

Pre-IPO Pay Practices in the Current Economic Environment

Summary Findings December 2008

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OVERVIEW

In anticipation of an economic downturn, many venture-backed companies are re-assessing their compensation programs and associated costs. Given the sudden deterioration of the economy, much of the data regarding compensation program trends are now outdated. The purpose of this study was to collect and examine what measures (if any) venture-backed companies are taking to reduce compensation costs.

To protect participant confidentiality, only unidentified and/or aggregate findings are reported.

SURVEY SCOPE

Participant data was collected on cost-cutting compensation measures at thirty-eight pre-IPO companies. The report covers the following topics:

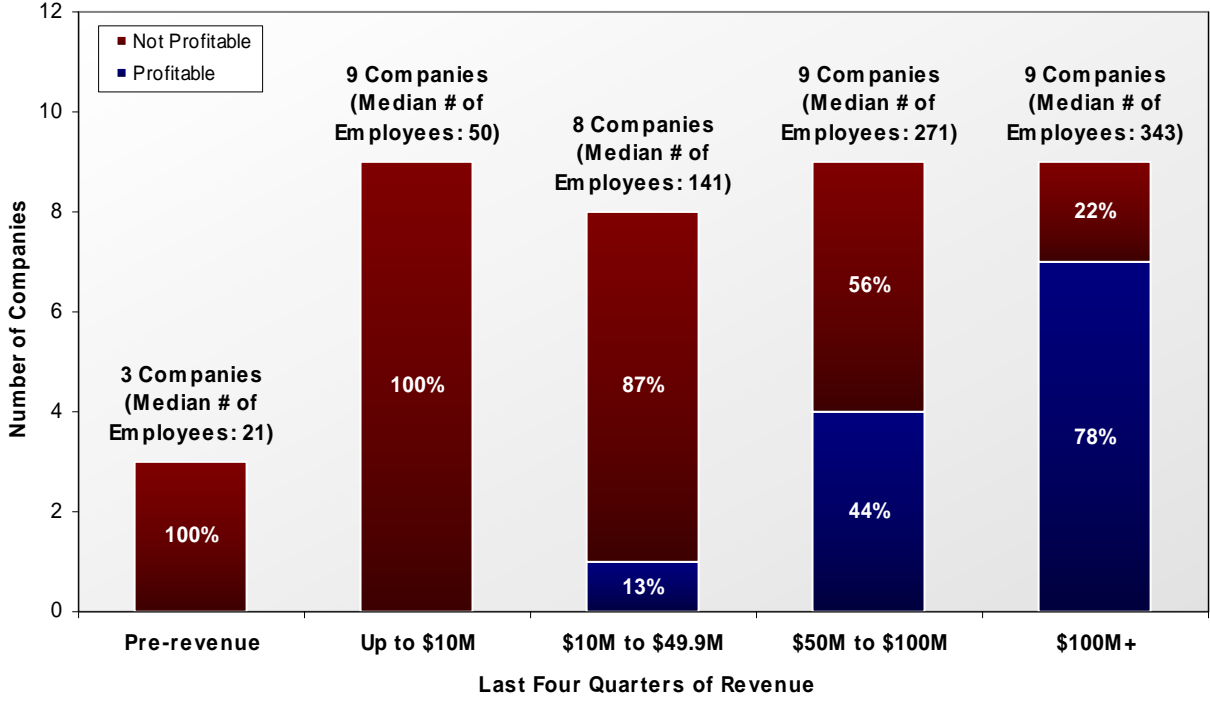
- ▶ Merit Increase Budget Adjustments
- ▶ Base Salary Reductions
- ▶ Annual Incentive Bonus Adjustments
- ▶ Equity Compensation Reductions
- ▶ Hiring Freeze
- ▶ Employee Headcount Reductions

