Second Heart Assist, Inc.

BOARD GOVERNANCE

Basic Core Duties of the Second Heart Assist, Inc. Board of Directors

- **Priority #1 - Ensuring company has adequacy of financial resources to implement its business plan**
- Approving annual budgets and hiring plans submitted by the CEO.
- Corporate policy setting and enforcement
- Hiring, Evaluation (and replacement if necessary) of the CEO
- Ensuring adequate reporting to shareholders.

Expectations and Evaluation Criteria of Second Heart Assist, Inc. Board of Directors by Majority Holding Shareholders and Founders

- **#1 Capital Raising Assistance –** First and foremost the board of directors are expected to lead the capital raising efforts of the company with strategic introductions. The main measure of Board of Directors performance is their contribution to helping the company raise capital essential to implement its mission. This constitutes 50% of the weight of Board Director performance evaluation.

- **#2 Driving Successful Exit for IP and other Assets –** This is the second highest expectation for our board of directors. This constitutes 25% of the weight of Board Director performance evaluation.

- **#3 Financial Oversight and Risk Management** – This is a very high priority duty expectation of the Board of Directors which calls in particular for careful **review of financial statements circulated on a monthly basis**. Review of meeting minutes. Review of annual reports and help construct notes to financials and management analysis. This constitutes 15% of the weight of Board of Directors performance evaluation.
- **#4 Ensuring Adequate and Frequent Reporting to Stakeholders at all Levels** – Building a bandwagon of support and keeping that support is essential for the success of the business and increases the opportunities for exits greatly. We want to make all our stakeholders evangelists for the company and its assets. Frequent updates are essential to build and keep this support. Careful board review of press announcements, annual reports, newsletters, blog posts, social media posts, web sites, video, executive summaries, slide decks is very important. The Annual Report is the most important communication of the year to Stakeholders and warrants the most review effort followed second by the update slide deck to presented at the Annual Shareholder meeting. This constitutes 10% of the weight of Board Directors performance evaluation.

Board Governance – The board in its entirety is selected by the majority voting control shareholders, the owners, of the company and primarily answers to them as well as all the shareholders. The only time they do not answer only or primarily to the majority controlling shareholders that control the ownership rights of the company is in cases where a move may favor the majority shareholders over the minority in an un-fair fashion. The majority shareholders constituting the controlling owners of the company ultimately decide what the company will produce or do and how they will do it. They define the mission and purpose of the organization and how it operates.

Board Governance Checks and Balances

(1) A > 50.1% voting majority of shareholders collectively elect ALL the Board Directors of the company.
(2) The board may never elect a new board member on their own without a shareholder meeting election unless filling vacancy until the next shareholder meeting.
(3) The board may never increase authorized shares. This is can only be done by the majority owning shareholders.
(4) The board may not make the final decision to acquire a new business. Only a vote of the majority owning shareholders can do this.

(5) The board may not sell the company or its most valuable assets. Only a vote of the majority owning shareholders can do this.
(6) The board may not take on major debt on its own. Only a vote of the majority owning shareholders can do this.
(7) The board hires the CEO and the CEO hires all other employees of the organization and has sole discretion in the hiring and firing decisions.
(8) The CEO submits an annual budget and the Board approves or suggests modifications to that budget which are then dually approved or not approved by both the CEO and the Board. If the CEO and the Board cannot agree on a budget the Board's budget prevails. Once the budget is established the board has no part in any financial decisions related to the budget or day to day operations unless the CEO veers out of the bounds of the budget.
(9) The board does not set board or executive compensation levels other than CEO. If salaried executives are also board members their salary is approved only in the annual shareholders meeting by the majority controlling votes of shareholders.
(10) The board compensation committee approves pay levels and share option levels guidance for all positions in the company and a budget and pool of share options available for the CEO to use in hiring and incentivizing employees and advisors. Once the compensation levels including stock option levels have been established and approved by the board for various levels of employment, and an annual budget has been approved with total salaries listed, the board has no role in implementation on a hire by hire basis unless the CEO goes out of the bounds of the approved compensation levels at each position, the total approved compensation budget or has exhausted the available pool of stock options available. The CEO may seek guidance from the board in key hires on a voluntary basis. The board has only one hiring authority and that is in CEO position. The CEO has hiring and firing authority alone for all other positions.

Director Value-Add Descriptions from Publication Source

If the above legal duties were all a director did, I suppose there would be some virtue, but not much value. Fortunately, good directors bring far more to the table than just legal baby-sitting. The best directors can help the company across eight different areas:

1. Strategic Advice. Good directors bring a broader perspective that can be very helpful for the CEO who can "lose the forest for the trees" of daily operational activity. Many directors have tremendous business experience and can serve as a sounding board and source of strategic direction.
2. Customer and Partner Introductions. Strong directors bring a rich network of connections that should be useful in connecting to potential customers, partners, analysts, journalists, service providers, and more.
3. Time-Saving Operational Advice. Because many directors have "been there and done that," they can provide tremendous value in finding short cuts and preventing constant reinvention of the wheel with routine operational matters like setting up payroll, finding office space, dealing with investors, and the daily ins-and-outs of running a business.
4. Recruiting. Experienced directors not only have a large network of connections to help find talent, they should also have deep experience in evaluation and hiring which should allow startups to hire better people faster than by trial and error.
5. Risk Management. Seasoned directors will insist that stage-appropriate financial controls are in place and that communications between the board and the financial/accounting providers does not lapse. They will also insist on regular circulation of the right financials to directors and investors. This not a lot of fun for many CEOs, but is a vitally important discipline the board should provide.

6. Fundraising. Many directors, especially investor-directors, are experienced and connected in the fundraising world and can provide extremely valuable guidance on the who, what, when and how aspects of raising additional rounds of capital.
7. CEO Evaluation. Good directors will be the first to point out when a CEO is struggling with his or her job, and can be extraordinarily helpful with coaching and advice, including the selection and hiring of an official CEO coach if the situation calls for it. It should also be said that directors are the ones who will kick off the process of transitioning the CEO into a different role if the situation requires it.
8. Driving a Successful Exit. Even if directors are not all large investors themselves, they represent the investors and are responsible for maximizing value for shareholders. Thus directors have the motivation, and typically the experience and connections, to help the company on its path toward eventual liquidity for shareholders.

Source: Startup Board Dynamics – Expectations for Director Conduct and Value

https://seraf-investor.com/compass/article/board-dynamics-expectations-director-conduct-and-value

SECOND HEART ASSIST