

Andrew Martinez

From: Andrew Martinez
Sent: Friday, February 21, 2020 4:22 PM
To: Rob Balgley (rbalgley@mersive.com); Dan Hudspeth
Cc: Paul Bridwell; Robert Young
Subject: RE: MIPs calculation and payout
Attachments: MIPS Metrics - 012320 revised 022120.xlsx

Hi Rob and Dan,

We've reviewed the file you sent. Let's set the payout at 150% and then we can move on. Feel free to pay that out right away. We'll follow up within the next week or so to discuss the 2020 MIP.

Thanks,

Andrew Martinez
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From: Andrew Martinez
Sent: Thursday, February 6, 2020 7:25 PM
To: Rob Balgley (rbalgley@mersive.com) <rbalgley@mersive.com>
Cc: Dan Hudspeth <dhudspeth@mersive.com>; Paul Bridwell <PBridwell@opengatecapital.com>; Robert Young <ryoung@opengatecapital.com>
Subject: RE: MIPs calculation and payout

Hi Rob,

Apologies for the delayed response. We've had the opportunity to dig into the model you sent. Here's a summary:

	1. Full-Year Invoiced Sales (\$M)	2. Full-Year GAAP Revenue (\$M)	3. Full-Year Invoiced EBITDA (\$M)	4. Dec GAAP Maintenance Revenue (\$000)	TOTAL PAYOUT
<i>Metric Weighting</i>	30%	30%	20%	20%	
Actual Performance	51.7	42.3	11.0	968.8	
Target Threshold	47.0	42.5	6.2	967.0	
Payout calc	157%	100%	200%	100%	137% (\$1,009K)

However, the above payout calc does not properly calculate based on the rules outlined in the attached deck. In particular, per slide 5:

- Performance is calculated linearly between payout thresholds:
 - Full-Year Invoiced Sales pays out from 130% at \$51.3M to 160% at \$52.8M
 - Full-Year GAAP Revenue pays out from 25% at \$38.2M to 75% just under the \$42.5M Target (at which point it jumps to 100%)
 - Full-Year Invoiced EBITDA pays out 200% above \$10M

- d. Dec GAAP Maintenance Revenue pays out from 100% at \$967K to 105% at \$997K
2. Payout above 100% of Target for any individual corporate metric requires that **all corporate metric Targets are met**

As you saw in the table above, the Full-Year GAAP Revenue metric missed Target, so a strict interpretation of the rules means the MIP achieved a total bonus level of **92% of Target**. With that said, if we relax rule #2 above, then the calculations yield a total bonus level of **123% of Target**. See here for calculations:

	1. Full-Year Invoiced Sales (\$M)	2. Full-Year GAAP Revenue (\$M)	3. Full-Year Invoiced EBITDA (\$M)	4. Dec GAAP Maintenance Revenue (\$000)	TOTAL PAYOUT
<i>Metric Weighting</i>	30%	30%	20%	20%	
Actual Performance	51.7	42.3	11.0	968.8	
Target Threshold	47.0	42.5	6.2	967.0	
Uncapped payout calc	137%	73%	200%	100%	123% (\$902K)
Capped payout calc	100%	73%	100%	100%	92% (\$673K)

However, since performance on Full-Year GAAP Revenue was very close to Target, if we “round up” that metric to 100%, then the calculations yield a total bonus level of **131% of Target**:

	1. Full-Year Invoiced Sales (\$M)	2. Full-Year GAAP Revenue (\$M)	3. Full-Year Invoiced EBITDA (\$M)	4. Dec GAAP Maintenance Revenue (\$000)	TOTAL PAYOUT
<i>Metric Weighting</i>	30%	30%	20%	20%	
Actual Performance	51.7	42.3	11.0	968.8	
Target Threshold	47.0	42.5	6.2	967.0	
Adjusted payout calc	137%	100%	200%	100%	131% (\$961K)

Please see attached for an updated version of your model with the above calculations.

After discussing, we are comfortable increasing the payout from 92% of Target to 131% of Target, but not above that.

Lastly, while slide 3 specifies that the bonus payout is to be made following the completion of the audited financial statements, we are comfortable paying out 100% now, and then the remaining amount after the completion of the audit.

If you’d like, we’re happy to find time for a call next week to discuss further.

Thanks,

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Senior Vice President

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From: Robert Balgley <rbalgley@mersive.com>
Sent: Thursday, January 23, 2020 8:44 PM
To: Paul Bridwell <PBridwell@opengatecapital.com>; Robert Young <RYoung@opengatecapital.com>; Andrew Martinez <AMartinez@opengatecapital.com>

Cc: Dan Hudspeth <dhudspeth@mersive.com>

Subject: Re: MIPs calculation and payout

Looks like I didn't include the attachment -



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From: Robert Balgley <rbalgley@mersive.com>

Date: Thursday, January 23, 2020 at 4:50 PM

To: Paul Bridwell <PBridwell@opengatecapital.com>, Robert Young <ryoung@opengatecapital.com>, Andrew Martinez <AMartinez@opengatecapital.com>

Cc: Dan Hudspeth <dhudspeth@mersive.com>

Subject: MIPs calculation and payout

Good Afternoon,

I wanted to follow up on the MIPs plan discussion at this week's QOR and present my thinking along with the calculations (attached). At a high level, here's how we did against the plan;

Summary of how we performed against the plan;

1. Invoiced Sales - \$51.7M (bookings were \$52.2M) against a 100% plan target of \$47M. This equates to a 137% payout against the max bonus attainment of 200% at \$54M.
2. Invoiced EBITDA - \$11M against a 100% plan target of \$6M. The \$11M achievement exceeds the maximum limit of the 200% bonus payout which was set at \$10M.
3. GAAP Revenue - \$42.3M against a 100% target of \$42.5M.
4. GAAP Subscription for December GAAP Subscription Revenue - \$987K against a 100% target of \$967K.

Commentary and Requested Payout;

- In a 'strict interpretation' of the plan this would equate to a payout of 137%

- When we set the plan for the year I stated my concerns over using GAAP measurements as a means of deciding bonus payout because we agreed we had a limited understanding of how invoiced sales would be effected by the accrual math associated with ASC 606 regs. This is why I wanted to limit the bonus plan to 'inputs' rather than 'outputs' with inputs being the true measure of our efforts. Our control over the output and our ability to predict is demonstrated by the fact that even though we exceeded the invoiced target by almost \$5M we barely made the revenue target. We agreed at that time there would be consideration given for this at the end of the year and since we did at least hit the 100% level for both GAAP metrics I'm asking that these two objectives not be included in determining the bonus payout calculation.
- If we don't include the two GAAP bonus metrics and just combine the two invoiced metrics of invoiced sales and EBITDA we get to a 178% payout which I think is a reasonable starting point for the payout discussion.
- Based on subjective criteria not considered in the plan and the way the management team performed I am asking for additional consideration and a bonus payout at the maximum level of 200% for the following reasons;
 - By exceeding the 200% level of the invoiced EBITDA target of \$10M by \$1M we have more than 'self-funded' a 200% overall payout.
 - I think it's important to note that while we overachieved the plan metrics we did so in a way demonstrates how well understand our business and because of that was able to do more with less (\$1M under OPEX targets but \$5M over target in sales and \$5M over in invoiced EBITDA).
 - We made significant strides at both the strategic and execution levels in 2019 that put the foundation in place for even greater success in 2020 and beyond.
- At 137% the total payout is \$1M for 8 members of the executive team, at 178% the payout is \$1.29M and the 200% payout is \$1.44M.

Thank you for your consideration – let me know if you have questions or you would like to discuss live.

Regards/rob