

A Simple Guide to

THE BASIC RESPONSIBILITIES OF VC-BACKED COMPANY DIRECTORS

A White Paper Written by the

WORKING GROUP ON
DIRECTOR ACCOUNTABILITY AND BOARD EFFECTIVENESS

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INTRODUCTION

Now that you've become a director of a venture capital backed company (VCBC), what level of board governance knowledge should you have?

"A Simple Guide to the Basic Responsibilities of VC-Backed Company Directors" addresses the critical role of corporate governance in contributing to effective boards. This guide answers essential board service performance questions and recommends guidelines for all VCBC directors. It is also a tool to educate the other core VCBC constituents—management, investors, and employees—about proper board governance process. It is meant to be useful for practitioners and focuses on corporate governance practices in the context of the emerging privately held company. Our focus on corporate governance is not intended to diminish the importance of the other value-adding roles of VCBC directors outside the boardroom.

More inexperienced corporate directors join privately held VCBC boards than in any other industry. First-time entrepreneurs who become founding CEOs frequently become corporate directors even before they obtain their first institutional round of venture capital financing. While taking venture capital ("VC") is always a choice, there is no opting out of the legal responsibilities of corporate directors.

Entrepreneurs are not alone on this maiden voyage. Many venture capitalists, particularly younger partners in larger firms, join founding CEOs as rookies on a VCBC board. Independent directors may also lack relevant board experience. While some independent directors are highly sought after for compliance reasons because of strong accounting backgrounds and others are recruited to VC companies for their relevant industry experience, they may arrive at that first board meeting with little or no VCBC board experience. In the current environment, regulators, institutional shareholders, and the courts are demanding greater oversight and sensitivity to governance requirements by corporate directors. To have a high-functioning, effective board, directors must be familiar and comfortable with board governance issues facing emerging companies throughout their life cycles.

VCBC boards are unique because they face challenges that are particular to emerging companies in rapidly changing competitive markets. VCBC's develop through four distinct stages: (1) seed funding and product/technology/service development; (2) early commercialization; (3) late stage expansion; and (4) liquidity through either an acquisition or an initial public offering ("IPO"). Through this evolution, business processes become more complex, and VCBC boards are naturally exposed to various situations that raise inherent conflicts of interest among board members. As companies grow in size and invested capital, board sizes typically increase from 3 members to as many as 7. The composition of the board also changes to include more independent directors, particularly if the company wishes to go public.

Just as VCBCs must remain nimble and flexible in order to be successful as they grow, effective VCBC boards must adapt as they experience the normal process of maturation. The recommendations that follow are meant to serve as a framework for applying corporate governance processes in the boardroom. This framework recognizes the reality that not all VCBC companies are the same, that boards are heavily influenced by individual personalities, and that different stages of development call for different applications of governance processes.

Clear communication is critical to every board's success, but communication must begin with board members knowing the minimum acceptable performance expected of them in their board service, both by law and as a matter of good business practice.

For a VCBC to be successful, you need both a CEO who is appropriately empowered and an economically and strategically aligned board of directors (BOD) that can also add value while serving as a fiduciary for all of the shareholders. Effective BOD's can contribute significantly to the development and growth of a successful company. However, many VC-backed boards experience dysfunctional behavior and are often lacking self-help tools to resolve their problems. Left unchecked, these patterns can negatively impact the value of the company.

In two prior VC industry white papers, "***After the Term Sheet: How Venture Boards Affect the Success or Failure of Technology Companies***" (2003), and "***Rites of Passage: Managing CEO Transition in Venture Backed Technology Companies***" (2006), a group of VC industry experts collaborated to examine recurring boardroom challenges that impact boards in common situations, devoting special attention to the challenges associated with managing CEO transitions. A common theme running through these papers is the importance of clear and open communication among board members and management teams.

This paper, like the two that have preceded it, is the result of collaboration. Twenty two experts in the venture capital field have joined the ***Working Group on Director Accountability and Board Effectiveness*** to promote VCBC director education. High functioning boards maximize the potential for a VCBC to be a financial success. This paper provides tools and recommendations for VCBC directors to facilitate their work on corporate boards.

We address governance, as well as certain legal requirements attendant to board service, from managerial and operating perspectives. The three modules that follow in this paper are intended for board use and adoption by practitioners. The contributors to this effort actively promote the adoption of the recommendations made in this paper by their portfolio companies. The views expressed in this guide are only those of the authors and do not necessarily represent those of their respective firms.

MAKING THE CASE FOR VCBC BOARD SELF-REGULATION

While private companies are not subject to most aspects of Sarbanes Oxley and other regulations that impose governance standards upon public companies, it is in the best interests of the venture capital industry to develop and proactively follow corporate governance best practices in the private company context. If we don't, it is likely that lawmakers, administrative agencies, or the courts will impose regulation on the venture capital industry from the outside without the benefit of deep knowledge of the nuances that make entrepreneurs and the eco-system that surrounds them unique. Moreover, the failure of the VC industry to respond to changing expectations and best practices regarding corporate governance could expose VCBC directors to personal liability. Most important, the application of good governance practices will help us build better companies.

