Bay Area 150

Executive Compensation Practices

October 2009

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Introduction

IN SUMMER 2009, Compensia analyzed the executive compensation practices of the 150 largest high-technology and life sciences companies headquartered in the San Francisco Bay Area (primarily in Silicon Valley). This report – which we call the Bay Area 150 (or BA150) report – covers our findings from these analyses based on data from 2008, and updates our findings from similar analyses conducted in 2007 and 2008.

A list of the companies whose executive compensation data were analyzed in 2009 is provided at the end of this report. Approximately 90% of the companies in the 2009 report were covered in the 2008 report as well.

Overview

This report analyzes executive compensation practices at the BA150 from a number of perspectives, including:

- **Base Salary**: An examination of the levels of fixed, annual compensation paid to the named executive officers;
- **Short-term Incentives (Bonuses)**: An analysis of the target opportunities and actual payments to the named executive officers as a percentage of their annual base salary;
- **Long-term Incentives (Equity Awards)**: An analysis of the equity vehicles used by companies for awards to the named executive officers, and the value of those vehicles;
- **Total Direct Compensation**: A review of the total direct compensation (base salary, short-term incentives (bonus) and long-term incentives (equity awards)) of the named executive officers;
- **Pay Mix**: A discussion of the practices related to the relative mix of base salary, short-term incentives (bonuses) and long-term incentives (equity awards);
- **Potential Ownership**: An analysis of the percentage of shares outstanding owned by the named executive officers;
- **Unvested Equity**: An analysis of the value of unvested equity held by the named executive officers , as a percentage of their annual base salary;
- **Senior Executive Pay Relative to CEO Pay**: An examination of the compensation of the CFO and other three named executive officers, relative to the CEO; and
- **Cost of Management**: An analysis of the total direct compensation of the CEO, CFO and other three named executive officers.

Methodology

All data reported in the charts and graphs below represent either medians (50th percentile) or prevalence (as specified in the chart title). Analyses are provided on an All Company basis, as well as by company size. Company size is divided into three categories:

- **Small**: Revenue less than $250 million (n = 45)
- **Medium**: Revenue of $250 million to $1 billion (n = 50)
- **Large**: Revenue greater than $1 billion (n = 55)

We report data for the five most highly-compensated named executive officers, as reported in the definitive proxy statements of the analyzed companies.

This group includes:

- the CEO
- the CFO (who is required to be included in the Summary Compensation Table, but may not be one of the five most highly-compensated executive officers)
- An average of Positions 3-5 (the roles associated with these positions can vary considerably)

Data were collected in **May/June 2009** from public filings, and represent the most current practices, based on the most recent fiscal year reported. In this report, “restricted shares/units” refer to full value stock awards that vest based solely on continued employment (also known as “time-vested” awards). “Performance shares” refer to full value stock awards that vest based on the achievement of pre-established performance goals (often in addition to a continued employment requirement).

Equity grant values are based on the following methodology: i) stock options are valued using the Black-Scholes option pricing model; ii) restricted shares/units and performance shares are valued based on the number of shares granted (in the case of performance shares, the target number was used) multiplied by the grant date stock price; and iii) cash-based long-term incentive awards are valued based on their target value.

BA150 Executive Compensation

Executive Summary – Year over Year Highlights

The prevalence of companies granting stock options to executives remained flat for the second year in a row, while the prevalence of restricted shares and performance shares continued to increase.

Our 2009 report, based primarily on data from 2008, found that the overwhelming majority of companies did not abandon stock options but were increasingly pairing stock option grants with a full-value equity vehicle (restricted shares or performance shares). Nearly two-thirds of companies granted time-vested restricted shares and nearly one-third granted performance shares.

