

Stage One Ventures

Governance insight for early
stage entrepreneurs

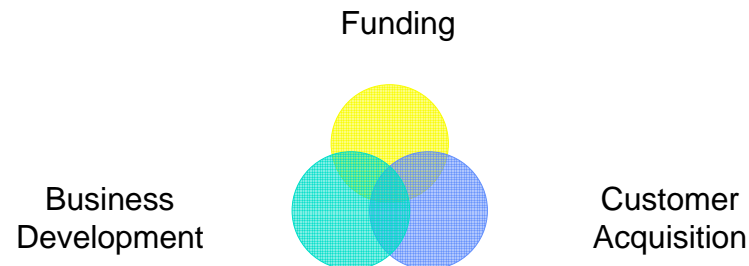
Board of Directors
David William Baum
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Early stage financing & development company

Addressing the funding gap between angel and Series A

Addressing the skills gap with a proven process for leveraging critical resources into the business

Time dependent process – Series A or M&A in 12-18 months



Governance: Time to get serious

- **Taking institutional money will force entrepreneurs to formalize corporate governance**
- **Important to pick the right investors, remember, they will be your board members**
- **Board structure**
- **Board committees**
- **Schedules & communications**
- **Board meetings**
- **Compensation**
- **D&O Insurance**

- **Keep it small, simple, and balanced**
- **2-2-1 Structure**
 - 2 Preferred
 - Common Seat #1: CEO (succession issues)
 - Common Seat #2: Consider an outsider vs. management. Best practices
 - 2 Common
 - 1 Independent – Selected by common, approved by preferred.
- **Chairman: One of the directors, does not have to be the CEO, but someone that can run the meeting effectively**

Board Committees

- **Audit – need a financial expert**
- **Compensation**
- **Governance (nominating)**

Schedules & Communications

- **Monthly meetings are appropriate for early stage companies**
- **Mature companies can move to five meetings/year with one meeting dedicated to long-term strategic planning**
- **Board calendar: schedule meetings a year in advance and keep dates firm**
- **Communicate often with the board: no surprises at formal meetings**
- **Schedule committee meetings prior to the board meetings**
- **Timely delivery of a standardizing board package: three days to a week before the meeting**

Board Meetings (typically 3 hours)

- **Entrepreneurs spend too much time reporting. Follow the 80-20 rule (strategy/risks vs. reporting)**
- **Board meeting agenda**
 - Formal board actions (votes on minutes, options, approvals, etc)
 - New business opportunities
 - Strategic issues & business risks
 - Capital funding/M&A issues
 - Committee reports
 - Operating results (less than 30 minutes)
 - Executive session: open discussion of management's performance

Role of the Board/Directors

- **The CEO leads, the board guides and monitors**
- **“Approval” of the long-term strategy and annual corporate business plan, not its “development”**
- **CEO evaluation: rewards and tenure**
- **Top management succession**
- **Assuring financial & accounting accuracy and transparency**
- **Periodic board evaluation of itself and its members**
- **Place stockholder interest over personal interest**
- **Empowerment, Independence, and Alignment**
- **Critically analyze management’s plans and proposals: must be able to ask the tough questions**

Questions for a potential director

- **Ask him/her why they want to serve?**
- **What long term value can you add to my company?**
- **Do you understand your responsibilities as a director?**
- **Can you provide independent, active oversight and assistance?**
- **Are they experienced executives with complementary functional skills?**
- **What is your governance experience?**
- **Do you understand the liabilities?**

Finding independent directors

- **Networking at industry events like this one**
- **VCs**
- **Alumni**
- **Recruiters**
- **Avoid friends, select individuals that can challenge management**
- **Brand names: “recruit” those individuals that want to maintain their professional reputations.**

Compensation

- **Stock (valuing time, vesting) vs. Cash**
- **Stage dependent (target ownership %)**
- **Special Projects & Committees**
- **Expense reimbursement**
- **Term limits**

Sarbanes-Oxley Act of 2002

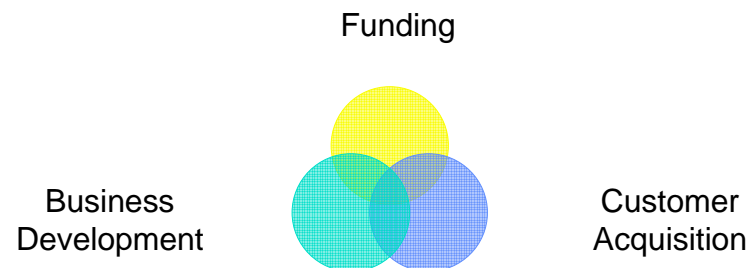
- **Private companies should get on a SOX compliance path (financings, M&A, & IPO)**
- **CEO and CFO must certify that the financial statements are accurate and not misleading**
- **Tries to eliminate corporate fraud by create transparency**
- **Road map to guide directors in creating a corporate culture that encourages and rewards integrity, trust, candor, honesty and fairness**

Value you should expect from your directors

- **Future financing leads/assistance**
- **Customer & business development introductions**
- **Insight into market trends**
- **Recruiting leads**
- **“Independent” director leads**
- **Strategic insight**
- **Tactical feedback/insight**
- **Best practices**
- **Vendor introductions (legal, audit, banking, consulting etc.)**

Thank You!

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Bridging the capital gap