Historically, the majority of VCBC liquidity events occur through mergers and acquisitions. Initial Public Offerings (IPOs) for VCBCs in the U.S. have become even less frequent since the passage of Sarbanes Oxley in 2002. These changes in the capital markets do not, however, lessen the corporate governance burden for private companies. On the contrary, having good corporate governance in place is also necessary in a sale transaction—VCBCs whose governance processes are not in order will likely suffer discounts in merger and acquisition negotiations with public companies. A more challenging liquidity environment also may increase the likelihood of conflict among the various stakeholders in a private company, which, in turn, increases the risk of litigation.

Many eligible public company directors are reconsidering public board service because of concerns over the potential for greater personal liability, as well as the increased time commitment in the post-Sarbanes Oxley era, necessarily reducing the number of boards on which one person can serve effectively. These factors only increase the importance for existing VCBC directors to proactively improve their state of board preparedness while they are private. Failure to do so will lead to sub-optimal liquidity events, regardless of whether their companies go public or are acquired. The burden of adhering to public company compliance standards and best practices, in general, is therefore increasingly shifting onto VCBC directors while their companies remain private.

ACHIEVING AN ALIGNED AND EFFECTIVE BOARD

The legal fiduciary duties associated with board service are duties to all of the shareholders, not just to the shareholder class in which a VC director's firm has made an investment. At a minimum, the board must agree to common goals and basic tenets of behavior. Although all boards are made up of individuals with differing interests and responsibilities outside the boardroom, they must serve common goals inside the boardroom.

A key feature of effective boards is that they deliberately align expectations:

- **The board is economically and strategically aligned among itself**
- **The board's expectations of the CEO and the CEO's expectations of the board are mutually well understood.**

One of the most important jobs of the board is to promote effective behavior in the boardroom so that management can focus on getting the operating job done and avoid distractions from boardroom intrigue and political maneuvering. This does not mean that the CEO should not be actively working with the board—on the contrary, it means that the substance of this activity should be geared toward building the business. Simply meeting legal governance requirements is an important, but not sufficient, part of an effective board. Directors need to be interested in getting the board to do the best job it can to promote the best interests of the company and maximize value for the shareholders.

Peer review and self evaluations may lead to greater director accountability, better education, and the adoption of governance practices that are appropriate for private companies. At the same time, the Working Group recognizes that the only useful tools for a board are those that will actually be used in the field.

We envision the three “education modules” that follow becoming a routine part of the “Welcome to the Board of Company X” education process for the newest director (logical times for this to occur: after a financing round, after a CEO change). This is an opportunity to ask “How are we doing?” without singling anyone out.

TAKING OWNERSHIP OF THE GOVERNANCE EDUCATION PROCESS

Someone on the board MUST take ownership of the process of educating directors about their service responsibilities and implementing the process of director evaluations. Whether the “owner” of the implementation process is a VC, the CEO, or an independent director is secondary. The Working Group recommends that, at a minimum, the CEO initiate a board discussion to assign this responsibility. Because VCBCs experience significant changes in board size and composition over their normal life cycles, not all of the processes described in this paper are applicable to every VCBC, especially at the earlier stages of their development. Below is a matrix that describes the typical range of board sizes and mix of directors associated with the different development stages of VCBCs, along with a guide to the types of corporate governance processes that should normally be considered for implementation during these development stages:

Development Stage	Typical Total Number of Directors	Typical Mix	Governance Processes to be Considered
Seed / Product / Technology / Service Development	3 – 4	Management 1-2 VC 1-2 Independent 0-1	<ul style="list-style-type: none"> Typically implemented by the board as a whole
Early Commercialization	4 – 5	Management 1-2 VC 2-3 Independent 1-2	<ul style="list-style-type: none"> Either (a) formally designate specific board members with the responsibility to lead Audit and Compensation Committee functions for the entire board or (b) establish formal Audit and Compensation Committees Those directors responsible for (a) or (b) should take responsibility for implementing corporate governance policies
Late Stage Expansion	5 – 7	Management 1-2 VC 2-3 Independent 2-3	<ul style="list-style-type: none"> Establish formal Audit, Compensation Nominating/Governance Committees Consider naming formal board Chairman Consider implementing public company governance practices, as appropriate
Liquidity (IPO or Acquisition)	7+	Management 1-2 VC 2-3 Independent 2-3	<ul style="list-style-type: none"> Name formal board Chairman/ Lead Director (in IPO process)

There is no firm rule for VCBC board sizes or their composition because boards, by their very nature as small groups, are heavily influenced by individual personalities, interpersonal relationships, and individual skill sets. Recognizing that the average time from creation of a new VCBC to exit, six years at the time of the writing of this paper, is the longest it has been in over a decade, VCBC boards should pay particular attention to board composition in order to avoid duplicative skills among board members. While it is outside the scope of this paper to address this issue in greater detail, VCBCs should strive to constitute a board where the members have different strengths from each other (technical, operational, financial, managerial). In addition, skills of VCs should complement those of the independent directors (who may have different but relevant sector domain expertise, such as accounting credentials required for Audit Committee chairs, etc.)