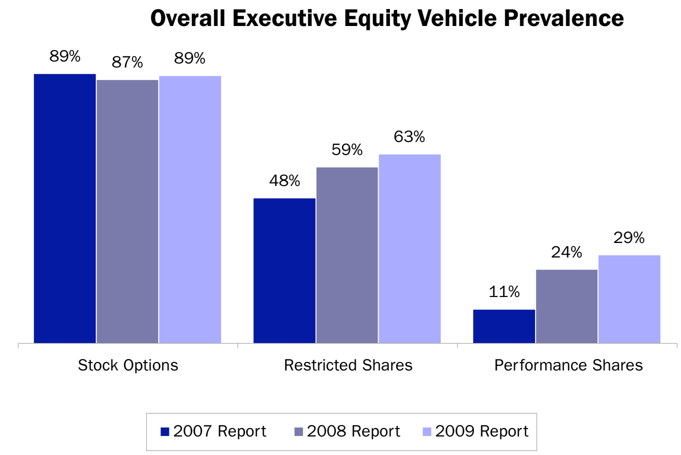

FIGURE 1

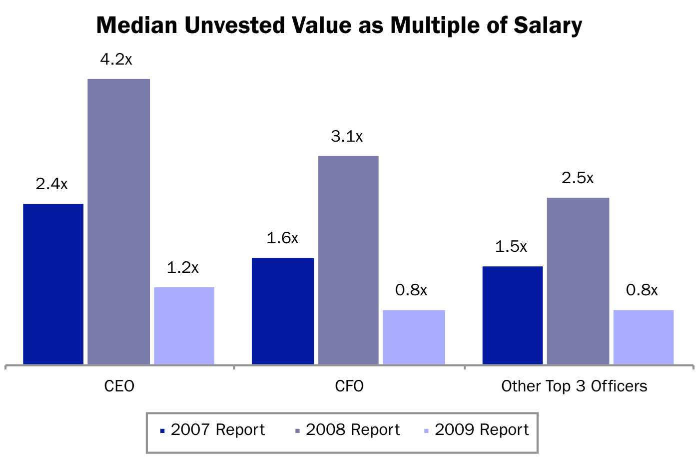

FIGURE 2

Among those companies who have discontinued the use of stock options, most granted performance shares or a combination of performance shares and restricted shares in an effort to maintain a pay-for-performance character to their long-term incentive program. Exclusive use of time-vested restricted shares for executives was extremely rare. [Figure 1]

The median value of outstanding unvested equity awards declined markedly over the past year due to significant stock price declines across nearly all companies. Despite the increased use of full-value equity vehicles, the unvested value of in-the-money equity held by executives has fallen approximately 65%-75% from the levels reported in 2008. Due to the use of stock options (which can become "underwater" options), the decline of in-the-money value among executives tends to substantially exceed the decline in stock prices among BA150 companies. [Figure 2]

We found that BA150 companies paid short-term incentives (bonuses) substantially below target levels for the most recent fiscal year. Median payouts to CEOs were 58% of target (meaning that a target bonus of $1M paid $580K) with CFOs slightly higher at 61%, indicating that actual financial results trailed company goals set at the beginning of the fiscal year. The Other Top 3 Officers received a median payout considerably higher at 77% of target, likely due to greater use of non-financially-oriented performance metrics for these positions (as compared to the CEO and CFO positions).

Overall, small companies had lower bonus payouts and large companies had higher bonus payouts (as a percentage of target), reflecting the greater financial stability of large companies. [Figure 3]

Base Salary

Base salaries increased across all positions, generally in the 3% to 5% range; these data largely reflect decisions to increase base salaries made in early 2008, prior to the salary freezes implemented in late 2008 and early 2009.

