



North Carolina Biosciences Organization

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Emerging Companies Forum

Assembling and Managing Boards of Directors

From Start-up to Going Public

September 5, 2007

Hatteras|Venture|Partners

Ken Lee

General Partner, Hatteras Venture Partners

Top 10 Board Functions

1. Review and monitor strategic plans/directions
2. Advise senior management
3. Review plans to enhance shareholder value
4. Oversee mergers and acquisitions
5. Monitor and critique financial plan
6. Select and evaluate and compensate execs

Courtesy of Don DeBethizy, CEO of Targacept

Top Ten Board Functions

7. Create a climate of full disclosure
8. Receive updates on enterprise risk management
9. Establish ethical standards
10. Ensure management succession

Courtesy of Don DeBethizy, CEO of Targacept



Peyton Anderson
CEO, Affinergy, Inc.

Board in a Non-VC Company

- Although not required, appoint a majority of outsiders to keep you honest & provide checks & balances
- Keep investors & founders in same share rights bucket when possible to minimize conflicts of interests
- Supplement CEO weaknesses with industry experts w/ hands on operational expertise

Board in a Non-VC Company

- Don't use Board seats on big names who are not really able to be active –use equity consulting deals for that
- Keep meetings pretty informal but buy D&O insurance
- Identify the special strengths of each Director so you can tap on an individual basis for more tactical issues
- Try to keep all Directors local, if possible

Best Board Practices

- 12-20 slides sent out 7 days in advance
- Include in slides the key areas you want feedback on
- Don't try to cover too many subjects at each meeting
- Directors should talk > 65% of time, CEO sets the table, ask questions, & probes for dissent / consensus

Best Board Practices

- Don't read the slides or "pitch them"
- Use Board as objective sounding board / critical fresh set of eyes / someone to keep you honest
- "Wine & Dine" Board events and "pre-selling" agenda before a meeting = not necessarily useful

Affinergy Board Details

- Meet every 8 weeks from 7:30 to 9:30 AM at office
- 6 members: 2 insiders, 2 investors, and 2 outsiders (1 drug person and 1 medical device person)
- Usually meet w/ each Director 1 time for lunch or coffee between meetings for a deep dive on their area of expertise or for a tactical discussion

Affinergy Board Details

- Committees = Comp & Audit
- Spend most focus on deal pipeline & business strategy – not too much operational oversight
- Directors talk >65% of time & leave us w/ 1-2 pages of nuggets to ponder or key things to do before next meeting
- 14 consultants give us big names & niche expertise



Improving Drug Discovery

Rick Kent

President & CEO, Serenex, Inc.

Assembling a Board of Directors

- Scientific Founder(s)
- Investors
 - Deep Pocketed VCs
 - Corporate
 - Foreign
 - Hedge Funds
- Independent (non-VC) Board Members

Managing a Board of Directors

- Communication
- Older vs. Newer Directors
- Exit Strategy
- Conflicts of Interest

Managing the Compensation Committee

- Private, Start-Up Companies
- Public companies
 - Time commitment
 - External expertise
 - Corporate expertise
 - Board expertise

Managing the Compensation Committee

- Interviewing and selecting external consultant
- Understanding current events and trends in executive compensation
 - Developing executive tally sheets
 - Setting base salaries
 - Executive Equity and Bonus plans
 - Director compensation policy development
 - Spot bonuses
 - ISOs, Restricted stock, SARS, etc.?
 - Performance reviews vs. corporate goals
 - Managing the option pool
 - Change in control agreements
 - Peer group review
 - Committee charter
 - Committee self-assessment
 - Committee member education
 - Succession planning



Christy Shaffer
President & CEO, Inspire Pharmaceuticals

Successful Dialogue with Board Members

- Get to know each board member on a personal as well as professional level
- Frequent communication; avoid surprises at board meetings
- Strive for consensus when possible
- Utilize Board Chairman effectively

Positive Board Dynamics

- Mutual Respect
- Collegial approach to issues
- Candid discussions
- Diversity of thought

Issues/Challenges

- Transition from private to public company board
- Diversity of views on strategy
- Recruitment of new board members in the current environment

Board Recruiting Process

Two Case Examples

Recruitment of Alan Holmer, former head of PhRMA

- J.D. from Princeton; Retired President and Chief Executive Officer of the Pharmaceutical Research and Manufacturers of America
- Resigned from Inspire Board when Bush administration appointed him as Ambassador and Special Envoy to China and the Strategic Economic Dialogue managing the US's bilateral economic relationship with China



Alan F. Holmer

Approached Inspire in 2005 due to his interest in research in Cystic Fibrosis: 1 month, no cost

Recruitment of Nancy Hutson, former head of Global Research, Pfizer



Nancy J. Hutson, Ph.D.

- Retired from 25 years in various research and leadership positions at Pfizer, most recently as Senior Vice President, Global Research and Development; Director of Pfizer's largest pharmaceutical R&D site; led 4,500 scientists and managed a budget in excess of \$1B
- Received Women of Innovation award by Connecticut Technology Council for research innovation and leadership for her work at Pfizer's Groton New London Laboratories

Utilized top-tier search firm in 2006: 6-8 months; cost \$100K

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Compensating Directors: The Environment

Time requirements are increasing:

- Committee work is increasing
- Liability is increasing
- Board pool is decreasing
- Guess what: Board comp is increasing

Pay Points

- Cash retainers, usually annual
- Board and Committee chair cash retainers
- Per Board meeting cash payments
- Per Committee meeting cash payments
- Initial equity grants
- Annual equity grants
- Options vs RSU's
- Health plans
- Deferred plans
- Public vs private levels

Example (PDLI)

(\$ in thousands)

Director	Cash Retainers	Equity Awards	Other	Total
Dr. Sam Broder, MD	\$47	\$247	\$3	\$297
Dr. Max Link, Ph. D.	\$112	\$341	\$0	\$453
Remaining Directors	\$248	\$1,071	\$100	\$1,419
Total	\$407	\$1,659	\$103	\$2,169



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Legislative Update
Sam Taylor, President

September 5, 2007

Legislative Summary

- \$10 Million Additional Recurring Funding
 - \$3 Million NCBC Centers of Innovation
 - \$1 Million NCCU BRITE Program
 - \$5 Million NCSU Bioengineering Faculty & Programs
- \$17 Million Non-recurring Funding
 - \$4.83 Million SBIR Matching Funds
 - \$12 Million Center for Regenerative Medicine

Legislative Summary

- Other Appropriations
 - \$25 Million/\$40 Million Cancer Research
 - \$27 Million NC Research Campus
 - \$5 Million NC Biofuels Center
- Tax Policy
 - Renew QBV Tax Credit
 - Increase R&D Tax Credit Rates
 - Phase Out Sales Taxes on Energy for Manufacturing

Legislative Summary

- Other Matters
 - Stem Cell Research Restrictions
 - Building Code Regulation of Manufacturing Equipment
 - Sales Tax on Services
- No Action
 - Capital Gains Tax Exclusion
 - Life Science Development Corporation



Jessica Hegele


Council for Entrepreneurial Development

Biotech 2008

May 19-20, 2008

- Example Potential Topics
 - Regenerative Medicine
 - Bio-Defense
 - Innovative Deal Structures
 - Alternative Energy/Biofuels
 - Convergent Technologies
 - Nanoscience & Nanotechnology

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