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MVF Business Guide: Reporting to Directors, Advisors, and Investors

In this MVF Business Guide, we provide a template for private companies to use when reporting to investors, board directors or advisors. Reporting is an important component of corporate governance and building a strong relationship with key stakeholders. Find out what high performing, equity-financed companies report to their supporters.

At the Maine Venture Fund (“MVF”), we invest in high-growth Maine companies that have the potential to create strong returns and quality jobs in Maine and, thus, contribute to Maine's prosperity. Once we invest, we provide business advice and technical assistance to our portfolio companies, as well as access to an extensive network throughout Maine, New England and beyond. We consider companies in nearly any industry that can demonstrate the potential for high growth and public benefit. For more information, visit <http://www.maineventurefund.com> or call us at 207-924-3800.

For additional resources to help you grow and manage your company, check out:

MVF Business Guide: Key Performance Indicators
MVF Business Guide: Private Company Board of Directors
www.maineventurefund.com/for-companies

Executive Summary: Why is reporting important?

Reporting to key stakeholders in your company, including but not limited to, board directors, investors, and advisors, is a key component of corporate governance. As explored in the “*MVF Business Guide: Private Board of Directors*”, strong governance is positively correlated to good financial results. Therefore, it is not surprising that investors, and especially institutional investors such as the Maine Venture Fund, actively help portfolio companies establish strong reporting and overall governance procedures. Here are a few reasons why we at the Maine Venture fund value strong reporting practices:

1. *Information is power* – supplying your directors, advisors, and engaged investors with information on how your company is performing, makes it possible for them to help your company achieve its strategic goals.
2. *We hate surprises* – those involved in high growth businesses know the road to success can be bumpy. Your stakeholders will not be surprised that everything does not always go as planned. They also know that company troubles don’t just go away. Problems necessitate solutions, and solving small problems on a regular basis is much easier than being blindsided by a big one.
3. *The one thing you can control 100% is your integrity* – Communicate what you’re going to do and then do it – repeat, repeat, repeat. This mantra holds true in all stages of business, including raising capital, company growth, and acquisition. It is perhaps even more important when things don’t go as planned. The plain truth is that many equity-financed companies fail. Failing with integrity sets the stage for your next great venture.

Please note, the following reporting template is neither 100% comprehensive nor compulsory. However, it should provide you with an idea of what high performing equity-financed companies provide to their key stakeholders. Your own board-reporting template should mirror the strategic goals associated with your company.

Company Logo Here

To: Company A Board Members and Investors
From: Company A CEO
Date: April 1, 2012
Re: Q1 2012 Business Update

Q1 2012 Business Update to Board of Directors

Think of this first page as your cover letter – keep it short – one page is enough - and hit the main points – what do your Board Members and investors need to know and what specific topics are “under discussion”?

Things you might want to include in the cover letter / business update narrative:

- Overall performance vs. budget and prior year and top-line explanation of variance;
- Sales update – including new customers and lost customers;
- Product development successes and/or delays (maybe days behind or days ahead of schedule...or new barriers, or leaps ahead...);
- Challenges and successes related to your company’s “Critical Success Factors” and “Key Performance Indicators”;¹
- Company’s cash/liquidity position and burn rate if not yet cash flow break even – remember until you are, you’re spending someone else’s money;
- HR highlights including significant new hires, terminations, lost employees; options proposed or granted;
- Resource and/or expertise needs including but not limited to staff, capital, introductions, distribution channels, technical or business skills. Your board and investors are a valuable network to help your company access whatever it needs to be successful.
- Expectations for the following 6 months, including measureable activities and results. It is important to build a good relationship with investors and the board – say what you’re going to do, do it, repeat. Your integrity as a CEO is something you have 100% control over.

Remember investors and board members need to hear the bad and the good. It’s always better to hear the bad news from the CEO directly – you don’t want them finding out from another source. The less surprises the better!

¹ See MVF’s KPI Guide for more information regarding identifying the Critical Success Factors and Key Performance Indicators for your company.

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Budget Variances

Highlighting variances for your Board members will draw their attention to items that need discussion or focus. Listing them separately, flagging them in some way on the financial reports themselves, or simply pointing them out in the meeting, are examples of ways to draw attention to the key variances.

