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TECHNOLOGY BOARDS SURVEY

The Canada Report

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TECHNOLOGY BOARDS SURVEY

The Canada Report

VELL

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Foreword

Whether your company is already listed on The Profit 100, a ranking of Canada's fastest-growing companies, or you hope to get there, boards of directors play a vital role. But if boards are vital, getting the right board is even more so. Recruiting and retaining board members can be challenging, but best practices make the task less daunting, and offer guidelines that protect both the company and its board candidates.

The Vell Entrepreneurial Boards Composition and Compensation Survey: The Canada Report studies the board composition of Canadian companies, including the board size, the proportion of boards with empty seats, and compensation to find best practices within small Canadian companies. We discovered how Canadian companies are pushing the envelope in areas of equity remuneration and learned how the composition and compensation of boards vary between the U.S. and Canada.

We also compared the data, point by point, to U.S. companies to determine how the boards of Canadian companies fare against their American counterparts in various categories. Some of the results are surprising, but the findings from the Entrepreneurial Composition and Compensation Boards Survey: The Canada Report confirm that most companies in the nation are on par – if not leading the pack – with U.S. corporations in critical areas like board characteristics and compensation.

Thank you for your interest in this report. We invite your comments and suggestions for future editions of our survey of entrepreneurial boards of directors.

Dora Vell

Vell Executive Search

Introduction

You may be familiar with Canadian Business magazine's exclusive annual ranking of the country's best and worst corporate boards. Of course, as the magazine editors admit, one can only speculate on what goes on behind the closed doors of Canada's boardrooms. But there are more clues coming forth in the form of compensation practices.

While the Canadian Business ranking offers marks for the quantity and quality of executive compensation information boards disclose, the Entrepreneurial Boards Composition and Compensation Survey: The Canada Report builds on past studies to offer new insights into the boards of small, young companies from a different perspective: diversity, size, vacancies and remuneration strategies.

Richard Leblanc, an assistant professor of governance, law and ethics at York University who has been studying boards for more than a decade, told Canadian Business magazine that companies have spent a lot of time, energy and money putting in place board structures that are supposed to lead to better corporate governance. But the evidence shows that those structures alone do not create better boards. "We have a lot of boards in Canada that look good on paper but are still not adding a lot of value to their respective company," he said. "Companies that want a really good and effective board have to go beyond the structural guidelines."

Leblanc is correct. The Entrepreneurial Boards Composition and Compensation Survey: The Canada Report hopes to take Canadian companies one step closer to understanding what makes a "really good and effective board" by offering insights into how companies are organizing their boards and compensating their directors. The study goes beyond corporate governance best practices. The study looks at how small Canadian companies are truly operating, and determines where there may be room for improvement.

Part of a Canadian board's ability to help a company compete in a global marketplace depends on a board of directors that is not only competent, but forward-thinking. The Entrepreneurial Boards Composition and Compensation Survey: The Canada Report seeks to shed light on the state of boards in the nation. By understanding and employing best practices for board size, diversity and compensation, among other characteristics, Canadian companies can continue to gain ground in international business.

Executive Summary

Canada boasts one of the most technologically advanced economies in the world, with high-tech exports leading the way. “Made in Canada” is a competitive label and the nation’s strong historic ties to Europe makes for healthy chemical, machinery, transport equipment, computer electronics and mining exports. Canada also has unique access to Asia-Pacific markets through its geographic location, immigration links and actions for reducing trade barriers. Canada is truly a global economy and it’s attracting companies around the world to do business in and with Canada. Since 1996, foreign direct investment in Canada grew over 128 percent to $415.6 billion at the end of 2005.

Despite Canada’s many advantages, companies still need strong boards to guide them. In fact, the focus on boards of directors in all sectors has never been stronger, yet there is little research to help companies develop best practices for attracting, retaining, rewarding and drawing the most value from their boards. Many boards hold tremendous power within the corporation to help steer it in a profitable direction through strategy and executive recruiting approvals, yet there remains mysteries surrounding the appropriate intervals of meetings, compensation, and diversity of the boards’ members.

The Entrepreneurial Boards Composition and Compensation Survey: The Canada Report was designed to identify trends in boards of directors. We surveyed 150 CEOs, venture capitalists, vice presidents of human resources and board directors from various industries – more than 18 in total – with a special focus on small software and technology companies. A majority of responding companies had average annual revenues of less than US$10 million and had been in operation between five years and 10 years. Most are privately held.

Our goal with this report is to compare and contrast the practices of Canadian companies and U.S. companies to identify national trends, as well as areas where Canada’s technology companies should consider making adjustments to their boards of directors in the areas of size, composition and compensation strategies.

Key Findings:

The following summary offers key findings from each section of the Entrepreneurial Boards Composition and Compensation Survey: The Canada Report:

Board Composition Comparison. Canadian companies have more independent outsiders on their boards. They count more investors and more venture capitalists on their boards. This is good news for Canadian companies but not good enough as 25% independents is still very low.

Board Size. There is more variability in the size of boards in U.S. companies versus Canadian ones. Canadian corporations report between five and eight members, while U.S. companies report between three and nine board directors. Having more variability in the number of board members may be good as it reflects a wide variety of needs. However, three board members seems very low at the low end for U.S. companies.

Proportion of Boards with Empty Seats. About 25 percent of U.S. corporations report empty seats on the board, whereas nearly 27 percent of Canadian corporations report empty board seats. This is a very marginal advantage to the U.S. The fact that 1/4 to 1/3 of board seats are empty is not a good situation for either side of the boarder.

Board and Committee Meeting Fees. Board and committee meeting fees are rare. When board meeting fees are paid, then both Canadian and US companies pay $1,000 per meeting. However, U.S. companies reported paying board directors as much as US$500 per committee meeting. Canadian companies, by contrast, reported paying directors as much as US$1,000 for similar meetings.

Compensation Packages More Generous in Canada. More Canadian companies pay their board members both cash and equity (45% in Canada vs. 24% in the US), and fewer Canadian companies pay their board members no compensation (14% in Canada vs. 24% in the US). 37% of US Companies pay nothing versus 24% of Canadian companies. Note that this figure is somewhat lower as many of the board members are venture capitalists or other significant investors that would not get paid additional equity to participate.

Similarly, equity packages are more generous in Canada. Canadian companies award their directors equity upon joining a board 47 % of the time compared to only 32% in the U.S. 24% of the Canadian companies pay no equity versus 37% of US companies. Equity structures are also somewhat simpler in Canada.