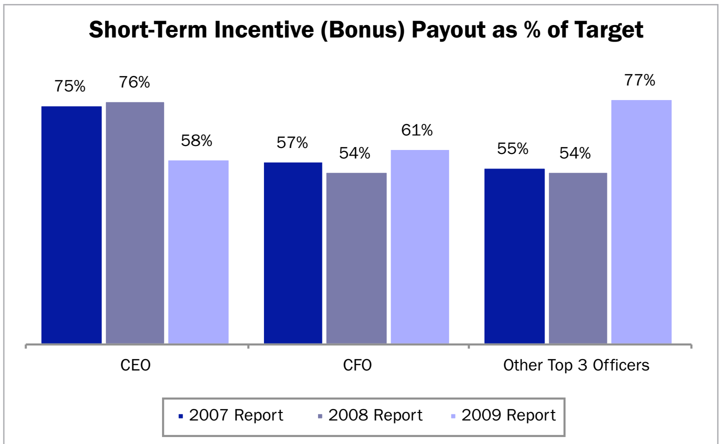

FIGURE 3

Consistent with our past studies, base salary levels increased with company size. Differences in base salaries are most pronounced for the CEO. For the CEO, large companies paid base salaries nearly 2x that of small companies; for the CFO and Other Top 3 Officers, large companies paid base salaries approximately 1.5x that of small companies. [Figure 4]

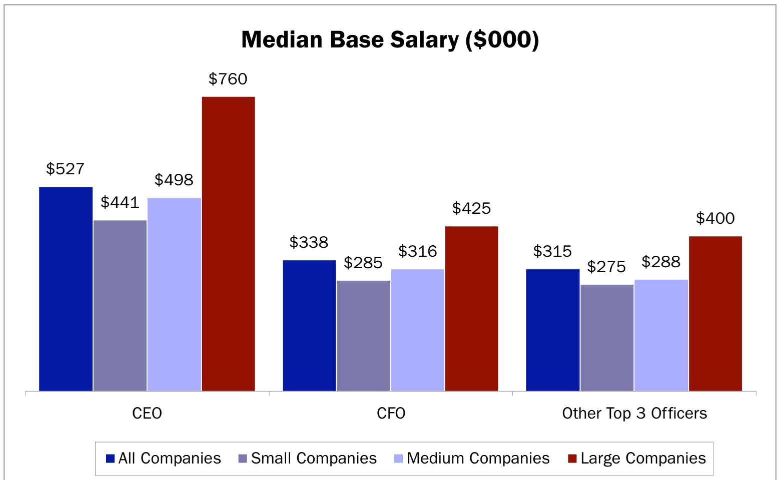

FIGURE 4

Short-term Incentives (Bonuses)

Virtually all companies provided some form of short-term (annual) cash incentive to their executives, and most set the target short-term incentive opportunities as a percentage of base salary (for example, an executive with a base salary of $300K may have a bonus target of 50% of salary, or $150K). [Figure 5]

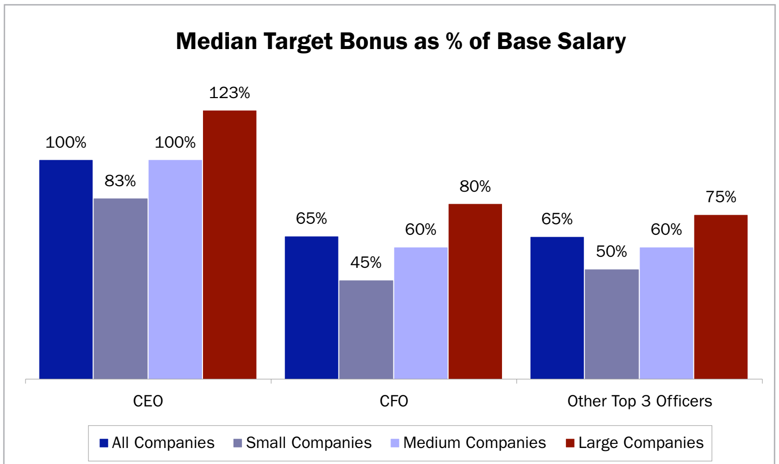

FIGURE 5

Overall, target incentives (as a percentage of base salary) remained flat for the CEO and increased slightly for the CFO and Other Top 3 Officers. The median CEO target annual incentive opportunity remained at 100% of base salary while CFO and Other Top 3 Officers target annual incentive opportunities rose from 60% to 65% of base salary.