II. PARTICIPANT PROFILE

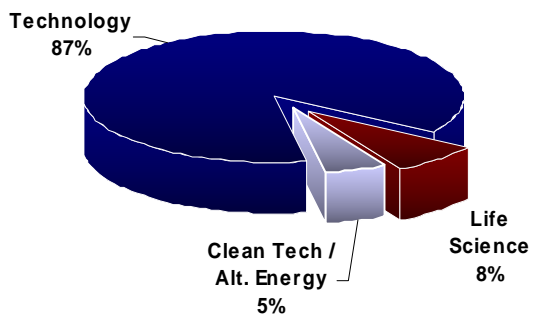
PARTICIPATING ORGANIZATIONS

Our study consists of 38 pre-IPO companies; survey results will be separated using revenues, capital raised figures, and profitability into the following categories:

Participant Profile based on Revenue

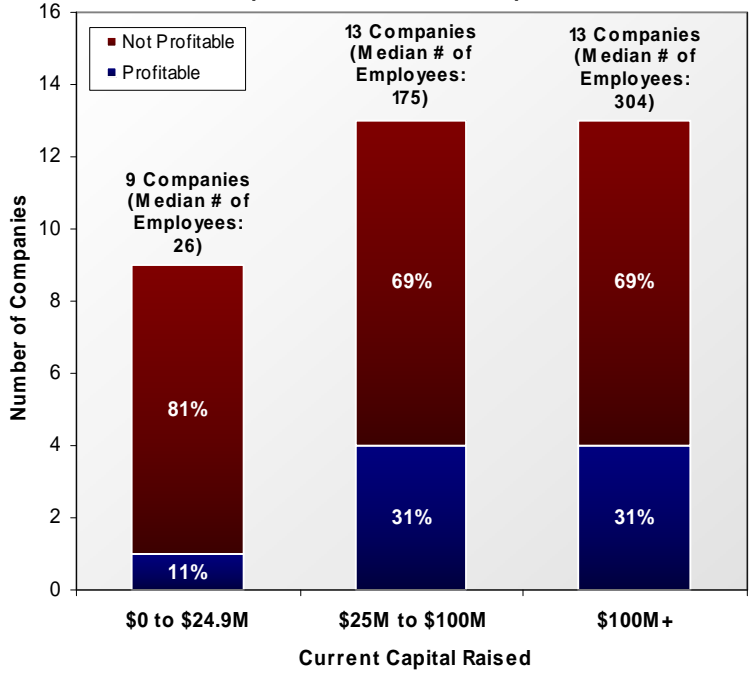


Participant Profile by Industry



- ▶ 87% of participating companies fall under the Technology industry; due to the small sample size of other industries, we do not show data based on industry sector
- ▶ 32% of participating companies are currently profitable

Participant Profile based on Capital Raised



1. Three companies did not disclose current capital raised; they have been excluded from our capital raised data cuts.

EXECUTIVE SUMMARY

ANNUAL MERIT INCREASE BUDGET

- ▶ Overall, 68% of companies are planning to either eliminate or reduce their annual merit increase budget, however there is significant variation between both revenue and capital raised data cuts
 - The average merit budget decrease of those companies planning reducing budgets is 1.7%
- ▶ 32% of companies are making no changes to their annual merit increase budget
- ▶ The overall average FY09 merit increase budget is 2.3% of payroll

BASE SALARY

- ▶ 11% of companies are planning to reduce base salaries
 - Of these companies, half are reducing base salaries for all employee levels and half are reducing base salaries only for executives

ANNUAL INCENTIVE BONUS

- ▶ 79% of companies have a formal bonus plan for their employees
 - 68% of these companies plan on paying a bonus for FY08, compared to 77% that paid bonuses for FY07
 - Size of FY08 bonuses compared to FY07 vary, with the majority of companies making no changes to bonus amounts
 - 41% will be the same
 - 35% will be smaller
 - 24% will be larger
- ▶ 14% of companies plan to reduce or eliminate their FY09 incentive bonuses, with the remaining 86% planning no changes at this time

EQUITY COMPENSATION

- ▶ None of the companies surveyed are planning to eliminate equity compensation
- ▶ 22% of companies are planning to reduce new hire equity grants; 14% of companies are reducing promotional grants and 11% are reducing ongoing grants
- ▶ 16% of companies are planning to increase equity compensation

