

Executive Compensation: Insights from the 2011 CompStudy Survey of Venture-Backed Companies

Technology Edition
December 13, 2011



WILMER CUTLER PICKERING HALE AND DORR LLP

J. ROBERT SCOTT
EXECUTIVE SEARCH

Noam Wasserman

*Associate Professor
Tukman Faculty Fellow
Harvard Business School*



- ▶ CompStudy overview
- ▶ Current *Founder's Dilemmas* research
- ▶ 2011 Survey – company profiles
- ▶ Summary compensation data
- ▶ CEO compensation review
- ▶ Hot topics and current trends



Kimberly Wethly
WilmerHale
Partner



Mick Bain
WilmerHale
Partner



Aaron Lapat
J. Robert Scott
Managing Director



Noam Wasserman
Harvard Business School
Associate Professor, Tukman
Faculty Fellow

- ▶ **CompStudy overview**
- ▶ Current *Founder's Dilemmas* research
- ▶ 2011 survey – company profiles
- ▶ Summary compensation data
- ▶ CEO compensation review
- ▶ Hot topics and current trends

CompStudy.com

All reporting now done on our online, fully interactive platform, located at CompStudy.com.

Participants in the annual survey receive free, year-long access to the reports.

New features for 2011:

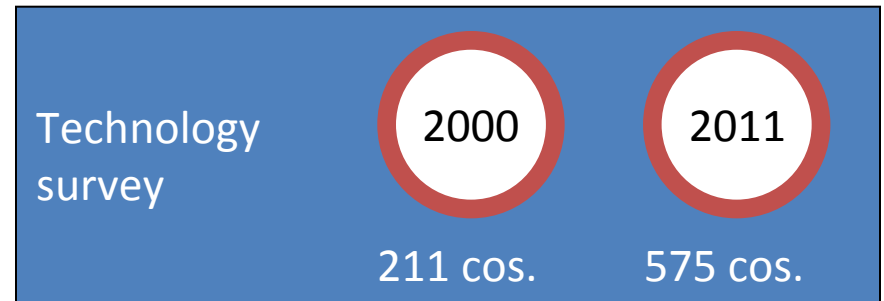
- Board data
- Print-to-PDF for all reports
- VC Scorecards



The CompStudy.com Survey

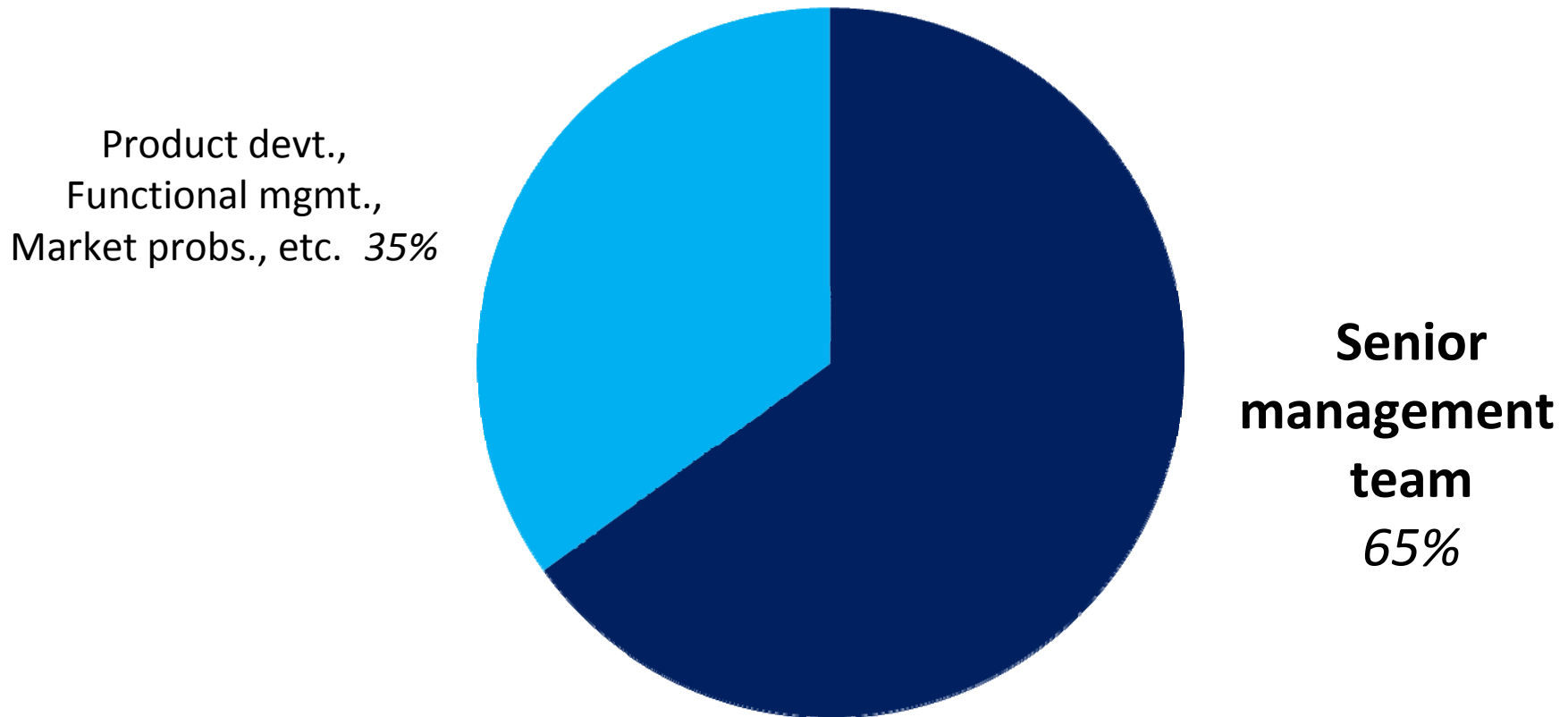
Data collected in every survey includes:

- Cash compensation and equity
- Founding team
- Financing history
- Company size
- Products/revenue
- Equity programs
- Executive backgrounds
- Board of directors



- ▶ CompStudy overview
- ▶ **Current *Founder's Dilemmas* research**
- ▶ 2011 survey – company profiles
- ▶ Summary compensation data
- ▶ CEO compensation review
- ▶ Hot topics and current trends