An example of listing them separately, and some key variances in which Board members are typically interested include:

Sales

- Bulleted list of reasons why sales were at/above/under budget. Further details on sales can be found in Sales Update & Sales Pipeline section.

Cost of Good Sold

- Bulleted list of COGS categories with explanations of variances vs. budget.

Expenses Greater than Forecast

- Bulleted list of expenses that were greater than budgeted with an explanation of why.

Expenses Lower than Forecast

- Bulleted list of expenses that were lower than budgeted with an explanation of why.

Financial Statements

Financial statements are compulsory for Board meetings.

Include:

Profit and Loss

- Actual for month (and quarter if at quarter-end) and actual YTD versus previous periods actual and versus budget

Balance Sheet

- Current vs. Budget and vs. 12/31/prior yr (or end of last fiscal year)

Statement of Cash Flows

- Current vs. Budget
- Updated Forecast based on actual quarterly results. If company is still burning cash focus on expected burn rate and length of cash runway.

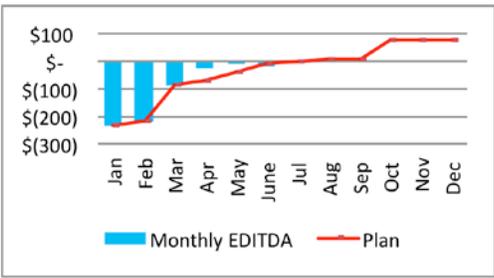
KPI Dashboard

The use of Key Performance Indicators (KPI) tracking has become a very important method for reporting and improving ongoing performance for companies. A good KPI dashboard will give the management team and Board valuable insight on current performance and expected future performance. Please see the “MVF Business Guide: Key Performance Indicators” that includes:

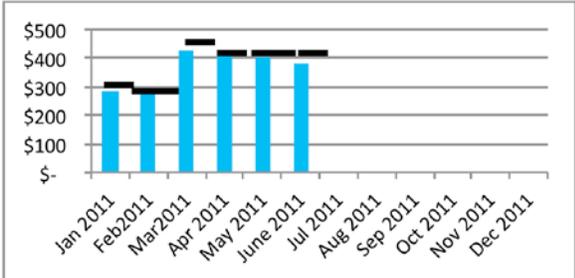
- Overview of KPI Tracking
- Tips of creating a Dashboard
- KPI Case Studies
- Glossary of Example KPIs
- Sample KPI Dashboard Report

Executive KPI dashboard

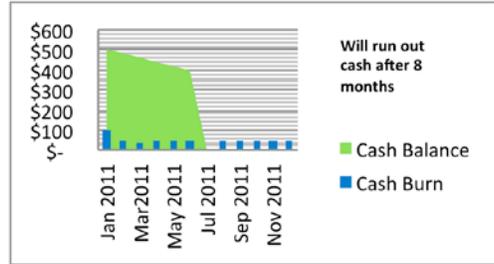
Monthly EBITDAs vs plan (\$000)



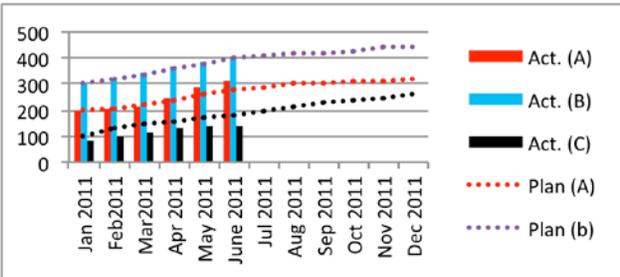
Monthly revenue vs plan (\$000)