OVERALL COMPENSATION MEASURES

- ▶ 26% of companies have no plans to reduce compensation. Other companies are taking the following measures:
 - 42% reduce cash or salary increases (through merit increase reductions/eliminations, bonus reductions/eliminations, or salary reductions)
 - 3% reduce equity only
 - 18% reduce cash or salary increases and reduce equity
 - 11% reduce cash or salary increases and increase equity usage

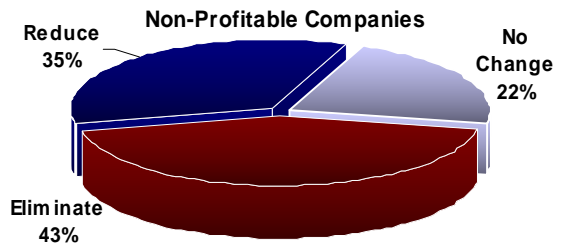
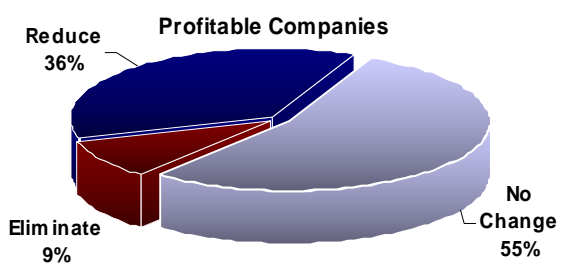
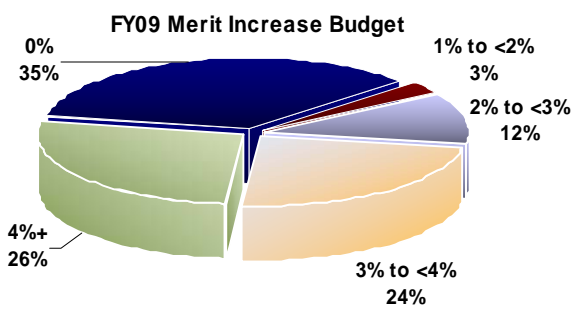
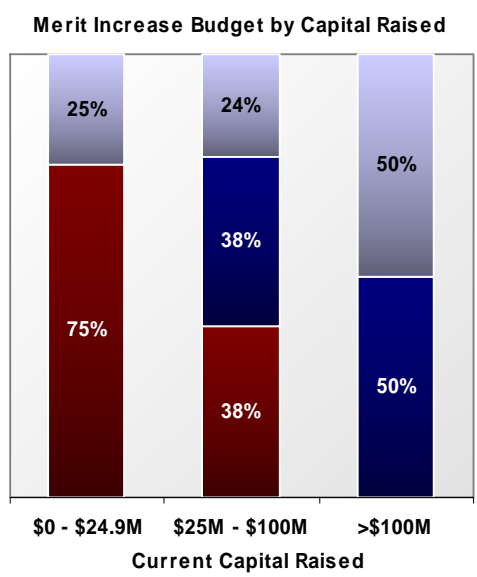
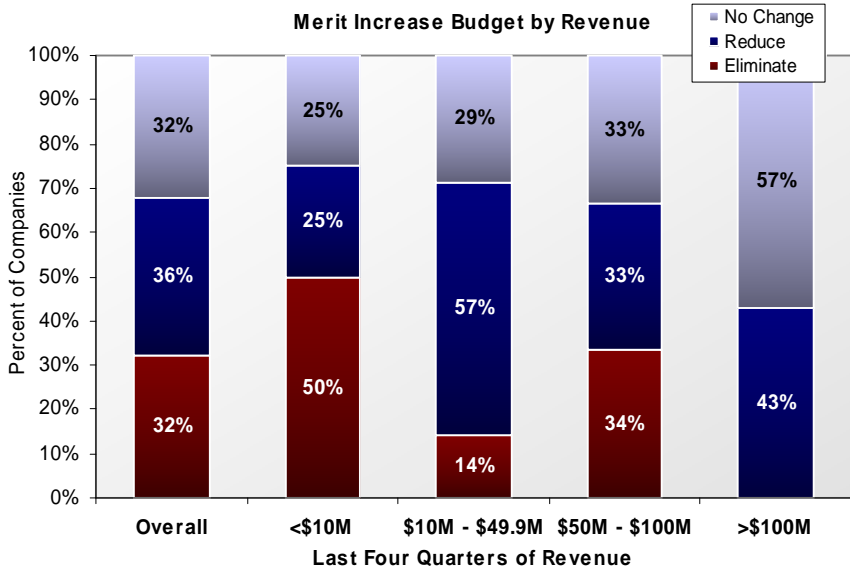
HEADCOUNT MEASURES / HIRING FREEZE

