

REQUEST FOR APPLICATIONS (RFA)
NIST Science and Technology Entrepreneurship Program (N-STEP)

Purpose:

The overall objective of N-STEP is to provide opportunities for motivated researchers to build upon the experience gained while working at NIST as they explore entrepreneurial careers. The Program is focused on commercialization of research that has been done at NIST by NIST Associates, researchers previously employed by NIST, and current employees nearing the end of their term employment at NIST, including but not limited to NIST Post-Doctoral Fellows (collectively “Eligible N-STEP Applicants”), interested in forming companies to independently pursue further translational research and development of technologies specifically related to NIST’s mission, so that the technologies can be commercialized as products or services to benefit the public. The N-STEP will make grants to these companies enabling them to reach a critical milestone in their product or service development efforts that will move technologies further along the commercialization pathway, increase the company’s value, and lead to follow-on investment and job creation. TEDCO will administer the review, selection, and award activities for competitive N-STEP proposals submitted by Eligible N-STEP Applicants.

Applicant eligibility:

1. The N-STEP is focused on NIST Associates, researchers previously employed by NIST, and current employees nearing the end of their term employment at NIST, including but not limited to NIST Post-Doctoral Fellows (collectively “Eligible N-STEP Applicants”).
2. Applicant must be able to form a for profit company to accepting the N-STEP award.

Recipient of an N-STEP award:

To receive an N-STEP award the applicant’s company must meet all of the following criteria:

1. The company must be less than five (5) years old; AND
2. The N-STEP award recipient must be a U.S. start-up company founded or managed by an “Eligible N-STEP Applicant”; AND
3. The company has less than 16 Full Time Equivalent (FTE) employees with at least 50% of the employees are in the U.S.; AND
4. The company has revenue that is less than \$250K/co. FY; AND
5. The company has received less than \$500K in sophisticated investment.
6. No N-STEP award may be made to a company owned and/or managed by any person that is a Federal employee at the time of the award.

N-STEP awardees will participate concurrently in an existing entrepreneurial training activity, such as, but not limited to the National Science Foundation I-Corp, University of Maryland’s Mtech, the Foundation for Advanced Education in Science (FAES at NIH), or the Rocky Mountain Innovation Center.

Grant Amount:

N-STEP will offer grants of up to \$112,000 to support projects that continue or initiate translational research and development activities specifically related to NIST's mission, so that the technologies can be commercialized as products or services to benefit the public, and/or take steps to launch a new business (ex. obtain equipment or incubator space). Funding will be provided for a specific project that can be successfully completed within 12 months.

Available Assistance:

TEDCO and local economic development organizations may facilitate the creation of start-up companies to license and commercialize NIST's Inventions. At least one Advisor or Mentor will be recruited for each N-STEP awarded company, to identify and help achieve various technical and business milestones. TEDCO will interact with businesses only in a manner that does not create a conflict of interest between NIST and TEDCO, or between TEDCO and any business licensing an Invention.

The NIST Technology Partnerships Office (TPO) can identify Inventions that are available for licensing and that are most appropriate for commercialization, especially by start-up and early-stage firms. If required, NIST will provide for a no-cost, non-exclusive Research License to the awardee for the duration of the award. Before the sale of commercial products, a Commercial License Agreement must be negotiated in accordance with the conditions set forth in 35 USC 209 to the extent applicable. NIST may engage in discussions with those considering formation of a business and existing small businesses that have an interest in licensing and commercializing NIST's Inventions with a view toward reaching a Commercial License Agreement. Any resulting License Agreement shall be negotiated between NIST and interested businesses and shall be conducted in full accordance with all applicable Federal laws and regulations. TEDCO may provide assistance to interested businesses during such discussions or negotiations.

NIST's research and development competencies, equipment, facilities, NIST's User Facilities, materials and Inventions may be made available to businesses that need or desire access to such resources at NIST ("NIST Resources"). TEDCO will attempt to locate and advise such businesses of the availability and accessibility of NIST Resources. At NIST's discretion, the company may be supported through agreements such as NIST Cooperative Research and Development Agreements (CRADA) and Patent License Agreements (PLA). Such agreements shall be negotiated between the TPO and an interested business's representative. TEDCO may advise an interested business.

