

1.2. The BIRD Model

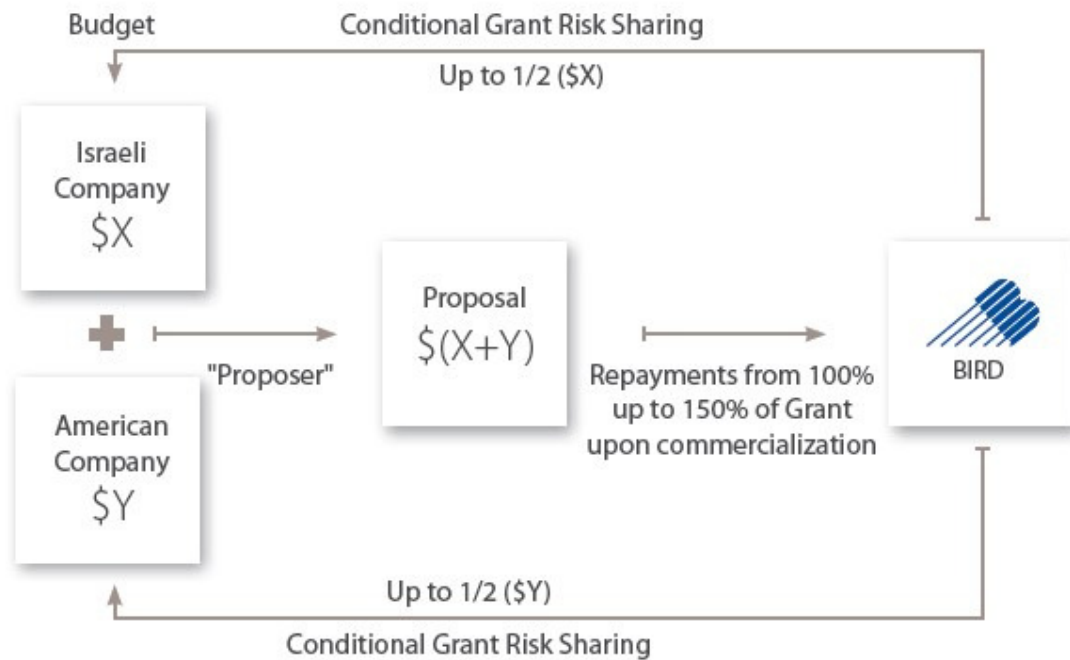
1.2.1. Overview

Any two companies, one registered in Israel and the other in the U.S., may jointly apply for BIRD support, as long as they have the combined capability and infrastructure to define, develop, manufacture, sell and support an innovative product or service, referred to as "the Product". The two partnering companies are collectively referred to as "the Proposer". One key criterion is that each company has the demonstrated ability to carry out its part of the Product's joint development program, referred to as "the Project", as well as its part in the commercialization. Another key criterion is that the nature of the business relationship between the two companies is that of sharing; both in the Product's development program and in the revenues derived from its commercialization.

BIRD cost-shares with the Proposer in the development, to the point of commercial readiness, of innovative (non-defense) technology-based products or processes which have reasonable potential for generating revenues and profits commensurate with the investment and the risks.

For many Israeli companies, finding a qualified U.S. corporate participant capable of assisting in product definition, gathering market intelligence, and taking responsibility for marketing, sales and service, is the key to maximizing the business benefit of their innovative ideas. The incentive for U.S. companies to collaborate with Israeli partners is to expand their product lines with cutting edge Israeli technology and leapfrog the competition. An additional incentive is that products manufactured largely in Israel benefit from duty-free entry into EEC countries. As a result of the Free Trade Area Agreement between the U.S. and Israel, many products manufactured in either country will enter the other country either duty-free or at reduced tariff rates.

BIRD participates in the Project's development cost, referred to as "the Budget", with the Proposer, by funding up to 50% of the Project's budget, and referred to as "the Conditional Grant". The two companies, separately and together, are obligated to repay BIRD the total Conditional Grant received, referred to as "the Repayment", but only from the revenue generated by the Product's sales upon successful commercialization. (Please see a schematic diagram of **BIRD's model of payments-repayments** in the figure below.)