Consistent with our past findings, short-term cash incentive target levels increased with company size. Large companies have target annual incentive opportunities approximately 1.5x those of small companies.

Overall, actual short-term cash incentive awards (bonuses) were substantially lower in the period covered by this report. As a percentage of base salary, actual bonuses fell from 76% to 53% for the CEO, 54% to 39% for the CFO and 54% to 43% for the Other Top 3 Officers. As with annual incentive target levels, large companies delivered higher actual payouts as compared to small companies. [Figure 6]

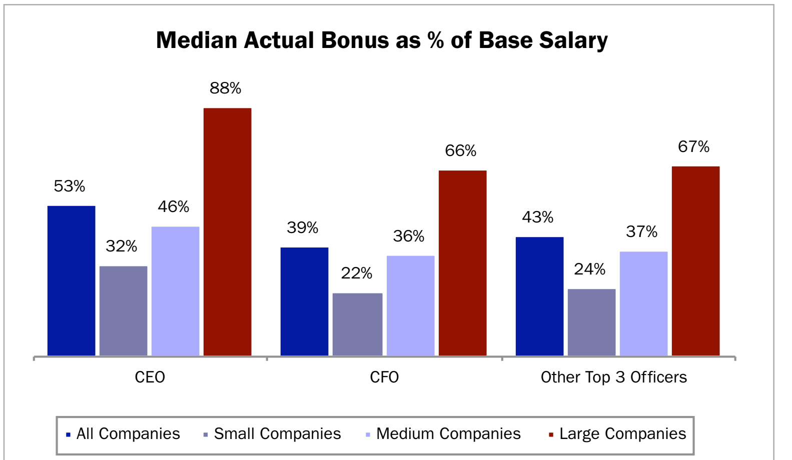

FIGURE 6

Long-term Incentives (Equity Awards)

While the use of stock options and performance shares is still dependent on company size, our analyses show that the use of restricted shares is now generally consistent across all companies.

Although the overall increase in use of restricted shares was modest (59% to 63%), the prevalence among small companies increased from 48% to 64%. This increase likely reflects concerns about executive retention as the stock market declined throughout 2008. Prevalence at medium and large companies was generally unchanged.

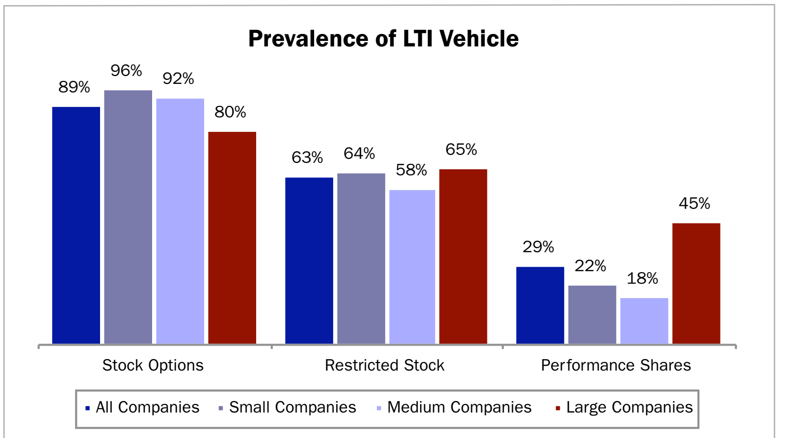

FIGURE 7

Consistent with our past findings, large companies were less likely to use stock options (80% prevalence, versus 96% for small companies) and significantly more likely to use performance shares (45% prevalence, versus 22% for small companies). [Figure 7]