Entrepreneur Development workshop(s) will be provided periodically for early and emerging stage companies and NIST's research associates to increase awareness of entrepreneurship and technology commercialization opportunities for start-up companies.

Mentors are available to work with Eligible N-STEP Applicants to help identify Inventions that have commercial opportunity and to help with the development of a proposal for TEDCO's evaluation. TEDCO will collaborate with local economic development organizations and business incubators to host roundtable meetings designed to increase the start-up entrepreneur's business acumen.

Local economic development programs will be identified that may further assist N-STEP awardees. A variety of funding and assistance programs exist to meet the needs of the entrepreneurial community. For example, assistance exists for manufacturing operations, product design, and business development to further develop and commercialize Inventions. There is also assistance available for preparing marketing plans and connecting companies to manufacturing resources, venture capital or other resources. The TEDCO Program Manager and N-STEP program Mentors are the initial points of contact for identifying the appropriate resources.

Initial N-STEP submission:

The N-STEP Whitepaper is for those interested in applying for N-STEP project funding, but are not ready to prepare a full proposal. This is a cover page and two pages of content.

A first step in the TEDCO N-STEP Program funding process is the submission of a whitepaper by an applicant. The purpose of a whitepaper is to provide a brief overview of the envisioned company, technology, and product or service to be provided; the customer problem to be addressed and the proposed solution; and the N-STEP project with mid- and final milestones. If you are seeking a NIST technology to commercialize under the N-STEP program the TEDCO Program Manager and the NIST TPO can help.

These guidelines are provided so that applicants can submit their white-papers in a common format, with precise and concise information, enabling reviewers to quickly grasp a clear understanding of the challenges and solutions that the applicant is proposing to address.

The intent of the whitepaper review step is to avoid the more detailed proposal preparation for N-STEP consideration until there has been some meaningful dialogue in advance.

Location:

Whitepaper should be submitted through email to rkaese@tedco.md

Closing dates:

There is no closing date and time for N-STEP whitepaper submission. Whitepapers are generally logged and initial review started within two work days.

Review schedule:

N-STEP Proposal Review Team members coordinate electronically to review newly submitted whitepapers and quickly make decisions on their dispositions.

Page limit:

Whitepaper size should be limited to the cover page and 4 additional pages, single sided, double spaced, using 1" margins, and font size of 12 or higher. This design is intended to encourage reading and a quick decision on the potential for N-STEP proposal consideration. The whitepaper starts a dialogue.

(a). Cover page:

1. Title of whitepaper and version number
2. Applicant(s) and contact information
3. Date of submission
4. Mark this and every page with 'proprietary' information headers/footers as appropriate

(b). Section 1. Introduction

- 1.1 Description of the proposed company, technology, product or service, and your subject expertise
- 1.2 Summary of relevant NIST technology or capability support needed
- 1.3 Proposed project description

(c). Section 2. The challenge

- 2.1 The issues/limitations of existing solutions to the problem being addressed
- 2.2 The importance of the proposed solution to overcome such a challenge

(d). Section 3. The solution

- 3.1 Description of the proposed technology product or service
- 3.2 Description of the proposed project with mid- and final milestones
- 3.3 Graphics where needed or beneficial

(e). Conclusion

- 4.1 Features and substantiated benefits
- 4.2 Summary

Applicants submitting whitepapers that portend a successful N-STEP proposal will be offered a mentor to help with the proposal preparation. This same mentor, or another, may continue to advise the N-STEP company through their project if they are successful in receiving an N-STEP award.

Applying for an N-STEP Grant:

Applications for an N-STEP Grant can be submitted to TEDCO at any time. Completed applications received on or before the twenty-first (21st) of each month will be considered for the following review cycle. The full review cycle begins on the 22nd day of the month and takes approximately 60 days. If the 21st falls on a weekend or holiday, the due date is the following business day. Applications must be submitted through TEDCO's on-line application management system ("TEDCO Web Portal"), which can be accessed at: tedco.md/apply and selecting the N-STEP. Prior to submitting an application through the TEDCO Web Portal, applicants must set-up an account in the system.

