

CSEM startup process

1. CSEM objectives

The mission of CSEM is to develop technologies and transfer them to industry. CSEM's priority is the transfer of technology bricks to existing companies. If no Swiss company is interested to exploit a development, and if the market potential is demonstrated, the creation of a startup is favored.

2. Startup support mechanisms

CSEM actively promotes the creation of startups. Two mechanisms are provided in order to facilitate this objective:

- **CSEM Startup Booster Grant**, aimed at external individuals who propose innovative business or technical ideas based on CSEM technologies. The individuals are hired by CSEM for a maximum period of two years.
- **Innogrant**, a tool aimed at supporting CSEM employees in the creation of startups.

In both cases, the grant recipients are employed by CSEM and are therefore subject to the contractual rules applying to CSEM employees. Hereafter the recipients are referred to as entrepreneurs.

CSEM offers to the entrepreneur specific advantages and expects corresponding value in return in case the startup proves successful. Financial value takes the form of equity and royalties. The value created is then fed into CSEM's innovation system and is thus used to reinforce CSEM's innovation thrust in support of the Swiss industry.

The creation of CSEM startups does not necessarily need to involve the above mechanisms. For instance, employees of CSEM or external individuals can seek to initiate a startup based on a CSEM technology, but without benefiting of internal funding. In this case all CSEM IP needs to be transferred to the startup, with specific conditions discussed on a case-by-case basis.

3. Rules for CSEM startups

CSEM provides the following elements to entrepreneurs:

- **Early-stage financing** to the business idea through the Innogrant and CSEM Startup Booster Grant.
- **Licenses on CSEM's background IP**, including, but not limited to: patents, patent applications, algorithms, secret, proprietary knowledge, designs, and access to commercial secrets and know-how.
- **R&D support** for proof of concept and prototype development, with access given to CSEM's IP, clean rooms, laboratories, and the personnel needed for such a proof of concept, and access to CSEM's scientific network.
- **Advice and counselling**: access to CSEM's networks (investors, customers, and economic promotion offices) as well as support on business development, administration, finance, legal, Intellectual Property aspects, Human Resources, incorporation, Information Technology and other topics.
- **Visibility and credibility** as a CSEM startup, using the branding "a CSEM affiliate" if this is beneficial for the development of the startup.

In return for the above elements, CSEM requires:

- **Shares in the company** (20% maximum, non-dilutable up to a predefined level and time horizon). The equity is a compensation for the opportunity cost experienced by CSEM, and is monetized in the event of a future exit (acquisition, IPO) or distribution of dividends.
- **Licenses on CSEM's background IP.** The level of licenses is agreed according to the guidelines usually adhered to in Switzerland. The guidelines are available on CSEM's intranet and internet sites.
- **Visibility.** The company agrees to quote CSEM as its source of technology in digital and printed communication material.

CSEM does not participate on the Boards of Directors of its startups. CSEM employees may, meanwhile, join their Advisory Board.

The specific agreement between the startup and CSEM about equity and licenses is negotiated between the CSEM management on one side, and the startup on the other, as early as possible in the startup process.

Benefits offered by CSEM during the realization of a Grant before the company's incorporation do not require any additional financing and are part of CSEM's contribution to the project. Following incorporation, services provided to the startup (e.g., payroll management, HR management, IT, IP or Legal) are invoiced to the startup. All projects between CSEM and the startup (e.g., supported through Innosuisse funding) are defined following CSEM's standard conditions.

Such agreements will be formalized in

- A terms sheet signed by CSEM on the one side, and the entrepreneur on the other, before the incorporation of the company.
- A license agreement for the transfer of licenses between CSEM and the startup, signed at the moment of incorporation, according to the usual processes in place at CSEM.

Payment for licenses come in the form of a one-time payment or of recurring royalties on product or service sales based on CSEM's IP (as defined above), or any possible mix of the two. The specific form is agreed on a case-by-case basis.

In principle CSEM maintains a veto right about sublicensing, and rights with regard to any income received by the startup from sublicensing CSEM IP, ranging from 50% to 15%, the latter following a few years of development (typically three to six years depending on the case). Sublicensing options are discussed on a case-by-case basis.

Use of the name and logo of CSEM will be defined on a case-by-case basis in the respective terms sheet and between CSEM and the startup, and thereafter in the IP and technology transfer contract.