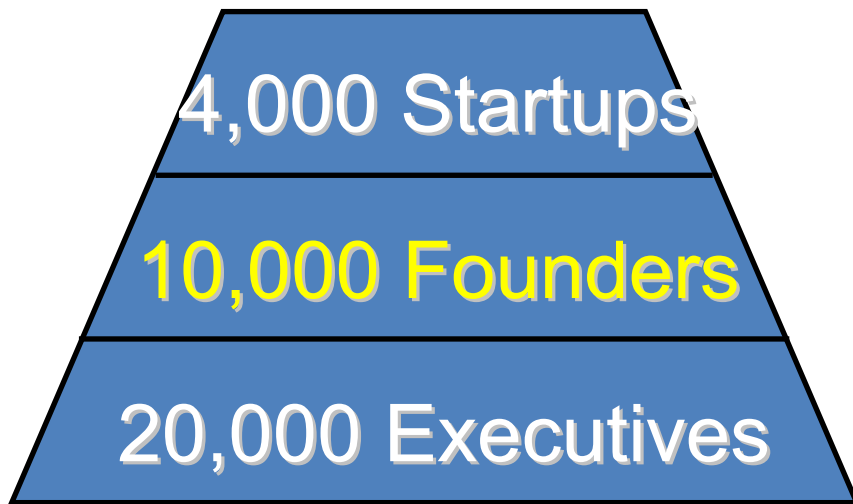
Causes of Failure in VC-backed Ventures



Sahlman and Gorman (1989), "What Do Venture Capitalists Do?" *Journal of Business Venturing*. (65% ex post)

Also: Kaplan and Stromberg (2004), "...Evidence from VC Analyses," *Journal of Finance*. (61% ex ante)

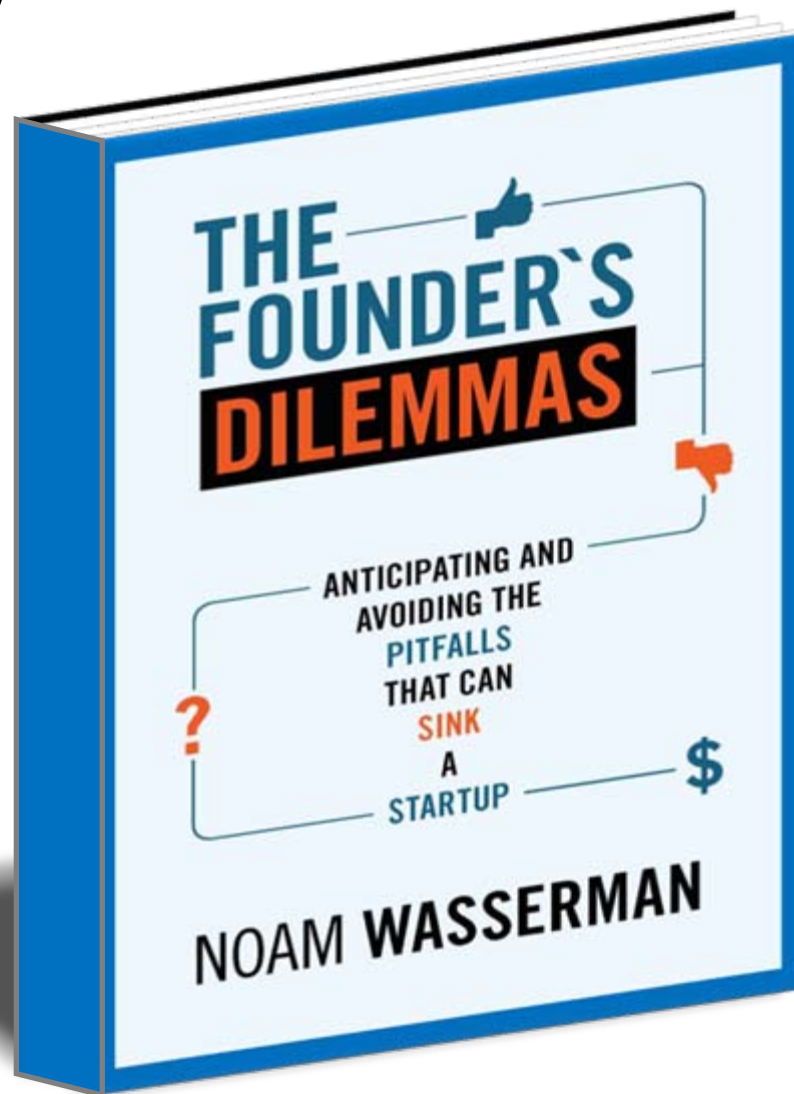
First decade of CompStudy
(2000-2009)



