



Challenges, Expectations and Risks for Private Company Directors

October 21, 2008

Panelist Overview

▶ Peter Derby

- CEO and Managing Partner, The Concinnity Group, LLC, an investment management firm
- Managing Executive of Operations and Management, Office of the Chairman, United States Securities and Exchange Commission
- Independent Director, Diamondback Master Fund, LTD
- Founder, former President and Chairman of the Board of Troika Dialog and Trokia Dialog Asset Management; Russia's first and leading investment bank
- Director of numerous not-for-profit organizations

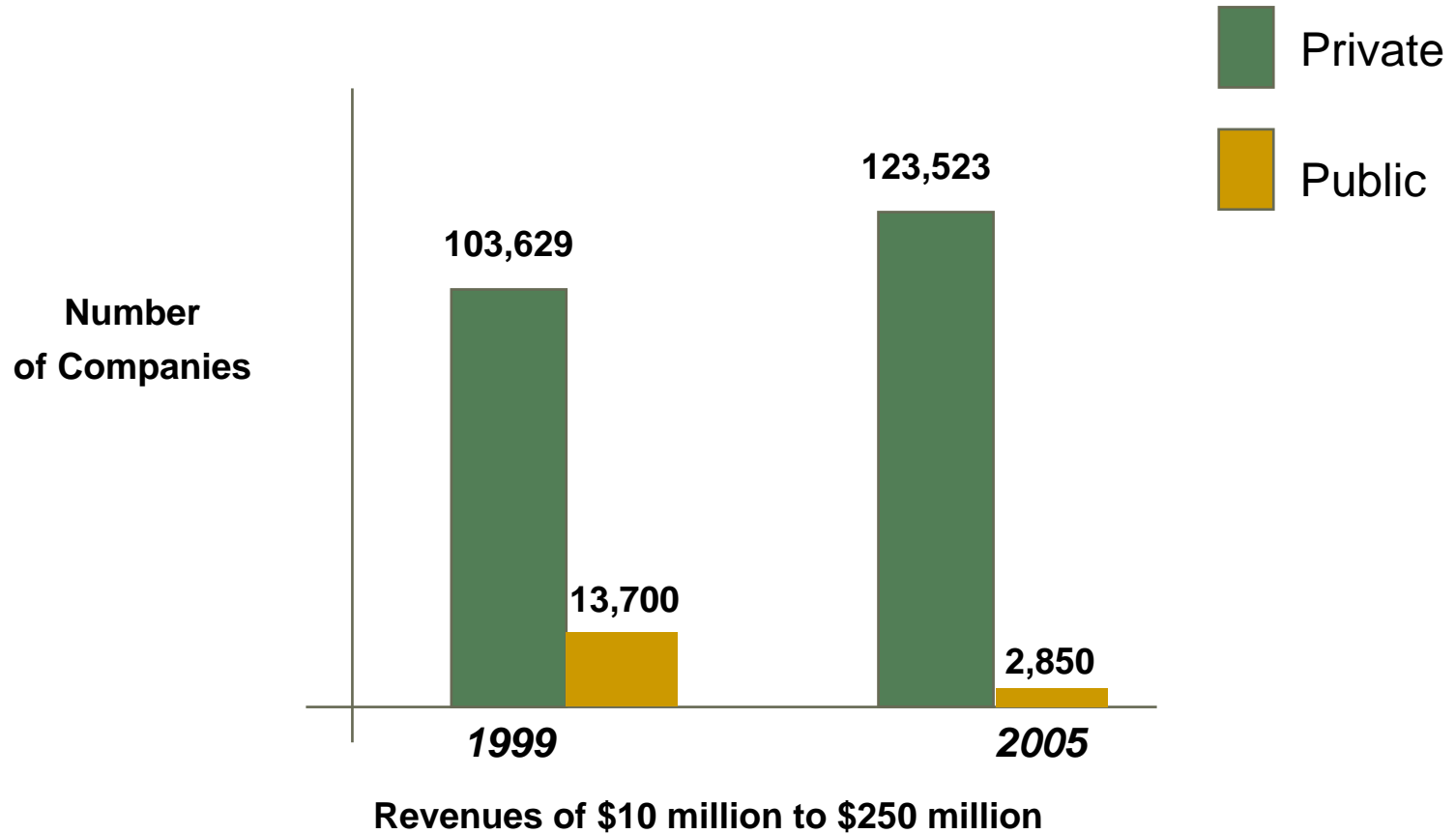
▶ John L. Pouschine

- Founder and Managing Director, Pouschine Cook Capital Management, LLC, a private equity firm
- A director or officer of over 40 private and public companies over the last 25 years
- Currently, Chairman of the Board of: A World of Tile, Doe and Ingalls Management, Great Lakes Home Health & Hospice, International Graphics, and Latex International
- Director of numerous not-for-profit organizations

▶ William C. Stone

- Chairman of the Board and Chief Executive Officer of SS&C Technologies, Inc. , a worldwide financial services and software company
- Founded SS&C in 1986, went public in 1996, and took private with The Carlyle Group in 2005
- SS&C is a company of 1,200 people with offices in Europe, Asia, and North America.
- Previously, Mr. Stone directed the financial services consulting practice of KPMG LLP in Hartford, Connecticut, and was VP of Administration at Advest, Inc.