- ▶ 34% of companies have implemented, or are planning to implement, a hiring freeze
- ▶ 47% of companies have implemented, or are planning to implement, a reduction in employee headcount
 - Headcount reductions range from 5% to 50% of employees, with an average of 19%

1. Prevalence numbers exclude companies that did not disclose information / are undecided.

IV. DETAILED FINDINGS

ANNUAL MERIT INCREASE BUDGET

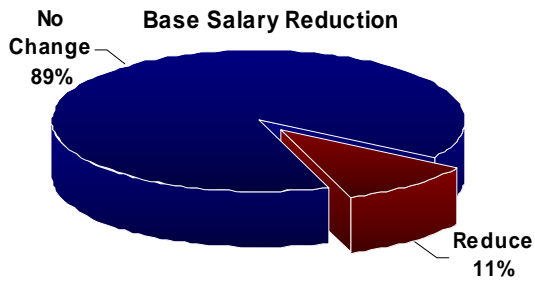


- ▶ Overall, 68% of companies are planning to eliminate or reduce their annual merit increase budget with the prevalence of reductions greater at smaller and non-profitable companies
- ▶ Companies are reducing their merit increase budget, on average, by 1.7% of payroll to 2.3%

1. Prevalence numbers exclude companies that did not disclose information / are undecided.

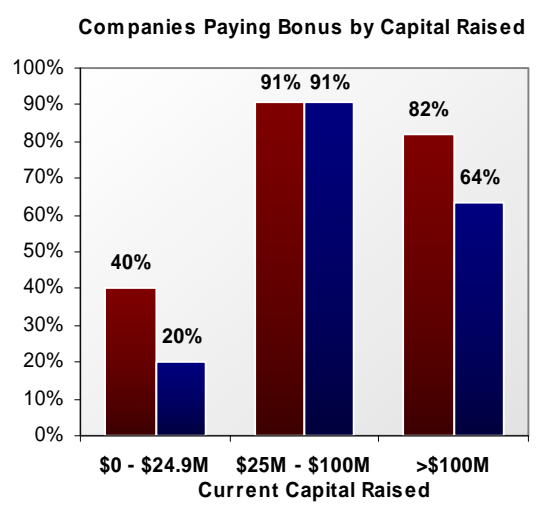
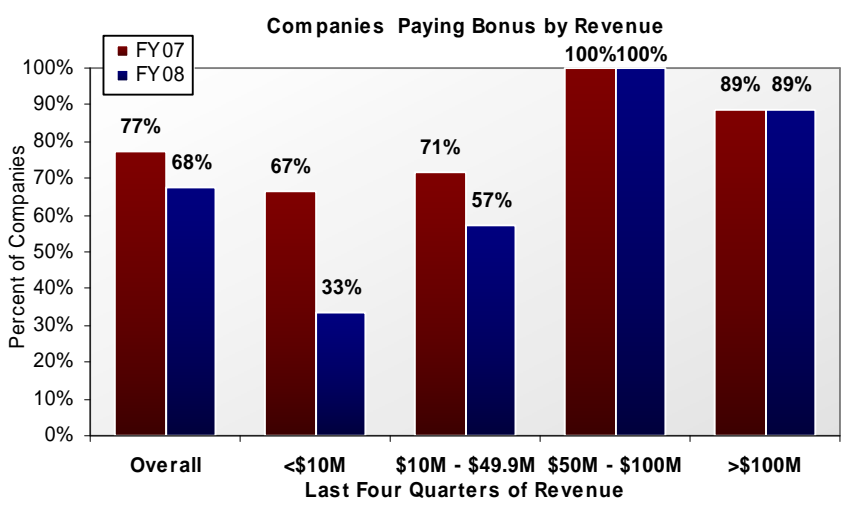
IV. DETAILED FINDINGS

