

Seven Essential Board Slides

Every board meeting should include these seven slides as a minimum “check list” to assess the company’s health.

If management and the board cannot agree on these seven slides, then the company is off the rails.

But, if you maintain an accurate, current check-list, everyone will sleep well at night.

Once you are secure in the fundamentals, it’s easy to concentrate on building a great business and changing the world.

- Approve Board Meeting Minutes
- One page P&L
- Current Cap Table
- Hiring Plan
- Material Events
- Sales Funnel
- Key Objectives

Example Slides: Fictitious Company

- **Foo.bar** founded in 2009
- Series A in Jan 2010
 - \$1.5M pre, \$4.5M post
- Slides distributed a few days in advance of a Jan 2011 board meeting

Slide 1: Approve previous board minutes

- There are legal requirements all board minutes must address. These include:
 - List time, date, place, participants
 - Pay careful attention to option grants - document 409a valuations
 - Must be accurate and complete, but not a transcript of events (not a he said/she said)
- Have counsel help, especially with approvals of options (in advance of issuing them!), stock, warrants, etc. You can't issue equity of any kind without board approval and it should be documented.
- There is an "art" to writing board meeting summaries. Mickey Mouse minutes won't cut it after the *Disney* case in Delaware: include enough detail and "heft" to show real deliberation and thought about decisions – the goal being to have a court defer to the Board's business judgment and not review the merits of the action itself. But don't put so much detail that it creates a problem in a spurious lawsuit or in an acquisition.
- Send the minutes out promptly after the meeting – directors serve on multiple boards and their memories will soon be hazy.
- Be sure to file EVERY approved board document with your permanent company records. Some acquirers will bolt if they can't locate a complete set of minutes...

Foo.bar board minutes

A meeting of the Board of Directors of Foo.bar was held in their corporate offices on January 3, 2011 at 2 p.m. The CEO Mike Mike, Directors John John and Sue Sue attended in person. Observer Kim Kim attended by phone at the invitation of the Board.

The CEO reviewed the company financials and sales results against plan. The CEO noted variances from the plan concerning accounts payable and revenue from the Foo.bar “null set” product, which launched 15 days ahead of schedule.

Sales are growing faster than plan, and the board agreed to let the company hire the 3Q sales team in 1Q to accommodate growth.

An original founder, David David, resigned as a director to pursue other non-competitive activities and the board accepted his resignation and thanked him for his service to the company.

A new CTO, May May will start on Jan 5th. The board approved a stock option grant of 150,000 shares of common stock (which are intended to be ISOs) vesting as follows: 25% on the one-year anniversary of hire and an equal amount vesting at the end of each subsequent calendar quarter for the next 3 years, with an exercise price equal to the fair market value of one share of common stock on the date hereof. After determining that no intervening valuation event had occurred, the board determined that the fair market value of a share of common stock was \$0.25, which is the amount calculated by Valuation FirmX for purposes of IRS Section 409A in a valuation report received by the board within the past 45 days and reviewed by the board in connection with this meeting.

There being no other business before the board, the meeting was adjourned at 4 p.m.

Recorded by Lee Lee

Slide II: One Page Profit and Loss

- Should include
 - Quarterly results for Previous Year
 - Quarterly Projected P&L for this year
 - Annual P&L plan for Out-Years 2-4
 - Compare actuals to plan
 - Track cash and burn rate
- Exact form of P&L should match your business environment
 - The P&L is a management tool, to identify problems and opportunities
 - Line items must be independent and individually controllable
- Clearly indicate “out of cash date” (without assuming additional fundraising), and the timing and size of next required financing. Update for every board meeting.