Application Components:

There are two major components to the N-STEP application: the Application Information at the time of registration and the Application Main Page, which includes a place to upload a full proposal.

Applicable portions of the General Application Information can be copied from the Full Proposal, described below. A budget for the project must be included in the full proposal. See Exhibit A for an example of a budget for the First Investment with proper classifications. The Full Proposal must be submitted as a single document in either Microsoft Word or Adobe PDF format and it must adhere to the guidelines described below.

TEDCO will conduct due diligence to select Eligible N-STEP Applicants for competitive, merit-based translational research and development funding awards. Applicants are encouraged to draft their applications concisely and to carefully consider the information included in an effort to make a compelling argument for funding consistent with the objectives of this Program. The N-STEP program is a competitive award program.

Full Proposal Guidelines:

The Full Proposal may not be more than 25 pages (one-sided) numbered pages in length, including References, Pro Forma Financials, support letters, and other items submitted as part of the appendix. Please note that the historical financials and a resubmission summary (as applicable) are the only two items that are excluded from this 25-page limit. Also note that all materials that the applicant wants to be considered by the review committee must be submitted in the full proposal within the page limit. No other document will be considered. The proposal should have at least one inch margins and a 12 point font, and each page must be numbered. The 12 point font requirement does not apply to figures/graphs/charts, but they must be legible. Applications not meeting these requirements will be rejected and returned after an initial Compliance Review, described below.

The Full Proposal must be submitted as a single document in Adobe PDF format and include the components described below and any attachments. The maximum file size for the Full Proposal is five megabytes (5120KB).

In drafting the Full Proposal, applicants should understand that most proposal reviewers have technical backgrounds but might not be well-versed in the applicant's specific technology application; therefore, sufficient background information should be included so the reviewers can understand the relevance of the technology within its specific application and target markets. Conversely, any technical description should also be sufficient for someone substantially trained in the area of the technology to fully assess the merits of the technology relative to competing technologies.

The Full Proposal shall contain the following sections:

Cover Page Information (page 1):

The first page of the Full Proposal must include the project title, the name of the applicant company, the name of the company's official contact person with their phone number, e-mail address and company (or official contact person's) address at the top of the page.

Provide a statement attesting that ‘the company is a for-profit entity with the majority of its employees working in the U. S. and the company’s proposed project has the potential to lead to future growth of the company within the U. S.’

Additionally, answer the following questions:

- How many Full-Time Equivalent (FTEs) employees does the company currently have?
- How many FTEs are working in U. S.?
- Is the company pre-revenue? (Yes/No)
- Has the company received less than an aggregate of \$500,000 in equity investments from sophisticated investors (i.e., ‘Angels’ or institutional investors other than company founders)? (Yes/No)

Abstract:

A brief description of the company and its technology (about one paragraph) shall be included as an abstract. The abstract shall be non-proprietary in nature. The abstract will be used during the due diligence process. In the event that N-STEP provides a grant in the applicant’s company, the abstract will be used publicly on a website and in other outreach capacities.

The Header and the Abstract shall not extend beyond the first page of the Full Proposal.

Business Opportunity:

This section shall clearly describe the business opportunity that the applicant is addressing. Most often, this description consists of the identification of a problem in the market and the need associated with resolving the problem. The opportunity could also result from a change in the market due to the introduction of new technology or other factors. The importance of the problem or opportunity shall be emphasized including a clear description of the customers that will be impacted and the value these customers will receive from a resolution of the problem and the availability of the company’s product or service. The applicant shall also provide sufficient background to describe the origin of the problem or opportunity, how the demand is currently being addressed, and why the currently available products or services are inadequate to meet the demand.

