Aspirations 2012

The IPO Abyss:

Splunk-ing through the Challenges of Equity and Executive Compensation

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Topics to be Covered

- Equity program overview
- Executive compensation planning and first-time public disclosure
- Board compensation
- IPO checklist

Equity Practices Comparison

Element	Typical Private Philosophy	Typical Public Philosophy
Award Setting	• Established based on a target ownership percentage as a percent of fully diluted shares	• Equity grants are established based on a target value ($) • Converted to a number of options/shares based on current stock prices
New-Hire vs. Ongoing/ Refresh Grants	• Large new-hire grants • Refresh grants delayed until IPO approaches, or 2-3 years after hire • Refresh guidelines set anywhere from 25% to 33% of new-hire awards	• New-hire award typically 2x ongoing award size • Most employees eligible for ongoing award after one year of service
Vehicle Mix	• Predominantly stock options ***(A few notable exceptions have used RSUs pre-IPO recently; however, this requires cash reserves to address employee taxes)***	• Mix of stock options and RSUs • Emphasis toward RSUs as businesses mature • Prevalent use of performance shares for executives as company matures
Participation	• New hires: nearly 100% • Refresh awards: targeted at key performers and those employees greater than 50% vested (25% to 30% of population receives)	• New hires: participation decreases as company increases in size (may eliminate eligibility altogether below certain levels) • Ongoing awards: Broad eligibility is maintained, although awards targeted at top performers (40% to 60% of population receiving annually)

Equity Plan Modifications at IPO

- Adoption of equity plans with evergreen provisions are still a majority practice with annual evergreen funding typically ranging from 3% to 5% (median of 4%)

Practice at IPO	2011/2012 Technology Practices
New Equity Plan (% of companies)	88%
Prevalence of Evergreen (% of companies)	71%
Median post-IPO Annual Evergreen Funding (% of post-IPO total common)	4.0%
Immediate Funding for Plans w/ Evergreen (% of post-IPO total common)	6.0%
Immediate Funding for Plans w/o Evergreen (% of post-IPO total common)	8.7%
Adoption of ESPP (% of companies)	35%

Source: Radford's IPO Compensation Database.

ESPP – NorCal is a Unique Market

- Among technology sector companies based in Northern California, 68% report the use of an ESPP; key plan design features include:
    - 75% of companies with an ESPP have a 6-month purchase/offering period, followed distantly by 12% of companies with a 24-month period
    - 93% of companies continue to offer a 15% discount rate
    - 67% of plans have a look-back period
    - Most companies report eligibility levels between 51% and 75% of employees

Source: Radford Global Technology Stock by Level Report - NorCal cut

Changes in Compensation Philosophy

Element	Typical Private Philosophy	Typical Public Philosophy
Peer Group	• Typically, no specific peer group • Focus on comparative companies that are similar in size, and stage of development • Key metrics may include industry, invested capital, stage of development, revenue, and employee size	• Specific group of 15 to 20 identified public peer companies • Focus is on revenue and market capitalization
Cash Approach	• Base salary must be "in the ballpark" • Annual bonuses exist, but typically at lower levels	• Base salary: 50th percentile • Annual bonus: 50th percentile or above, emphasizing at-risk nature of compensation
Equity Approach	• Aggressive award sizes, especially to those taking on risk at early entry • Decreasing award size as companies mature • Vehicle: Predominantly stock options • Metric: Ownership percentage	• 50th percentile and could be up to 75th based on performance • Vehicle: Options, RSUs, performance shares • Metric: Value
Pay for Performance	• Egalitarian, "all in this together"	• Targeted to key roles and high performers

Transitioning Executives from Private to Public

24+ months to IPO	12-24 months to IPO	6-12 months to IPO
• Private company data based on general profiles (employee size, revenue, invested capital, stage of development) • Ensure pay levels are consistent with agreed upon philosophy against other private companies	• Examine recent IPO companies that have filed to understand cash and ownership levels at time of IPO • Add private and public company data to all analyses (gap analysis: “current state” vs. “future state”) • Philosophy may be bifurcated (50th percentile against private, 25th percentile against recent IPO) • Complete a retention analysis post-IPO	• Establish public company peer group • Conduct executive compensation assessment; utilize data from private and public companies • Agree to public company philosophy in preparation for CD&A • Begin implementing transition strategies (e.g., gap closures over a 2-3 year period)

Executive Compensation

- Public companies place a greater emphasis on cash compensation with less overall emphasis on equity

Position: CEO	Technology		Life Sciences	
	Private	Public (<$500M)	Private	Public (<$500M)
Base Salary (50th)	$275,000	$450,000	$354,000	$511,000
Target Total Cash (50th)	$401,000	$900,000	$491,000	$833,000
Ownership (50th)				
All	4.48%	3.25%	4.65%	2.66%
Founder	6.61%	8.07%	5.86%	3.97%
Non-Founder	4.24%	2.26%	4.19%	2.40%

Source: Radford Pre-IPO/Venture-Backed Survey; Global Technology and Life Sciences Surveys