4. Early-stage financing: CSEM Startup Booster Grant

This program is dedicated to individuals that are outside of CSEM, who have a technology or business background, and who are willing to join CSEM for a limited time period. The call for new grants is announced on CSEM's internet pages, with two deadlines per year, one at the end of January and one at the end of August.

The objective of this program is to mature business ideas based upon technologies available at CSEM. The CSEM Startup Booster Grant can be used to advance technical aspects and/or business aspects of a proposal. Applicants must submit:

- a business idea description, including all key business aspects of the proposal (see below)
- their CV
- a description of the work to be carried out at CSEM

The criteria against which the business ideas will be measured are:

- Business model
- Accessible market(s) and business potential (orders of magnitude)
- Market segment that is not filled
- Competition landscape (competitors; alternative solutions)
- Unique selling proposition (USP)
- Existing knowledge @ CSEM
- Gap to reaching a commercial product/service (technical work to be done; business work to be done)—maturity of the technology in TRL (technology readiness level) terms
- Team (which competencies are present and which competencies are still required; how to obtain them)

CSEM needs to define and have approved a project to accompany the recipient(s). The technical aspects of the project are defined, before the Grant is given, by the corresponding Business Unit (BU) of CSEM in which the grantee's project is realized.

5. The phases of the CSEM Startup Booster Grant

The process for **CSEM STARTUP BOOSTER GRANTS** is shown in Figure 1.

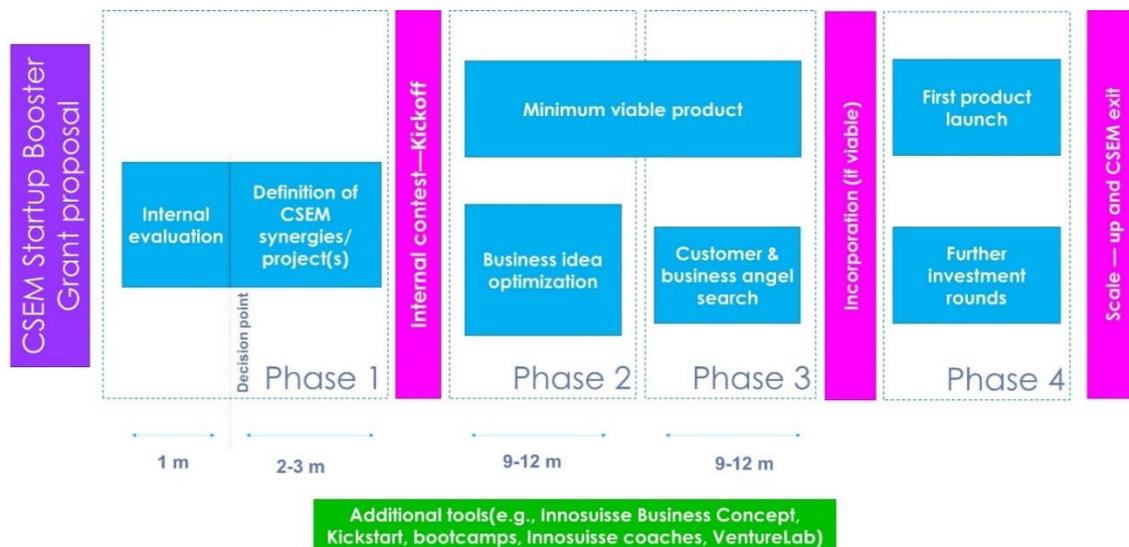


Figure 1. High-level description of the CSEM Startup Booster Grant process.

6. Evaluation of applications and the decision-making process

CSEM assembles the applications and examines them for their eligibility, meaning the completeness of the documents required and identifies the level of alignment of each application with CSEM's technologies and priorities. Those applications that are not aligned, along with incomplete applications, are rejected and the respective applicants are informed.

For those applications that are aligned the candidate is interviewed at least twice. The final confirmation of the Grant award requires that the corresponding Business Unit of CSEM—alongside the candidate—defines a project and approves its cost, duration, and deliverables. The existence of

Swiss companies that might be competitors of the startup is investigated. A Grant is given if and only if no such company exists or if no existing Swiss company is willing to acquire the technology from CSEM.

Candidates, both successful and unsuccessful, are informed by CSEM at the latest six weeks after the initial application deadline. In case of successful application, a contract is prepared by CSEM's Human Resources Department for the grantee.