ROLE OF BOARD OBSERVERS

Some investors, particularly strategic investors in later stage rounds, will negotiate for the right to have a representative, referred to as a board observer, attend board and committee meetings and receive materials distributed to directors. An observer does not have the legal status of a director. Importantly, the observer does not have the right to vote on board matters and is not subject to the fiduciary duties of a director. Accordingly, the role of the observer should be set forth in a contract between the company and the investor. For example, the company will often require that the observer (i) treat all information he/she receives confidentially; and (ii) may be excluded from board meetings (and receipt of board materials) if the observer has a conflict of interest or the observer's participation would adversely affect the company's attorney-client privilege.

ROLE OF COMPANY COUNSEL

Directors frequently ask who company counsel represents – investors, founders, the board, management or employees? Company counsel represents the company and plays an important role in advising the board as to its legal responsibilities. For example, company counsel often assists the board in:

- **Discharging its fiduciary duties (e.g., in equity financing and liquidity events)**
- **Complying with applicable legal and regulatory requirements (e.g., option granting practices and procedures)**
- **Structuring and implementing corporate governance policies and procedures (e.g., audit and compensation committee charters and responsibilities and codes of business conduct)**
- **Advising the board about management matters (e.g., CEO compensation and management changes)**
- **Documenting board and committee actions (e.g., preparing and approving board minutes).**

WHAT YOU NEED TO KNOW BEFORE JOINING THE BOARD

Working Group Recommendation

At a minimum, every director of a VCBC should receive the following information prior to his or her first participation in a meeting of the board:

- I Defining the Board's Essential Role
- II General Duties and Responsibilities of Private Company Directors
- III Summary of the Legal Requirements of Board Service
- IV Common Characteristics of
 - Effective Private Company Boards/Directors
 - Ineffective Private Company Boards/Directors
- V Minimum Service Expectations for VCBC Directors
 - All Directors
 - Management Directors
 - Independent Directors
 - VC Directors

How should this information be disseminated?

The Working Group recommends that, in advance of the first meeting of the board, and whenever a new director joins the board, the material in Module 1, on the following pages, should be distributed to ALL of the board members and briefly be reviewed at the beginning of the board meeting. This should be easily accomplished in 15 minutes. An in-person initial meeting with new directors to review the director's key responsibilities and the board's process and culture is also recommended.

I. DEFINING THE BOARD'S ESSENTIAL ROLE

- Maximize shareholder value for all of the company's shareholders
- Attract, recruit, and retain talented management team and board members
- Mentor, task, and measure the executive team
- Provide a level of insight, business perspective, and expertise that is otherwise unavailable to the company's management team
- Oversee and promote fiscal, legal, and ethical governance standards

II. GENERAL DUTIES AND RESPONSIBILITIES OF PRIVATE COMPANY DIRECTORS INCLUDE

- Serving as fiduciaries for all shareholders
- Hiring and firing the CEO and approving officer selection
- Overseeing company performance / Establishing oversight mechanisms
- Reviewing and confirming basic company objectives and business strategy
- Identifying barriers to company progress and proactively dealing with the barriers
- Inquiring into performance deficiencies and establishing metrics for measurement and remediation
- Seeking continuity and strengthening the board
- Approving equity incentives and establishing executive compensation
- Overseeing regulatory and legal compliance

III. SUMMARY OF THE LEGAL REQUIREMENTS OF BOARD SERVICE

Duty of Care

Requires a director to act with the care that an ordinarily prudent person in a like position would exercise under similar circumstances.

Requires directors to:

- obtain information they believe is reasonably necessary to make a decision
- make due inquiry
- make informed decisions in good faith

Duty of Loyalty

Requires a director to act in the best interests of the corporation and not in the interest of the director or a related party.

Issues often arise where the director has a conflict of interest:

- where the director or a related party has a personal financial interest in a transaction with the company (e.g. the inherent conflict between VCs as directors and as representatives of their funds' interests)
- where the director usurps a "corporate opportunity" that properly belongs to the company
- where the director serves as a representative of a third-party corporation and the third-party corporation's objectives are in conflict with the best interests of the company
- where the director abdicates his or her oversight role; does not act in good faith.

Examples of not acting in good faith:

- consciously or recklessly not devoting sufficient time to required duties
- disregarding known risks
- failing to exercise oversight on a sustained basis

Failure to act in good faith can have serious adverse consequences to a director, such as being exposed to personal liability for breaches of the duty of care or losing coverage under indemnification provisions or insurance policies.

