operation of the Technological Innovation Labs Program.
- C) Approval of the extension of the License Term will be based, *inter alia*, on the opinion of the Startup Division's General Manager.

1.4.2 The provisions of Section 1.4.1 above will not be deemed a commitment to approve an extension of the License Term.

1.5 Change of an Innovation Lab's bid

1.5.1 An Innovation Lab that won a competitive bidding process will, in general, refrain from making any changes to the bid it submitted as part of the competitive bidding process (hereinafter: "**the Original Bid**"). However, the Committee may approve requested changes, based on the following conditions and considerations:

- A) The requested change does not detract from the Innovation Lab's compliance with the prerequisites set forth in Section 4.2 of the Incentive Program.
- B) The requested change does not affect the score given to the Innovation Lab under the competitive bidding process in a way that would have prevented the Innovation Lab from having won the competitive bidding process.
- C) The larger and more significant the requested change in comparison to the Original Bid, the smaller the inclination to approve it will be.
- D) The closer the request to make the change is to the publication date of the winning in the competitive bidding process, the smaller the inclination to approve it will be.
- E) The more the requested change is under the control of the Bidder and was known to the Bidder before submitting the Original Bid and before the bid submission deadline, the smaller the inclination to approve it will be.
- F) As the License Term is for a period of three years, the difficulty to anticipate the full circumstances involved with operating the

Innovation Lab should be acknowledged as well as the need to make adjustments to meet the varying needs of the industry and markets.

- 1.5.2 An application to make a change in the Original Bid will be submitted in writing to the Startup Division together with the relevant references and will be brought for discussion before the Committee.
- 1.5.3 The Innovation Lab will be notified of the Committee's decision.
- 1.5.4 The Committee will hold a repeat discussion regarding its decision if, within 45 days of receiving notice of the decision, the Innovation Lab files a substantiated application in writing, requesting a repeat discussion. The submission of an application for a repeated discussion requires payment of a fee in accordance with the Encouragement of Industrial Research and Development (Fees) Regulations, 5760-2006.

Chapter 2. Lab Project

2.1. Process for handling a request for support

- 2.1.1. An Entrepreneur seeking to undertake a Lab Project will approach the Innovation Lab selected in the competitive bidding process and will file with it an application to carry out a Lab Project.
- 2.1.2. The Entrepreneur, or alternatively, a Lab Company (if incorporated) will file, together with the Innovation Lab, an application for support of a Lab Company for an operating period of 12 months (**Appendix No. 13**) together with an appendix detailing a budget of NIS 1 million, or NIS 500 thousand (**Appendix No. 14**).
- 2.1.3. The application will be examined by a professional examiner and be brought for discussion before the Committee.
- 2.1.4. The Committee will make a decision based on the following criteria:
 - A) The project's degree of innovation and technological depth.
 - B) Technological feasibility.
 - C) Product's business potential, including in the global market.
 - D) The capabilities of the Lab Company's staff and the Innovation Lab's contribution to the company's success and capacity for innovation.
 - E) The value to the market the project will yield, and the potential for establishing an independent company in Israel.
- 2.1.5. If the Committee decides to approve the application for support of a Lab Company:
 - A) A notice of the Committee's decision will be delivered, in writing, to the Entrepreneur/Lab Company, including a specification of any special conditions and milestones, if any, and will be brought to the attention of the Innovation Lab.
 - B) In addition, the Contracts Department will send to the Entrepreneur/Lab Company and to the Innovation Lab a detailed budget and a letter of commitment for signing for the purpose of operating the Lab Project.
- 2.1.6. For purposes of operating the Lab Project, issuance of a letter of approval and transfer of payments to the Lab Company, a Lab Company Ltd. will be established (if not yet incorporated) and a separate, independent bank account will be opened for the newly formed company.

- 2.1.7. The Lab Company will submit to the Contracts Department the following required documents:
- A) A certificate of incorporation and a Registrar of Companies print-out that includes the list of the Lab Company's shareholders and each of their percent ownership on a fully diluted basis.
 - B) Duly signed detailed budget and letter of commitment.
 - C) A Beneficiary details opening/update form without approvals from the authorities, as required under this addendum.
- 2.1.8. The Lab Company will perform the project in accordance with the provisions of the Incentive Program, the procedures described in this document, The Innovation Authority's procedures, the letter of commitment and the Committee's decisions.
- 2.1.9. If the Committee decides to reject the application for support:
- A) The Committee will indicate, in its protocols, the reasons for the rejection and a notice of the Committee's decision will be sent, in writing, to the Entrepreneur/Lab Company and will be brought to The Innovation Authority's attention.
 - B) An application to convene a repeat discussion may be submitted within 45 days of receiving the notice of the Committee's rejection decision. However, if the Lab Company decides that the rejection of the application for support requires a change in the application in accordance with the reasons for the rejection, a new support application may be submitted (hereinafter: "**A Renewed Application**") instead of an application to convene a repeat discussion.
 - C) The repeat discussion application / Renewed Application will be submitted to the Service Department on a Repeat Discussion Application Form (**Appendix No. 15**) accompanied by documents confirming payment of the fee as defined in section 2(A) of the Encouragement of Industrial Research and Development (Fees) Regulations, 5760-2006.
 - D) The Repeat Discussion Application will be examined by a different professional examiner. In case of a Renewed Application the professional examiner who examined the original Application may be appointed to examine the renewed application.
 - E) A repeat discussion application / Renewed Application will be discussed by the Committee.
 - F) If the Committee approves a Repeat Discussion / Renewed Application, the provisions of Section 2.1.5 will apply.