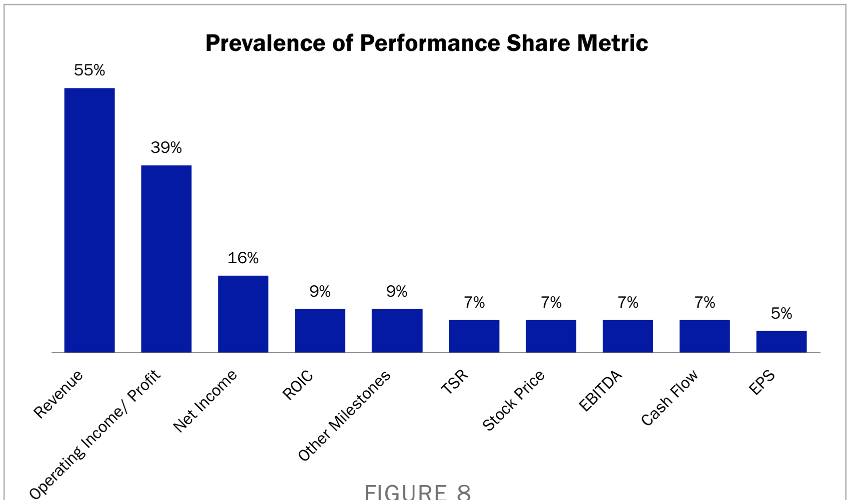

FIGURE 8

BA150 companies identified 10 distinct metrics that were most frequently used as performance hurdles for performance share awards. They most frequently used top- and bottom-line measures. Consistent with last year's findings, revenue and operating income were the two most prevalent performance metrics. [Figure 8]

The prevalence of performance shares continues to increase as, by definition, they provide a stronger link between pay and performance. Also, compared to stock options, they generally have more attractive accounting and dilution implications. However, as the economy deteriorated and it became increasing challenging to gain forward-looking visibility, many companies found goal setting increasingly difficult. Moving forward, we anticipate that many companies will rethink their performance share programs to address the ongoing economic uncertainty, making design modifications (such as introducing relative performance measures or providing a payout "floor") to enhance the viability of their programs.

The CEOs of large companies were awarded about $4.0 million in target equity award grant value, with the CEOs of small companies receiving roughly one-quarter of that amount, or about $1.1M. For the CFO and Other Top 3 Officers, small companies provided long-term incentives equal to roughly one-third those of large companies. It should be noted that these grant values are highly dependent on the share price at grant. Given that the median stock price decline for the BA150 was 43% over the past year, the realized value of awards is likely to be considerably less (at least in the near term), unless a company granted at the end of the year allowing executives to benefit from even modest future market growth.) [Figure 9]

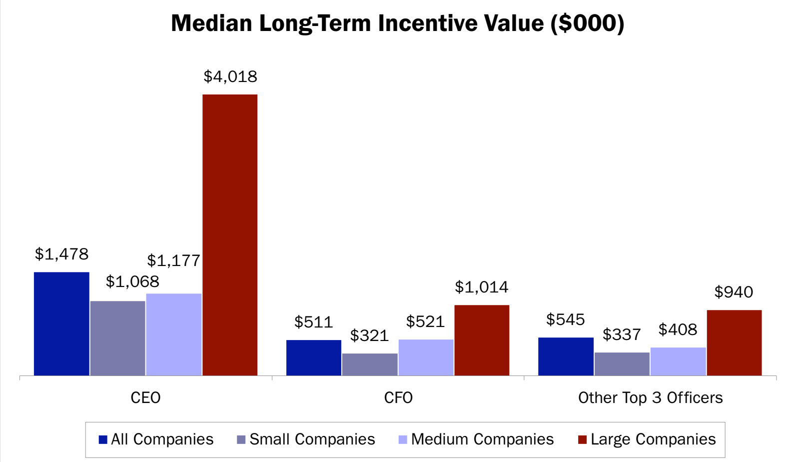

FIGURE 9

Total Direct Compensation

Total direct compensation ("TDC") levels varied significantly, depending on company size. Small company CEOs received $1.6 million at the median, while their large company counterparts received $5.5 million, with a significant increase between the medium company and large company categories. [Figure 10]