Recommendations:

Vell & Associates suggests the following approaches for entrepreneurial firms:

1. **Improve Board Composition:** Consider having more independent board members to introduce an external perspective to the business.

a. Add angel investors, especially those who have had success as entrepreneurs.

b. Consider adding current or retired executives from your customer group, supplier group or key channel partners. They will add a unique perspective to your company and help you in a strategic way.

c. Maintain a diversity of skill sets and industry experience on your board. This offers you a well-rounded perspective on the opportunities and challenges your company faces.

d. Ensure that the skill sets on your board match your company strategy and complement the skill sets on the management team and the board.

e. Pay close attention to the candidate's overall industry experience and credentials.

2. **Fill empty seats on the board. 27% of board seats are empty.** This presents a unique opportunity to fill these seats with strategic talent. Empty board seats devalue overall production of the board and rob your company of the chance to draw from the wealth of experience directors can offer.

3. **Seek to grow your board to about six to eight members.** Too many members can breed confusion; too few can leave important perspectives buried.

4. **Utilize the Board:** Direct boards, especially in fast-paced industries, such as software and telecommunications; hold board meetings more frequently than companies in traditional industries.

5. **Aggressively recruit senior board members for the strategy you are pursuing.** Define your ideal board candidate and recruit them. Experienced board directors will often agree to serve for stock options, rather than large cash-based compensation packages.

6. **Align Incentives at the Board Level.** Make equity compensation part of the package in order to attract and retain the interest of top-level executives. Only 50% of our survey respondents offer stock options/RSUs or some other type of equity compensation.

Canadian Board Survey Results

The functional composition of Canadian and U.S. boards is markedly different in some areas and similar in others. Looking at the medians, 10th and 90th percentiles, offers additional insight into the characteristics and differences.

Independent outsiders are more prevalent at the median in the Canada versus United States. (26% in U.S. and 32-33% in the Canada. The numbers, while slightly better in Canada, need to be improved in both countries.). This is in spite of the fact that US companies have more talent close at hand and more tight relationships within the technical community. As entrepreneurs are on their second, third and fourth start-ups, an ecosystem develops and can benefit new generations of first-time entrepreneurs. It is our observation that this ecosystem is still developing in Canada. Our recommendation is to utilize our neighbors to the south to increase the number of independents on the board and to have a view on the US market.

Consultants, suppliers and customers are not present in our survey sample in Canada or the U.S. This is perhaps due to the Sarbanes Oxley requirements for public companies, but we strongly believe that it may not be a requirement for a small private company. A customer's perspective or a key supplier's perspective may be absolutely essential to helping the company cross the chasm. We believe that a customer, supplier or industry luminary/consultant may be once removed as a customer: for example a person who has been in the industry but has recently retired or taken a role in another industry. The strategic perspective they can provide is invaluable to the entrepreneurial venture.

The proportion of investors is notably more present in Canadian companies, than in U.S. companies. They are similar at the median, but the 90th percentile is 10 points higher in the U.S. sample. This is interesting as there may be more independent investors in U.S. ecosystems, such as entrepreneurs who are investing as angels, or independents in a variety of companies, after having 'cashed out' from their earlier ventures.

Venture capitalists at the median are equally represented in Canadian and U.S. companies in our sample. However, there are significantly more venture capitalists at the 90th percentile in U.S. companies. Perhaps, this is because the venture capital industry and numbers are larger in the United States.

Attorneys are marginally more prevalent in U.S. companies. We would have expected a different trend as Canadian companies need to focus internationally sooner than U.S. companies and As Canadian entrepreneurial concerns take U.S., or international, rounds of financing and employees, a variety of legal cross-border issues arise. Attorneys are not represented at the median but are more visible in the 90th percentile in U.S. companies' boards.

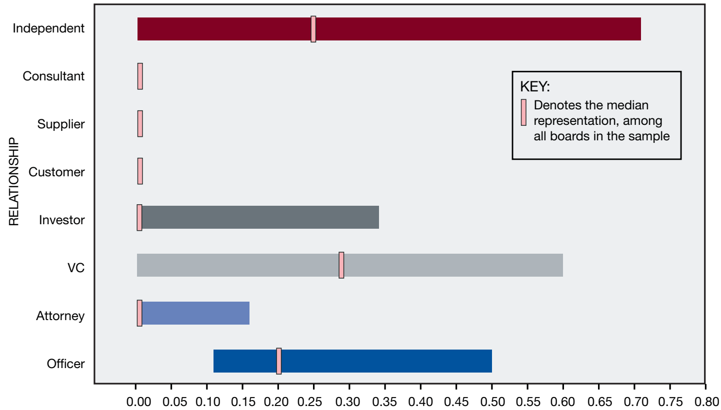
Corporate officers are more prevalent in Canadian companies at the median. There is more variability in the presence of corporate officers in U.S. companies. At the 90th percentile, however over 40% of a Canadian company's board is comprised of company officers (versus 50% in the United States).

A Korn Ferry study on boards states that the ideal number of insiders / outsiders for a Fortune 1000 board is two insiders, eight outsiders.

The Silicon Valley 100 report indicates that 81% of board members in that sample are independents versus 75% in the same sample in 2003. This presents a radically different picture than at the entrepreneurial board level. We would say that while small companies have more insiders, a trend toward more independents would be beneficial.

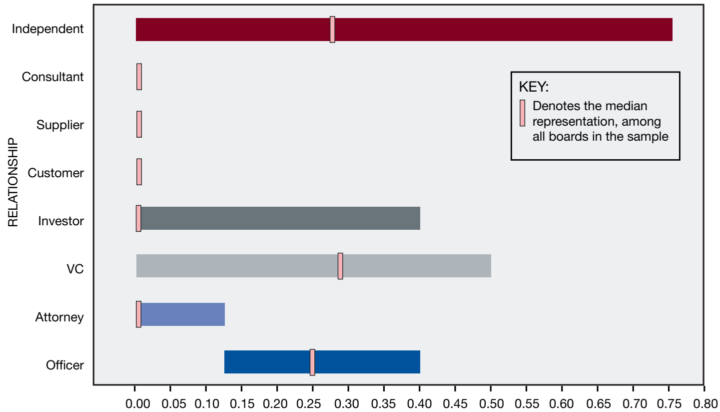
Both Canadian and U.S. entrepreneurial companies would benefit from adjusting their focus to a more independently oriented corporate governance approach. Canadian companies in particular are still too internally driven. Canadians have a chance to gain competitive advantage by adding strategic board members, such as those representing independents, customers and suppliers (whether currently active or retired). Canadian companies have the additional challenge of addressing an international market sooner than their U.S. counterparts, and U.S. board members would be a tremendous asset to them.