Companies should note that according to Generally Accepted Accounting Principals ("GAAP"), a company that receives a grant from BIRD can record it as a reduction of Research & Development expenses (in the Income Statement) and not as a liability (in the Balance Sheet). Since there is no assurance of a successful outcome for the project at the time the grant is received, the funding is considered a contingent liability that should be included in the notes to the financial statements. The grant is repaid only when, and if, revenues occur. Should commercial revenues eventuate, BIRD receives repayments or royalties, depending on the form of commercialization, as discussed in Section 1.2.7., up to a maximum of 150% of its investment, in constant dollars. All payments to the Foundation are a pre-tax business expense.

1.2.2. The Product

The jointly developed product must have significant technological innovation. One or both companies should possess intellectual property rights to the technology being developed and to the finished product. The Product should target an attractive and growing market that is not necessarily geographic specific, but is familiar to and serviced by at least one of the two partnering companies.

BIRD will consider products employing any area of technology and targeted for any market segment or application, but encourages and preferentially supports projects employing breakthrough or state-of-the-art technologies which are receiving global attention and address market segments where Israel has a relative technology or business long-term advantage. The only exception to the above is BIRD's restriction to support products targeted for military markets or applications.

1.2.3. The Project

The Project is defined as the scope and duration of the development program undertaken jointly by both companies, at the end of which the Product should be market-ready. All activities required for subsequent commercial manufacturing, specification, and market introduction, should be detailed in the Project, including beta-site testing, regulatory approvals, and test marketing.

Because of the wide range of projects and partnerships that may qualify for BIRD support, there are no hard and fast rules for the detailed nature of the cooperation between the partners. They must follow their own judgment as to the division of activities that will most cost-effectively accomplish the project's technical and commercial goals. For example, if the bulk of the R&D is to be performed by one partner, the contribution of the other partner may focus on marketing, along with detailed product specification, sales and service. Manufacturing may be conducted by either or both partners or by subcontractors. Institutions or non-manufacturing companies may act as subcontractors in the R&D or testing phases of the project.

Project start date may be as early as the 1st day of the month in which the final Project proposal is submitted jointly by the companies, and Project duration may be as long as 3-4 years, if deemed necessary for reaching commercial readiness.

A limitation of BIRD's funding agreement is that sponsored projects may not be conducted in geographic areas which came under the administration of the Government of Israel after June 5, 1967, and may not relate to subjects primarily pertinent to such areas.

1.2.4. The Proposer

The U.S. company and the Israeli company are collectively referred to as the Proposer. Both companies should have the majority of the necessary R&D resources required for the Project in their respective countries. The two companies should have the combined, proven capability and infrastructure to define, develop, manufacture, sell and support the Product defined by the Project.

Typically (but not necessarily), the Project partners include one larger company and one smaller company. Both partners should contribute and share their technological expertise and intellectual property in execution of the joint development program, but their respective contributions do not necessarily have to be identical. However, the task assignments should be divided in such a way that neither partner's portion in the combined budget is less than 30%. Manufacturing responsibilities of the Product can be divided between the companies as they see fit, and can be performed by subcontractors in any geographical location. Marketing and sales support of the Product can be divided between the project partners. Preferably, at least one partner (usually the larger company) should have extensive market presence, as well as a proven track record in marketing and infrastructure, to successfully realize, upon product commercialization, the bulk of the sales projections indicated in the proposal.

A typical profile of the larger company is one that develops, manufactures, sells and supports technology-based products and is willing to enter into strategic partnerships with companies having complementary skills and resources.

Among younger companies, BIRD seeks medium-sized, small, or start-up companies with leading-edge technological capabilities, good management, and strategic direction combined with the willingness and flexibility to develop products for a potentially large market that match the business strategy of a large, established company.

1.2.5. The Project Budget

The Project Budget is estimated by the Proposer and is submitted as part of the project proposal in the grant application process. It must include practically all development expenses to be incurred during the course of the Project, including direct labor and its associated overhead, materials, subcontractors, consultants, travel, depreciation on new or used equipment employed and marketing expenses related to the development effort. The budget is prepared and submitted separately by the Israeli company (\$X in the diagram on page 1) and the U.S. company (\$Y), and covers the entire duration of the project.

1.2.6. The Conditional Grant

BIRD will cost-share in the joint development by extending to the Proposer a conditional grant (G) totaling up to 50% of the Project Budget (X+Y in the diagram). Each partner directly receives the portion of the total grant that is relative to its share in the budget.