Product or Service Description:

The applicant shall describe its company’s potential product or service and describe how it will address the problem or opportunity, and therefore, meet the demand described in the previous section. First, the applicant shall describe the underlying technology on which its product or service will be based. Do not include trade secrets or unprotected IP because this document may be shared outside of the N-STEP. The technology description shall be clear to a lay audience but contain sufficient detail so that it can be assessed by someone substantially trained in the technology discipline. The stage of development of the technology shall be described as well as the benefit of the technology over any directly or indirectly competing technologies that might be described in the technical literature or included in products that are already on the market. Any preliminary data or other findings demonstrating a proof of principle for the technology shall be

included. While preliminary, this data shall be clear and shall be obtained using generally accepted practices. Applicants are encouraged to include diagrams, illustrations, photos, or other means to support written descriptions of the technology and the product or service being developed.

Second, the applicant shall describe all intellectual property protection associated with the described technology. In the case of patent protection, the description shall include the key aspects of the technology and any current or future products that are covered by the claims. The geographical coverage of the intellectual property shall also be described. A brief summary of the patent landscape/prior art (e.g., from a Google Patents or US Patent Office search) shall be included to show how the company's intellectual property is separate and distinct from existing intellectual property for other technologies – a prior art search and freedom to operate assessment. If the technology is owned by another party (e.g., a university, federal laboratory, or another company) and licensed to the applicant company, the applicant shall include a brief description of the license terms, the name of the licensor, and the effective date of the license. If the intellectual property is by trademark, describe if this is a registered trademark or a common law trademark claim and if registered, where. If the intellectual property is managed as a trade secret, describe all special procedures instituted for handling it, as well as technological and legal security measures taken.

Finally, applicants shall provide a clear pathway for product development and commercialization, including reasonable milestones with associated potential sources of funding. The pathway will address obtaining any applicable regulatory or other approvals.

Market Analysis & Marketing:

The applicant shall demonstrate a clear understanding of the market for their products or services.

First, the general market size and general market trends shall be described. A market segmentation analysis shall be included with initial and secondary markets identified. The sizes of these markets and a justification for pursuing these market segments shall be included. The applicant shall describe their target customers (i.e., the individuals making the purchasing decisions) and provide a convincing value proposition suggesting why these customers will buy the company's product or service. The applicant shall provide appropriate references to sources, where appropriate, for any data provided.

Second, a complete description of products and services that will directly and indirectly compete with the company's product or service at the time that they are marketed shall be provided. The applicant shall describe the competitive advantage of its product or service and why customers will select the company's product and service over those of its competitors. The applicant shall also describe any barriers to entry for new products or services that could enter the market after the company's product or service are available. Applicants are encouraged to use tables to compare competing products, services, or technologies.

Third, the applicant shall describe a compelling revenue model that will lead to profitability. The model shall include price points with a proper justification that takes into consideration gross margins.

Finally, the applicant shall describe how the company's product or service will be marketed and sold. This includes clearly describing how the company's product or service will be promoted so its potential customers are aware of their availability, how the product or service will get to the customers, the distribution channel, and the value chain at each step in the distribution channel. The applicant shall describe what partners, if any, will be required for marketing and sales, and what approaches have been made, or will be made, to those partners.

Business Operations:

This section shall describe key aspects of the company operations.

First, the applicant shall describe the anticipated general operations of the company. Specifically, the applicant shall describe whether it will be a product development company or a service business. If a product, describe how the company will manufacture its product (note that federal law requires that NIST inventions are normally only licensed if manufactured substantially in the United States). This section shall include an operational growth plan that describes how the company's operations will change over the course of the next five years. Any relevant regulatory and compliance hurdles shall also be addressed.

Second, a summary of the management team and their qualifications shall be included with an explanation of how these qualifications enable the team to execute its operational plan. A description of advisors and their level of commitment to the company shall also be included. The applicant shall describe any gaps in needed skills and describe how these gaps will be overcome.

Third, the applicant shall describe the financing required to develop its product or service, to take it to market, and to generate revenues and profits. The financing required should be consistent with the product development and operational plans referenced above. A milestone-based strategy for obtaining the necessary financing shall be included with a rationale for the proposed sources of financing. The applicant shall describe their strategy for becoming profitable and getting to an exit, if applicable, including potential exit partners and rationale.

