Update: Pre-IPO Pay Practices in the Current Economic Environment

Summary Findings March 2009



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I. INTRODUCTION

OVERVIEW

In light of the continued deterioration of the US economy, Compensia has updated our December 2008 *Pre-IPO Pay Practices* study. The objective of this update is to reflect any additional changes to compensation programs that companies may have made since the November 2008 data collection of our last survey. This survey provides an overview of measures (if any) that venture-backed companies have taken to reduce compensation costs.

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

SURVEY SCOPE

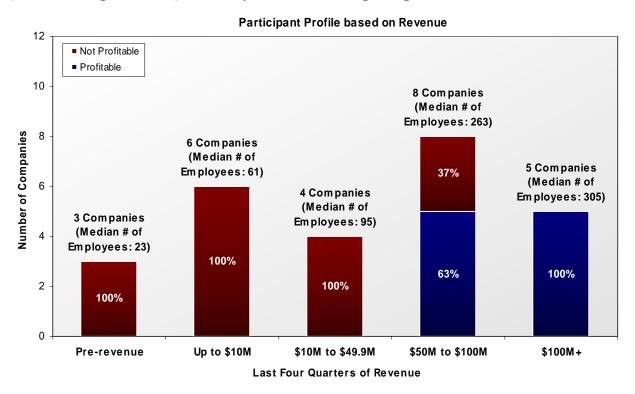
Participant data was collected on cost-cutting compensation measures at twenty-six pre-IPO companies. The report covers the following topics:

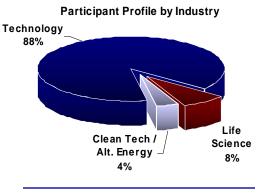
- Merit Increase Budget Adjustments
- Base Salary Reductions
- Annual Incentive Bonus Adjustments
- Equity Compensation Reductions
- Hiring Freeze
- Employee Headcount Reductions

^{1.} This report covers only companies that participated in the December 2008 Pre-IPO Survey and responded to Compensia's most recent data request for the March 2009 update. For information detailing our original survey, please contact Jin Fu at jfu@compensia.com.

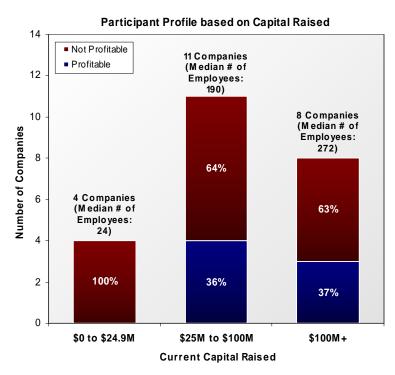
PARTICIPATING ORGANIZATIONS

Our study consists of 26 pre-IPO companies; survey results will be separated using revenues, capital raised figures, and profitability into the following categories:





- 88% 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
- 38% of participating companies are currently profitable



^{1.} Three companies did not disclose current capital raised; they have been excluded from our capital raised data cuts. ©2009 Compensia

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EXECUTIVE SUMMARY

ANNUAL MERIT INCREASE BUDGET

- Overall, 92% of companies are eliminating or reducing their annual merit increase budget, however there is significant variation between both revenue and capital raised data cuts
 - 63% of companies are eliminating the merit increase budget
 - 29% of companies are reducing the merit increase budget
- 8% of companies are making no changes to their annual merit increase budget
- The overall average FY09 merit increase budget is 1.0% of payroll

BASE SALARY

▶ 8% of companies are planning to reduce base salaries for all employees

ANNUAL INCENTIVE BONUS

- ▶ 85% of companies have a formal bonus plan for their employees
 - 65% of these companies paid a bonus for FY08, compared to 70% that paid bonuses for FY07
 - Size of FY08 bonuses compared to FY07 vary
 - 38% will be the same
 - 38% 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

EOUITY COMPENSATION

- None of the companies surveyed are planning to eliminate equity compensation
- ▶ 19% of companies are planning to reduce new hire equity grants; 15% of companies are reducing promotional grants; and 12% are reducing ongoing grants
- ▶ 21% of companies are planning to increase equity compensation

