# WHO ARE THESE DIRECTORS AND WHY ARE THEY TELLING ME HOW TO RUN MY COMPANY?

# Why do I need a Board of Directors and who should be on it?

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- A Board of Directors governs the business of the Company.

- Once an investor is on your Board, it is good to add an independent outsider for:
  - perspective (dispassionate review of performance, economic conditions, potential opportunities);
  - experience;
  - support and act as sounding boards;
  - differing skill sets (*e.g.*, lending, accounting, export/import, marketing, IT, human resources).

# What is the Ideal Board Composition?

- Initially, 3 is a good number of Directors. As you bring in outside investment, you will likely add an investor to your Board. When that happens, increase to 5.
  - Avoid an even number of directors—it's a recipe for deadlock
- The initial 3 directors should be the 1 or 2 founders and one of your early investors or an "industry name" who might be leveraged to raise additional capital.
- At 5 directors, it is usually 2 common stock representatives (the founders/ the CEO), 2 investors and an independent.

# Is a Board of Advisors the Same Thing?

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- A Board of Advisors is not necessary to run your company—it may be a nice thing to have.

- You would appoint a Board of Advisors early on in the life of the Company if
  - You would like to officially designate as advisors the people who helped you get your business off the ground; and
  - You know “industry names” who might be leveraged to raise additional capital.

- You would not have to meet formally with your Board of Advisors, but you might want to schedule regular quarterly or monthly meetings with them for guidance.

# How often does a Board of Directors Meet?

- Early on in the life of your company, the Board will meet more frequently-
  - Monthly or every six weeks
- Your investors may dictate how often the Board meets.
- As your company grows, the frequency of meetings may eventually drop to quarterly.
- In-person meetings are not necessary—telephonic or video conference works as well.
- Absent a meeting, you need unanimous written consent of the Board to pass any resolutions.

# How do I compensate my Board of Directors or my Advisors?

- Generally no need for cash compensation
- Standard option grants for Directors or Advisors—
  - 0.25% - 0.5%
  - Vesting over 2-4 years, monthly or quarterly
  - Usually no cliff
- Reimbursement of expenses to attend meetings

# Why do I need to Buy Directors and Officers Insurance?

Directors and Officers (that’s you) face personal liability if their individual or collective actions result in financial harm to the company when they:

- breach their duty of care;
- breach the duty of loyalty;
- act for their own benefit;
- act in such a way as to cause harm to the company;
- commit a crime or wrongful act in their capacity as a corporate officer or director; or
- misappropriate corporate assets for their personal benefit.

# What Is D&O Insurance?

D&O insurance is very important:

- Protects the personal assets of a company's directors and officers;
- Protects the company's assets;
- Provides reimbursement to the organization to indemnify directors and officers for their losses; and
- Helps the company monitor and provide defense costs associated with responding to lawsuits and investigations.

# More questions?

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