

**A MUST HAVE STREET GUIDE FOR ANY
ENTREPRENEUR, EXECUTIVE OR ENTERPRISING SOUL**



From Startup to Public Company:
A Creation Story. The Bible of
Proven Strategies for Presenting,
Financing and Marketing a
Successful Business Without
Being Crucified.

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Acknowledgments

To every person who ever desired to craft a dream into a business; for the millions unsure of themselves and more than a little scared of the word, "Entrepreneur"; for each and every enterprising, elbow-greasing, innovating, risk-taking, brow-sweating, back-breaking, probably-a-bit-crazy independent who forges the world into a better place as the steely backbone of this great country - this book is for you.

This section on The Advisor Factor is excerpted from the book entitled, "The Scorpion Factor: In Business." The complete Scorpion Factor is scheduled for release on December 29, 2011 and will be available at all Borders Bookstores, Amazon.com and from www.thescorpionfactor.com.

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The
Advisor
Factor

*Advance
Pre-Publish
Chapter*

The Advisory Board

Introduction

Have you ever been working on a project, tossing around an idea, latched upon an inspired concept, and thought, "I wish I could bounce this idea off someone who would know...." Every inventor, every entrepreneur, at one time or another, has had that thought. In fact, it is a sincere shame that, by all appearances, no one - not the U.S. Government, not Wall Street, not the Banks - ever so much as posed a remotely similar internal question. If they had, perhaps the U.S. financial market could have avoided a good deal of its recent meltdown.

Let's imagine those advisory board meetings:

Government: "Let's force banks to make loans to certain groups in the interest of political correctness and the appearance of social justice. All those in favor, say, "Aye!"

Lenders: "Advisors, we may need to approve loans for those who clearly cannot afford them. Thoughts?"

Credit Card Companies: "Issuing and extending credit to customers with insufficient income... Anyone see a problem here?"

Investment Bankers: “Everyone, there's good news and bad news. The bad news: we are going to take these utterly hollow Internet Dot Coms public. We've reviewed the business models, and there's not a chance in hell any of them are going to make money. The good news: we can leech outlandish commissions raising capital for these debacles - excuse me, deals - from hedge funds, pension funds and grandmas. Who wants to start dialing?”

We don't know. We can't state it as fact. But, somehow, we believe that, if these conversations (perhaps just a tad less blunt, of course) had actually taken place, things just might have turned out differently.

In our business experience, we've never gone wrong consulting those we respect on new endeavours - not once in our combined decades of business development history. But where to find a reliable sounding board of your own?

You could go pay a consultant for advice.

You could speak with your attorney or your accountant. Assuming you have one, or even both, they'll generally offer opinions freely. And then some. (We'll cover the Toolbox Factor as it relates to attorneys and accountants elsewhere in the book).

But...

Ask yourself: “Do those I use to advise me have any actual, first hand experience in this industry or with these issues?” If the answer is no, think of the imaginary Board meetings above. Then seriously consider forming an Advisory Board or Council.

So, what is an Advisory Board or Advisory Council?

Well, first of all, you can call your advisory team an Advisory Board, Advisory Council, an Advisory Team, or even a Million Monkeys at a Million Typewriters. It's up to you. The function, regardless of moniker, is the same. Your advisory board is a group of applied knowledge experts who have particular skill sets and proprietary knowledge that complement your business and management team. More simply put, Advisors are people you respect with relevant industry experience and expertise - people you can pick up the phone and call with questions. Most importantly, people from which you can reasonably expect substantive answers. Sometimes, advisors are used simply to enhance what we've coined as a company's "Aura of Credibility."

CAUTION: Please don't create a list of people as eye candy (meaning they just look good on paper and typically have many letters of the alphabet after their names). If they are not in tune with your business, strategy, and goals, what might happen when someone actually contacts one of these "advisors?" Do you really want them to respond to pointed questions with, "What Company was that again?" Or "Huh?" Call us paranoid, but that could reflect negatively on both you and your business.

What kind of control does my Advisory Board have?

Remember, at all times, this is YOUR company. As with all things in life, the only control anyone else has is the control you give them. Your advisory board is not the same as your Board of Directors (covered elsewhere in the Book). The advisory board does not possess any formal authority or power to run your company. The advisory board exists only to assist you and your Board of Directors with recommendations and guidance. They are, oddly enough, simply advisors.

Do I really need an Advisory Board?

Checking... Checking... Yes.

H-E-Double-Toothpicks YES.

Let us illustrate the value of a solid advisor. Harkening back to our Corporate days, at a time when we acted as consultants to various companies...