Generally, state corporate laws have procedures for handling interested transactions and corporate opportunities, such as by requiring full disclosure and disinterested director approval. .

Confidentiality and Disclosure

Duty of Confidentiality. A subset of the duty of loyalty. Requires a director to maintain the confidentiality of non-public information about the company.

Duty of Disclosure. Requires a director, pursuant to the duties of care and loyalty, to take reasonable steps to ensure that a company provides its stockholders with all material information relating to a matter for which stockholder action is sought.

Business Judgment Rule

Creates a presumption that in making a business decision, the directors of a company acted on an informed basis, in good faith and in the honest belief that the action taken was in the best interests of the company.

The business judgment rule helps protect a director from personal liability for allegedly bad business decisions by essentially shifting the burden of proof to a plaintiff alleging that the director did not satisfy its fiduciary duties. This presumption and the protections afforded by the business judgment rule are lost if the directors involved in the decision are not disinterested, do not make appropriate inquiry prior to making their decisions, or fail to establish adequate oversight mechanisms.

IV. COMMON CHARACTERISTICS OF EFFECTIVE PRIVATE COMPANY BOARDS/DIRECTORS

- Establish a clear and mutual understanding of expectations between the directors and the CEO
- Conduct a formal annual performance evaluation of the CEO
- Have routine executive sessions among non-management board members only
- Have directors who work as a team and who make important contributions outside the boardroom
- Encourage open/honest communications
- Resolve differences of opinion constructively and quickly
- Have directors who are accountable to each other
- Promote continuing director education about current best practices
- Know and understand their responsibilities as directors
- Are informed when they arrive at the board meeting, know the industry, and know the company's context in it
- Do not attack the CEO or other board members when he/she answers their questions
 - *While it is the responsibility of a board to challenge the CEO and the team, care must be taken to do so respectfully and without creating personal animus.*
 - *The CEO's credibility should not be undermined in front of his/her team, even during a transitional period,*
- Participate in free and easy communication outside of the boardroom
- If appropriate, provide a different perspective as an individual member of the group

COMMON CHARACTERISTICS OF INEFFECTIVE PRIVATE COMPANY BOARDS/DIRECTORS

- Fail to communicate— both in and out of the boardroom
- Suffer from denial—they fail to act and make decisions
- Fail to reconcile diverging viewpoints
- Avoid addressing existing conflicts
- Regularly hold excessively long board meetings (over three hours without a strategic planning or other extraordinary agenda)
- Allow the use of PDA's and computers during a board meeting for purposes not related to board business
- Feel compelled to say something and to be heard, disregarding whether they are relevant or effective in their comments
- Become disengaged because they no longer feel that their opinion matters—this could be over a strategic disagreement
- Fail to resolve disagreements quickly and constructively
- Do not maintain regular board meeting attendance
- Deliver inconsistent messages between the actual meeting and their post-meeting behavior— passive-aggressive behavior
- Succumb to lead investors who discourage constructive discussion from the rest of the board
 - *Smaller firms in particular are afraid to break ranks with a dominant investor for fear of not getting into future deals. They should speak up and express their views independently.*

V. MINIMUM SERVICE EXPECTATIONS FOR VCBC DIRECTORS

All Directors Are Required to:

- Attend all board meetings (outside of unexpected emergencies)
 - An appropriate number of board meetings must be scheduled “in-person”
- Prepare in advance for board meetings/conferences
- Maintain open communications with the Board not only at board meetings but whenever pertinent information needs to be disseminated
- Communicate openly and honestly between each other
- Openly discuss points of difference rather than passively resist
- Make themselves available for informal consultation with management and the board outside of the normal board schedule

MINIMUM EXPECTATIONS OF BOARD SERVICE FOR MANAGEMENT DIRECTORS

- Maintain open communications with the Board not only at board meetings but whenever pertinent information needs to be disseminated
- Provide adequate, timely information to enable the board to fulfill its duties
 - Mutually agreed upon time frame for delivering board materials to directors
- Prepare board material to enable in depth discussions on requested topics
- Respond positively to board input
- Deliver both good and bad news promptly and in a direct and balanced manner
- Engage with non-management directors in between board meetings
 - Proactively draw on directors' know-how, contacts and ability to help in order to promote the company's business
 - Avoid surprises at the board meeting

MINIMUM EXPECTATIONS OF BOARD SERVICE FOR INDEPENDENT DIRECTORS

- Work as a team with fellow board members
- Serve as a sounding board for, and in some cases mentor, the CEO
- Provide independent perspective and constructive inputs
- Chair or participate on board committees that require independent directors
- Mediate between management and investor directors when conflicts of interest arise in financial negotiations and other matters and serve as disinterested directors in acting upon such matters

MINIMUM EXPECTATIONS OF BOARD SERVICE FOR VC DIRECTORS

- Understand the company's competitive position and maintain awareness of developments in the relevant industry sector
- Help companies close new business and build sales success outside the board meeting
- Serve as a sounding board for the CEO and, in some cases, mentor the CEO
- Proactively share relevant company knowledge from their portfolio experience with their fellow board members
- Make themselves available for informal consultation with management and the board outside of the normal board schedule
- Take a lead role in financing the company
- Contribute their knowledge and experience during liquidity events
- Understand and differentiate between their responsibilities as directors, and their role within their particular fund
- Invite and respect input from non-VC directors, even when those non-VC directors have relatively small ownership stakes by comparison to their own

SELF-EVALUATION

List of questions that each director should ask himself or herself once per year with respect to the proper fulfillment of their board service obligations.