Figure 1.1: Board Composition of U.S. Companies: Spread in Representation



Proportion of Board that has given relationship with the company
(Bottom of Bar = 10th percentile; Top of Bar = 90th Percentile)

Figure 1.2: Board Composition of Canadian Companies: Spread in Representation



Proportion of Board that has given relationship with the company
(Bottom of Bar = 10th percentile; Top of Bar = 90th Percentile)

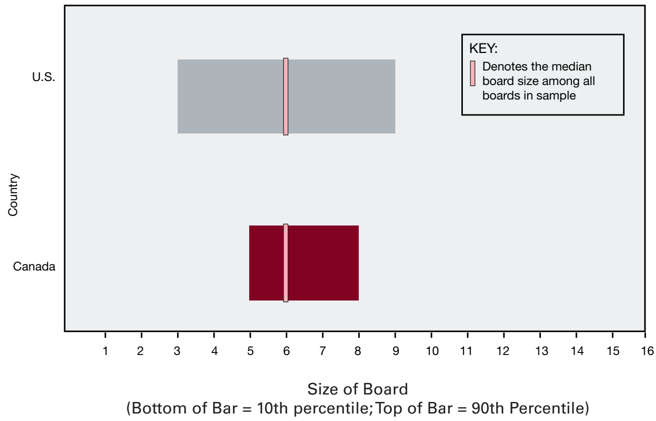
Board Size

The size of boards varies significantly between Canadian and U.S. companies represented in the Entrepreneurial Boards Composition and Compensation Survey: The Canada Report. (See Figure 2.1.) Canadian corporations report between five and eight board directorsrs, while U.S. companies report between three and nine board directors. The median for companies in both nations, however, is six. The results were based on a revenue-matched sample of Canadian and U.S. corporations.

The 2006 Silicon Valley Board Index (SV100) survey from Spencer Stuart notes that 48% of the top 100 companies in the valley have between five to seven board members and 36% have between eight and nine board members. Only 16% have 10-11 board members and none have more. By contrast, the S&P 500 40% have 10-11 board members and 26% 12-14. Also, in the smallest of the SV100 index (companies under $250m) have an average of 5-7 board members.

Small entrepreneurial companies need to move fast and need smaller boards with plenty of high powered strategic insights.

Figure 2.1: Board Size – Canadian vs. U.S. Companies



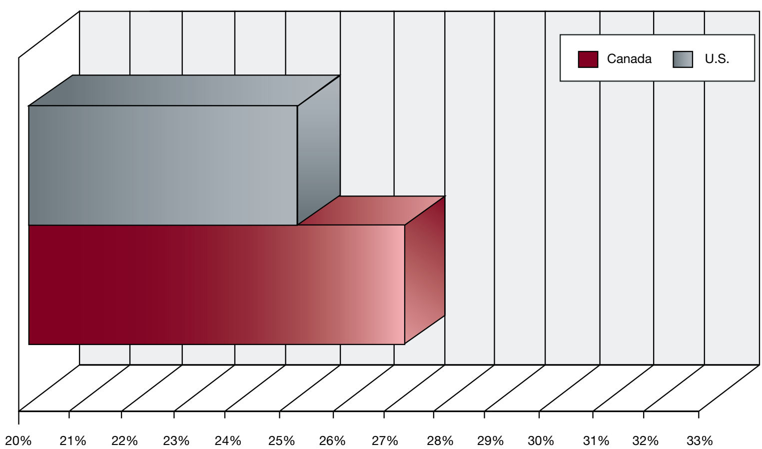
Based on a revenue-matched sample of Canadian and U.S. corporations

Proportion of Boards with Empty Seats

When it comes to the proportion of empty seats on the boards of directors, U.S. firms report slightly fewer empty seats than Canadian companies. (See Figure 3.1.) Specifically, about 25 percent of U.S. corporations report empty seats on the board, whereas nearly 27 percent of Canadian corporations report empty board seats. These figures are based on a revenue-matched sample of Canadian and U.S. companies.

As the Silicon Valley study indicates, the size of valley based companies is getting larger in a post-SOX arena. Perhaps this trend will affect entrepreneurial boards in the future and this might affect the number of open seats.

Figure 3.1: Proportion of Boards with Empty Seats – Canadian vs. U.S. Companies



Based on a revenue-matched sample of Canadian and U.S. corporations

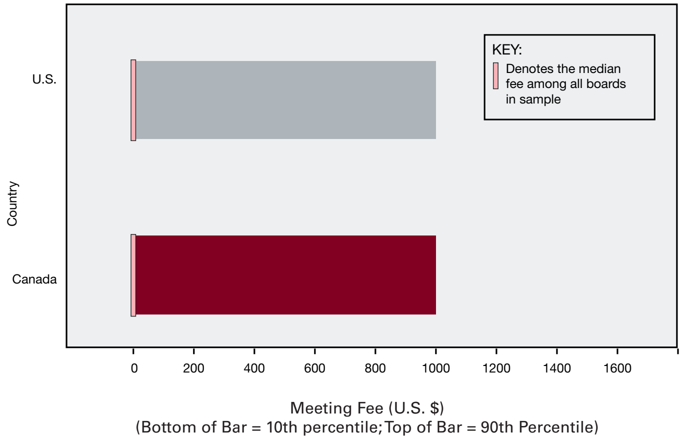
Board Member Meeting Fee

The median board member meeting fees of all companies surveyed in the Entrepreneurial Boards Composition and Compensation Survey: The Canada Report range was zero. (See Figure 4.1.) We can assume, then, that board member meeting fees are rare, however some companies from both Canada and the U.S. reported compensating board members as much as $1,000 per meeting. The results were based on a revenue-matched sample of Canadian and U.S. corporations.

The board meeting fee in the SV100 survey was $2,056 on average and $2,600 for companies under $250 million in annual revenue. 42% of the companies in the Silicon Valley survey paid board meeting fees.

This is not surprising as entrepreneurial companies are often short on cash and would avoid paying additional fees to board members. Also, given the small number of independents, there is no need to pay cash to existing investors, venture capitalists or officers.

Figure 4.1: Board Member Meeting Fee – Canada vs. U.S.



