

Become a Biotech or MedTech Entrepreneur

Presented by:

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Session 10: Building an Effective Board and Managing the Relationship

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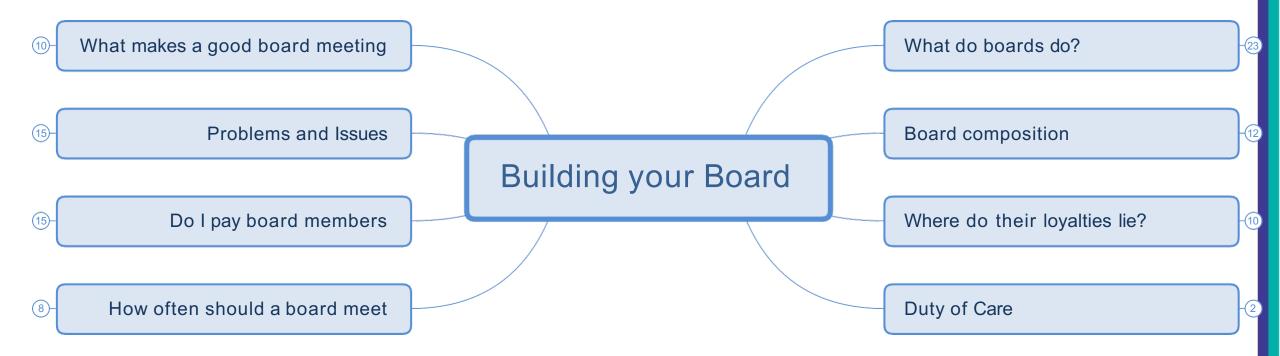
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Better boards make better companies

Building your Board





What do boards do?

Provide overall guidance for the company Finance & audit Policies such as signing authority Approve capitalization table Governance Compensation Approves ESOP Plan Budgeting & Key Hires Hire/Fire Sr. Management Provide connections & network Equity Loans Determine the financing events Other Approve capitalization table Acquisition Merger Determine liquidity event IPO Management buyout structures Major partnerships Strategic Transactions Joint Ventures

What do boards do?

Board composition

Board composition

Depends on the stage of the company

Not necessary but most choose odd number to reduce risk of tie votes

Founders usually keep 2 seats for common stock holders

After seed, a board seat starts getting allocated to the person who leads the round

Keep in mind when you accept an investor, you are accepting a board member

Some investors will attach a board seat to the term sheet

After 2nd or 3rd round, you should try to get an independent

How to plan from R&D to Commercialization Boards

The representative of the board member represents the entire series

If the board gets to big, transfer to observers

They can participate

They don't vote



Where do loyalties lie?

Duty of Care

Obligation to act responsibly

Duty of Responsibility

A common misperception is that they are their to protect their own investment

Maximize value of all stockholders

D&O Insurance

The board can get sued by stockholders

Where do their loyalties lie?



Duty of care

The duty of care says that directors must be informed about what is going on and make decisions armed with the relevant facts.

If the director has a conflict of interest, the conflict must be disclosed to the other board members and the conflicted board member should recuse him/herself from the discussion and approval process

Duty of Care



How often should a board meet?

Depends on stage of company

Pre-seed/Seed - could be once a month

Lasts about 3 hours

Have one every meeting

Any board member can generally request a Board Meeting to discuss a specific issue

How often should a board meet



Do I pay board members?

	Varies by stage
Investors	
Founder	Varies by board member type
Independent	
	Board members who represent their own funds generally not compensated
For early-stage range is 0.5% to 2.0% equity	
Percentage drops over time as company gets more de-risked	It is typical for independent to get compensated for time and services
In some cases, cash compensation is included \$500-\$2000 a meeting	
	All directors are reimbursed for travel and out-of-pocket expenses
A policy is advisable	out of pooket expenses
Secure against loss or action	Board members are also supported by indemnification and D&O insurance
Generally a \$1M per member	Indemninication and D&O Insurance

Do I pay board members



Problems and issues

More complexity requires more experience

Founder may find themselves removed from the board

CEO/Founder can control ESOP for more voting power

Try to plan for a future founder role upfront

Board members should cooperate yet have vigorous discussions

Consensus must be met by a vote

If you have a board where votes are frequently divided and contentious, then you have a serious problem at the company itself

The issue may sit with one particular board member, you should address that member's issues separately

Some investors have made large investments but not enough to warrant a seat

You might want to compromise if they cause problems among investor base

Directors are bound by confidentiality requirements and have fiduciary duties and are covered by attorney/client privilege, while observers are not

Involve lawyers to make correct observer agreements

My board wants to get rid of me

My board members disagree

Problems and Issues

Some of my investors want to be observers



What makes a good board meeting?

Keep your company story aligned

Have clear meeting objectives

Tie actions and decisions between each board meeting

Do what you say, and they will trust what you do

You will not always get what you want, prepare for a Plan B

The board works for you (CEO)

A board presentation is as important as an investor pitch

Yes - Governance and oversight

Strategic choices, not strategic direction

Not tactical decision makers

What makes a good board meeting





The ability to make good decisions regarding people represents one of the last reliable sources of competitive advantage since very few organizations are very good at it"

Peter Drucker, Business Guru

Who's dealing with this issue now

- 1. Who are entrepreneurs here that have an early-stage company or are forming one?
- 2. How many have established a board?
- 3. How many of the directors are outside of management?
- 4. How many directors are friends or loyal to the founder/CEO?



Who should be on the team

- Seasoned CEOs or executives with successful entrepreneurial experience
 - (Everybody needs a coach)
- Persons with capital-raising experience and current contacts
- Executives from your company's technology area
- Venture capitalists with forward networks
- Experienced board members from your industry



Questions???