BASE SALARY

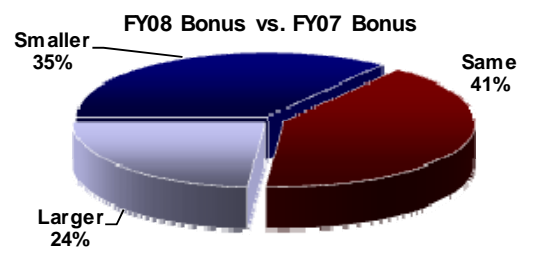


- ▶ Only 11% (n=4) of companies are planning to reduce base salaries
- ▶ Of companies reducing base salaries, 50% are at the executive level only and 50% affect all employees
- ▶ All companies planning to reduce base salaries are currently non-profitable

ANNUAL INCENTIVE BONUS



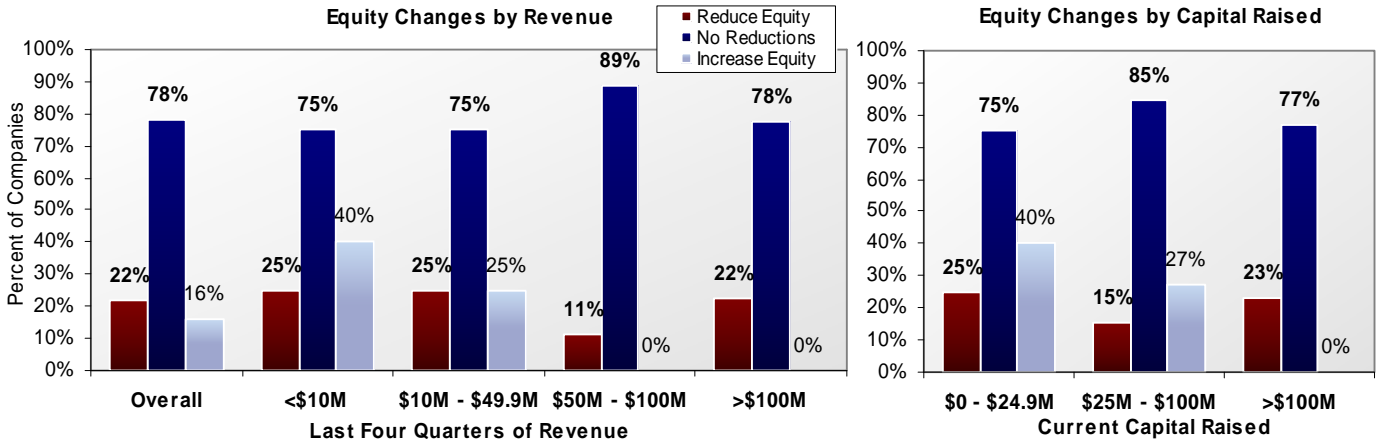
- ▶ 79% of companies have an annual incentive plan
 - 100% of profitable companies have a bonus plan compared to 69% of non-profitable companies
 - Of these companies, 100% of profitable companies paid bonuses for FY07 and plan to pay bonuses for FY08; 67% of non-profitable companies paid bonuses for FY07 and 50% plan to do so for FY08
- ▶ For FY09 bonuses (paid in spring 2010), 86% of companies have not yet made any changes to the bonus plan, 7% are eliminating FY09 bonuses, and 7% are cutting the FY09 bonus pool



1. Prevalence numbers exclude companies that did not disclose information / are undecided.
 2. Annual incentive bonus prevalence calculations only include companies that have a formal bonus plan.