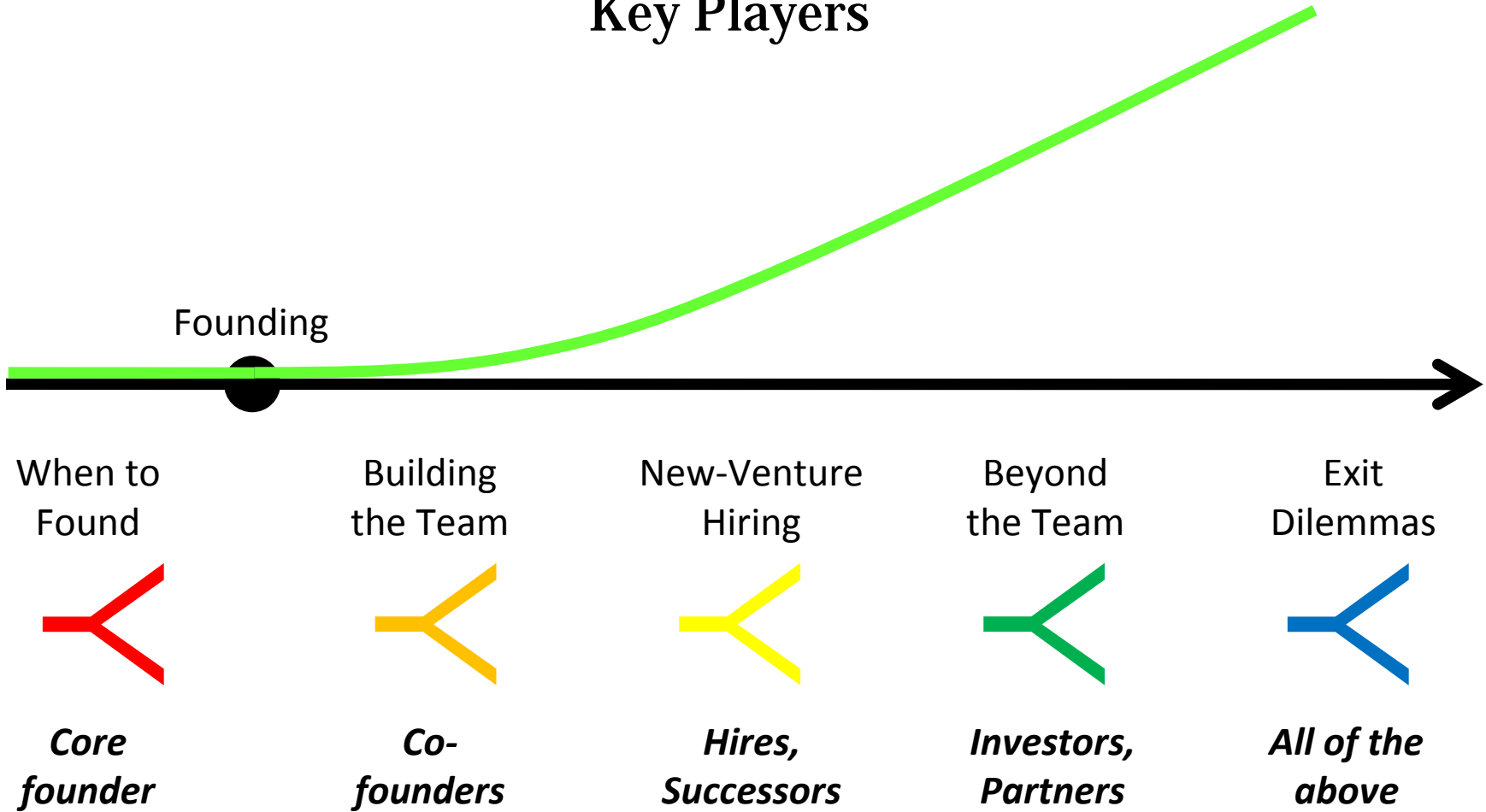
+

Inside stories of 30 founders:

- **Evan Williams** (Blogger, Odeo/Twitter)
- **Tim Westergren** (Pandora)
- **Genevieve Thiers** (Sittercity)
- **Dick Costolo** (FeedBurner, Twitter)



Key Players



THE FOUNDER'S DILEMMAS

I. Introduction and Pre-founding

- Career Dilemmas; "When to Found?"

II. Founding-Team Dilemmas

- Solo vs. Team Dilemmas
- Relationship Dilemmas: Flocking Together, Playing with Fire
- Role Dilemmas: Positions and Decision Making
- Reward Dilemmas: Equity Splits and Cash Compensation
- The "3Rs" System

III. Beyond the Founding Team: **Hires and Investors**

- Hiring Dilemmas: The Right Hires at the Right Time
- Investor Dilemmas: Adding Value, Adding Risks
- Failure, Success, and Founder-CEO Succession

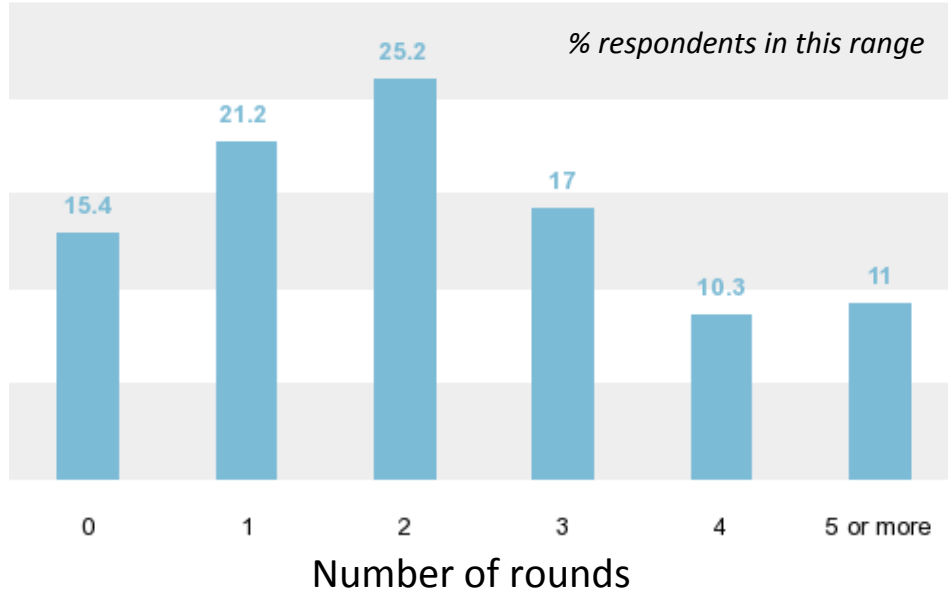
IV. Conclusion: **Wealth vs. Control** Dilemmas

What is your company's current operational outlook on the economy:

- A. The economy has turned a corner and we are beginning to see expansion opportunities
- B. It still looks and feels like a recession—capital efficiency is king
- C. We can't tell—that's the problem

- ▶ CompStudy overview
- ▶ Current *Founder's Dilemmas* research
- ▶ **2011 survey – company profiles**
- ▶ Summary compensation data
- ▶ CEO compensation review
- ▶ Hot topics and current trends

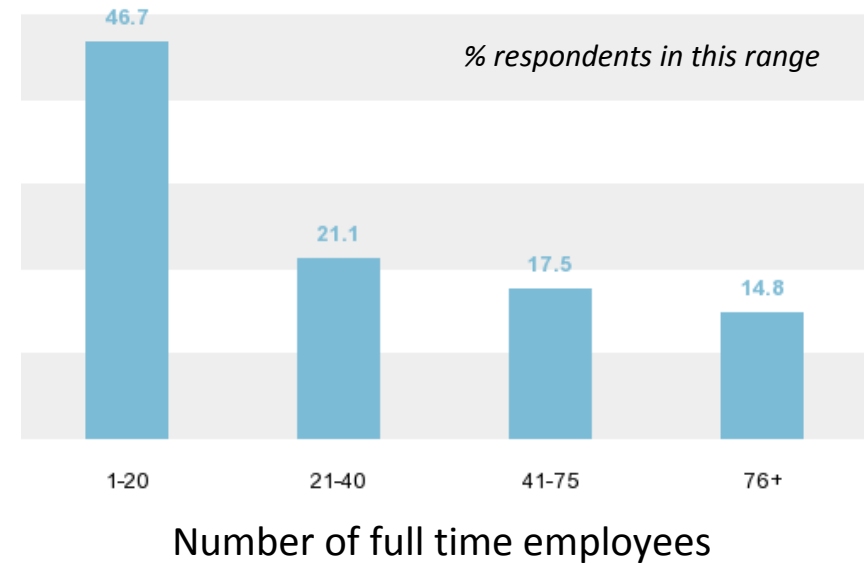
Institutional rounds raised



Respondent companies were slightly later stage in this year's survey, with fewer companies having raised no institutional money, and more having raised five or more rounds.