As a best practice, the Working Group recommends that the board of directors also consider an annual self evaluation for the individual directors at which time the directors will review the self-evaluation questionnaire listed below and ask themselves the questions that they reviewed at their first board meeting.

The self-evaluation should be a formal agenda item, once per year. In addition, each director should ask him/herself one overall question:

Did I meet the minimum expectations for myself as a director of this company?

SAMPLE SELF-EVALUATION

In the last year, have you:

- Attended every board meeting?
- Consistently read the material in advance of the meeting?
- Consulted with the CEO as needed prior to the meeting to make sure you know what will be emphasized on the agenda, what help is needed from you specifically, and from the board as a whole?
- Worked with the company outside of the board on any projects and gotten to know the management team and other key contributors?
- Communicated with fellow directors as needed regarding alignment of interests?
- Contributed positively and at least tried to make a difference for this company?
- Established and maintained an effective oversight role?

ANNUAL BOARD PEER REVIEW

The Working Group also recommends that boards consider a peer review process. While venture capitalists on private company boards normally acquire their board seats through contractual and/or charter provisions, this does not absolve them of the responsibility of being effective directors. Peer review can bring to the foreground issues that are difficult for directors to surface directly in a face-to-face conversation—issues such as contribution, communication, accessibility, engagement, professionalism, and courtesy can greatly improve the functioning of the entire board.

In general, the Working Group has concluded that the later the stage of the company's development, the greater the need for good self-evaluation and peer review.

LOGISTICS FOR IMPLEMENTATION

The following questionnaire is designed to be completed confidentially and individually by each of the directors. It should be transmitted confidentially by each director to a third party, either the company's outside counsel or an outside facilitator, for aggregation of comments and review.

The written material should be handled consistently with the company's document retention policies, and the third party should present the results of the peer review orally to the board after the conclusion of the formal board meeting.

_____, INC

BOARD OF DIRECTORS
Privileged and Confidential

The following assessment tool is designed to solicit your thoughts regarding the performance of the Board of Directors as a group. It is intended to enhance the Board's overall effectiveness. Please complete the questionnaire and return it in the enclosed envelope to [_____]. Your responses are requested by [_____].

Please evaluate the extent to which each of the following statements is true with respect to this company's board using the following rating system and add your comments as appropriate in the far right column.

1 – Completely False 2 – Generally False 3 – Generally True 4 – Unqualifiedly True NA= Not Applicable

Principal Components	Ratings <i>(See point system above)</i>	Comments/Action Plan to Improve Effectiveness
SECTION I: Structure and Composition of Board		
1. Board Size. The current size of the Board (____ members) is appropriate.	1 2 3 4	
2. Board Committees. The Board has an appropriate number of formal committees given the company's current stage of development.	1 2 3 4	
3. Board Composition. The Board has the appropriate balance and breadth of backgrounds, business experience, skills and expertise in areas vital to the Company's success given its present markets served and stage of development.	1 2 3 4	
4. Director Performance. Independent directors are adequately contributing to the Board.	1 2 3 4	
5. Director Performance. VC directors are adequately contributing to the Board.	1 2 3 4	

Principal Components	Ratings (See <i>point system</i>)	Comments/Action Plan to Improve Effectiveness
<p>6. Director Performance. Management directors are adequately contributing to the Board.</p> <p>7. Familiarity with Company. The Board is appropriately familiar with the Company, the markets it serves (including competitive factors) and its strategies and business plans and reflects this understanding on key issues throughout the year.</p>	<p>1 2 3 4</p> <p>1 2 3 4</p>	
<p>SECTION 2. Board Culture and Communication</p>		
<p>8. CEO–Board Communication. The Board members individually communicate informally with the CEO on a regular basis in advance of board meetings in order to have advance knowledge of issues that will be discussed at the meeting.</p> <p>9. Director–Director Communication. The Board members communicate with each other informally and are well informed about each other’s positions on issues affecting the company.</p> <p>10. Overall Effectiveness. The Board grasps and deliberates on the important issues and brings decision topics to closure in a timely manner.</p> <p>11. Board Initiative. The Board asks the penetrating questions necessary to uncover serious problems.</p> <p>12. Board Support of Management. The Board is appropriately balanced in challenging and supporting management.</p>	<p>1 2 3 4</p>	

