



Corporate Governance

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Examples

- We are going to discuss the issues associated with corporate governance through several typical examples.
- First we need some basic framework.





Definition

- Definition:
 - Governance is a set of rules that are applicable to a system of government or management.
 - Corporate governance is a more specifically a set of rules that apply to corporate entities.





Basics of Corporate Governance

- Who makes what decisions on behalf of the company?
 - Owners/Shareholders
 - Directors/Managers
 - Officers
- How are these decisions made?
- Creates a hierarchy of decision-making.





Factors Affecting Governance Decisions

- Size of the company now and in the future.
- Number of individuals involved.
- What contributions the individuals involved make to the company (money or other).
- Special skills or other assets individuals bring to the company.
- Personalities of the individuals involved.





Company A Example

- Company A has three individuals who are developing a new phone application.
 - All three individuals are contributing \$50k and will work full-time for the company.
 - Each has a comparable level of skill and will be actively involved in managing the business.





Company A Discussion

- Board of Directors Positions
- Officers
- Special Decisions
- Deadlock provisions
- Compensation for duties
- Who owns the intellectual property?
- Corporate opportunities; competition; other activities; etc.





Company B Example

- Company B has three individuals who are developing a new phone application.
 - One individual is contributing \$150k and the others contribute no capital.
 - All three will work full-time for the company.
 - Each has a comparable level of skill and will be actively involved in managing the business.





Company B Discussion

- Board of Directors Positions
- Officers
- Special Decisions
- Deadlock provisions
- Compensation for duties
- Who owns the intellectual property?
- Corporate opportunities; competition; other activities; etc.





Company C Example

- Company C has three individuals who are developing a new phone application.
 - One individual is contributing \$150k and the others contribute no capital.
 - Two (non-capital partners) will work full-time for the company.
 - One is a CPA who got tired of that profession and one is a natural leader.
 - The third has no interest in operating the business and is simply providing the startup capital.





Company C Discussion

- Board of Directors Positions
- Officers
- Special Decisions
- Deadlock provisions
- Compensation for duties
- Who owns the intellectual property?
- Corporate opportunities; competition; other activities; etc.





Company D Example

- Company D has two individuals who are developing a new phone application.
 - One individual is contributing \$150k and the other contributes no capital.
 - The non-capital partner will work full-time for the company and the other will not.
 - The two partners appreciate the skills and money that the other brings but do not completely trust each other.





Company D Discussion

- Board of Directors Positions
- Officers
- Special Decisions
- Deadlock provisions
- Compensation for duties
- Who owns the intellectual property?
- Corporate opportunities; competition; other activities; etc.





Company E Example

- Company E has thirty individuals who are developing a new phone application.
 - Twenty-five of the individuals have invested a total of \$2 million in roughly equal amounts.
 - The remaining five individuals have technical skills that are important to the development of the product but have contributed no capital.
 - Only a few of the investors are interested in being involved in operating the company.
 - Several of the capital investors have connections and skills which could be useful in operating the business.





Company E Discussion

- Board of Directors Positions
- Officers
- Special Decisions
- Deadlock provisions
- Compensation for duties
- Who owns the intellectual property?
- Corporate opportunities; competition; other activities; etc.





Company F Example

- Company F has thirty individuals who are developing a new phone application.
 - Twenty-four of the individuals have invested a total of \$2 million in roughly equal amounts.
 - One investor provided an additional \$1 million in capital.
 - The remaining five individuals have technical skills that are important to the development of the product but have contributed no capital.





Company F Discussion

- Board of Directors Positions
- Officers
- Special Decisions
- Deadlock provisions
- Compensation for duties
- Who owns the intellectual property?
- Corporate opportunities; competition; other activities; etc.