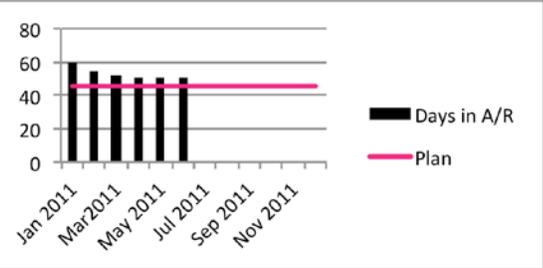
Cash burn and runway



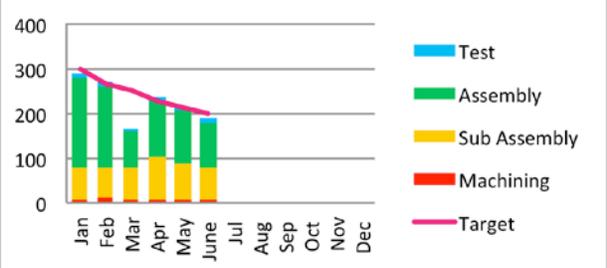
New customer acquisition



Days in AR



Defects per assembly



Sales Update and Sales Pipeline

Provide additional information regarding sales results and expected future sales results, focusing on differences vs. budget.

Example 1: Overview Sales Pipeline Report visualizes the entire sales pipeline by milestone with conversion rates, and value of the pipeline. For more information on this pipeline report visit: <http://on2.biz/2007/02/05/using-the-sales-pipeline-report-for-key-performance-indicators/>

SUCCESSFUL CONVERSIONS									
Milestone	Pipeline		New	Inactive*	Average	Weighted		Funnel	Conv
Lead	1,820,000	6	6	1 / 4	303,333	140,000		91	-
Opportunity	3,660,040	10	10	7 / 9	366,004	259,884		84	92 %
Demonstration	402,000	6	6	5 / 6	67,000	24,806		73	80 %
Prospect	6,875,000	25	25	23 / 24	275,000	395,181		68	74 %
Negotiation	8,896,250	34	34	32 / 32	261,654	330,883		44	48 %
Order Won	1,162,000	7	7	0 / 0	166,000	1,162,000		7	7 %
Total:	22,815,290	88	88	68 / 75	-	2,312,756		-	-

* Inactive projects shown as X / Y where: X = number of projects with no activity and Y = number of projects with no milestone progress

UNSUCCESSFUL CONVERSIONS									
Milestone	Pipeline		New	Inactive*	Average	Weighted		Funnel	Conv
Order Lost	750,000	3	3	0 / 0	250,000	750,000		3	3 %
Total:	750,000	3	3	0 / 0	-	750,000		-	-

Example 2: Table of specific deals in the pipeline lists all deals in the pipeline with the relevant information for each deal

Deal Name	Summary	Lead	Deal \$	Stage	% Probability	Expected Close Date
Customer A	Product X	Salesperson A	\$100,000	Lead	5%	7/1/2012
Customer B	Product Y	Salesperson B	\$50,000	Demonstration	20%	6/1/2012
Customer C	Product Z	Salesperson C	\$125,000	Negotiation	75%	5/1/2012
Etc.						
Etc.						

	Weighted Value of Sales Pipeline	Sales Budget	Delta	Status
Q1 2012	\$250,000	\$300,000	(\$50,000)	↓
Q2 2012	\$500,000	\$400,000	\$100,000	↑
Q3 2012	\$1,000,000	\$900,000	\$100,000	→
Q4 2012	\$900,000	\$1,000,000	(\$100,000)	→