Principal Components	Ratings (See <i>point system</i>)	Comments/Action Plan to Improve Effectiveness
<p>13. Board Candor. The Board encourages a culture that promotes candid communication.</p>	<p>1 2 3 4</p>	
<p>14. Board Collegiality. The Board and management work together to achieve a constructive decision making atmosphere that encourages a respectful examination of different views.</p>	<p>1 2 3 4</p>	
<p>15. Board Relationships. There is a relationship of mutual trust and respect among Board members.</p>	<p>1 2 3 4</p>	
<p>SECTION 3. Board Information</p>		
<p>16. Accuracy of Information. The information provided to the Board by management and outside advisors is accurate and reliable.</p>	<p>1 2 3 4</p>	
<p>17. Relevance of Presentations. Presentations to the Board are appropriately focused on the key issues for Board consideration.</p>	<p>1 2 3 4</p>	
<p>18. Digestibility of Presentations. Presentations to the Board are appropriately “to the point” and do not contain an inappropriate amount of unnecessary data and/or analysis.</p>	<p>1 2 3 4</p>	
<p>19. Timeliness of Information. The information provided between Board meetings is timely, enabling members to fully prepare.</p>	<p>1 2 3 4</p>	
<p>20. Access to Management. The Board has appropriate access to the Company’s senior management.</p>	<p>1 2 3 4</p>	
<p>21. Director Requests. Director requests for information from management are reasonable in amount and time frame and are responded to appropriately.</p>	<p>1 2 3 4</p>	

Principal Components	Ratings (See point system)	Comments/Action Plan to Improve Effectiveness
SECTION 4. Board Process		
22. Board Meeting Agendas. The Board has appropriate input into the preparation of the agendas and there is proper priority of agendas.	1 2 3 4	
23. Time Allocated for Board Meetings. Ample time is allocated for Board meetings to assure full discussion of important matters.	1 2 3 4	
24. Number of Meetings. The Board has an appropriate number of meetings per year and schedules its meetings at appropriate times.	1 2 3 4	
25. Conduct of Board Meetings. Board meetings are conducted in a manner that ensures effective utilization and prioritization of the time available.	1 2 3 4	
26. Executive Sessions. There is sufficient time and opportunity for outside directors to meet independently during the time allotted for the formal board meeting.	1 2 3 4	

Please evaluate and answer one final question with respect to this process.

BOARD REVIEW PROCESS

27. Are we doing a good job at assessing and improving the performance of the Board through this self-evaluation process?

_____ Yes _____ No

If no, please describe the reason for your response. How would you recommend we improve the process?

Steven E. Bochner, *Partner, Wilson Sonsini Goodrich & Rosati*

Steven E. Bochner is a partner at Wilson Sonsini Goodrich & Rosati.

Steve served as a member of the Securities and Exchange Commission's Advisory Committee on Smaller Public Companies in 2005 and 2006 and was Chairman of the Governance and Disclosure Subcommittee of the SEC Advisory Committee.

In 2006, Steve was appointed to his second term as co-chair of the NASDAQ Listing and Hearing Review Council, on which he's served since 1996.

Steve is also a lecturer at the University of California at Berkeley's Boalt Hall School of Law.

<http://www.wsgr.com/WSGR/DBIndex.aspx?SectionName=attorneys/BIOS/154.htm>

Bob L. Corey, *Independent Director*

Bob serves as an independent director of AmberPoint, Extreme Networks, Interwoven, and Veraz Networks.

From May 2003 to January 2006, he served as Executive Vice President and Chief Financial Officer of Thor Technologies, Inc., a provider of enterprise provisioning software that was acquired by Oracle Corporation in November 2005. Prior to joining Thor Technologies, Bob served as executive vice president and chief financial officer at Documentum until August 2002.

Bob is a graduate of California State University, Fullerton.

Bill Elmore, *General Partner, Foundation Capital*

Bill currently serves on the board of directors for Onyx Software (ONXS), Wind River Systems (WIND), Atheros Communications (ATHR), MarkMonitor, Packet Design, TeaLeaf Technology, Vernier Networks, Wherenet, Biz360, UxComm, SOLARFLARE Communications, SpringCM™, Quartics and Ambient Software.

In addition to an MBA from the Stanford Graduate School of Business, Bill holds a BSEE and MSEE from Purdue University.

<http://www.foundationcapital.com/team/elmore.html>

Juliet Flint, *Partner, Kleiner Perkins Caufield & Byers*

Juliet Flint joined Kleiner Perkins Caufield & Byers in 2001 as a Partner. Juliet works with the portfolio companies advising them on areas of Human Capital, including executive leadership, recruiting, compensation, corporate governance and team building.

She gained her bachelor's degree from the Newcastle Business School at Northumbria University in the United Kingdom.