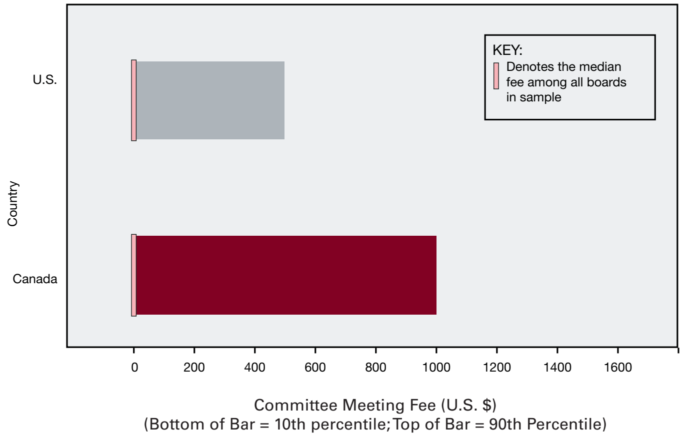
Based on a revenue-matched sample of Canadian and U.S. corporations

Committee Meeting Fee

The median committee meeting fees for all companies surveyed in the Entrepreneurial Boards Composition and Compensation Survey: The Canada Report was zero. (Figure 5.1.) We can assume, then, that committee meeting fees are rare. However some , U.S. companies reported paying board directors as much as US$500 per committee meeting. Canadian companies, by contrast, reported paying directors as much as US$1,000 for similar meetings. The results were based on a revenue-matched sample of Canadian and U.S. corporations.

The Silicon Valley Board index survey only looked at audit committee fees, which would presumably be the best paid committee, based on our experience. Only 13% of the SV100 paid a board meeting fee.

Figure 5.1: Committee Meeting Fee – Canada vs. U.S.



Based on a revenue-matched sample of Canadian and U.S. corporations

Board Member Equity and Cash Remuneration Split

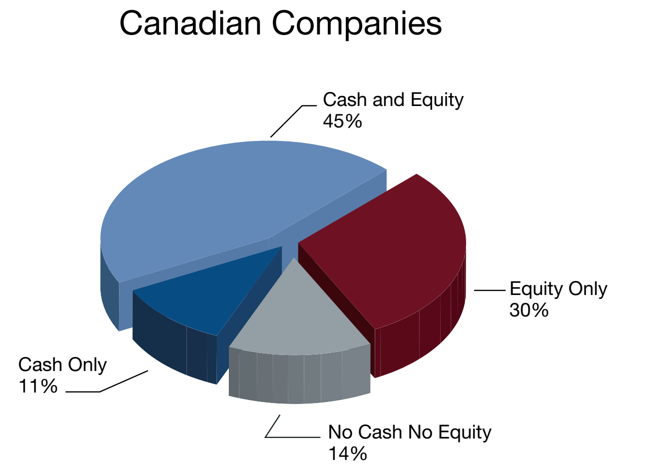
Board member remuneration varied significantly between Canadian and U.S. companies. The Entrepreneurial Boards Composition and Compensation Survey: The Canada Report divided remuneration into four basic categories: Cash Only; Cash and Equity; Equity Only; No Cash, No Equity. (See Figure 6.1)

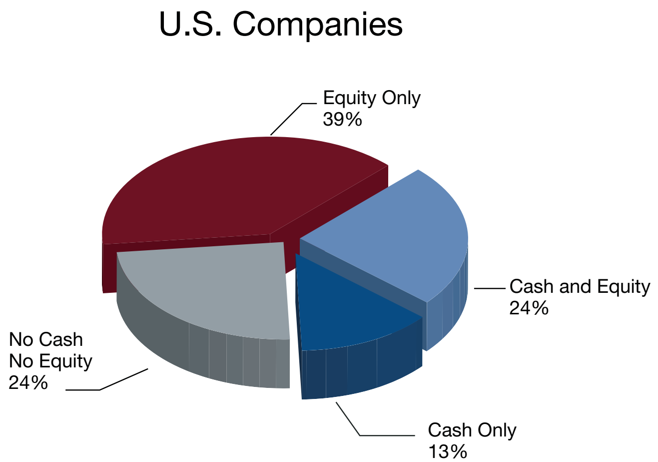
Canadian companies are more generous to their board members than their U.S. counterparts. The cash-only compensation is the only similar number between our Canadian and U.S. samples. Cash-only remuneration is given in 11% of Canadian companies and 13% of U.S. companies.

45% of Canadian companies offer both cash and equity versus 24% of US companies. At the other end of the spectrum, 14% of Canadian companies and 24% of US companies pay no compensation to board members. Overall, Canadian companies are more generous to their board members.

It is unclear why this is. Perhaps it is due to the size of the Canadian market and the perception of the difficulty of obtaining outstanding board members. The Canadian entrepreneurial ecosystem is still forming and the number of successful entrepreneurs that have been through several companies is not as large. Also, many other independents need to be brought up from the United States, and perhaps there is a perception that more compensation needs to be given for this to be realized.

Figure 6.1: : Board Member Remuneration - Canadian vs. U.S. Companies





Board Member Equity Remuneration

Drilling down deeper into the data reveals specific strategies for equity awards. There are four categories: No Equity Retainer & No Equity Upon Joining, No Equity Retailer But Equity Upon Joining, Equity Retainer But No Equity Upon Joining and Equity Retainer & Equity Upon Joining. (See Figure 7.1) The differences between Canadian and U.S. companies is quite staggering.

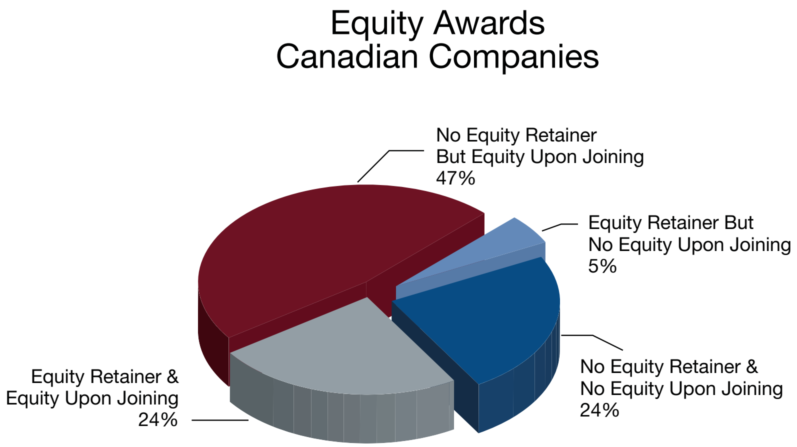
47% of Canadian companies participating in the survey report offering no equity retainer, but equity to board members when they join the company. That compares to only 32% of U.S. companies. 24 percent of Canadian companies reported offering no equity retainer and no equity upon joining. That figure is far different at U.S. companies. Thirty-seven percent of U.S. companies reported offering no equity retainer and no equity upon joining, a 13-point discrepancy.