OVERALL COMPENSATION MEASURES

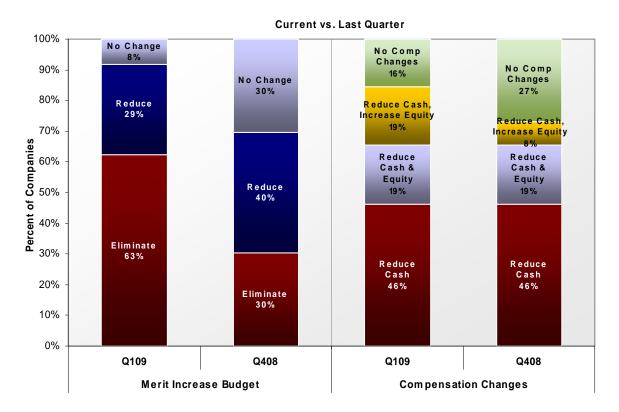
- ▶ 16% of companies have no plans to reduce compensation. Other companies are taking the following measures:
 - 46% reduce cash or salary increases (through merit increase reductions/eliminations, bonus reductions/eliminations, or salary reductions)
 - 19% reduce cash or salary increases and reduce equity
 - 19% reduce cash or salary increases and increase equity usage
 - No companies have only reduced equity

HEADCOUNT MEASURES / HIRING FREEZE

- > 35% of companies have implemented, or are planning to implement, a hiring freeze
- 42% 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 18%

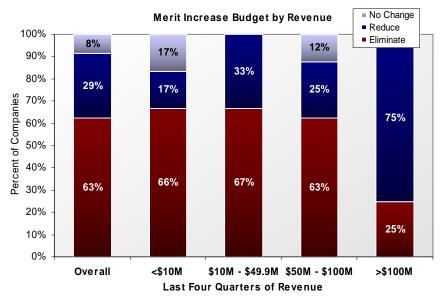
Q109 VS Q408 COMPENSATION CHANGES

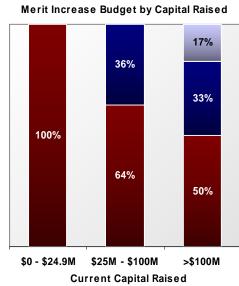
- From Q408 to Q109, prevalence of the following compensation measures utilized to reduce costs remained flat
 - Reduce base salaries
 - Reduce or eliminate incentive bonus payout
 - Reduce or eliminate equity compensation
- Surprisingly, the number of companies implementing a hiring freeze and/or reducing headcount also showed no increase
- Changes seen in the last quarter relate to merit increase budgets and increased equity usage

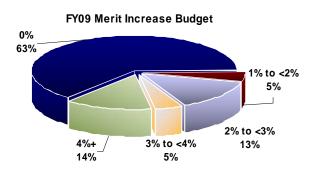


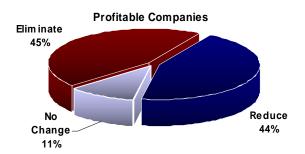
- ▶ The most significant change in the last quarter was the reduction of annual merit increase budgets; the number of companies eliminating budgets altogether has doubled since last quarter
 - In Q408, the average merit increase budget dropped from 4.4% to 2.4% of payroll; budgets fell again in Q109 to an average of 1.0% of payroll
 - Of companies who plan to provide for merit increases, the average pool is 3.0% of payroll
 - While these changes have affected companies from all data cuts, eliminating the merit increase budget is more prevalent among companies with lower revenue run rates
- Prevalence of equity usage to offset reduced / frozen cash compensation rose from 8% of companies to 19%
 - The trend of increased equity usage will likely continue through the year as companies continue to reduce cash compensation

ANNUAL MERIT INCREASE BUDGET

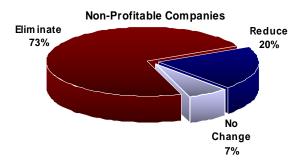








- Overall, 92% of companies are planning to eliminate or reduce their annual merit increase budget with the prevalence of reductions greater at smaller and non-profitable companies
- Companies are reducing their merit increase budget, on average, by 2.1% of payroll to 1.0%
- Of companies that plan to provide merit increases, the average budget is 3.0% of payroll

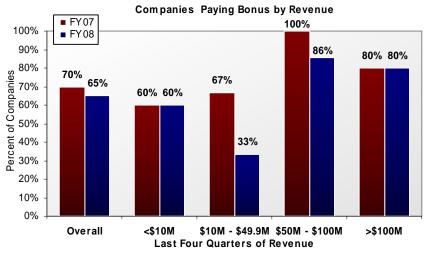


BASE SALARY

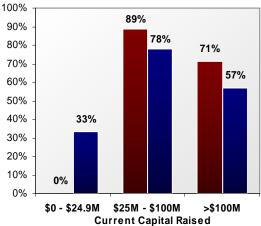


- ▶ Only 8% (n=2) of companies are planning to reduce base salaries
- Of companies reducing base salaries, both affect all employees
- ▶ Both companies planning to reduce base salaries are currently non-profitable