Finally, all applicants shall provide a summary 5 year pro forma profit and loss statement (in the format provided in Exhibit B). The pro forma statement shall start with the current year as year one (1). For applicant companies in business more than one year, the companies shall also provide detailed historical financial statements for the lesser of 3 years or the life of the company. Detailed historical financial statements (Income Statement, Balance Sheet, and Cash Flow Statement) shall be included as supplemental materials. The applicant shall provide a brief, narrative description of the financials to include any relevant information for the historical data, if applicable, and any general assumptions for the pro forma statements and their rationale.

Project Plan and Progress Reporting:

A clear, detailed description of the proposed project and its role in (i) advancing the company's product or service toward commercialization, and (ii) increasing the company's valuation and ability to obtain follow-on funding, shall be included. Technological milestones shall describe how the technology will be advanced. The description shall include a number of specific aims with quantifiable outcomes for the proposed project. A justification for the approach shall be provided including how the anticipated results will advance the technology along the commercialization pathway. There shall be two major status reports; the Mid-Project Report and the Final Report.

For example, if a company is requesting a total of \$100,000 from N-STEP, each Report should equal approximately 1/2 of the project effort in time and cost. If approved for funding, the company will be paid \$50,000 upfront upon execution of N-STEP's Project Grant Agreement and \$25,000 upon a successful Mid-Project Report and the final \$25,000 upon successful closeout of the project and the Final Report. The project milestones must be achieved and verified.

The technical milestones and amounts to be paid shall be described as follows:

As it is the inherent nature of product development to be risky, the applicant should describe any contingency plans in the event that outcomes are not as expected. Projects are limited to a maximum duration of 12 months. Any changes in the project plan that may be needed must be approved by the TEDCO Program Manager in advance.

Project Team:

A list of project personnel (company's staff, subcontractors and project collaborators) shall be provided with a brief summary of their background, their position with the applicant company, and their role in the proposed project. The applicant shall justify that the project team is qualified to carry out the proposed work.

Budget & Budget Justification:

A detailed budget for the proposed project must be included. A sample of a project budget is included in Exhibit A of this RFA. A justification for each line item in the budget shall be included in a narrative form. In addition to the line item descriptions, the budget shall have three additional columns: the N-STEP Budget (for funds provided), the Company Match (for company matching funds, as described below), and the Total Project Budget (the total of the first two columns).

The N-STEP policy is that 80% of the N-STEP grant must be directed to product development activities (i.e., direct costs). All subcontracted funds are considered direct costs regardless of the subcontractor's indirect costs charged to the project. The budget justification shall include total hours committed to the proposed project, the cost/hour for each individual included in the budget, and the associated fringe benefits. N-STEP will also not accept hourly rates above \$60 per hour (\$125,000 per year) for company's staff and management time. Costs for external contractors and consultants are specifically excluded from this constraint. Equipment and

materials related to the proposed project may be included in the budget. Travel costs may not be included unless justified as critical to completion of the proposed project.

Attachments to the Full Proposal

Attachments to the Full Proposal shall be limited to the components described below. Any additional documents (e.g., business plans, technology descriptions, publications, etc.) will not be considered by the reviewers and should not be included. This is additional information meant to support the application content, not meet the RFA requirements. This information may not be reviewed.

References & Support Letters:

Applicants are encouraged to consider opportunities for collaboration with U. S. universities and federal laboratories. Applicants are also encouraged to engage with potential customers and partners prior to submission of an application. The applicant shall include a list of citations for any relevant references. In addition, applicants may include letters of support from potential collaborators, customers or partners.

Resubmission Summary:

In the event that an application has been rejected, the applicant may resubmit a new application for the same or a similar project with a revised Full Proposal. In such cases, the applicant must include a Resubmission Summary, as an additional attachment to the new application. The Resubmission Summary must include an overview of the reviewers' concerns, and it must include a brief description of how and where those concerns are addressed in the revised Full Proposal. The applicant shall not attempt to respond directly to the reviewer's comments in the Resubmission Summary; rather, the Resubmission Summary shall include a general description of where revisions were made in the Full Proposal in response to the reviewer's comments. The Resubmission Summary is limited to 3 pages in length.