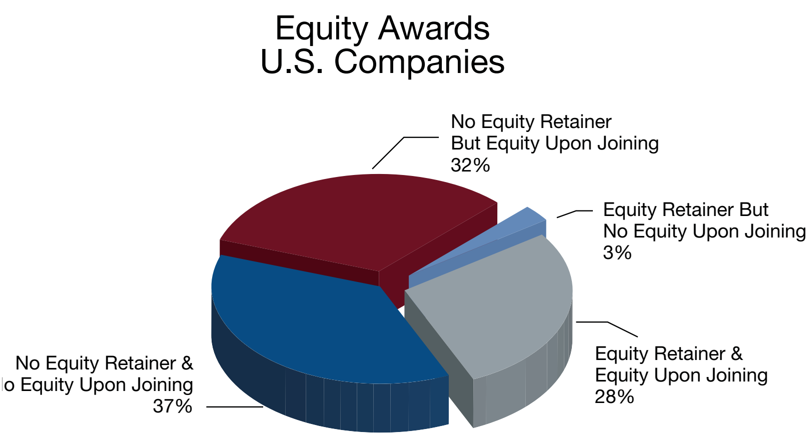
A mere four-point discrepancy was found between Canadian and U.S. companies in the Equity Retainer & Equity Upon Joining category. 24 percent of Canadian companies reported offering both forms of remuneration, while a slightly higher percentage of U.S. companies (28) said they offer both an equity retainer and equity upon joining the board. Finally, only small percentages – 5% of Canadian companies and 3% of U.S. companies – reported offering an equity retainer but no equity upon joining.

In the Silicon Valley sample, the board index indicated that 76% of the Silicon Valley 100 offer initial options (equity upon joining), and 91% offer annual options (retainer options).

Here again, Canadian companies are much more generous then their U.S. counterparts: significantly less offer no equity, significantly more offer a retainer upon joining. U.S. and Canadian companies are similar in the retainer-only equity and in the joining/retainer equity compensation.

Figure 7.1: Board Member Equity Remuneration - Canadian vs. U.S. Companies





Nature of Equity Compensation

When one looks at the nature of the equity compensation, Canadian companies have simpler programs than their U.S. counterparts. They typically offer either full-value awards, or option-only awards, not a combination. This applies to all equity awards,whether they are given when a board member joins or for their annual grants.

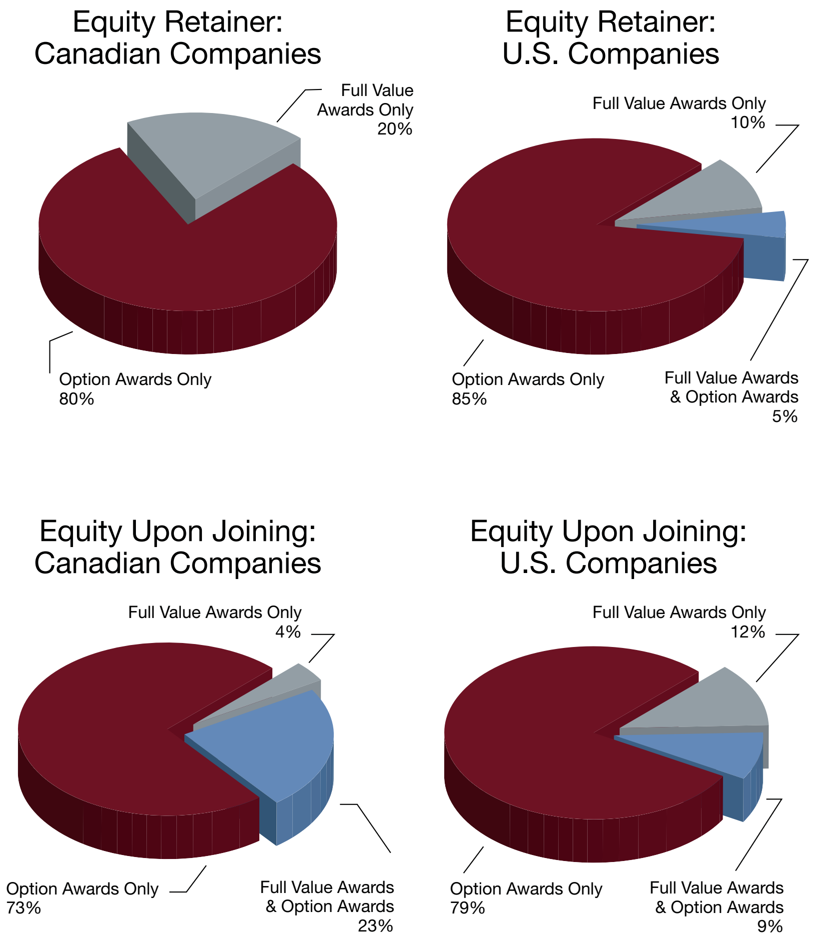
The percentage of companies with options or full value stock in the equity portion of their director compensation programs is fairly similar among Canadian and U.S. companies. (See Figure 8.1)

Specifically, 80% of the participating Canadian companies offering equity retainers said they offer only options awards, while only 85% of U.S. companies offer option awards exclusively. 20% of Canadian companies offer full value awards only. Noteworthy is the contrast to U.S. companies. A mere 5% offer full value awards only, while 10% offer a combination of full value awards and option awards.

Among Canadian companies that offer equity upon joining the board, 73% of participants cite the use of option awards exclusively, while 23% use full value awards exclusively and 4% use a combination of the two strategies. By contrast, only 79% of U.S. companies reported the exclusive use of option awards; 9% reported the use of full value awards only and 12% reported a combination of these compensation tools.

The notion of keeping things simple appeals to us, but perhaps financing structures require both full value and option awards to properly motivate board members.

8.1: Equity Retainer and Equity Upon Joining Splits Canada and US



The data for equity compensation shows the median percent of shares outstanding upon joining as well as an annual retainer for board members and for the board chair. Only 50% of companies give out stock options. This data is for companies providing stock options. In terms of board members, a typical option grant would be 0.3% of the shares outstanding upon joining and 0.1% per year. In terms of the median for the 30 www.vell.com chair, a typical stock grant would be 0.5% upon joining and 0.1% per year. Figure 16 provides a more detailed breakdown of equity grants. The implied option price for private companies is the most current price available, often the price of the stock at the last round of financing. Many times, if there is an upcoming round of financing, then the option price could be a blended rate of the current and past rounds of financing. The number of total shares outstanding in a 'cliff' is typically consistent with the option price blended rate. It is interesting to note that the vesting schedule for option awards varies from 3 to 5 years, with a median of 4 years. These numbers are typical and very expected. These numbers are surprising and we consider them to be on the high end of what we have experienced before. They are reflective of very senior board members. A prior random sample of equity stock option grants showed 0.19%. It is important to note however that if our statistics included companies that paid no equity, the numbers in Figure 8.2 would be lower.