Executive Contractual Arrangements

- Implement severance/change-in-control provisions prior to going public

	CEO	Direct Reports to CEO	Vice Presidents
Severance Associated with Involuntary Termination	• Typically, 12 months base salary • 12 months benefit continuation, tied to severance period • Equity acceleration is less prevalent and those that do provide typically do so pro-rate (e.g., 12 months)	• 6 to 12 months base salary only • Benefits tied to length of severance period • Equity acceleration is less prevalent and those that do provide typically do so pro-rata (e.g., 12 months)	• 6 months base salary • Benefits tied to severance period
Change-in-Control	• More companies include bonus, but 12 months is still very common • Benefits continuation mapped to severance period • Full vesting acceleration upon double trigger	• More companies include bonus, but 12 months is still very common • Benefits continuation mapped to severance period • Full vesting acceleration upon double trigger	• 6 months base salary • Benefits mapped to severance period • See a mix of full acceleration and partial acceleration (e.g., 50%)

When to Implement Board Compensation

- A number of events leading up to an IPO increase the burden of Board services and may warrant recruitment of independent Directors as well as implementation of director compensation plans

18 mos to IPO

- Formation of Audit Committee
- Addition of non-investor board member (e.g., sitting CEO, technical/scientific advisor, other financial expert)

12 mos to IPO

- Formation of Compensation and/or Governance Committees
- Banker/underwriter selection
- Hiring to round out the executive team that will bring the company public
- Evaluation and engagement of outside advisors to prepare for IPO (e.g., consultants, auditors, legal counsel)

6 mos to IPO

- Drafting prospectus filings
- Preparing executive compensation disclosures
- Conducting investor outreach

Director Compensation Overview

<table>
<tr><th>Issue</th><th>Technology</th><th>Life Sciences</th></tr>
<tr><td>Cash Retainer vs. Meeting Fees</td><td>• 96% of companies report providing Board members cash compensation via an annual cash retainer compared to 34% that are also utilizing per meeting fee compensation</td><td>• 92% of companies provide cash via an annual retainer compared to 41% that are also utilizing per meeting fee compensation</td></tr>
<tr><td>Committee Compensation</td><td colspan="2">• Similar to Board compensation, 80% to 90% of companies provide cash to Committee Chairs via an annual retainer compared to 30% that are using meetings fees
• Less than 10% of companies provide additional equity to Committee Chairs and members
• Chairs are receiving 2x the cash amount compared to members
• Audit Chairs/members are still the most highly paid, followed by Compensation Committee Chairs/members and then the Nominating/governance Committee</td></tr>
<tr><td>Equity - Options vs. RSUs</td><td>• Significant migration within the industry toward RSUs over the past few years
• 50% of companies within Radford's database are solely utilizing RSUs compared to 28% that are relying on stock options
• 22% of companies use a mix of both options and RSUs</td><td>• Still a heavy reliance on stock options to provide compensation to Board members
• 61% of companies are using stock options only compared to ~20% that are using RSUs only and another ~20% using a combination of options and RSUs</td></tr>
</table>

Source: Radford's Proprietary Database

Average Compensation Levels

- Similar to executive compensation, larger companies pay outside Directors more in both cash and equity

Company Size	# of Outside Board Members	Board Member Compensation – 50th		
		Cash	Equity	Total
Technology				
- Over $5B in Revenue	9	$90,000	$130,000	$245,000
- $1B to $5B in Revenue	7	$70,000	$140,000	$215,000
- $500MM to $1B	7	$65,000	$115,000	$195,000
- Below $500MM	6	$45,000	$85,000	$135,000
Life Sciences				
- Over 1,000 Employees	8	$70,500	$160,000	$230,000
- 500 to 1,000 Employees	7	$57,000	$100,000	$170,000
- 100 to 500 Employees	7	$51,000	$59,000	$113,000
- Below 100 Employees	6	$45,000	$35,000	$80,000

Source: Radford's Proprietary Database

IPO Compensation Checklist

- ✓ Assess the overall retention value of your equity programs by examining ownership levels for employees to determine if any adjustment/refresh grants should be considered prior to an IPO
- ✓ Develop appropriate survey data sets or a peer list of publicly traded companies to be used to assess executive and Board of Director compensation levels
- ✓ Develop a compensation philosophy and a transition strategy to migrate compensation programs from private company to public company environments
- ✓ Assess the competitiveness of the executive compensation program against approved peer or survey companies covering salary, incentives and equity
- ✓ Review cash incentive practices at peer companies and begin to explore alternatives to align your existing programs with public company market practices

IPO Compensation Checklist

- ✓ Review current executive contractual arrangements (severance and change-in-control) and ensure they are consistent with peer group and governance best practices
- ✓ Review and design an equity strategy for the pre- and post-IPO environment covering the broad employee population, including potential evergreen provisions and Employee Stock Purchase Plan (ESPP) programs
- ✓ Implement a Board of Director compensation program that is consistent with public company peer practices once appropriate
- ✓ Draft and review a Compensation Discussion & Analysis Section (CD&A) to be filed as part of the S-1 Prospectus
- ✓ Assess potential risks in executive compensation programs and provide guidance on key corporate governance and investor issues

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