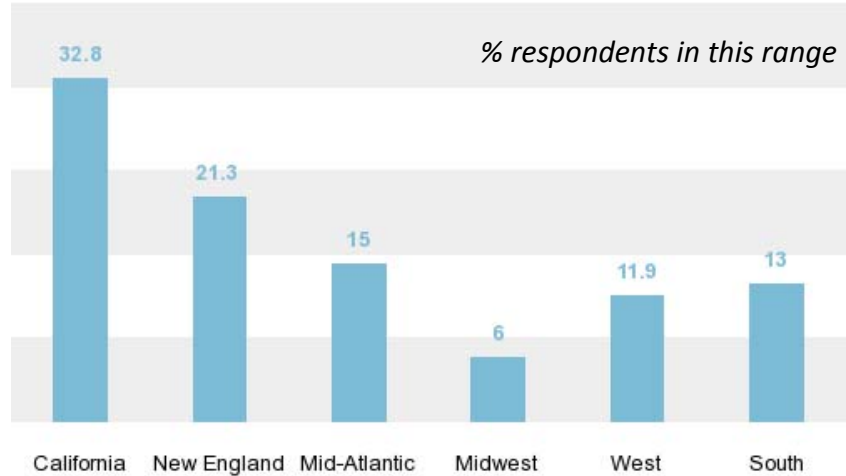
Companies were also slightly larger; 53% had over 20 full time employees, up from 49% in 2010

Headcount

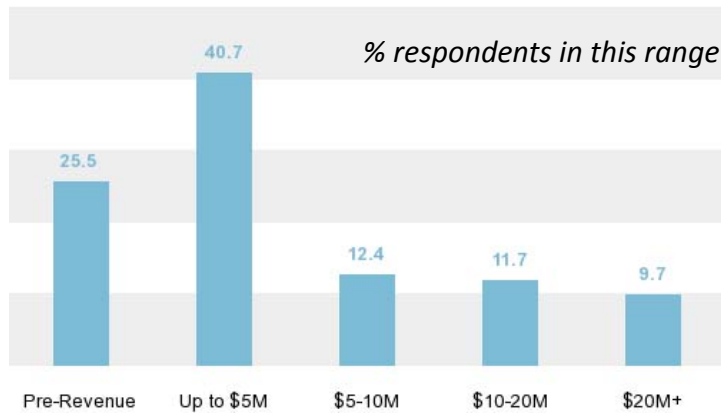




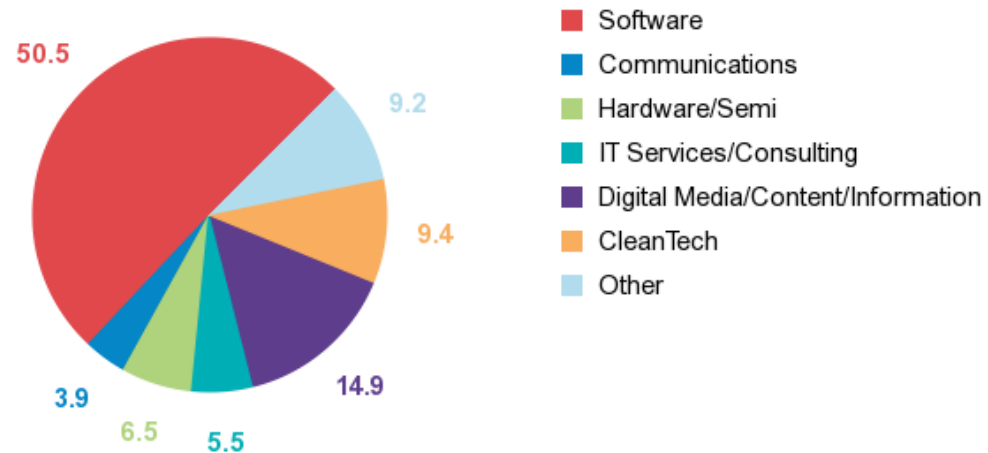
Geography



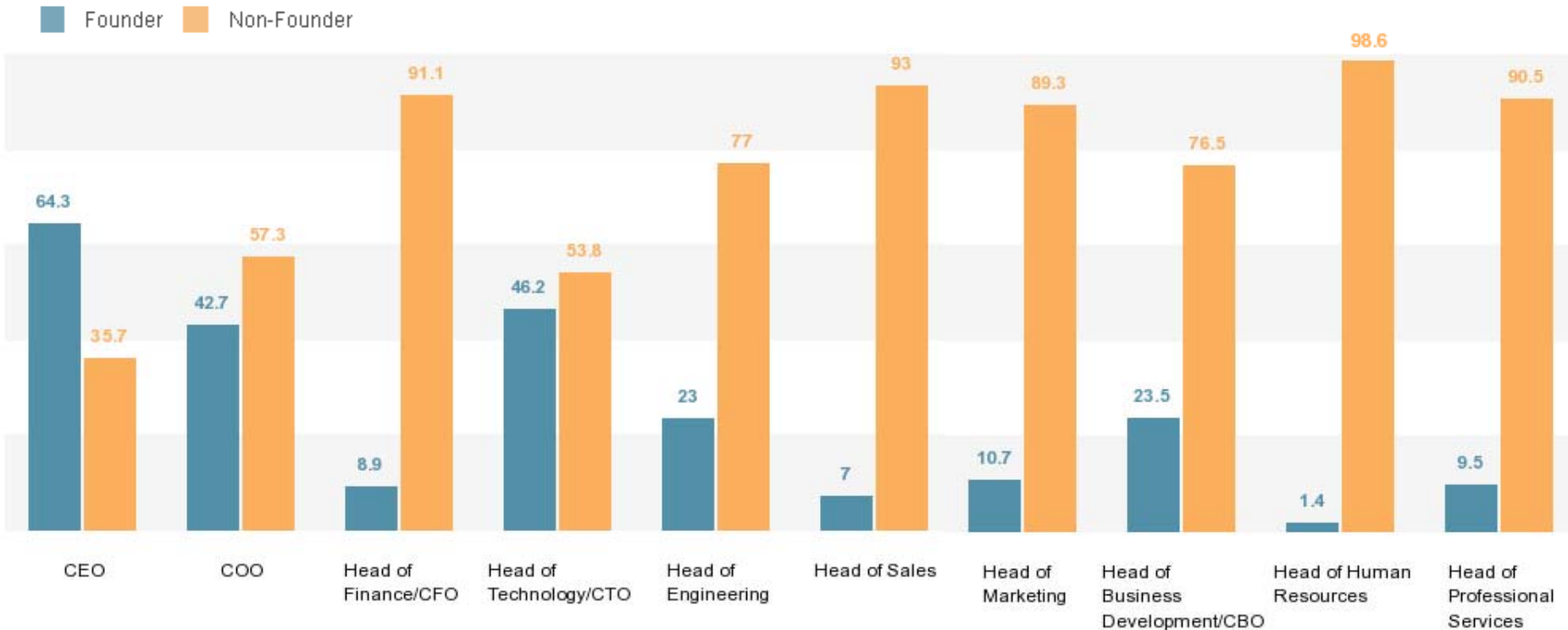
Revenue



Business Segments



Founder status - % of role held by founders vs. non-founders



- Participants had essentially the same founder/non-founder split by position profile as in 2010

