



BOARD / MANAGEMENT RELATIONSHIP

The following is the proposed agreement between Management and the Board of Directors of **COMPANY, Inc.** with respect to the relationship between Management and the Board.

- (1) The management of the company shall have the freedom to take any and all actions consistent with the company's annual operating plan without further consultation with or notification to the Board.
- (2) The Board will appoint a Compensation Committee and an Audit Committee which shall consist of independent members of the Board
- (3) Management shall present to the Board an operating plan for the next fiscal year at least one month before the beginning of that year. This plan shall state budgeted revenues and expenses for each quarter of the fiscal year, as well as major product development, distribution and strategic alliance plans. The Board shall use its best efforts to reach agreement with management on the plan before the start of the fiscal year.
- (4) If any material events take place or information is acquired which jeopardizes the company's ability to achieve the goals in the company's annual operating plan they shall be communicated to the members of the Board as soon as possible. The understood objective here is that all material information which management becomes aware of will be immediately provided to the Board.
- (5) If management believes actions should be taken which are not consistent with or go beyond the company's annual operating plan, management will bring those actions to the Board for approval and recommend the annual plan be modified to adopt the changes.
- (6) Management will as soon as possible after the end of a quarter of the fiscal year schedule a Board meeting and make a report to the Board discussing the performance of the company versus the projections in the operating plan, as well as providing an updated revenue and expense projection for the current quarter and the fiscal year.
- (7) The Compensation committee of the Board will annually establish the compensation plan for the CEO and determine any bonus due under the prior year's compensation plan, after review of CEO performance against established Board established goals. The compensation committee will also review any changes in the compensation plans of direct reports to the CEO.
- (8) The CEO will make best efforts to have new hires that will be direct reports to the CEO interviewed by independent members of the Board before a hiring decision is made.



- (9) The CEO will annually make a report (which may be verbal) to the Board on the job performance of his/her direct reports and will (a) discuss with the Board any significant job dissatisfaction expressed by a senior manager, and (b) communicate any serious concerns about the job performance of a member of senior management as soon as those concerns arise.
- (10) Any expressions of interest in acquiring the company will be communicated to the Board.
- (11) All stock option offers must be approved by the Compensation committee before the offer is made and must be approved by the Board before the option can be issued.