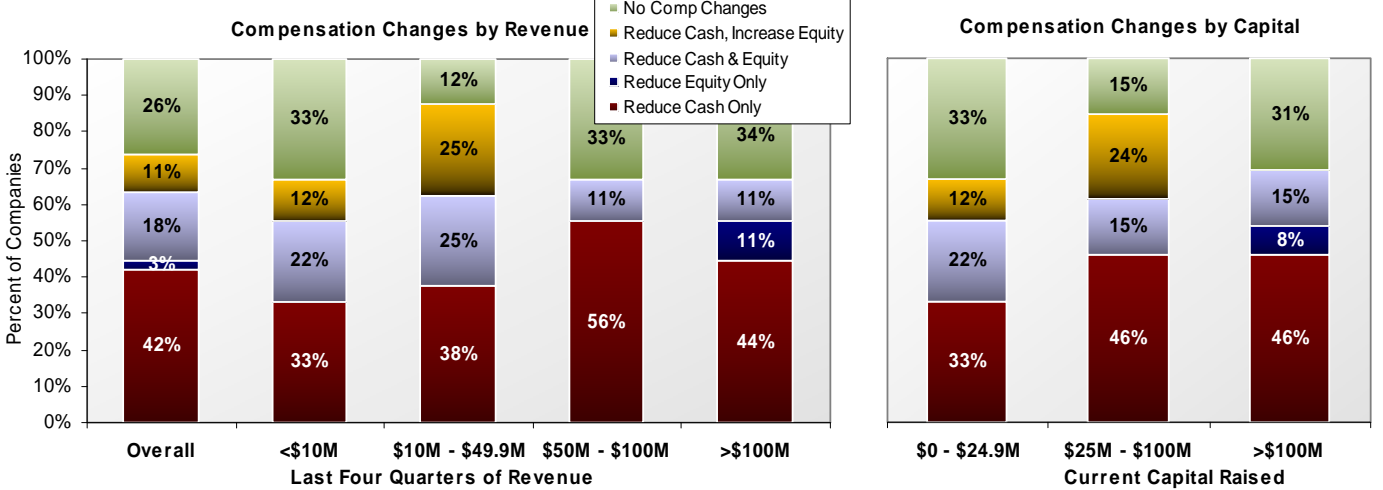
IV. DETAILED FINDINGS

EQUITY COMPENSATION



- ▶ New hire grants were affected at all companies planning to reduce equity compensation; reductions were not specific to employee groups/levels
- ▶ Equity reduction prevalence is consistent between profitable and non-profitable companies. However, only non-profitable companies are planning to increase equity usage to offset cash compensation reductions

OVERALL COMPENSATION MEASURES

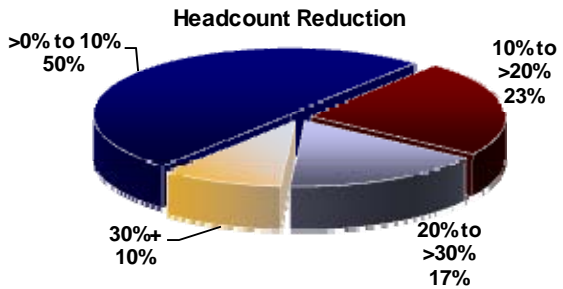
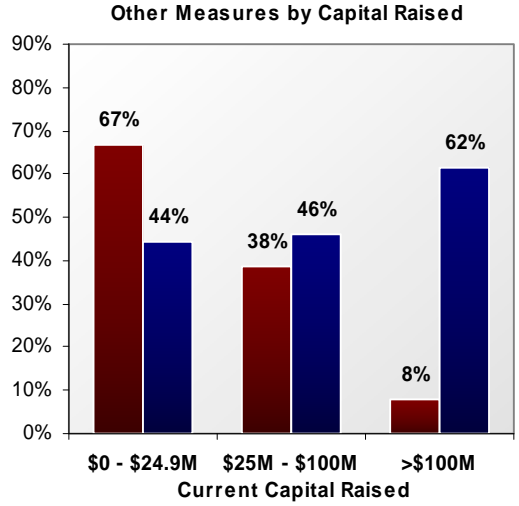
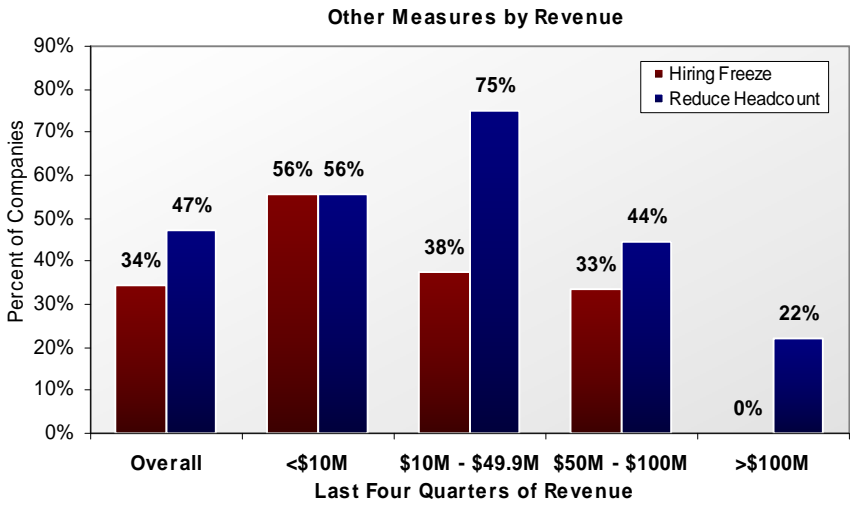