...In consulting, once you've built a reputation, clients begin to make important decisions based on your advice. Having Fortune 500 corporations act on your proposals sounds great, right? Well, let us put it this way: break out the warehouse store tub of antacids and make sure you like the flavor; because stress, thy name is, "What if I'm wrong?" In the consulting world, you are your last accomplishment. Needless to say, we battled the seething harpies of doubt and engaged each consulting contract with profound consideration. In some cases, consulting would lead to full time employment with the client (there's much to be said for working inside a Fortune 500 company, to be sure). However, this is when a bizarre and astounding transformation takes place. More fabulous than an Alchemist turning lead into gold, we take the employee who (just a scant few days before, mind you) was the gifted consultant, and... Behold! He is reborn another slack-jawed, paycheck cashing drool dispenser with a tie. Amazing! He will make insightful recommendations - and no one will hear. He will offer the same advice that once commanded a premium fee - and be ignored in return for his salary. This comes as no surprise to anyone who has ever worked for a large company - ignoring employees is practically in the bylaws. In fact, it's probably a good part of the reason you're reading this book in the first place.

So, it's no wonder office buildings seal their windows. Otherwise, former consultants would rain upon downtown sidewalks like so much designer-suited hail.

Okay then, back to the point. Now, we've established that advisors exist "simply" to advise.

CAUTION: Do NOT underestimate the potential value of an advisor's input. We have witnessed an advisory board member saving a company \$750,000 in a single event.

In some of our own ventures, advisors helped us to avoid wasting vast amounts of time - and time is, of course, money. Moreover, unlike money, time is irreplaceable. It is, quite often, more valuable than any dollar amount it may also represent. So, again the question: "Do I really need an Advisory Board?" But, you already know the answer.

Your advisory board members are, in some respects, your mentors - if you've chosen wisely. One of the most notable we've encountered is Howard Putnam, the former CEO of Southwest Airlines. Howard acted an advisor to a dotcom company. He is one of those rarest of human gems who tells it like it is - with style. Howard has absolute credibility wherever he travels. You might ask, "Is Howard the friend of the person he advised?" No. They maintain a professional, friendly relationship. Advisors are not (necessarily) your friends. Friendship is utterly separate. If you choose advisors because they are your friends, you are using the wrong criteria. Advisors must be creative, cutting-edge thinkers successful in their respective fields. Keep in mind that the most effective Advisory boards will include a mix of individuals from both inside and outside your industry. As a rule, shoot for half and half. A range of viewpoints will spark those priceless discussions that drive you to consider your business in entirely new ways. (Notice our restraint - we will NOT employ the tired cliché that refers to a box in any way shape or form).

An advisor is akin to an outside consultant. The true value of reputable consultants is their fresh and external perspective. Remember, at some point (and this applies to everyone), you'll go far beyond losing the forest for the trees - you won't see the branches for the leaves. Your advisors are there to do the pruning. They may be in your industry, but they are not IN your company. Consider today's information overload. Well, perhaps information avalanche is more apropos. Even something as basic as an advisor sharing relevant developments and industry news, items that you otherwise would have missed, could make the difference in your continued success.

Choose the right advisors. We can attest to the fact that they will save you time, money, sleepless nights, and, quite possibly, the need to seek therapy.

How do I form an Advisory Board?

The process of forming an advisory board is fairly straightforward. Once you have your act together (meaning your documentation is almost ready for prime-time), here is the process:

First of all, we'll assume you've been working on either forming a business or procuring help with an existing business. If you're a startup, don't seek an advisor or investor before you are ready. We've all met the people who talk endlessly about starting a business and 6 months later it's still all talking and no doing. Don't be one of those people. Can it and be a doer.

So:

1. DO complete your Executive Summary or Investment Brief (which we cover in Section 3).
2. DO finish your rough pitch presentation

3. DO practice your pitch until it flows naturally
4. DO, for the sake of all the gods who are, were, or never were, use the advice in Chapter 5
5. DO have your Non-Disclosure Agreement [NDA] and Advisor Agreement ready to go
6. DO print everything and have it prepared in a pocketed folder

Once you are ready, THEN call your potential advisor. Have a conversation that goes something like this (and yes, no kidding, this is a real conversation):

Entrepreneur: "Hi Bob, this is Ken. How are you doing today?"

Potential Advisor: "Good, Ken. How are you?"

Entrepreneur: "Great. Listen, is this a good time to talk?"

Potential Advisor: "Sure." [If they say no, reschedule. ALWAYS respect their time].

Entrepreneur: "I've been working on a new venture and I'd like to run it by you for your input. I'd also like you to consider being on the Advisory Board, as I respect your experience and your opinion. Can we schedule a half hour next week where I can take you through my presentation and executive summary? How's your calendar?"

Potential Advisor: "I can do Tuesday at my office."

Entrepreneur: "Great. I'll see you then."