Foo.bar P&L

	1Q10	2Q10	3Q10	4Q10	2010 actual	2010 Plan	1Q11 est	2Q11 plan	3Q11 plan	4Q11 plan	2011 plan	2012 plan	2013 plan	2014 plan
Revenue	\$ 25	\$ 50	\$ 250	\$ 250	\$ 575	\$ 600	\$ 300	\$ 200	\$ 50	\$ 400	\$ 950	\$ 2,500	\$ 7,000	\$ 15,000
Salary	\$ 100	\$ 100	\$ 125	\$ 125	\$ 450	\$ 500	\$ 200	\$ 300	\$ 400	\$ 500	\$ 1,400	\$ 1,800	\$ 2,300	\$ 3,750
Benefits	\$ 8	\$ 8	\$ 10	\$ 10	\$ 36	\$ 30	\$ 20	\$ 35	\$ 50	\$ 60	\$ 165	\$ 210	\$ 300	\$ 490
Sales Costs	\$ 5	\$ 5	\$ 7	\$ 3	\$ 20	\$ 25	\$ 50	\$ 75	\$ 100	\$ 120	\$ 345	\$ 300	\$ 500	\$ 1,000
Marketing Costs	\$ 25	\$ 2	\$ 5	\$ 5	\$ 37	\$ 15	\$ 100	\$ 100	\$ 50	\$ 75	\$ 325			
Product Costs	\$ 15	\$ 15	\$ 15	\$ 25	\$ 70	\$ 50	\$ 90	\$ 200	\$ 200	\$ 300	\$ 790	\$ 1,300	\$ 1,800	\$ 2,200
Overhead	\$ 10	\$ 10	\$ 10	\$ 10	\$ 40	\$ 50	\$ 25	\$ 25	\$ 35	\$ 35	\$ 120	\$ 350	\$ 500	\$ 750
Taxes	\$ 5	\$ 7	\$ 3	\$ 10	\$ 25	\$ 20	\$ 15	\$ 15	\$ 20	\$ 20	\$ 70	\$ 200	\$ 500	\$ 1,200

(in 1000's)

Beginning Cash	\$ 3,000	\$ 2,857	\$ 2,760	\$ 2,835			\$ 2,897	\$ 2,697	\$ 2,147	\$ 1,342		\$ 632	\$ (1,028)	\$ 72
Ending Cash	\$ 2,857	\$ 2,760	\$ 2,835	\$ 2,897			\$ 2,697	\$ 2,147	\$ 1,342	\$ 632		\$ (1,028)	\$ 72	\$ 5,682
Burn	\$ 168	\$ 147	\$ 175	\$ 188			\$ 500	\$ 750	\$ 855	\$ 1,110		\$ 4,160	\$ 5,900	\$ 9,390
Net Burn	\$ 143	\$ 97	\$ (75)	\$ (62)			\$ 200	\$ 550	\$ 805	\$ 710		\$ 1,660	\$ (1,100)	\$ (5,610)

- Running on or close to original plan
- Out of cash and common stock by 1Q 12
- Need to raise \$5M, starting in April

Slide III: Cap Table

- List share allocations after each financing, by class and major owners
- Pre and post money valuations of each round.
- Distinguish between authorized, allocated and vested shares
- Periodically request board approval of cap table- this table is “owned” by the company and investors. You don’t want to discover an error during a financing or acquisition.
- Remember that the “as converted to common” value of 1 share of preferred may be more or less than 1 share of common (e.g., following an anti-dilution adjustment) so make sure you are clear about the difference between issued and “as-converted” preferred stock

Foo.bar cap table

	As Founded		Series A		
	Shares	% FD	Shares	% FD	% Current
Founders	950,000	95.0%	950,000	21.1%	23.5%
Other Employees	25,000	2.5%	100,000	2.2%	2.5%
Unvested Shares	25,000	2.5%	200,000	4.4%	
Unallocated Shares	0	0.0%	250,000	5.6%	
BigVC	0	0.0%	2,000,000	44.4%	49.4%
NicheVC	0	0.0%	1,000,000	22.2%	24.7%
Total Shares	1,000,000	100.0%	4,500,000	100%	100%
Share Price	\$ 0.02 (on 3/15/2009)		\$ 1.00 (on 1/15/2010)		
Valuation	\$ 20,000		\$ 4,500,000		
Pre-Money	\$0		\$ 1,500,000		

Slide IV: Hiring Plan

- Managing employees is just as important as managing the P&L. A board approved share plan, along with a headcount budget, should align with the P&L and Cap Table assumptions.
- Quarterly hiring plan, by job position and estimated share grant, for current year.
- Complete stock strike price history (by date) whenever new shares are granted.
- Annual hiring plan, by job position and estimated share grant, for out-years 2-5
- Identify “out of shares” date for the option pool.
- It is normal for companies to run light of shares around the time of the next financing (expecting the new investors to expand the pool out of their capital infusion and perhaps out of the existing shareholders pre-money valuation). But never run short.