- ▶ Cash reductions are the most prevalent measure taken to reduce compensation costs for all data cuts
- ▶ Among smaller and non-profitable companies, reduced cash compensation has been supplemented with increased equity usage
- ▶ Hiring freezes and headcount reduction have been excluded from the percentile calculations
- ▶ “Reduce cash” refers to companies reducing cash or salary increases (through merit increase reductions/eliminations, bonus reductions/eliminations, or salary reductions)

1. Prevalence numbers exclude companies that did not disclose information / are undecided.

IV. DETAILED FINDINGS

HEADCOUNT REDUCTION / HIRING FREEZE



- ▶ Prevalence of hiring freezes and headcount reduction is significantly higher among non-profitable companies
 - 17% of profitable companies and 42% of non-profitable companies are planning to implement a hiring freeze
 - 33% of profitable companies and 54% of non-profitable companies are planning to reduce headcount
- ▶ Of companies reducing headcount, average reduction is 19% of employees

1. Prevalence numbers exclude companies that did not disclose information / are undecided.

ABOUT COMPENSIA

COMPENSIA, INC. IS A MANAGEMENT CONSULTING FIRM that provides executive compensation advisory services to Compensation Committees and senior management. Formed in 2003 by a group of leading executive compensation experts, our mission is to offer Thoughtful Pay™ solutions in an ever-changing executive compensation landscape. We define our Thoughtful Pay™ solution by six guiding principles:

Effectiveness Pay programs are aligned with the Company's compensation philosophy and business strategy, appropriately rewarding performance.

Balance Compensation delivered balances the interests of the executive, other employees and shareholders given industry and specific business performance.

Market Competitiveness Reward opportunities are consistent with business and labor market peers of comparable size and performance.

Transparency Rules of the game are clearly communicated to and understood by all constituencies and the "line of sight" between results and rewards is clear.

Independence Compensation programs are designed and approved by the Compensation Committee.

Simplicity Program design features are easy to understand, explain and administer.

In short, we partner with companies to promote the attraction, retention and motivation of key executive talent in a manner that is responsible to and aligned with shareholders. We offer a full range of consulting services to meet this objective:

- ▶ Compensation Committee advisory services
- ▶ Total rewards strategy
- ▶ Comparable pay and performance benchmarking
- ▶ Compensation program review/audit
- ▶ Incentive plan design
- ▶ Equity/long-term compensation strategy
- ▶ Stock ownership retention
- ▶ Employment, change-in-control and severance arrangements
- ▶ Merger and acquisition/restructure incentives
- ▶ 280G analytics
- ▶ Board of Directors compensation

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