Review Process:

All completed applications received through TEDCO Web Portal by the 21st of the month will be reviewed in the subsequent review cycle. The review process for each cycle comprises four stages: Compliance Review, Preliminary Review, Final Review, and Final Decision. Applications may be rejected at any stage of the process.

Compliance Review

First, all N-STEP applications will undergo a compliance review to ensure that the applicant has adhered to all of the requirements of this Request for Applications. Applications not meeting these requirements, which include meeting the eligibility requirements, conforming to format requirements (length, format, page numbering, etc.), and other requirements, will be rejected and returned without further review.

Applications rejected at this stage of the review may be corrected and resubmitted as long as sufficient funds remain. Such resubmissions will be considered a new application but will NOT require a Resubmission Summary, described above.

Preliminary Review

Second, N-STEP applicant proposals passing the Compliance Review will undergo an in-depth preliminary review by a sub-committee as well as a site visit by an N-STEP representative.

Site Visit

A Site Visit will be conducted when deemed necessary or beneficial to the N-STEP evaluation of the proposal or to the prospective start-up company. As part of the preliminary review, a TEDCO staff member may meet with the applicant to address any outstanding questions and give the applicant an opportunity to demonstrate their product or service and otherwise describe their business. The site visit also allows N-STEP to assess the resources available to the applicant to carry out the proposed work. Whether a site visit is conducted or not, a report will benchmark the status of the company and their product or service prior to the start of the proposed project.

Next the review committee will conduct their own review of the Full Proposal and meet to select the proposals for the Final Review. Applicants not selected for the Final Review, will receive feedback from the reviewers. N-STEP provides this information to help the applicants improve their product or service, business plan, and proposal. A proposal rejected at this stage of the review may be modified and resubmitted for subsequent review provided the applicant can sufficiently address all of the reviewers' concerns and sufficient program funds remain. All resubmissions will be considered as a new application and will require a Resubmission Summary, described above.

Final Review

Third, the applicants selected in the Preliminary Review will be invited to give a brief 10 minute presentation to the Review Committee, which comprises TEDCO staff and others from the business and investment community. The 10 minute presentation will be followed by approximately 15 minutes of questions by the reviewers. The applicant will then be asked to leave so the review committee can discuss the application. Based on all information gathered throughout the review, the Review Committee will make a final recommendation.

There may be follow-up due diligence after the presentation. Periodically, the committee may recommend an external business or technical review or a reference check based on the information provided. The additional due diligence will be performed on case-by-case basis as deemed necessary by the Review Committee.

Applications rejected at this stage of the review may be modified and resubmitted provided the applicant can sufficiently address all of the reviewers' concerns and sufficient funds remain. All resubmissions will be considered as a new application and will require a Resubmission Summary, described above.

Review committee meetings will be held periodically based on the submissions received. The initial submission and review dates will be forecast and publicized. Presentation locations and dates will be provided to those applicants reaching the Final Review stage and invited to present.

Final Decision:

All review committee recommendations will be taken to the N-STEP Board for a final review and decision. Once a final decision is made, the applicant will be notified. Actual First Payment will be made to the company subject to a formal Closing Process comprising the execution of a project grant agreement, as further described below.

Review Criteria:

The Review Committee will make its recommendations using the following general criteria:

Completeness of Business and Technical Factors:

The reviewers will evaluate proposals on how completely the applicant has considered all of the relevant business and technical factors associated with the commercialization of the described technology. This includes information requested in this RFA and other information relevant to the commercialization of the applicant company's product or service.

Strength of the Commercialization Plan:

The reviewers will consider how well the applicant has addressed the relevant business and technical factors associated with the commercialization of their product or service. The degree to which the applicant makes a convincing case for the business opportunity and provides a sound plan to take advantage of that opportunity will be considered. The management team's ability to execute their commercialization plan and to be successful will also be evaluated.

Growth and Investment Opportunity:

The reviewers will consider the overall investment opportunity represented by the company in terms of how far the proposed project will advance the company's commercial strategy, the expected increase in company value upon successful completion of the project's milestones, the potential return on investment for the company, and the likelihood of third-party investment or revenue following completion of the proposed project. This includes an assessment of the incremental increase in value generated from the N-STEP supported project. Also, the growth and impact potential of the company will be considered in terms of potential revenue and job creation in the U. S.