7. Kickoff meeting

The kickoff meeting of the CSEM Startup Booster Grant program is an important milestone. The information conveyed to the beneficiary contains key aspects of the execution of the Grant and the agreement. More specifically, the agenda of the kickoff includes:

- Presentation of all resources that are available to provide support during the entire startup process
- Fine tuning of the proposed work program
- IP transfer and licenses—explaining CSEM's standard conditions and defining who is negotiating on behalf of CSEM
- Information on the incorporation process, including terms sheet preparation (template and role of each individual, duration, process, and costs)

8. Execution and end of the Grant

Specific go/no go milestones and regular meetings with mentors are defined for each Grant. The nature of these milestones depends on the nature of the project. The mentors monitor the evolution of the technical aspects of the project as well as that of its business aspects and provide information on resources available internally and externally, facilitating access to such resources. Regular meetings will be held between the entrepreneur and the mentors to monitor the project's business and technical progress.

There is a midterm assessment 12 months after the kickoff. It corresponds to the successful accomplishment of a hard go/no go element, defined during the kickoff. Go/no go milestones will be defined according to specific needs of the startup in terms of market potential, technology maturity, team, or any other issue. An important prerequisite for continuation of the Grant after the midterm assessment to the next phase is the formation of a startup team. As soon as the startup team is created all the members of the startup team will participate in these meetings.

Discussions on the Agreement (terms sheet, including a licensing agreement) between CSEM and the entrepreneur must start as soon as possible. This agreement shall address aspects as equity, licenses, and communications regarding CSEM technology. Towards the end of the duration of the grant, mentors and the entrepreneur will finalize the agreement. The preparation of the term sheet will be initiated by the entrepreneur. She/he will be supported in this process by a Vice President of CSEM in charge of this process. This agreement will be recorded in a terms sheet, which will be signed by both parties.

Following validation by CSEM's Executive Committee, the Agreement is presented by the entrepreneur(s) to the Committee of the Board of Directors of CSEM (CCA), which meets quarterly. The main criteria for its acceptance by the CCA are those listed in the "CSEM objectives" section of this document and the terms sheet. The CCA has the power to refuse the creation the startup. The terms sheet and the licensing agreement will be signed only after the approval of the CCA. After this step the startup's creation is deemed approved.

The subsequent incorporation phase is the responsibility of the entrepreneur(s), but close support is provided by the CFO, Legal, and the Vice President in charge of Startups.

CSEM's exit is considered on a case-by-case basis.

9. Resources are available to entrepreneurs

Internal and external resources (detailed below, in Annex 2 "External Resources") are available to support the entrepreneurs, including

- CSEM technical resources (e.g., access to design capabilities, laboratories, clean room...)
- Key CSEM personnel to facilitate business and technology aspects
- External personnel to facilitate training, coaching, and networking
- Financial resources such as grants, business angels, and venture capital

The submission of applications for external financing, including to innovation agencies (e.g., Innosuisse, cantonal agencies, or external grants), is the responsibility of the entrepreneur(s).

A "CSEM entrepreneur club" is managed by CSEM, with regular meetings and team building activities. This club will include all those persons who have applied for an Innogrant (internal CSEM program) and all the beneficiaries of the CSEM Startup Booster Grant.

10. Intellectual property

All items of intellectual property developed during the execution of either Grant are the property of CSEM. CSEM takes the responsibility for allowing licenses of its intellectual property to the startup in a determined field of use. In the initial phases of the startup, CSEM licenses its technology on an exclusive basis in the field of use. Transfer of the patents themselves (with back-licensing to CSEM for applications outside the field of use) is realized later in the life of the startup. The objective of this policy is to avoid any loss of IP developed using public funds, during the early phase of the startup.

11. Collaborations between startups and CSEM

Collaborations on R&D projects between CSEM and startups are encouraged. They are subject to contractual agreements in the same way that established companies are.

Employees of CSEM are not allowed to have a shareholding interest or a decision-making role (Board member or employee) in any startup that collaborates with CSEM. CSEM employees are allowed to be members of the Advisory Board of such a startup, assuming such participation is compatible with the person's function and employment percentage. The decision regarding the participation of a CSEM employee in the Advisory Board of a startup rests with CSEM, who take into consideration the criterion of a potential conflict of interest.

12. Liabilities and warranties

The technology licensed by CSEM needs to be further developed and tested with the aim of arriving at a commercial product. Since CSEM does not control how the startup carries out this development, or the eventual product's commercialization, it cannot be held liable for any consequences of the commercialization of products or services based on the licensed technology. The startup assumes this responsibility. Moreover, CSEM gives no warranty of any kind on IP.