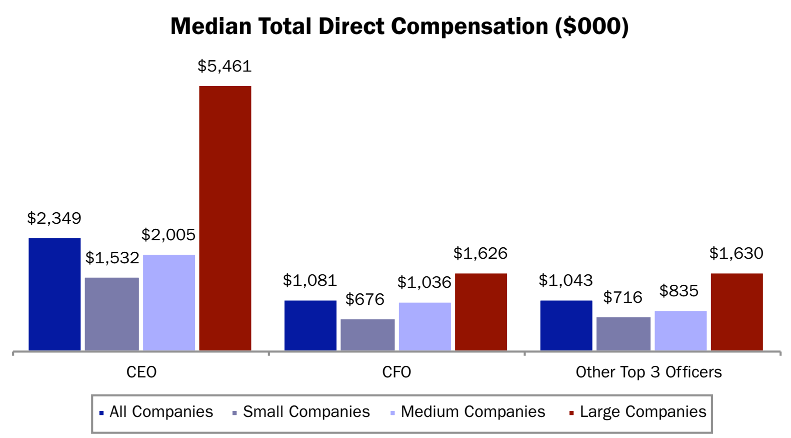

FIGURE 10

Differences in compensation levels by company size were less substantial for CFOs and Other Top 3 Officers as compared to CEOs; for these positions, executives at large companies earn approximately 2.0x-2.5x their small company counterparts (versus 3.5x for the CEO).

Pay Mix

The target pay mix – the relative percentages of base salary, short-term incentives and long-term incentives – is indicative of how a company's executive pay practices mirror their stated philosophy for linking the reward received with the value created. As such, a higher percentage of at-risk, variable pay (typically, bonus and equity), results in a stronger alignment between pay and performance.

For the top five named executive officers, variable compensation constituted the majority of compensation, regardless of company size. Approximately 73% of CEO compensation was variable in nature, compared with 65% and 70% for CFOs and Other Top 3 Officers, respectively. [Figure 11] These figures all reflect a small decline versus last year, likely due to the lower stock prices (and, therefore, lower equity award values) at many companies. [Figure 11]

CEO base salary accounted for 22.6%, 27.1% and 31.6% of the pay mix at large, medium and small companies, respectively. These figures reflect modest increases over last year.

Company size continued to be a dominant driver of the CEO pay mix, with long-term incentives accounting for approximately 55% - 65% of total direct pay at large companies, compared to approximately 45% to 60% at small and medium companies.

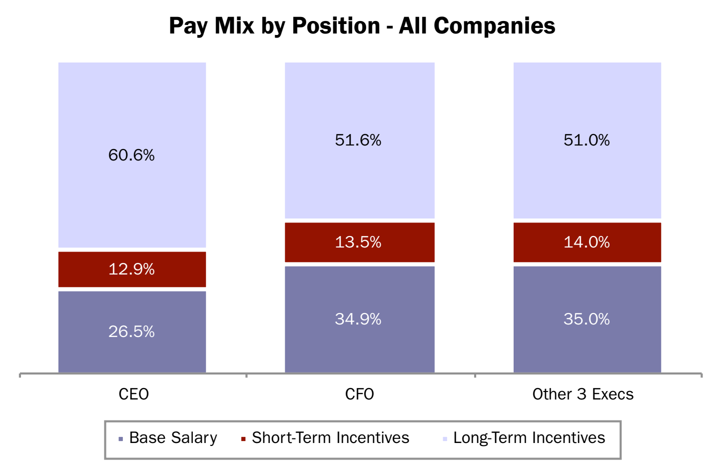

FIGURE 11

Potential Ownership

One measure for assessing the retention value of a company's equity program, as well as executive "skin in the game," is the level of total potential ownership, which is the percentage of a company's total shares outstanding owned by its most senior executives (including shares owned outright, unvested restricted shares/units and vested and unvested unexercised stock options/SARs).