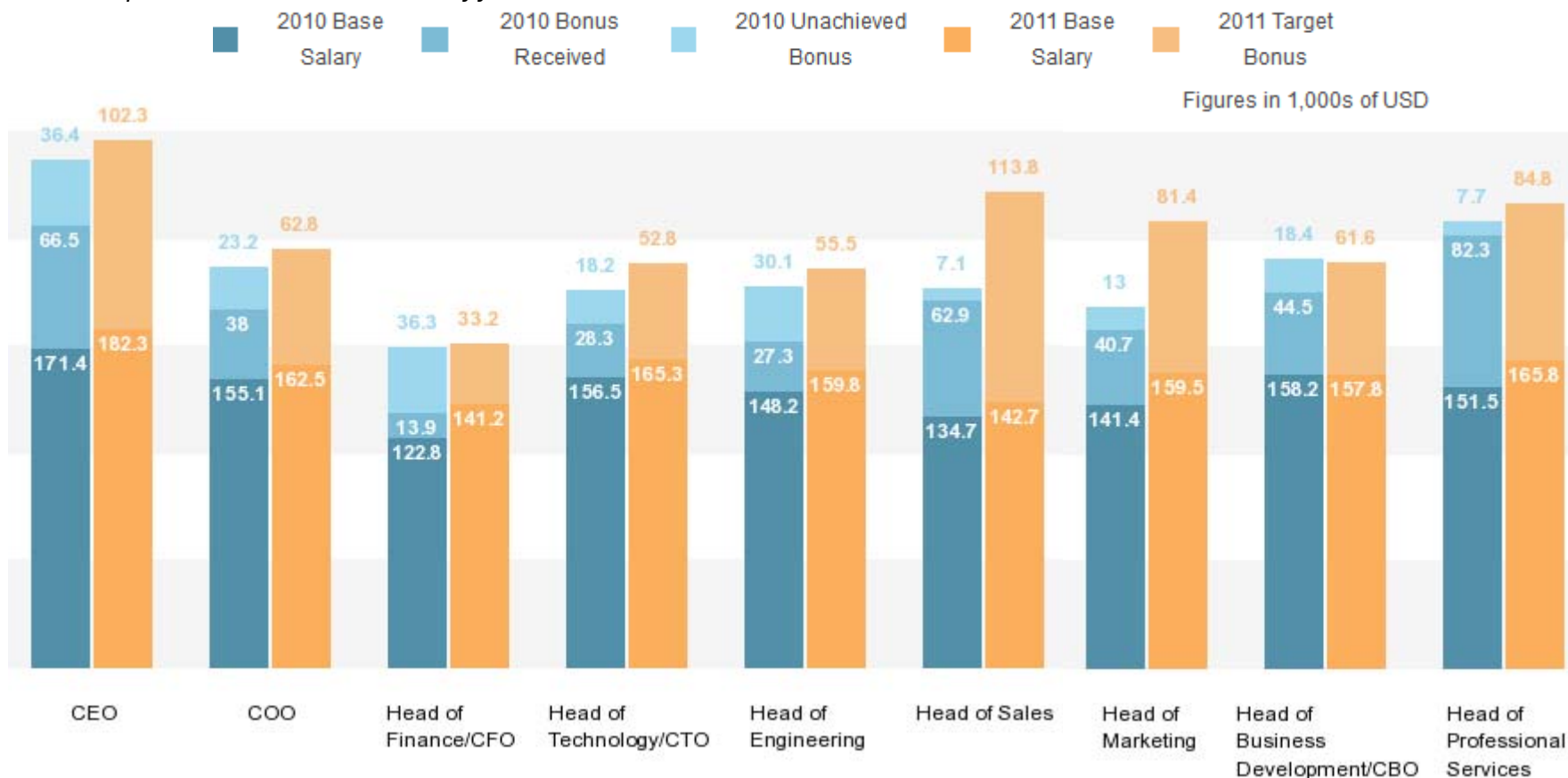
What change do you anticipate for base salaries next year?

- A. Decrease greater than 5%
- B. Decrease up to 5%
- C. No change
- D. Increase up to 5%
- E. Increase over 5%

- ▶ CompStudy overview
- ▶ Current *Founder's Dilemmas* research
- ▶ 2011 survey – company profiles
- ▶ **Summary compensation data**
- ▶ CEO compensation review
- ▶ Hot topics and current trends

Founder cash compensation

Fewer positions shown due to lack of founders in certain roles



Founders received a higher base salary bump than their non-founder peers – averaging just over a 7% increase.