Obviously, we can't know what industry you are considering, but we do know that the starting point, regardless of industry, is to seek out talent in marketing, management, legal, accounting, and banking. Then identify key persons with longevity in areas specific to your business. How many?. Of course, it varies. Three or four is typical of smaller businesses, while 10-12 may suit a larger operation. We typically enlist as many advisors to sufficiently cover the expertise bases. Keep in mind that compensation plays into your advisory board choices. As long as you don't exceed your budget, a wise selection of advisors can guide you through nearly anything.

Once on board, meet with your Advisory Council quarterly, at a minimum. Use Email, Instant Messaging, Video/Audio Conferencing, carrier pigeons, or even the plain old boring telephone to keep them abreast of your efforts.. As long as you demonstrate real progress, thoughtful agendas, and a serious commitment to productive quarterly meetings, you'll have their total support. From the outset, establish, that they need to be brutally honest with you in their assessments and guidance. Advisors have no value whatsoever if they only tell you what they think you want to hear. When you are clearing sufficient revenue, you can hire an entourage for that.

Advisory Board Compensation.

Now, let's get down to brass tacks. Money, that is. Compensation for your advisors. There are several ways to pay them (compliments don't generally count).

We'll cover these in general first and then we'll cite specific examples from our "Just Do Mexico" project.

First, and again, always be respectful of people's time. Although here we are discussing advisors specifically, this respect must be extended to employees, strategic partners, buyers, prospects, etc. We keep reiterat-

ing this principle. We tend to do that with the important bits. Living this rule in your every day conduct is the best way to ensure cooperation in that fateful hour when you truly need it.

That said, your options include any combination of:

- Cash
- Stock options
- Vesting equity

You're thinking, "Great, can you be more vague?" Well, we could... In any case, this is your company, and you have to place a value with which you are comfortable. It helps to map out the exact role you need advisors to play. We've included samples in the Exhibit section of this book. One caveat here. Unless your crystal ball is shined up and ready to scry, you aren't likely to know beforehand everything you may ask an advisor to do. Therefore, we try to keep that aspect general and the compensation portion specific.

Again, there is no hard and fast rule to the question of, "How much?". There just isn't. There are articles stating that a "normal" advisor gets between 0.1% and 0.25% of a company's post-Series A stock. Then there is mention of the "Super" Advisors (apparently the ones wearing capes and talking in word balloons) who receive more.

KAPOW! Advisors are advisors. There are no super advisors, senior advisors, executive advisors, ninja zombie advisors, or any other kind of special advisor. The appropriate level of compensation is a balance of what you are fiscally able to pay with what you feel is fair for your business and your advisors. Many of our advisors never actually asked for anything. They advised us because they saw opportunities down the road or, sometimes, just because they were those utterly priceless human beings who just want to help good people succeed.

But we live in a country that is (or, by the time you're reading this book, we hope still is), capitalist in nature. In that spirit, you really should compensate them. We know, we know. You're still asking how much... Maybe you're even adding a few expletives for good measure.

Thus, in the interests of happy readers and clean language, we will share our thoughts and run you through "Just Do Mexico."

While it is true you can compensate your advisors in the 3 ways mentioned earlier (Cash; Stock Options; Vesting Equity), we believe that it is, most often, a combination of cash and vesting equity that makes sense.

So, yes, finally, How Much. The cash portion should be minimal, if anything at all, and biased primarily on the vesting equity side.

Let's look at the structure for Just Do Mexico (JDM):

- JDM is a Wyoming Corporation initially formed with 100 million shares of Common Stock.
- Thinkubator, Inc., the forming entity and board member, issued 10 million shares (or 10% of the total authorized shares) as part of its first round of financing.
- Of those 10 million shares, we set aside 2% (or 200,000 shares) for our advisory board. 200,000 shares is now the total number of shares held in reserve for our advisory board members.

When these advisors were presented with the business model (through a formal presentation) and they agreed to join, we had them execute: A Non-Disclosure and Non-Circumvention Agreement, and the Advisor Agreement.

In the case of Just Do Mexico, we issued the average advisor 10,000 shares which would vest over a 2 year period. As part of the arrangement, we would issue them 1,250 shares upfront for the first quarter, in advance.

All other shares would be issued at the end of the quarter
(2 years = 8 quarters x 1,250 shares = 10,000 shares).

As you'll see in the Advisor Agreement we spelled out that we: cover travel (that is pre-approved by the Company); out of pocket expenses (that are pre-approved by the Company). The bottom line is that you need to clearly define all the particulars.

And so, we will leave this chapter, appropriately enough, with a final piece of advice: Good people make good agreements. The reverse, not so much.

Choose wisely. The logo for Scorpion, featuring a stylized scorpion icon above the word "SCORPION" in a bold, sans-serif font.