8.2: Equity Compensation (% of Shares Outstanding)

Equity Compensation (% of Shares Outstanding)

Remuneration Upon Joining: Board Member		
Board Member	N	Median
Restricted Stock Units	9	1
Common Share Grants	14	2
Stock Options	65	0.3
Deferred Stock	1	1

Remuneration Upon Joining: Board Chair		
Board Member	N	Median
Restricted Stock Units	6	1
Common Share Grants	8	1.25
Stock Options	25	0.5
Deferred Stock	0	N/A

Annual Retainer: Board Member		
Board Member	N	Median
Restricted Stock Units	7	0.75
Common Share Grants	5	1
Stock Options	32	0.1
Deferred Stock	0	N/A

Annual Retainer: Board Chair		
Board Member	N	Median
Restricted Stock Units	3	1.75
Common Share Grants	3	0.1
Stock Options	13	0.1
Deferred Stock	0	N/A

Note: this is the median for companies offering equity as part of compensation. Roughly 50 percent of our sample offers equity as part of the board members, compensation package.

Conclusion

The evidence is in. While Canadian companies share best practices with counterparts in the U.S., there are also some significant differences in the way Canadian companies work with boards of directors. It is clear that companies in Canada and the United States must take action to develop and incorporate best of breed practices for their boards of directors in order to derive the maximum benefit from members and to attract world-class talent.

The Entrepreneurial Boards Composition and Compensation Survey: The Canada Report shows a significant variance in the number of board directors between Canadian and U.S. companies. Canadian corporations report between five to eight directors, while U.S. companies report between three and nine board members. With Canadian firms reporting slightly more vacancies than companies in the United States, Canada's small companies would do well to fill empty seats to maintain and perhaps even gain a greater competitive advantage.

We have also found that U.S. companies have far more insiders on their boards, such as venture capitalists, investors and officers, and fewer independents. This is a unique opportunity to attract experienced executives to help steer a company's board. Both U.S. and Canadian companies are not strong on filling empty board seats with key customer, supplier and industry luminaries.

David Thomson, author of "Blueprint to a Billion," analyzed the seven essentials of growing companies from zero to $1 billion in revenues. What he discovered is profound. Tier 1 board members are common to every single company in his research that grew to $1 billion in revenue. He offers some valuable advice for companies looking to revamp their boards, or create them for the first time:

"Blueprint company boards were heavily weighed with alliance partners, customers and CEOs who had scaled a business. Companies with investor-dominated boards tended to struggle. Blueprint company boards were a much valued extension of the company's business strategy and management team. These external members provide cross-industry experiences that can greatly benefit a company. We thought that smart investors would dominate the most successful boards. While exceptions existed, Blueprint company boards predominantly featured some combination of customers, alliance partners and CEOs."

Whether an entrepreneurial company is seeking to break the billion-dollar revenue mark or not, The Entrepreneurial Boards Composition and Compensation Survey: The Canada Report offers findings that support the notion that carefully selected boards are those that draw from a diverse base of industry experience and, consequently, offer well-rounded decision-making capabilities. Selecting a board member needs to be based on company strategy and complementing the existing skills sets of the leadership and governance team. Given the fact that more than one-fourth of Canadian companies that participated in the survey have at least one board seat open, there seems to be either a lack of recognition of a board's value, or a lack of understanding that entrepreneurial companies can attract top-drawer talent.

While some firms may shy away from taking on the cost of board members – and the time for meetings – the data show that it doesn't take a billion dollars to attract a billion-dollar mind. In fact, most of the cash outlay is nominal for cash-sensitive companies. The return on the investment is great. The risk is low. The data also show that entrepreneurial companies do not have to settle for inexperienced board members.

Canadian companies are much more generous to their board members on cash compensation and equity compensation. There is often a fear that it would "take more" to attract tier 1 board members, but the evidence is in that they do not need to alter their compensation structure to attract Canadian, U.S. or international board members.

As a result of these trends, Vell & Associates suggests the following approaches for entrepreneurial firms:

- Aggressively seek to fill empty board seats. Empty board seats devalue overall production of the board and rob your company of the opportunity to draw from the wealth of experience that seat could offer.
- Whenever possible, attempt to maintain a diversity of skill sets and industry experience on your board. This will offer you a well-rounded perspective on the opportunities and challenges your company faces. For example, attorneys may be an untapped resource.
- Ensure that the skills sets on your board match your company strategy and complement the skill sets on the management team and the board.
- There isn't one set formula for the ideal board member for a particular type of company. The strategy of the company, paired with the skill sets that are already on the management team, and the board dictate where the opportunities for an optimal board member lie.
- Small boards are the norm. Seek to grow your board to between six and eight members. Too many members can breed confusion; too few can leave important perspectives buried.
- Don't allow financial pressures to prevent you from seeking top-notch talent.

The overarching conclusion from the Entrepreneurial Boards Composition and Compensation Survey: The Canada Report is this: building and maintaining a strong board of directors is vital. Keep in mind that the underlying reason for corporate governance rules, such as independence of the board of directors, is for the company's general health. Entrepreneurial companies in any industry typically cannot afford to hire the cadre of C-suite executives that make up a dream team, but board of directors offer a steppingstone that benefits the company today and in the future.

Roger Raber, past president and CEO of the NACD, put it this way: "Today's engaged director is more committed than ever to providing rigorous analysis and making hard decisions, as well as adding strategic value to the company and shareholders."

Appendix A

Governing Board

1.1. Composition of Board

	# of each type currently	# of each type open
Company Officer		
Outside corporate attorney/counsel		
VC representative		
Other significant investor		
Customer		
Vendor		
Consultants		
Independent		

1.2. # Board Members who are family members of CEO ________________

1.3. # of Board Meetings Per Year ________________

1.4. # of Meetings Face to Face ________________

1.5. Do you also have an Advisory Board?

Yes ☐ No ☐

Background of Board Members

Instructions: This survey aims to identify which aspects of corporate governance (e.g., committees, functions, and competencies) are currently followed. Even though the company may not employ all aspects, please complete the survey questions that ask for your view of the importance of each aspect.