Founder current equity holdings, as % of fully diluted shares

Fewer positions shown due to lack of founders in certain roles

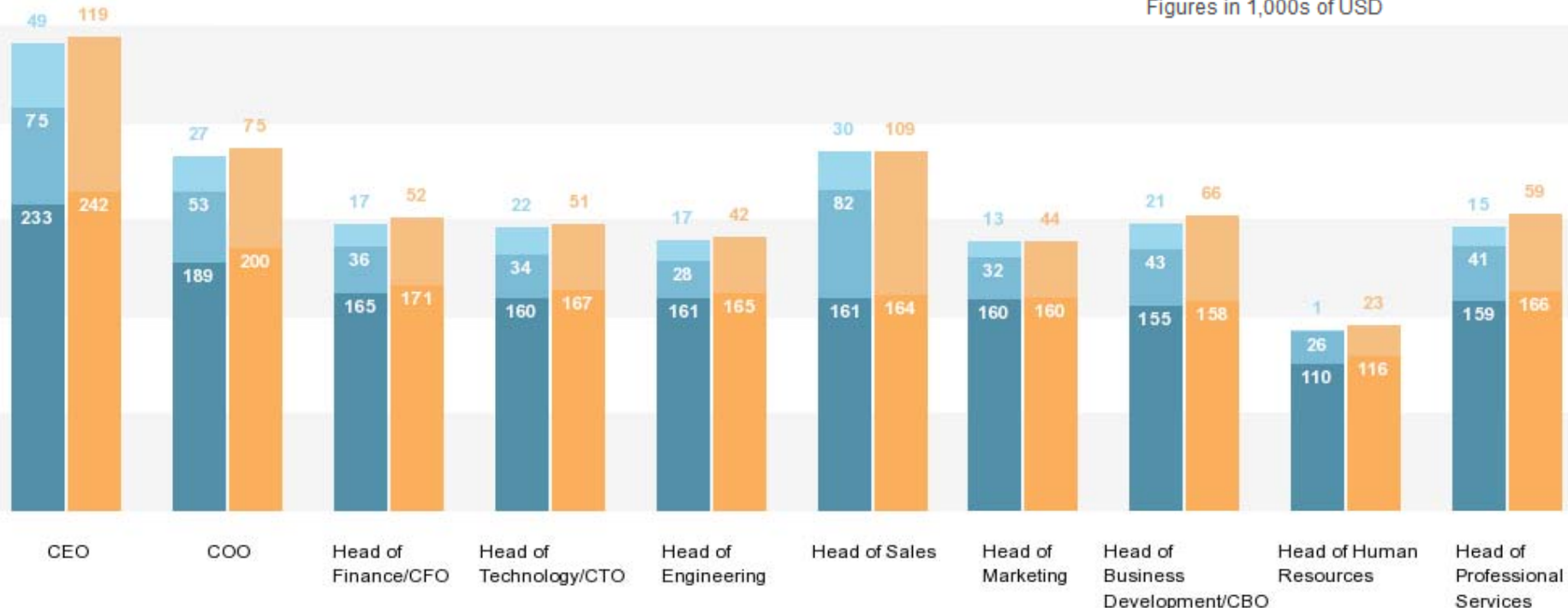


On the average, founders of technology companies hold significantly more equity than their life science peers – largely due to the less capital-intensive nature of most technology start-ups.

Cash compensation – non-founders, 2010 and 2011

■ 2010 Base Salary
 ■ 2010 Bonus Received
 ■ 2010 Unachieved Bonus
 ■ 2011 Base Salary
 ■ 2011 Target Bonus

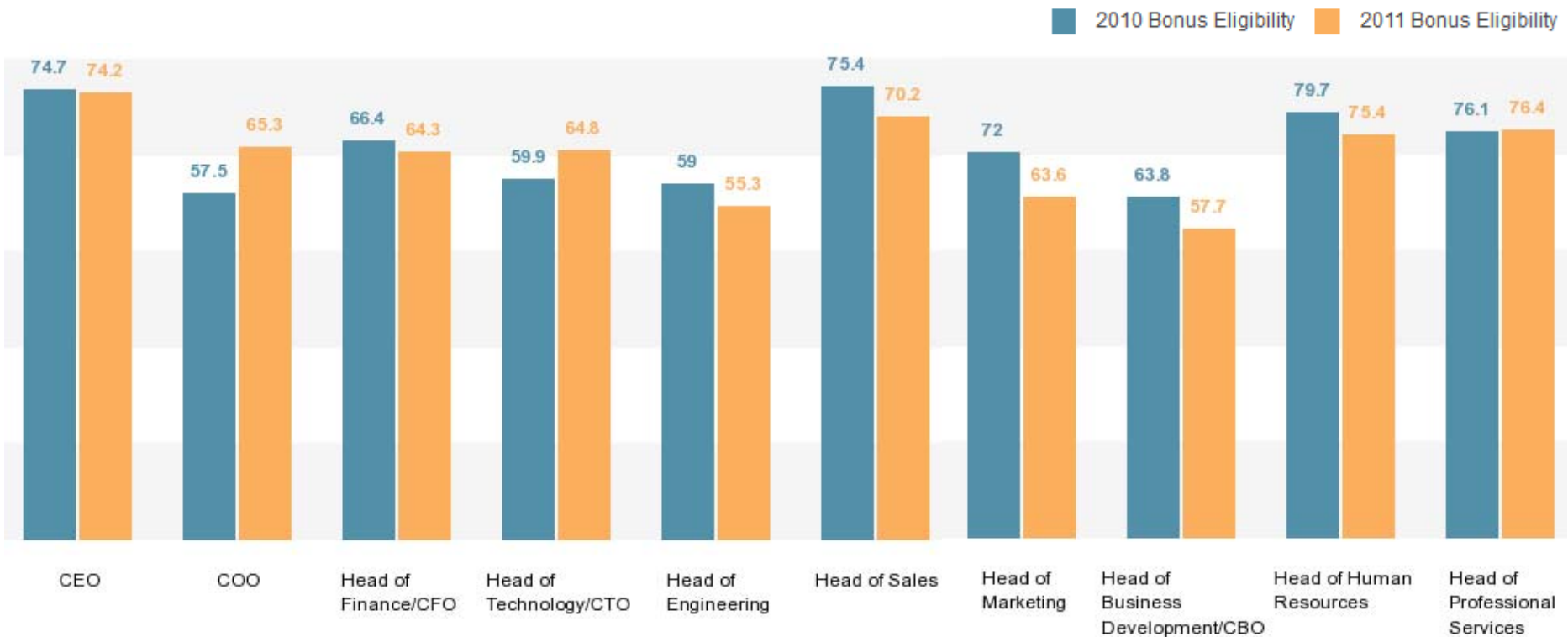
Figures in 1,000s of USD



Non-founder base salaries were up 3.7% in 2011, bettering their 3.3% year-to-year increase in 2010.

2011 target bonuses were down for 9 of the positions surveyed, dropping by an average of 5.2% over 2010 numbers.