<http://www.kpcb.com/team/index.php?Juliet%20Flint>

Tom Furlong, *Managing Director, Granite Ventures*

Tom Furlong joined Granite Ventures in July 2000, after a successful career in Silicon Valley that most recently saw him as Vice President and General Counsel at Zhone Technologies, a communications equipment provider.

Tom holds a B.A. in economics and an M.B.A. with a concentration in finance from the University of Chicago, and a J.D. from Northwestern University.

http://www.granitevc.com/html/team/partner_04.html

Rex Golding, *Managing Director, Mobius Venture Capital*

D. Rex Golding is a Managing Director for Mobius Venture Capital. A Mobius partner since 1999, Mr. Golding has over 20 years of experience in the technology industry, including 7 years as a venture capitalist, 10 years as a technology investment banker, and 5 years as a CFO of technology start-ups.

He holds an A.B. cum laude in applied mathematics from Harvard College and an M.B.A. with distinction from the Harvard Business School.

<http://www.mobiusvc.com/pages.php?pn=overview&sub=rgolding>

John Hall, *Managing Director, Horizon Ventures*

John Hall has more than 16 years of experience in the venture capital industry. He was a General Partner of Newtek Ventures from 1989 until 1999, when he co-founded Horizon Ventures where he also is a General Partner.

He holds a B.S. degree in Accounting and Finance and an MBA in Finance from San Jose State University and did Ph.D. work in Finance at the University of Santa Clara.

<http://www.horizonvc.com/print.php?url=%2Fmanagement%2Fhome.php%3Fcategory%3DDirectors%2Band%2Bventure%2BPartners>

Promod Haque, *Managing Partner, Norwest Venture Partners (NVP)*

Promod has more than 15 years of experience in the venture capital industry and currently serves as managing partner at Norwest Venture Partners. He joined Norwest Venture Partners in 1990. He has been ranked as a top dealmaker on the annual Forbes Midas List for the past five years, and in 2004, Forbes named him as the #1 venture capitalist based on performance over the last decade.

He received a bachelor of science in electrical engineering from the University of Delhi, India. He holds a Ph.D. in electrical engineering from Northwestern University and an MBA from Northwestern's Kellogg Graduate School of Management, where he serves on the advisory board.

<http://www.nvp.com/team/teamBio.aspx?StaffID=21>

Randy Hawks, *Managing Director, Claremont Creek Ventures*

Randy is a founder of Claremont Creek Ventures and has been a venture capitalist since 1998. He focuses on security solutions for both the digital and physical domains. His years as Executive Vice President/COO and Director at Identix are the foundation of his interest in this area of investment.

Randy earned a BSEE from University of Arkansas and has completed the Stanford University Executive Management Program. He serves as the Venture Committee Chair for Keiretsu Forum.

<http://www.claremontvc.com/team.html>

Pascal Levensohn, *Founder and Managing Director, Levensohn Venture Partners*

Pascal Levensohn has been a finance professional since 1981 and a venture capitalist since 1996, when he founded Levensohn Venture Partners ("LVP") in San Francisco. He conceived of and established the Working Group on Director Accountability and Board Effectiveness in May 2006.

Pascal is a frequent speaker and has published numerous articles on venture capital trends with a particular emphasis on best corporate governance practices in the boardroom. In November 2003 Pascal co-authored a white paper entitled "*After the Term Sheet: How Venture Boards Influence the Success or Failure of Technology Companies*". His second industry white paper, "*Rites of Passage: Managing CEO Transition in Venture-Backed Technology Companies*", was published in January 2006.

Pascal received a BA in Government from Harvard University and is a graduate of the Lawrenceville School.

<http://www.levp.com/team/pl.html>

Aaron Mankovski, *Managing General Partner, Pitango Venture Capital*

Mr. Aaron Mankovski's tenure in venture capital started in 1996. He co-founded Eucalyptus Ventures, and has served as Managing Director since that time. In 1999, Eucalyptus merged with Polaris Venture Capital to create Pitango Venture Capital where Mr. Mankovski is a Managing General Partner. Mr. Mankovski has 16 years of experience in Executive Management (CEO, Sales and Marketing) in the high-technology sector in Israel and abroad. Prior to founding Eucalyptus, he served as Corporate Vice President of Orbotech Ltd.(NASDAQ: ORBK), responsible for worldwide operations, sales and customer support with offices on four different continents.

Prior to assuming that position, Mr. Mankovski served as President and CEO of Orbotech Inc., where he also guided the merger of Orbot and Optrotech that led to the establishment of Orbotech. He previously was a sales executive at IBM. He also served as a pilot in the Israeli Air Force. Mr. Mankovski holds a B.Sc. in Computer Science and Statistics from Tel Aviv University

http://www.pitango.com/team_member.asp?ID=26

Vince Occhipinti, Co-Founder and Managing Director, Woodside Fund

Vince co-founded Woodside Fund in 1983, and has been intimately involved in the management and success of the Fund and its portfolio companies. Mr. Occhipinti has chaired the Early Stage Venture Capital Alliance (ESVCA) since 1990.