- G) If the Committee declines a repeat discussion application, an additional repeat discussion application or a Renewed Application may not be submitted in the same calendar year.
- H) If the Committee declines a Renewed Application, a repeat discussion application or an additional Renewed Application may not be submitted in the same calendar year.

2.2. Lab Company's budget

2.2.1. The Approved Budget for a Lab Company will include the following items: wages, subcontractors, equipment, materials, marketing and miscellaneous, in accordance with The Innovation Authority's procedures:

- A) Manpower clause – expenses may be recognized also for a full-time (100%) CEO position.
- B) Materials clause – use of materials manufactured by the company, the Innovation Lab, its shareholders or related companies, requires prior approval by the Committee. In any event, if approved, support will be given on a cost basis only, without profit or overhead components.
- C) Subcontractors clause –
 - 1) Engagement of a subcontractor will be accompanied by an agreement or a pre-order for their services.
 - 2) Neither the Innovation Lab, nor any of its shareholders may be recognized as subcontractors. Under certain exceptional circumstances, a Specialized Company may be recognized as a subcontractor, subject to the condition that this engagement will bring unique added value to the Lab Project, and provided that the engagement is pre-approved by the Committee.
- D) Equipment clause– It must be validated that the equipment suggested for purchase is, indeed, necessary for the Lab Company's operations, and that there are no other, more affordable, usable alternatives.
 - 1) Existing equipment brought and already owned by the entrepreneur / Lab Company, will not be included under this provision.
 - 2) Equipment supplied by the Innovation Lab or by its shareholders, inclusive of access provided to the technological infrastructure, will not be included under this provision.
 - 3) Specific equipment needed to operate the Lab Company and for performing R&D will be approved.

- 4) In cases where equipment is used by a number of Lab Companies, each company will be charged according to its relative usage of the equipment.
 - 5) The equipment will be purchased during the Lab Company's period of operations.
 - 6) Purchasing costs will be recognized, not depreciation expenses.
 - 7) Large scale equipment purchases will not be recognized, if made within 45 days of the end of the R&D period, unless it is proven that the purchase is necessary.
- E) Marketing clause- Marketing expenses may be recognized, up to a maximum of 20% of the approved budget. Examples of activities included in this provision:
- 1) Marketing consulting.
 - 2) Market surveys.
 - 3) Promotional materials.
 - 4) Exhibition participation.
 - 5) Legal advice regarding commercialization.
 - 6) Participation in professional training courses.
 - 7) Travel abroad for purposes of promoting commercialization.
 - 8) Conditions to receive recognition of travel expenses for travel abroad:
 - a. The expenses will be recognized by income tax regulations.
 - b. Only Tourist class airline tickets shall be recognized.
 - c. Expenses will be recognized only upon submission of a reasonable, financial travel report.

2.2.2. Transfer of funds between budgetary items will be permitted as part of the approved budget, subject to Committee approval.

2.3. Extending or Shortening the Period of Operations

- 2.3.1. In cases where the Lab Company did not or is not expected to utilize the entire approved budget during the 12-month period of operations, the Lab Company may submit a request to extend the period of operations up until utilization of the entire budget approved by the Committee. The request will list all of the reasons for the extension request. In addition, a report summarizing all of the Lab Company's activities, a detailed work plan for the extension period and an updated budget will be submitted together with the request. The extension request must be submitted prior to the end of the original period of operations.
- 2.3.2. In cases where the Lab Company is expected to utilize the entire approved budget, and the Lab Company has met all of the goals specified in its work plan, as approved by the Committee, the lab company may submit a request to shorten the period of operations. The request will list all of the reasons for shortening the period of operations. In addition, a technical and financial report summarizing all of the Lab Company's activities will be submitted together with the request. The request to shorten the period of operations must be submitted up to one month prior to the end of the given period of operations.

2.4. Rights of the Innovation Lab to a Lab Company Equity

- 2.4.1. An Innovation Lab and / or its shareholders are permitted to own shares of a Lab Company, however, ownership surpassing 15% of the Lab Company's share capital, on a fully diluted basis, during the Lab Company's period of operation, requires pre-approval by the Committee, and that the Committee is convinced that the share ownership represents fair compensation.

2.5. Rights to Intellectual Property Developed as Part of the Lab Project

- 2.5.1. The new Intellectual property will be solely and exclusively owned by the Lab Company.
- 2.5.2. The Committee may permit a Lab Company to grant an Innovation Lab or Specialized Company non-exclusive rights to make use of the new knowledge, or joint ownership of the new knowledge, not to exceed 50% ownership by the Innovation Lab or Specialized Company. Approval for such a grant will be given on the condition that the rights to use the new knowledge given to the Innovation Lab or Specialized Company, whether by force of a non-exclusive license or of joint ownership, will not, in any way, harm the rights of the Lab Company to use the new knowledge, partially or in its entirety, and in the following cases:
 - a) The new knowhow is based on preliminary knowhow originating with the Innovation Lab or the Specialized Company.

b) The Committee is of an opinion that the Innovation Lab or Specialized Company has played a crucial part in creating the new knowledge.

2.5.3. Transfer of rights to the new knowledge, as described above, requires pre-approval by the Committee.

2.5.4.A Lab Company wishing to grant an Innovation Lab or Specialized Company a non-exclusive license to use the new knowledge or joint ownership of the new knowledge, will submit a request that will be discussed by the Committee.

2.5.5. The Lab Company will be notified of the Committee's decision, and the Lab Company will act according to the Committee's decision on the matter.