Closing Process:

Once an application is approved for an N-STEP grant, the TEDCO Program Manager will so notify the applicant. The applicant will then have up to ninety days to form the company, if it

does not already exist, execute the project agreement and effect a Closing on the Grant Award. The Closing will be managed by TEDCO's appointed counsel. The applicant will be asked to provide a list of documents for the Closing including the following:

- A certificate of good standing from the 'Department of Taxation,' in whichever state the company will be operational, dated no more than 30 days prior to the Closing Date AND from the State in which the corporation is organized, if different from where the company will be operational;
- A copy of its Articles of Incorporation & Bylaws (for corporations) or Articles of Organization & Operating Agreement (for LLCs), as applicable;
- The Board of Directors Resolution authorizing execution of the Project Agreement (corporations only);
- A copy of the company's most recent financial statements if they have been in business for more than one year;
- A copy of a legally sufficient and binding agreement(s) with NIST for the advancement of the goals contained in the application, as applicable (e.g., Patent License Agreement (PLA) or Cooperative Research and Development Agreement (CRADA)); and
- Information necessary to complete a Project Agreement and its Exhibits.

In addition to the closing documents, the applicant will receive a copy of N-STEP's Project Agreement and Exhibits, which will be signed at the time of the Closing. The Closing will occur at a location, date, and time that is mutually acceptable to the parties. The Closing must occur within ninety days of the date of the award notification.

Investment Payments:

Upon successful completion of the Closing, the applicant will receive a check for 50% of the total award. Subsequent distributions of funds will be made in two tranches during the project period, one at Mid-Project and 25% of the total investment upon completion of a Final report and close-out meeting. Each tranche of funding will follow N-STEP's approval of a project status report submitted to the program manager and the applicant's achievement of designated project milestones s verified by the program manager. All awards are subject to the availability of funds.

Reporting Requirements:

As a condition of accepting an N-STEP grant, the applicant will be required to submit periodic reports, as follows:

Financial Reports.

For three years, the company shall provide N-STEP with quarterly financial statements, which include an Income Statement, Balance Sheet, and Cash Flows Statement. The financial statements for the first quarter of each calendar year shall include complete State and federal income and payroll tax returns.

Mid-Project and Final Reports.

During the project period, applicant's company will submit Mid-Project and Final reports describing its accomplishments related to the proposed specific aims and the achievement of any designated project milestones along with an invoice requesting the next tranche of payment for the N-STEP award. These reports shall be emailed to the N-STEP program manager. The Final Report will be due within 90 days of completion of the project. The report will describe the company's accomplishments related to the proposed specific aims, the achievement of any designated project milestones, any intellectual property created or improved during the project, any licensing or other commercialization activities related to the project, and company's employment data (Full-time equivalents and total payroll). The Mid-Project Report will include a presentation to the review team, followed by an assessment of the progress and result in a recommendation to proceed with the second half of the project or not. The N-STEP Board will make the final decision within two weeks of the presentation.

Annual Economic Development Reports.

Beginning the first April following completion of the funded project and for five years following completion of the funded project, the company will provide to the N-STEP program manager an Annual Economic Development Report. The report will include State and federal income and payroll tax returns, an employee census reflecting the current number of full-time equivalent employees who are U. S. residents, and such other information which N-STEP may reasonably request from time to time.

All reports provided to N-STEP will be held in confidence to the extent reasonably permitted by law. Confidential reports shall be designated as "Business Proprietary".

Portfolio Management:

All companies receiving an N-STEP award will be provided a Portfolio Manager. The Portfolio Manager will be the company's contact person for N-STEP. The Portfolio Manager's role is to provide general assistance and mentorship to the company, as needed and subject to the availability of resources, and to help the company take advantage of the many training, mentoring, networking, assistance, and other opportunities available.

Program Manager Information:

Inquiries regarding the N-STEP program shall be directed to:

Ronald W. Kaese
rkaese@tedco.md
410-715-4170

Exhibit A – N-STEP Budget Example
Ross Flags, Inc.