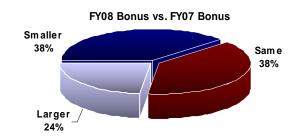
ANNUAL INCENTIVE BONUS



Companies Paying Bonus by Capital Raised



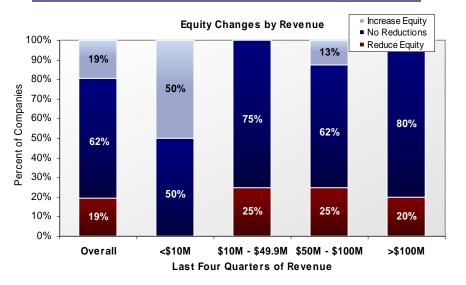
- ▶ 85% of companies have an annual incentive plan
 - 100% of profitable companies have a bonus plan compared to 75% of non-profitable companies
 - Of these companies, 90% of profitable companies paid bonuses for FY07 and 90% plan to pay bonuses for FY08; 58% of nonprofitable companies paid bonuses for FY07 and 50% plan to do so for FY08
- For FY09 bonuses (to be paid in FY2010), 86% of companies have not yet made any changes to the bonus plan, 9% are eliminating FY09 bonuses, and 5% are cutting the FY09 bonus pool

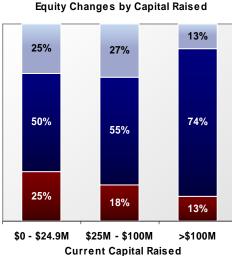


- 1. Prevalence numbers exclude companies that did not disclose information / are undecided.
- 2. Annual incentive bonus prevalence calculations only include companies that have a formal bonus plan.

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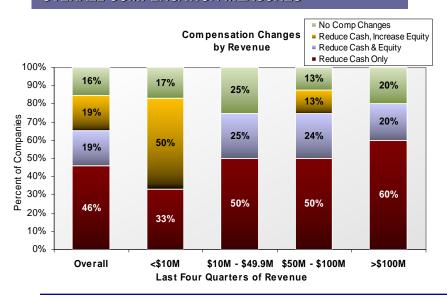
EQUITY COMPENSATION



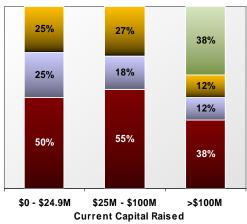


 80% of companies planning to reduce equity are currently non-profitable companies. Only non-profitable companies are planning to increase equity usage to offset cash compensation reductions

OVERALL COMPENSATION MEASURES

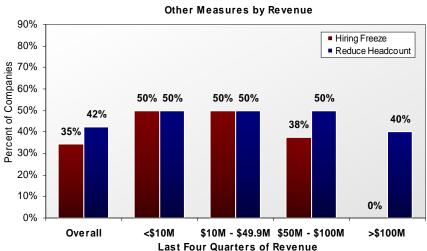


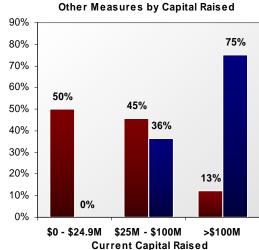
Compensation Changes by Capital

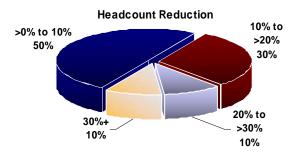


- Overall, cash reductions are the most prevalent measure taken to reduce compensation costs
- Among smaller and non-profitable companies, reduced cash compensation has been supplemented with increased equity usage
- Hiring freezes and headcount reduction have been excluded from the prevalence calculations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

HEADCOUNT REDUCTION / HIRING FREEZE







- Prevalence of hiring freezes and headcount reduction is relatively consistent between profitable and nonprofitable companies
 - 30% of profitable companies and 38% of non-profitable companies are planning to implement a hiring freeze
 - 40% of profitable companies and 44% of non-profitable companies are planning to reduce headcount
- Of companies reducing headcount, average reduction is 18% of employees

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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