The Lower Middle Market



Source: Dun & Bradstreet, January 1999, January 2005

Board of Directors - Initial Issues

- ▶ Board Composition
- ▶ Separation of Chairman and CEO roles (Lead Director Role?)
- ▶ Establishment of Committees
 - Audit
 - Compensation
 - Executive
 - Nominating/Governance
- ▶ Scheduling of Meetings
 - Frequency
 - Location
 - Agenda
- ▶ Establishing Strategic Direction for the Business

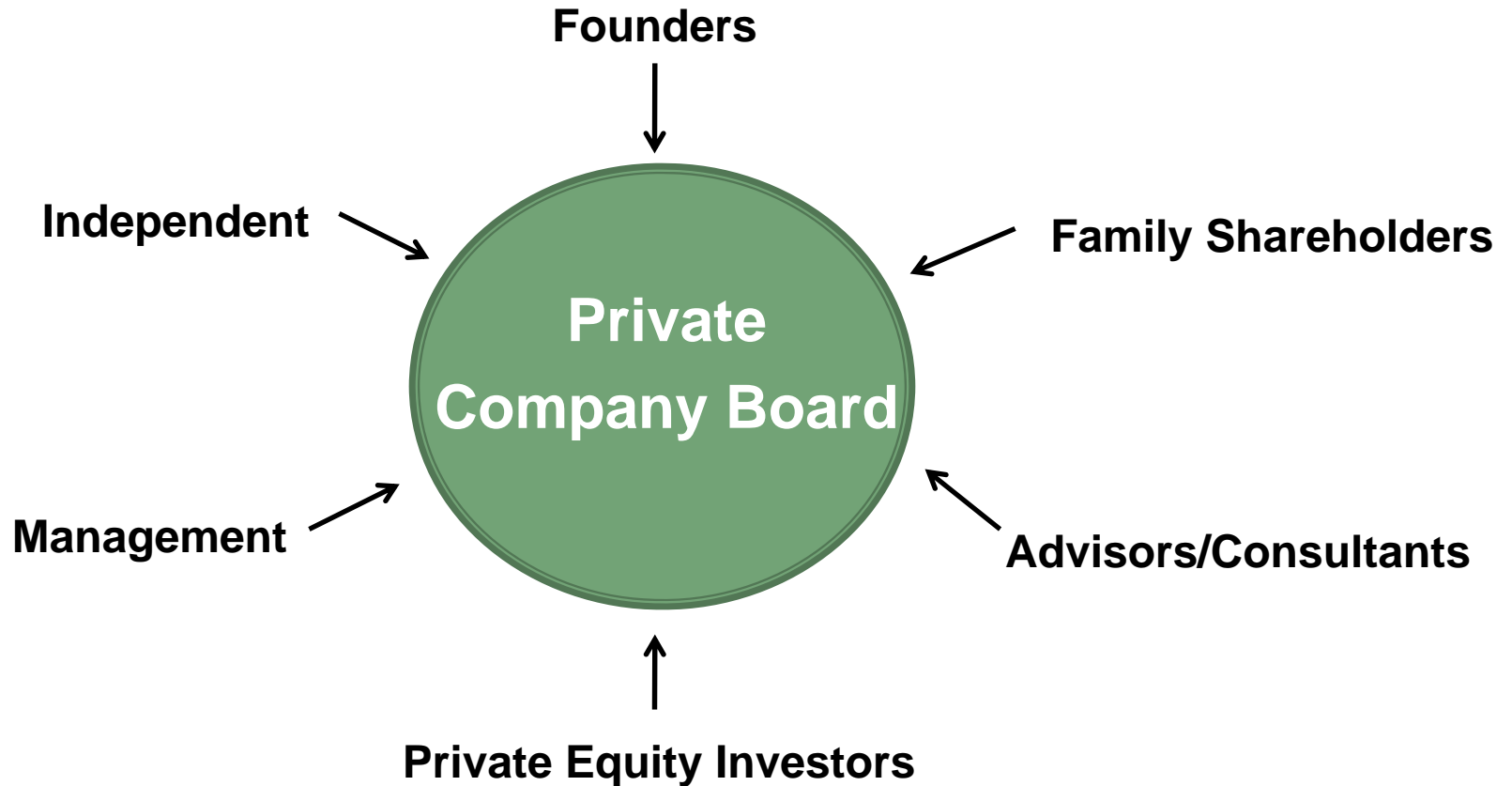
Board of Directors - Ongoing Issues

- ▶ Business Strategy Modification
- ▶ Business Issues Update / Deeper Business Understanding
- ▶ Financial Oversight
 - Shareholders
 - Leverage
- ▶ Senior Management Team Composition & Compensation
- ▶ CEO Accountability / Succession Planning
- ▶ Community Responsibilities / Qualitative Factors / Other