	<u>TEDCO Funding</u>	<u>Company Match</u>	<u>Total Project Costs</u>
<u>Personnel - Salaries</u>			
G. Washington (\$100K Annual Salary/20% Commitment)	10,000	10,000	20,000
J. Ross (\$80K Annual Salary/10% Commitment)	8,000	0	8,000
B. Ross (\$20K Annual Salary/50% Commitment)	<u>5,000</u>	<u>5,000</u>	<u>10,000</u>
Total Personnel - Salaries Cost	23,000	15,000	38,000
<u>Personnel - Fringe Benefits</u>			
G. Washington	3,000	3,000	6,000
J. Ross	2,400	0	2,400
B. Ross	<u>1,500</u>	<u>1,500</u>	<u>3,000</u>
Total Personnel - Fringe Benefits	6,900	4,500	11,400
<u>Equipment</u>			
Sewing Machine	0	5,000	5,000
Scissors	<u>1,000</u>	<u>0</u>	<u>1,000</u>
Total Equipment Costs	1,000	5,000	6,000
<u>Materials & Supplies</u>			
Red Cloth	3,000	1,000	4,000
White Cloth	3,000	1,000	4,000
Blue Cloth	2,000	1,000	3,000
Thread	<u>28,600</u>	<u>11,000</u>	<u>1,000</u>
Total Materials & Supplies	36,600	14,000	12,000
<u>Other Direct Costs</u>			
Design Consultant	<u>25,000</u>	<u>10,000</u>	<u>35,000</u>
Total Other Direct Costs	25,000	10,000	35,000
<u>Indirect Costs</u>			
Room Rental (Ross Living Room)	<u>7,500</u>	<u>1,500</u>	<u>9,000</u>
Total Other Direct Costs	7,500	1,500	9,000
TOTAL PROJECT BUDGET	100,000	50,000	150,000

Exhibit B – Pro Forma Example

Pro-Forma P&L-Cash Forecast

	Year 1	Year 2	Year 3	Year4	Year 5
Revenue ¹	0	0	0	0	0
Cost of Sales ²	0	0	0	0	0
Gross Margin \$ ³	0	0	0	0	0
Gross Margin % ⁴	0	0	0	0	0
SG&A ⁵	0	0	0	0	0
R&D ⁶	0	0	0	0	0
Other ⁷	0	0	0	0	0
Total Operating Expense ⁸	0	0	0	0	0
Operating Earnings ⁹	0	0	0	0	0
Capital Spending ¹⁰	0	0	0	0	0
Investment Funds Received ¹¹	0	0	0	0	0
Cash at beginning of yr ¹²	0	0	0	0	0
Cash at end of year ¹³	0	0	0	0	0

Note: Do not include interest expenses, taxes, depreciation or amortization.

Notes:

1. Report all revenues from sales of products and services; include any licensing fees or royalties received. Do not include Investment Funds Received.
2. Report all costs associated with the revenues. Include cost to build and deliver the product or service. Also include royalties paid and fees paid to distributors.
3. Gross Margin = Revenue minus Cost of Sales
4. Gross Margin % = Gross Margin divided by Revenue and expressed as a %.
5. Report all expenses associated with sales team, marketing team and administration, including rents, insurance, utilities, salaries and benefits of teams, trade shows, supplies, etc.
6. Report all expenses associated with product development, team salaries, benefits, contract R&D etc.
7. Any other expenses not included in SG&A or R&D.
8. Total of SG&A, R&D, and Other expenses.
9. Operating Earnings = Gross Margin minus Total Operating Expense
10. Report purchases of assets (e.g., buildings, equipment, vehicles, lab equipment) costing over \$1,000 per item. Items costing less than \$1,000 (e.g., computers) shall be included as an expense in SG&A, R&D, or Other.
11. Report any grants and/or investment funds received. These amounts shall not be included as Revenue.
12. Report Cash on hand at beginning of year. This shall equal the Cash on hand at end of previous year.
13. Cash at end of year equals Cash at beginning of year plus Operating Earnings plus Investment Funds Received minus Capital Spending.