Foo.bar Hiring Plan

	Founders	2010	1Q11	2Q11	3Q11	4Q11	2012	2013	2014	2015
CEO	1									
CTO	1		1*							
VP Marketing	1									
VP Sales						1				
Engineering	2			3			2	3	6	10
Sales		2		2		5	4	2	10	5
Admin		1					2	1	2	2
CFO				1						
Total Headcount	5	8	8	14		18	26	31	49	66
Committed Shares	21.8%	22.2%		25.5%		28.0%	30.0%	31.0%	34.0%	37.0%
Vested Shares	10%	13%	13.5%	14%		16%	20%	26%	28%	32%

Date	Pref Price	Common
3/15/09	\$ 0.02	\$ 0.02
1/3/10	\$ 1.00	\$ 0.15
4/18/10	\$ 1.20	\$ 0.20
1/5/11	\$ 1.20	\$ 0.25

Share budget* % FD

CEO	10% (includes 5% prevested on Series A)
CTO	8% (includes 5% prevested on Series A)
CFO	2%
VP Marketing	3%
VP Sales	2%
Engineer	0.30%
Salesperson	0.15%
Admin	0.05%

(lower percents in later years due to reduced risk)

Authorized Shares 1500000
 % of Fully Diluted 33%

*Note Dave vested only 6.5%, leaving
 1.5% to fund new CTO

So far, able to hire as needed (due to our high visibility)
Common share pool should be refreshed by 10% at next round

Slide V: Material Events Since Last Board Meeting

- On the positive side, include events such as:
 - Major new customer signed
 - Key hires,...
- On the negative side, include events such as:
 - Lost or delayed revenue
 - Behind hiring plan
 - Feature delay,...
- Do not wait for the next board meeting if there has been a serious material event. All boards expect deviations from plan, but won't tolerate management surprises. Repeat: No Surprises! Communicate prudently, take responsibility, and re-plan accordingly.
- If you hide bad news, oversell good news, or smooth out the financials (in other words, delude the board) expect to be fired.

Foo.bar Material Events

○ Lowlights

- Rev II release now 3 weeks behind schedule. CTO working on recovery plan. Could impact deal with Bigboxco
- Oof.bar offers similar functionality and just received \$5M in funding.
 - Discuss strategic response and our new round planned for April kickoff

○ Highlights

- Hired great new CTO to replace David
- Sales running 20% higher than plan
- Bigboxco contract signed to white label our product on their website- \$500k incremental revenue in 2012, if we (and they) deliver.

Slide VI: Customer Funnel

- Identify customers by name and size of opportunity (estimated or actual), sorted by stage
 - (e.g. *prospects, contacted, sales call, in contract, generating revenue, ...*)
- Track by vintage (e.g. retailers track same-store sales)
- Depending on your business, you might track website visits, conversion to registered customer, conversion to paid subscription, ...
- Keep score: track yield per stage, time-to-revenue, etc
- Analyze root cause of stranded or lost customer opportunities
- Appropriate to request strategic board member or observer to leave the room if there is a competitive issue.

Foo.bar Customer Funnel

	Vintage 1Q10	Est. Rev.	Vintage 2Q10	Est. Rev.	Vintage 3Q10	Est. Rev.	Vintage 4Q10	Est. Rev.	Vintage 1Q11	Est. Rev.
New Identified Prospects	12	\$5M	22	\$8M	16	\$10m	8	\$3M	30	\$15m
Contacted	90%	\$3M	100%	\$10M	75%	\$0	100%	\$2.5M	50%	\$10m
Sales Call	50%	\$2M	35%	\$3M	0%	\$0	100%	\$2M	5%	\$3m
Contract Discussions	16%	\$0.5M	14%	\$1M	0%	\$0	25%	\$1M	1%	\$2M
Signed Contracts	8%	\$0.3M	9%	\$0.8M	0%	\$0	12%	\$0.7M	0%	\$2M
Revenue Generated to date	8%	\$0.4M	5%	\$0.2M	0%	\$0	12%	\$0.05M	0%	\$0

- 3Q10 lost opportunity traced to competitive product overhanging market, but our product is superior and sales have picked up
- Average 120 days from sales call to signed contract
- 5%-10% conversion rate from prospects to revenue lower than plan- we will need to expand sales force or change sales approach to meet plan

Slide VII: Three Key Objectives

- Everyone, from the board to the CEO to the employees, should know and agree on the firm's most important priorities. If you can't state them, they don't exist.
- Update objectives if circumstances change, but no company will succeed if it tries to deliver on more than three critical objectives at any one time.

Foo.bar Key Objectives

- Launch Rev II product in time for Comdex
- Achieve Top 25 App position in Android Store
- Close \$5M round in June