He has a BA from Stanford University, and attended the Graduate School of Business at the University of California, Berkeley, while an undergraduate.

http://www.woodsidefund.com/about/t_vince.html

Andy Rappaport, General Partner, August Capital

Andy joined August Capital in 1996 and brings technology and market experience in such areas as open-source software, broadband communications, semiconductors, and computer systems. He has more than 20 years of experience as a founder, investor, and/or director of venture-backed start-ups, and has served on more than 30 public and private company boards. Andy attended Princeton University and holds a U.S. patent.

<http://www.augustcap.com/team/ar.shtml>

Amanda Reed, Partner, Palomar Ventures

Amanda opened Palomar's Palo Alto office in 2001 after building a successful career as a senior executive in sales, marketing, and business development in early-stage start-up companies.

Amanda has a broad background in corporate brand development, product marketing, public relations, communications, business development, and sales management.

Amanda holds a Bachelor of Arts degree in Economics from Dartmouth College.

http://www.palomarventures.com/team_reed.htm

Janice Roberts, Managing Director, Mayfield

As a Mayfield Managing Director since 2000, Janice Roberts primarily invests in networking components and systems, mobile communications and consumer-oriented investments; providing portfolio companies with general management counsel, marketing expertise and a global perspective.

Janice holds an honors degree in Commerce (Economics and Finance) from the University of Birmingham in the United Kingdom.

http://www.mayfield.com/index.php/people_detail/id/10.html?sid=

Chris Rust, *General Partner, U.S. Venture Partners*

Chris Rust joined USVP as a General Partner in November of 2004. Chris brings over 20 years of electrical engineering, product management, sales/sales support, and early stage venture capital experience to USVP.

He earned a B.S. and an M.S. in Electrical Engineering from the University of Lowell, and an M.S. in Telecommunications Engineering, as well as an M.S. in Engineering Management from the University of Colorado at Boulder.

http://www.usvp.com/html_vers/team/partners.html

Doug Sabella, *Chief Executive Officer, Veraz Networks*

Doug joined Veraz Networks as its CEO in 2004. Doug brings an extensive executive and operations management background in the telecommunications and software industries to Veraz that spans over 20 years.

<http://www.veraznetworks.com/content.asp?pagelid=149>

Greg Sands, *Managing Director, Sutter Hill Ventures*

Greg Sands focuses on internet software and services. He looks for complex and scalable software, important business functions the internet can revolutionize or replace, and high margin, defensible business models.

He earned an AB in government from Harvard College in 1989 and received an MBA at Stanford in 1994.

<http://www.shv.com/team/sands.html>

David Spreng, *Managing General Partner, Crescendo Ventures*

David is a 17-year veteran of the venture capital business and the Founder and Managing General Partner of Crescendo Ventures. He has served on the board of more than forty private and public venture-backed companies.

He is a graduate of the University of Minnesota, a Core Team Member of the World Economic Forum Working Group on "Nurturing the Early Stage Investment Climate in China", and a member of the board of the National Venture Capital Association (NVCA).

http://www.crescendoventures.com/david_spreng.html

Brooks Stough, Gunderson Dettmer

Brooks Stough is a partner with Gunderson Dettmer Stough Villeneuve Franklin & Hachigian, LLP. Mr. Stough's practice focuses on the (i) organization and representation of startup and emerging growth companies, with an emphasis on technology companies, (ii) representation of companies involved in merger and acquisition transactions, and (iii) representation of issuers, investors and underwriters in public and private financings.

Mr. Stough holds a J.D. degree from Stanford University. Mr. Stough also received an M.B.A. from the Stanford Graduate School of Business and a B.A. from Stanford University.

<http://www.gunder.com/index.htm>

Patrick Von Bargaen, CEO, Center for Venture Education

Patrick Von Bargaen serves as CEO of the Center for Venture Education, a prestigious twenty-four month educational fellowship in the venture capital industry. Prior to joining the Kauffman Fellows Program, Patrick served as Managing Executive for Policy and Staff at the U.S. Securities and Exchange Commission (SEC) under Chairman Bill Donaldson, where he managed all facets of the Commission's policy agenda.

Patrick graduated in the Charter Class of the Yale School of Management and holds a JD from Stanford.

Joy Weiss, President and CEO, Dust Networks

Joy Weiss is President and CEO of Dust Networks, a leading wireless sensor networking company, where she also serves as Chairman of the Board. Prior to Dust Networks, Joy served as President and CEO of Inviso, an award-winning microdisplay company, and as President and CEO of Esker, which was among the early companies to go public on the Nouveau Marché. Joy has also served as an Independent Director on several VCBC boards.

Joy holds a BS in electrical engineering from the Massachusetts Institute of Technology.

<http://www.dustnetworks.com/company/team.html>