2.1. Background of Board Members

For each board member

Country/State of Residence ________________

Principal Industry Background ________________

Job Function ________________

Check if Board Chair ______________

# of Years on Board ______________

Highest Value of Prior Liquidation Experience ______________

International Experience ______________

Board Compensation

3.1. Board Member Compensation on Joining Board

	% of total shares outstanding (Fully diluted)	Vesting Period (Years)	Vesting Period (Schedule)
Restricted Stock Units			
Common Share Grants			
Stock Options			
Deferred Stock			

3.2. Board Member Annual Retainer

	% of total shares outstanding (Fully diluted)	Vesting Period (Years)	Vesting Period (Schedule)
Restricted Stock Units			
Common Share Grants			
Stock Options			
Deferred Stock			

3.3. Board Member Per Board Meeting Fee ______________

3.4. Board Member Annual Retainer Cash amount ______________

3.5. Board Member Per Committee Meeting Fee ______________

3.6. Vesting Period Years ______________

3.7. Board Chair - Compensation on Joining Board

	% of total shares outstanding (Fully diluted)	Vesting Period (Years)	Vesting Period (Schedule)
Restricted Stock Units			
Common Share Grants			
Stock Options			
Deferred Stock			

3.8. Board Chair Annual Retainer (In 1000 USD)

	% of total shares outstanding (Fully diluted)	Vesting Period (Years)	Vesting Period (Schedule)
Restricted Stock Units			
Common Share Grants			
Stock Options			
Deferred Stock			

3.9. Board Chair Annual Retainer - Cash ____________________

3.10. Board Chair Fee per Board Meeting - Cash ____________________

3.11. Board Chair Fee per Committee Meeting - Cash ____________________

Demographics

4.1. Company Type

Public ☐ Private ☐

4.2. If Private, Amount of Capital Raised to Date:

< $1M ☐

$1.1M - $5M ☐

$5.1M - $10M ☐

$10.1M- $20M ☐

$>$20M ☐

4.3. If Public, # of Years Since Going Public:

< 1 Year ☐

1.1-2 Years ☐

2.1-3 Years ☐

5.1- 10 Years ☐

>10 years ☐

4.4. # of Years Incorporated

> 1 Years ☐

1.1 - 2 Years ☐

2.1 - 3 Years ☐

3.1 - 5 Years ☐

5.1 - 10 Years ☐

4.5. What's your Principal Industry

Other ☐

4.6. Company Size (Revenue)

< $1M ☐

$1.1M - $5M ☐

$5.1M - $10M ☐

$10.1 - $25M ☐

$25.1 - $50M ☐

$50.1M - $100M ☐

> $100M ☐

N/A ☐

4.7. Headquarters of Company

Country: ______________________________

State/Province: ______________________________

4.8. Contact Information for Report Results

Name: ______________________________

Title: ______________________________

Organization: ______________________________

Phone: ______________________________

Email: ______________________________

Appendix B: Entrepreneurial Boards Composition Survey

About The Survey

Vell & Associates set out to reexamine the state of board director membership in entrepreneurial companies. Our goal in this document is to:

- Identify trends in board practices and corporate governance of entrepreneurial technology companies
- Provide a baseline to benchmark practices and compensation
- Compare and contrast practices of private companies and public companies
- Analyze the reasons for the differences in practices
- Establish a benchmark to measure future trends in board membership

Over the course of four months, Vell & Associates contacted a non-random sample of companies and 150 responded. The survey was conducted through a targeted e-mail distribution to ensure optimal response. Vell & Associates sent invitations to participate in the survey to CEOs, venture capitalists, vice presidents of human resources and board members.

The survey questionnaire posed roughly 25 questions, requiring over 150 separate data. These questions spanned three broad categories: (1) company characteristics,

such as size, industry, and ownership structure, (2) board composition and background, and (3) board remuneration. These responses represent the primary data on which this

report's findings are based. (Note: Approximately 150 companies completed at least one section on the electronic survey.)

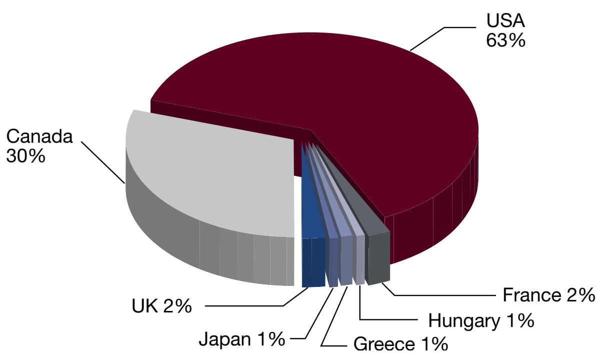
For a detailed view of the geographic and industrial sectors of the respondents, see the charts displayed on the following pages. Approximately 50% of the companies had average annual revenues of less than US$10 million. That makes the revenue of the sample firms much smaller than those studied in earlier research. The majority of responding firms were privately held companies. Two thirds of firms have been operating for more than 10 years.

Demographic Characteristics of Sample Firms

Vell & Associates' purposely chose a broad range of companies in terms of varied locations, industries, ages, sizes, and ownership structures in order to define both corporate-wide and more granular trends.

Of the 93% of survey respondents with headquarters in North America, 63% are located in the U.S. and 30% are located in Canada. (See Figure 1a.) The remaining 7% of participating firms are headquartered Europe and in Japan.

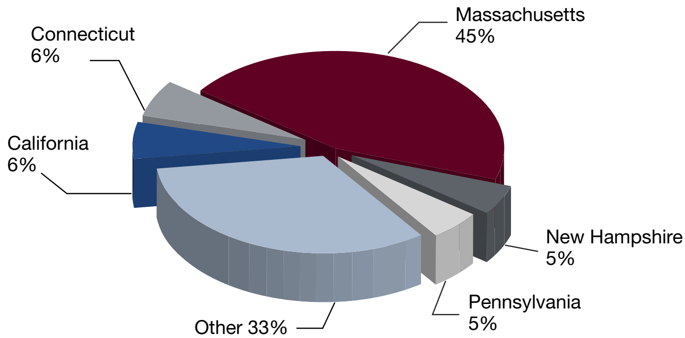
Figure B1: Global Geographic Concentration



U.S. State Geographic Concentration

Of the 63% of responding firms that are headquartered in the U.S., the majority are based in Massachusetts. California, Connecticut, New Hampshire, and Pennsylvania are also represented in the survey results. (See Figure 1b.)

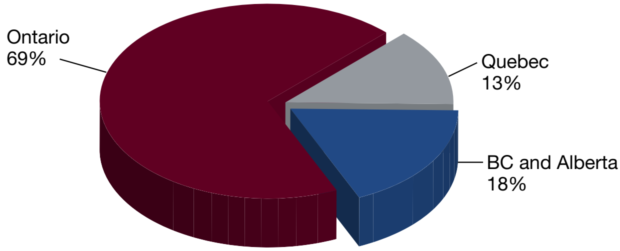
Figure B2: State Geographic Concentration



Canadian Province Geographic Location

Of the 30% of firms that are headquartered in Canada, the majority are located in Ontario. However, Quebec, British Columbia and Alberta are also represented in the survey. (See Figure 3.)