Product Roadmap Update

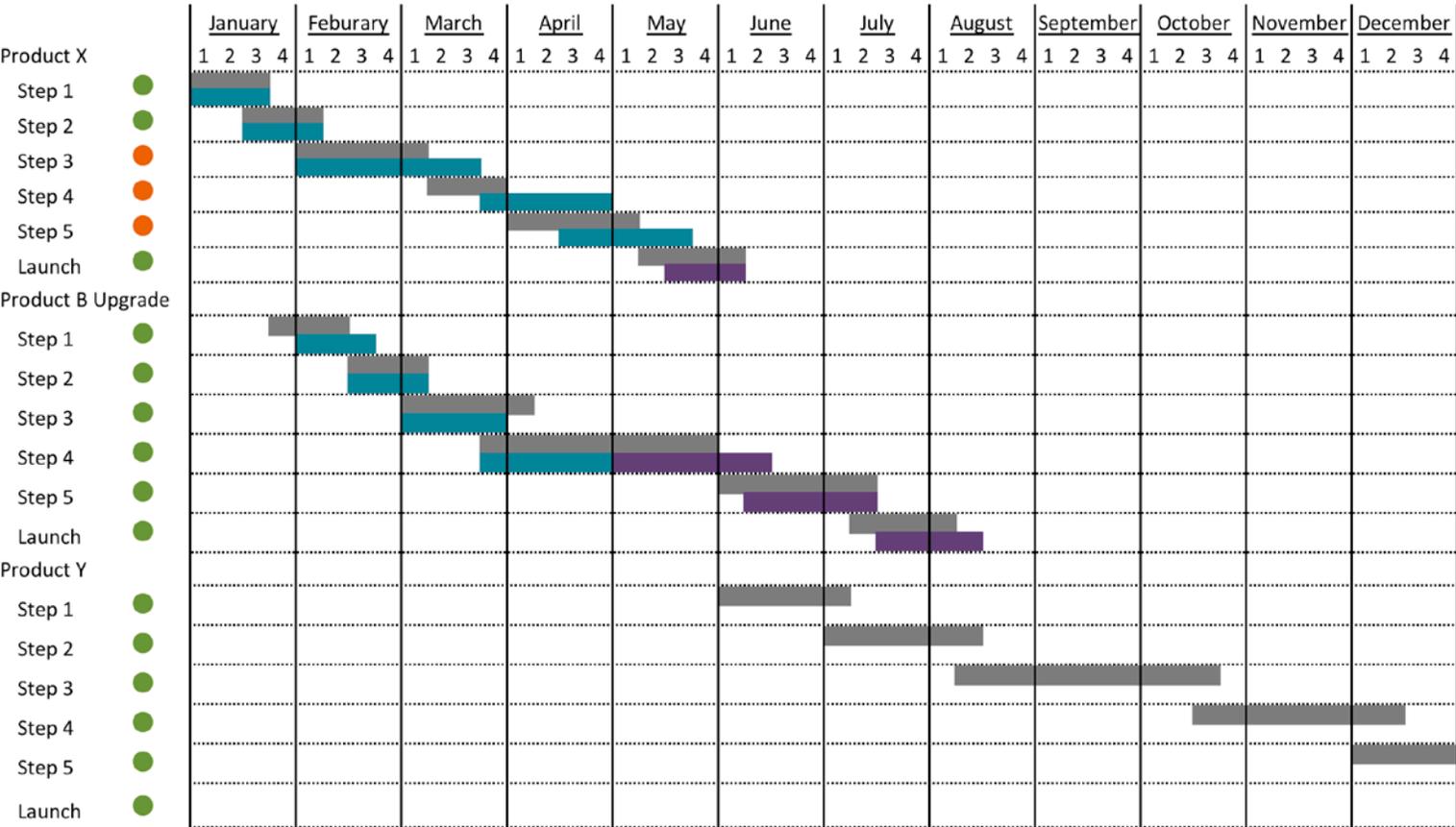
Provide an update on product development activities; consider including:

- Gantt chart
- List of ongoing and upcoming product enhancements and new products with a description of each, status update, time frame, resource needs, etc.
- Highlight any significant changes from plan, such as increase in costs, delayed launch, change in resource/capital needs

Example of a product focused Gantt chart that could be used as a summary/overview of product development progress and plans. A more detailed chart could be used for managing product development.

2012 Summary Product Development Road Map

Updated: May 1, 201 Key: 2012 Plan Actual New Plan



Board Matters

Summary of prior board meeting; consider including the following information:

- List of attendees
- List of votes taken and results
- Major topics discussed
- Requests from board/management/investors
- Next quarter plans
- Action items identified

Agenda/Summary of upcoming board meeting; consider including the following information:

- Location/date of meeting
- Expected attendance list
- Agenda, including all anticipated votes and topics to discuss
- Quarterly report of audit and compensation committees, even if report is “no report”
- Human resource matters: option awards, bonuses, key expected departures or hires, disciplinary actions, legal actions, etc.

In conclusion, the board meeting is intended to be a time where the state of the company is clearly and accurately presented, and the board has ample chance to ask questions and make observations and/or direct actions. Time and attention needs to be given to the board to be allowed this space. The board meeting involves two-way communication. The company CEO should view it as a chance to inform the board and then solicit advice and direction where appropriate. This is not a time to placate investors or dodge critical tactical issues. Trust and constructive relationships are prerequisites for, *and the result of*, quality and value-added board meetings and interactions.