Ernst & Young and WilmerHale Release 2006 Compensation & Entrepreneurship Report For Information Technology and Health Sciences Industries

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According to the 2006 Compensation and Entrepreneurship Reports in IT and Life Sciences, total cash compensation for CEOs in both these industries showed robust growth in 2006. CEOs in the IT sector enjoyed a 4.3% increase in base salary and an overall 17% increase in total cash compensation, and Health Sciences CEOs reported a 16% rise in their total cash compensation with base salary accounting for 5.1% of that increase.

The report, co-sponsored by Ernst & Young LLP Strategic Growth Markets Practice, J. Robert Scott Executive Search, and Wilmer Cutler Pickering Hale and Dorr LLP collects data on the top executive positions in privately held, primarily venture-backed companies and presents a correlation between executive compensation and a number of other variables including financing stage, company size in terms of revenue and headcount, founder/non-founder status, industry segment, product stage and geography.

Identified trends in the IT sector include:

- Incentive stock options remain the most common form of equity granted, accounting for 62% of the aggregate equity given.
- Equity holdings for the founding CEO, President/COO and Chief Technology Officer drop significantly after the first round of financing.
- Average CEO salaries increased from $211,000 in 2005 to $220,000 in 2006.
- The average target bonus for the CEO is $93,000 in 2006 versus $57,000 in 2005.
- With the increasing headcount, total cash compensation for the CEO generally rises from $260,000 in companies with 20 full-time employees (FTEs) to $397,000 at the largest companies surveyed with greater than 75 FTEs.

Identified trends in the Health Sciences sector include:

- The average target bonus for the CEO in 2006 is $94,000, a rise of $39,000 from the 2005 actual.
- Average equity holdings across the 13 executive positions surveyed totaled 16.2%, an increase from 14.5% in 2005.
- There was an increase in the use of stock options in 2006. Approximately 82% of the companies surveyed utilized options while just 4% used restricted or common stock only.
- Approximately 66% of the non-founding CEOs in the survey have a severance package with a median of 12 months. Forty-four percent (44%) of non-founding CSOs (Head of Research and Development) had a severance package.
- A non-founding CEO commands a 22% premium in total cash compensation over the founding CEO.
- Dilution of equity for the founding CEO is consistent across rounds of financing raised, moving from an average of 18.10% at companies with one or fewer rounds raised, to 7% at companies with four or more rounds of financing.

The 2006 survey marks the annual Compensation and Entrepreneurship Report in Information Technology with the largest participation in the history of the survey with more than 2,000 executives responses.

Ernst & Young is a global leader in professional services committed to restoring the public's trust in professional services firms and in the quality of financial reporting.

J. Robert Scott is a retainer-based executive search firm specializing in the recruitment and selection of senior executives across a broad range of selected industries.

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