

# Building a Mentoring Board

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Mentor Capital and  
BC Advantage Funds

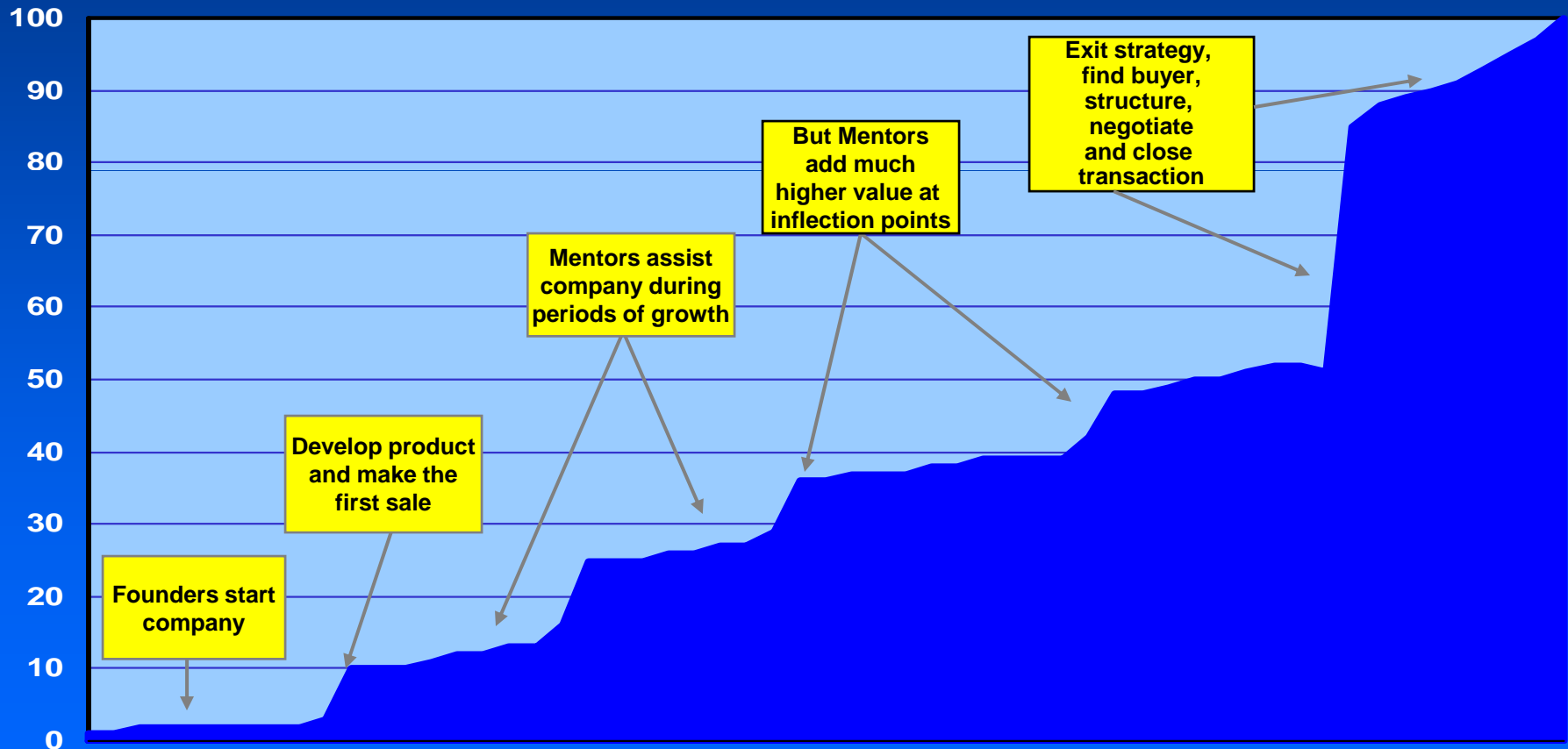


# Building Shareholder Value

Founding = 10%

Equal Tactics & Strategy = 40%

Exit Strategy & Execution = 50%



# Even More Important

- A good board, and good Mentor's, most important contribution is:
- To prevent the entrepreneurs from blowing up the company.
- Seriously.
- In my first company, our angel investors / mentors / directors literally prevented that a dozen times.
- In my own investments, have done the same several dozen times.

# How can they do that?

- It's simply experience.
- For example, many companies fail because they run out of money.
- That almost never happens to experienced entrepreneurs.
- Even a founder with an IQ of 160 can't learn enough, fast enough, to have the experience.
- Every successful company I have seen has mentors / good directors.

# Board Evolution

- In the very early days, the board is often the founders.
- That is OK because they are often the only shareholders.
- As the company matures, the board must too.
- One of the most common reasons that companies fail to attract good quality investors,
- Is that the board is not ready.

# Corporate Governance Today

- Probably the biggest change for early-stage companies over the past few years.
- Much more important than five years ago.
- Corporate Governance will continue to increase in importance for many years.
- Enormous topic – would also take days to do justice to.

# Minimum Governance Guidelines For Externally Financed Companies

- Boards must be real and:
- Have a majority of independents.
- Who are successful and experienced.
- Who should have a real financial interest in the company.
- Should only have one member of management, the CEO.
- Chairman cannot be CEO.

# Harder to attract good directors

Business in Vancouver February 18-24, 2003

## Insurance hikes force lawyers off boards

Clark, Wilson discourages appointments; partner off DataWave board

Tracy Tjaden

**U**.S. corporate governance scandals have pushed insurance rates sky-high, forcing one Vancouver law firm to discourage its lawyers from sitting as directors of public companies.

Bernard Pinsky, a partner of corporate law firm Clark, Wilson, resigned from Vancouver-based DataWave Systems Inc.'s board of directors February 7.

In total, Clark, Wilson lawyers have resigned from half a dozen boards in recent months.

Two years ago, its lawyers sat on about 25 boards of public companies, Pinsky said. The firm's lawyers are in the process of resigning from all public company boards.

The firm's insurance costs for directors' and officers' liability insurance shot up 150 per cent this year over last year. That's after a 75-per-cent increase last year over the year before.

"It's the big corporate governance failures in the U.S. that have driven rates up because [the insurance companies] are paying out billions," said Pinsky.



Resigned: Lawyer Bernard Pinsky left DataWave board due to insurance costs

# Board Commitment

- It's much harder to recruit a good board today.
- No, an advisory board won't do.
- Directors should invest real cash.
- If you can't get a good board committed,
- Do you really think its fair to ask someone to invest?
- Good news is that early-stage funds and angels will often help you build a good board.

# Director Time Commitment

- The minimum time required is directly related to how fast the company is changing.
- A board for a single property real estate company might be able to do a good job in one half a day per quarter.
- A lead director for an early-stage, high-growth technology company might need a day per week, or even more.

# Director Compensation

- The board you need will dramatically increase your success.
- Your directors will have to make a significant time commitment
- And accept very real personal risk.
- The company has to compensate them fairly.

# Director Compensation Guidelines

- A very popular topic lately.
- Consensus developing.
- Depends a lot on the type of company.
- For an early-stage knowledge-based company,
- The 'value' per unit time of a good director is roughly equivalent to the value of the CEO.
- CEO comp is typically half cash and half equity.
- Directors are usually all equity.

# Director Recruitment

- A lot of young entrepreneurs ask how.
- It's just a recruitment process.
- Most efficient process is networking.
- Events like this, your networks, word of mouth.
- It's a lot of work.
- Get started early.

# Practical suggestions

- Recruit a real mentoring board.
- Who have the experience and stature,
- And the time and interest to be effective mentors.
- Listen to them.

Good Luck!