Figure B3: Canadian Province Geographic Concentration

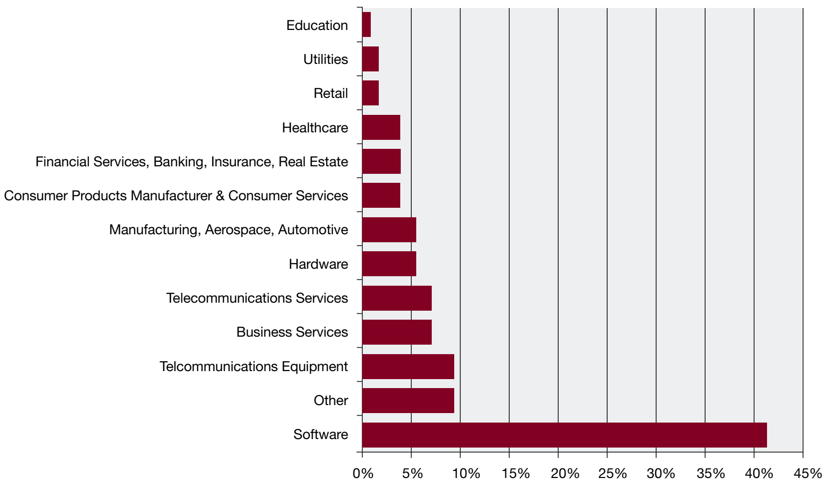


Industry Concentration

Vell & Associates elicited responses from a wide variety of industries, from education and healthcare to hardware and telecommunications. In fact, the survey represents the practices in more than 18 industries, which include utilities, retail, financial services, banking, insurance, real estate, consumer products manufacturing and consumer services, manufacturing, aerospace and automotive, business services, and software.

More than 40% of the firms represented in the survey serve the software industry. Approximately 9% of the participating firms are involved in producing telecom equipment, while another 7% provide telecommunications services. (Figure 2 summarizes the industry concentration among respondent companies.)

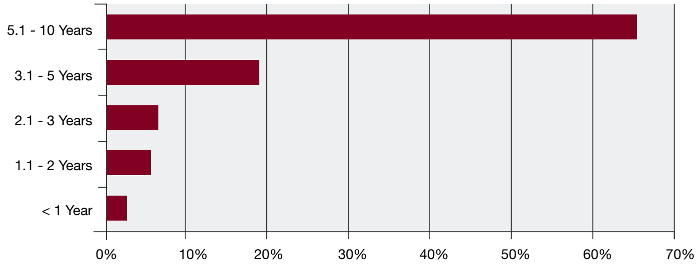
Figure B4: Industry Concentration



Years in Operation

The firms that responded to the survey have a common thread: most are younger businesses. One third of the companies represented in the survey have been incorporated for less than five years. Two thirds of the firms have been incorporated for five to ten years. None of the respondents have been incorporated for longer than ten years. (See Figure 3.)

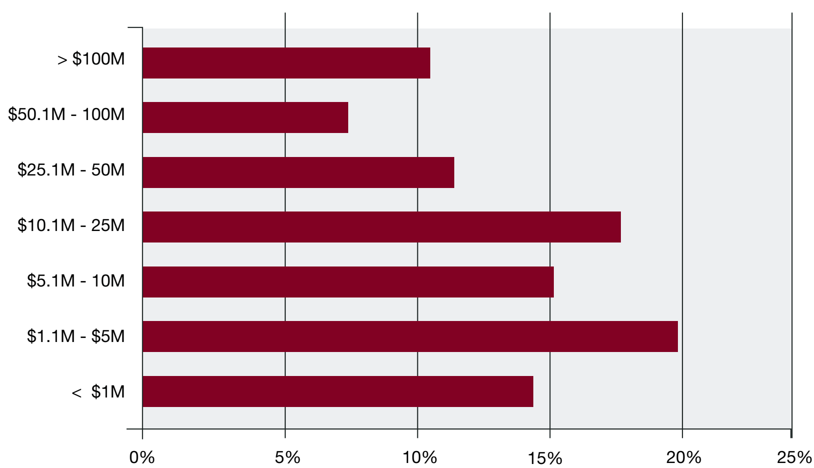
Figure B5: Number of Years Since First Incorporated



Revenue of Sample Firms

Most of the responding firms have revenues of less than US $10m. Only 11% of the sample firms had annual revenues of over US$100 million. By contrast, the average firm in the NACD's study of Effective Entrepreneurial Boards had average annual revenues of US$122 million. The proportion of respondents that are privately held – 77% – is similar to the NACD Survey.

Figure B6: Size (Revenues)



Dora Vell

Dora Vell is CEO of Vell Executive Search, a retained firm focused on recruiting top C-level executives and board members in the Software/Technology industry. Vell was a Partner in the Heidrick & Struggles technology practice for seven years. Prior to her career in executive search, Vell was a sales executive at IBM managing a $150m software sales region, and an engineering executive responsible for a 100-person software development team. Vell has published and been quoted in numerous articles including The Wall Street Journal, Forbes, Fortune, Agenda Week, MSN, MSNBC, Mass High Tech, the OPUS for the World Economic Forum, Boston Business Journal, Globe and Mail, CIO, and IEEE, and has been a featured speaker at numerous events.

Vell is a member of the National Association of Corporate Directors (NACD), and serves on the board of Framingham State University and the Advisory board of ZoomInfo. She has served on the board of Entrepreneur's Organization, Goodwill, and Mary Centre for developmentally handicapped adults, and the venture firms garage.ca and RBC Capital Partners. She regularly conducts pro-bono search assignments for non-profit organizations, such as CAB Health and Perkins School for the Blind.

Vell received an MBA from the University of Toronto, a Master in Computer Science from the University of Waterloo and a Bachelor in Computer Science from Carleton. She holds seven worldwide software patents.

Contact Ms. Vell at dora@vell.com

Vell Executive Search

Boston-based Vell Executive Search, a premier retained executive search firm, specializes in finding high-level, top-flight technology executives. Each of the firm's professionals bring a distinctive knowledge of and experience in the technology industry. Vell Executive Search's credentials, experience, and unrelenting focus on satisfaction and execution empowers the firm to connect exceptional leaders, with proven track records, to the best companies.

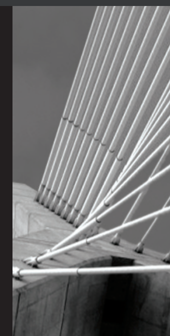
Vell Executive Search's mission is to build the best leadership teams in the world in the technology and IT services marketplace. Whether large or small, private or public, global or local, every company requires an effective leadership team at the top.

Notes

Vell Executive Search
1050 Winter Street, Suite 1000
Waltham, MA 02451
Phone: 781.416.4003
e-Fax: 781.207.0553

info@vell.com

www.vell.com



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