Bonus eligibility - % of non-founder executives eligible

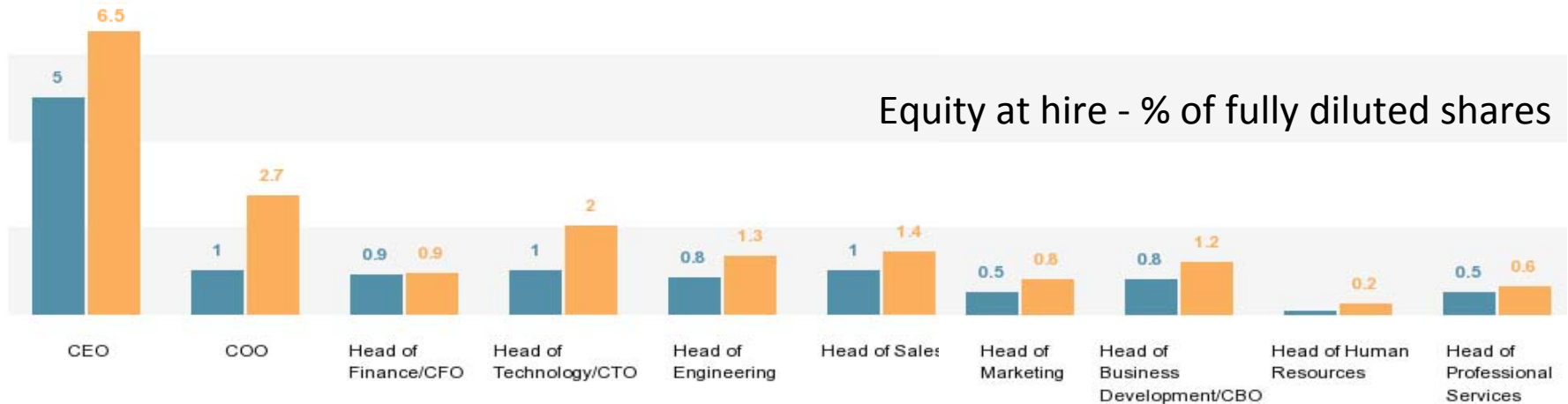
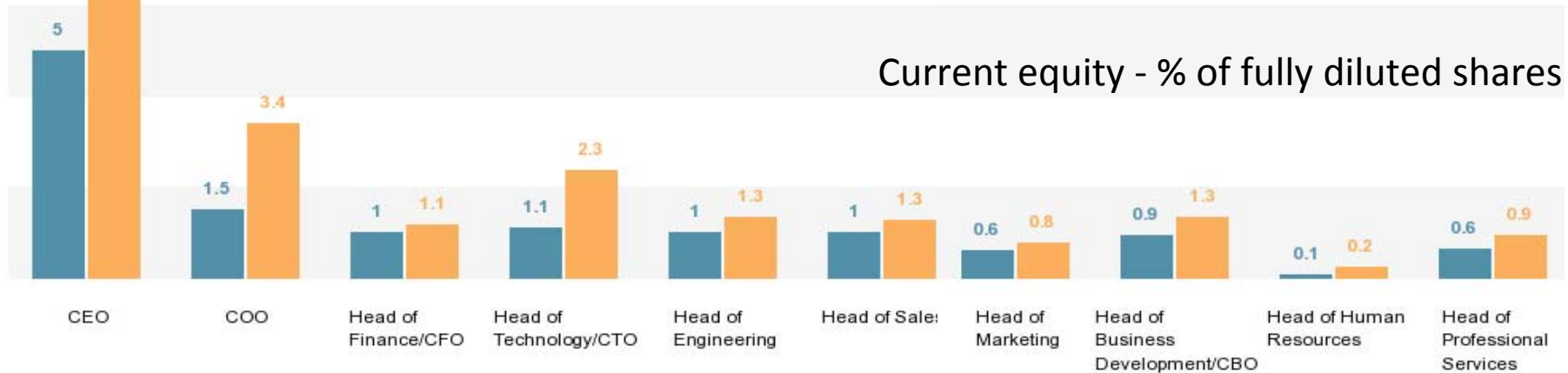


What percentage of the equity in your company is reserved for management, directors and employees?

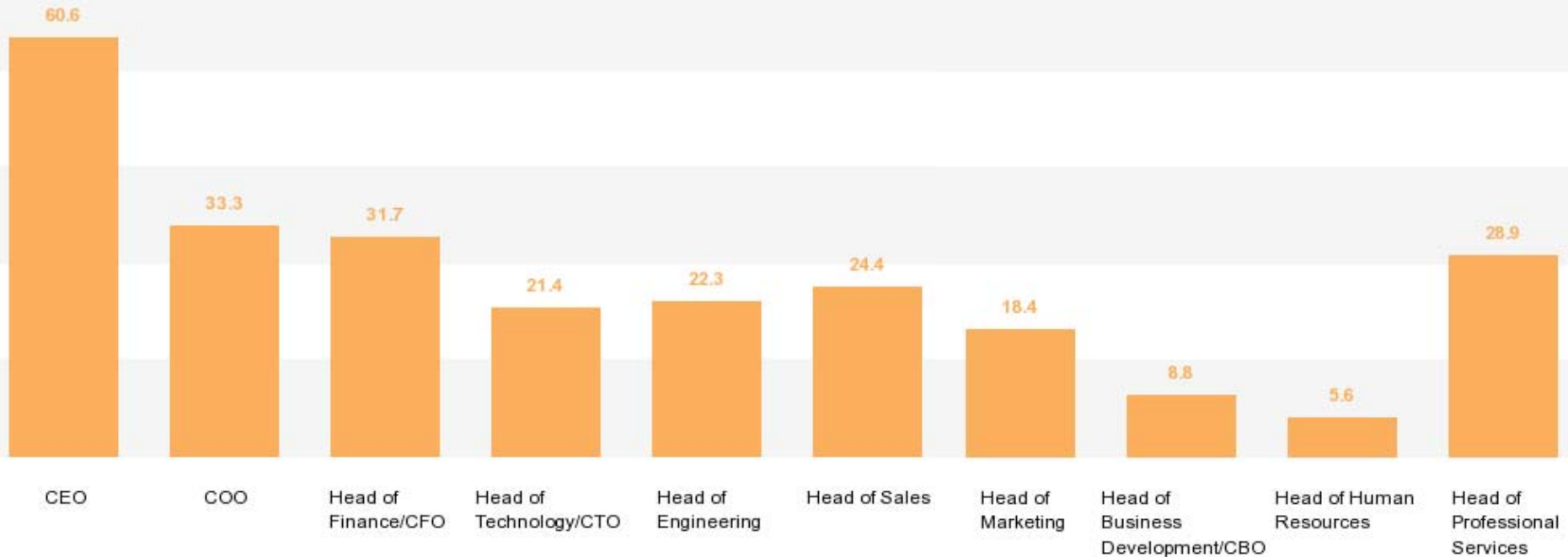
- A. Less than 10%
- B. 11 – 15%
- C. 16 – 20%
- D. 21 – 25%
- E. More than 25%