Payments are made after receipt and approval of a joint technical report and a separate fiscal report submitted by each partner at the end of each one of N segments (generally every 6 months). These reports cover the development progress and the actual expenses incurred during the segment. For the sake of cash flow planning, grantees can assume N+1 equal payments of $\$G/(N+1)$ every 6 months, the first one extended immediately after the CPFA is signed by all parties.

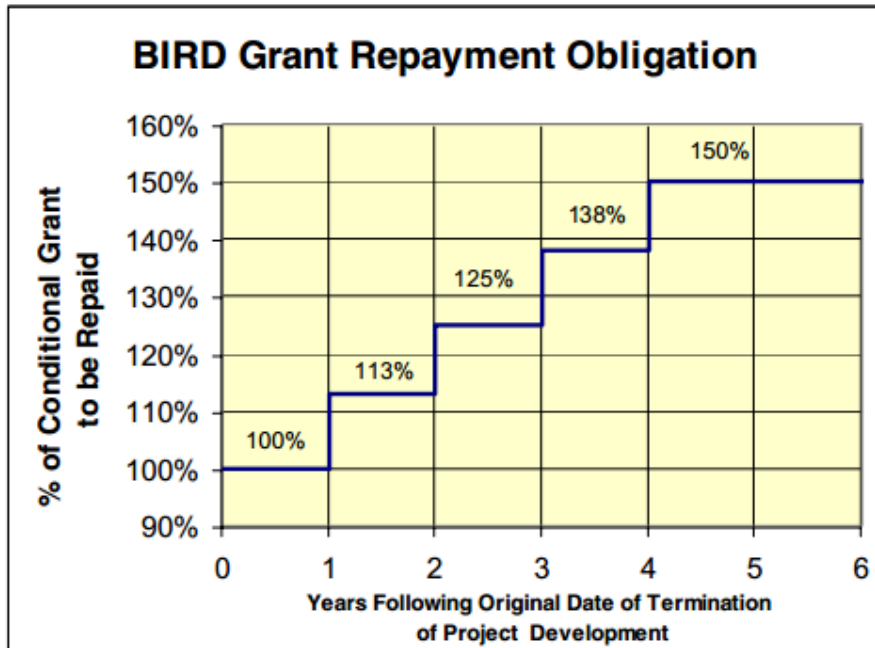
BIRD funding covers only a portion of the companies' product development and commercial readiness costs, i.e., it does not include funding of manufacturing resources, ongoing marketing costs and any other downstream cash requirements before positive cash flow is achieved. The companies must, therefore, be able to demonstrate that they have the infrastructure and resources needed to complete the development project (or access to it), offer it as a commercial product and realize its full commercial potential.

1.2.7. Grant Repayments

Upon product commercialization, the revenue (and not the profit) derived by either partner from sales of the Product (or subsequent products based on the technology developed in the Project), become the basis for repayment of the BIRD Grant. Repayments are made at the rate of 5% of each \$ of reported sales revenue.

Additional revenue sources for repayments to BIRD are those derived from extending licensing rights to the technology, at the rate of 30% of the revenue earned, or from the outright sale of the technology to any third party, at the rate of 50% of the sales value. The maximum repayment amount due by the Proposer is dependent on the length of time that it takes to complete the repayments, as detailed in the table and chart below:

Years Following Original Date of Termination of Project Development	Maximum Percentage of Conditional Grant and other sums to be Repaid (indexed by the U.S. CPI)
1 st	100%
2 nd	113%
3 rd	125%
4 th	138%
5 th and more	150%



For a full year after Project completion (the 1st year of product commercialization), the repayment amount due is the actual cumulative sum granted by BIRD to the Proposer, linked to the U.S. Consumer Price Index (CPI). Since the repayment sum due does not increase beyond the 5th year after Project completion, the maximum repayment obligation that the Proposer can ever assume is 150% of the total sum granted by BIRD, linked to the CPI.

If product commercialization is unsuccessful, and no revenue is generated, whether due to technological or marketing failure, BIRD will not seek repayment of the Conditional Grant. Thus, BIRD participates with the Proposer in the risk of an unsuccessful product development investment.