Strong Directors - Qualifications

- ▶ Integrity
- ▶ Board Experience (Includes Non-profit)
- ▶ Functional / Industry Expertise
- ▶ Age / Gender / Cultural Background
- ▶ Active, Constructive Team Player
- ▶ Fit with Other Members (Proper Diversity)
- ▶ Time Availability

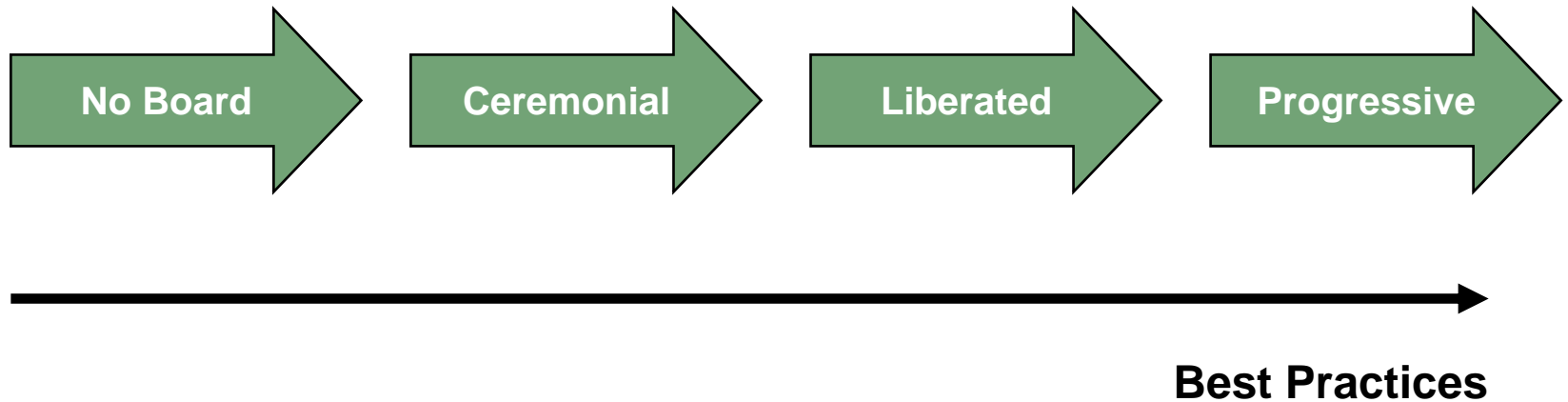
Private Company Board Stakeholders



Potential Stakeholder Conflicting Agendas

- ▶ Management – Let us Run the Business
- ▶ Founders – Don't Change the Business
- ▶ Family Shareholders – Only We Deserve to Own Shares
- ▶ Private Equity Investors – Take Fees on Acquisitions and/or Refinancings
– Enhancement Role
- ▶ Advisors/Consultants – Take Fees on Services Provided
- ▶ Independent Outsiders – No / Minimal Conflicting Agendas

Board Phases¹ – What is the Board’s Role?



Fiduciary Obligations:

Duty of Loyalty to Shareholders

Duty of Care / Act on Informed Basis

¹ Source: Boards That Deliver, Ram Charan

Board Phases / Relevant Issues

Issues	Ceremonial	Liberated	Progressive
MEMBERSHIP	“Family” / “Friend”	“Appointed”	“Earned”
GROUP DYNAMICS	CEO Led	Personality Focused	Issue Focused
INFORMATION	Limited	Too Much Detail	Focused
OBJECTIVES	Few	Many / All Important	Fewer / Prioritized
DECISIONS	Little Discussion/ Few Decisions	Much Discussion / Few Decisions	Discussion Leads to Consensus
OUTCOMES	Board Follows CEO Lead	CEO Caters to Individual Agendas	CEO Implements Board Actions
OVERSIGHT	Little Accountability	Accountability Less Defined	Management Accountability Defined

Private Company Boards - Questions

Peter Derby

John Pouschine

William Stone

Best Practices for Ceremonial Board

- ▶ Separate Chairman of the Board and CEO Roles
- ▶ Ensure Diversity Among Board Members
- ▶ Tie the Board's Fiduciary Duties to Roles/Actions
- ▶ Encourage Proper Information Flow on the Business/Issues
- ▶ Encourage Proper Succession Planning
- ▶ Utilize Committees (with outside members) Actively

Best Practices for a Liberated Board

- ▶ Choose a Strong Chairman of the Board
- ▶ Prepare Agendas (with Time Allocation) and Circulate Ahead of Time
- ▶ Remind Board Members of Fiduciary Obligations to All Shareholders
- ▶ Consider Limiting the Size of the Board

Best Practices for a Progressive Board

- ▶ Separate Chairman of the Board and CEO Roles
- ▶ Create and Utilize Proper Committees (Audit, Compensation, Governance)
- ▶ Discuss Strategy Direction Regularly
- ▶ Have a Succession Plan in Place for the CEO
- ▶ Rotate Senior Managers Presenting to the Board