Equity holdings – non-founder executives

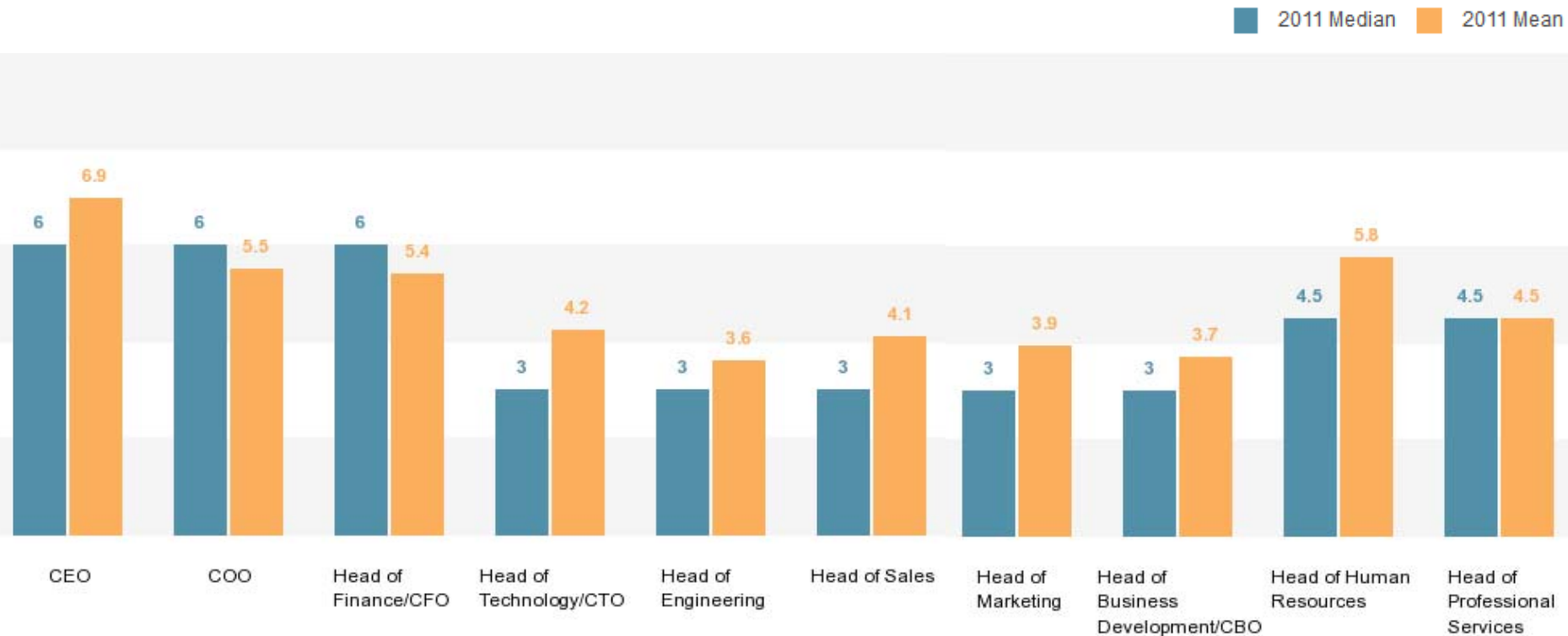
2011 Median 2011 Mean



Percentage of non-founder executives eligible for severance



Length of severance packages granted (months)

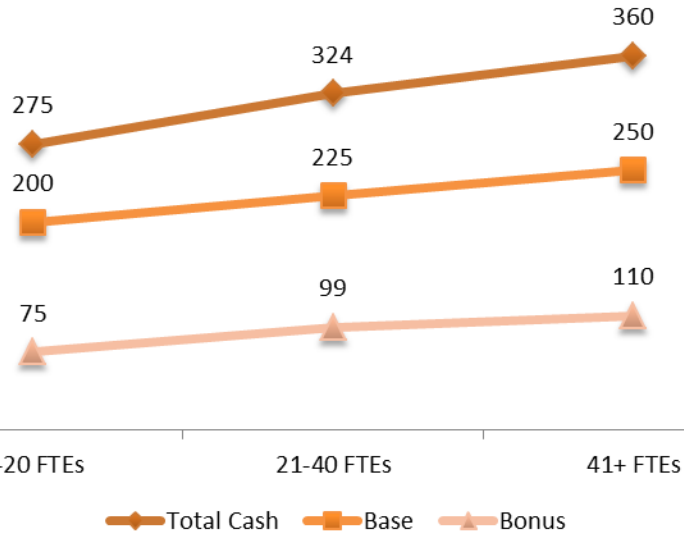


As the median numbers suggest, the length of most severance packages granted is a multiple of three months

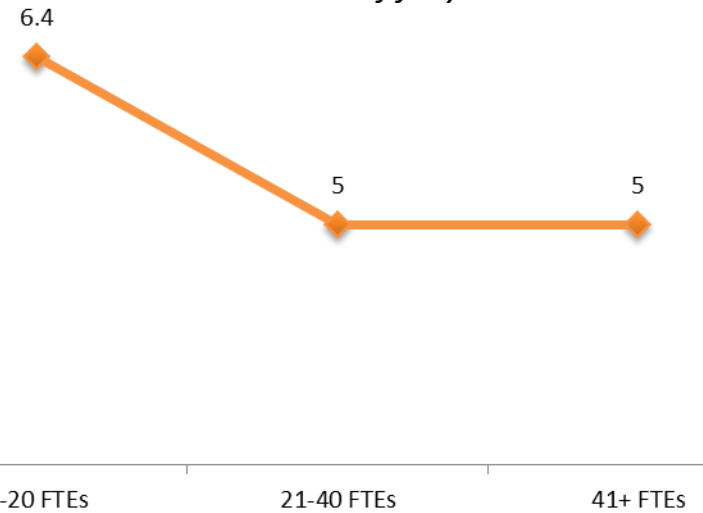
- ▶ CompStudy overview
- ▶ Current *Founder's Dilemmas* research
- ▶ 2011 survey – company profiles
- ▶ Summary compensation data
- ▶ **CEO compensation review**
- ▶ Hot topics and current trends

Median Non-founder Compensation by # of Full Time Employees

In 1,000s USD



% of fully diluted shares



- ▶ CompStudy overview
- ▶ Current *Founder's Dilemmas* research
- ▶ 2011 survey – company profiles
- ▶ Summary compensation data
- ▶ CEO compensation review
- ▶ **Hot topics and current trends**

- Doing more with less
 - Deferred compensation plans
 - Controlling costs vs. retention
- The effect of tax law changes on executive compensation
- The effect of secondary markets for common on compensation planning
- Performance based vesting



Kimberly Wethly
WilmerHale
Partner
Kimberly.wethly@wilmerhale.com



Mick Bain
WilmerHale
Partner
michael.bain@wilmerhale.com



Aaron Lapat
J. Robert Scott
Managing Director
aaron.lapat@j-robert-scott.com



Noam Wasserman
Harvard Business School
Associate Professor, Tukman
Faculty Fellow
nwasserman@hbs.edu

J. ROBERT SCOTT
EXECUTIVE SEARCH

WILMERHALE[®] [®]

WILMER CUTLER PICKERING HALE AND DORR LLP[®]