Comparing this year's findings to last year, share ownership was slightly higher overall. This higher ownership is likely due to the declining stock market, which caused many executives to delay exercising their stock options and to hold, rather than sell, their restricted shares upon vesting.

Ownership levels typically vary considerably based upon an executive's stock option exercise history, time in his or her position, the degree to which any options are "underwater," personal purchases of stock and founder status. However, the data in the accompanying chart show, as expected, executives at small companies held a much higher percentage of their company's equity than their large company counterparts -- roughly 3:1 - 4:1 across the top five named executive officers.

Executive equity holdings at large companies typically represent a much higher dollar amount in realized and potential equity value, given the significantly larger volume of shares outstanding at large companies. [Figure 12]

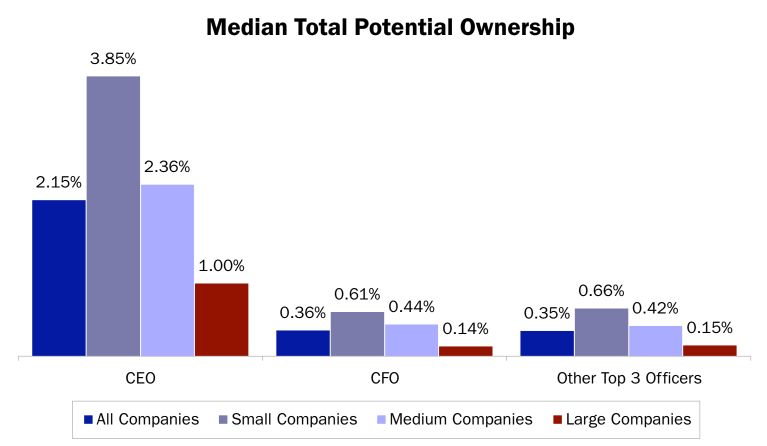

FIGURE 12

Unvested Equity

The value of unvested "in-the-money" equity compensation held by the top five named executive officers decreased dramatically over the past year. At the median, CEOs held about 1.2x their annual base salary in unrealized gains in their outstanding unvested and unexercised equity awards, down from 4.2x for the prior year. For CFOs, this figure fell from 3.1x to 0.8x and for the Other Top 3 Officers it fell from 2.5x to 0.8x. [Figure 13]

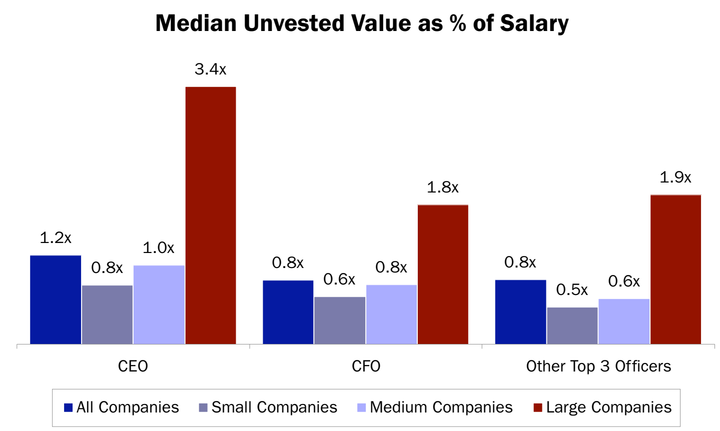

FIGURE 13

Senior Executive Pay Relative to CEO

Companies sometimes evaluate the total direct compensation of their senior executives relative to that of the CEO to maintain internal pay equity, as well as to gauge absolute pay levels.

Across the BA150 companies, the total direct compensation of CFOs was 44.8% of the CEO's pay (unchanged from the prior year) and the total direct compensation of the Other Top 3 Officers was 39.8% of the CEO's pay (down from 43.9%). [Figure 14]

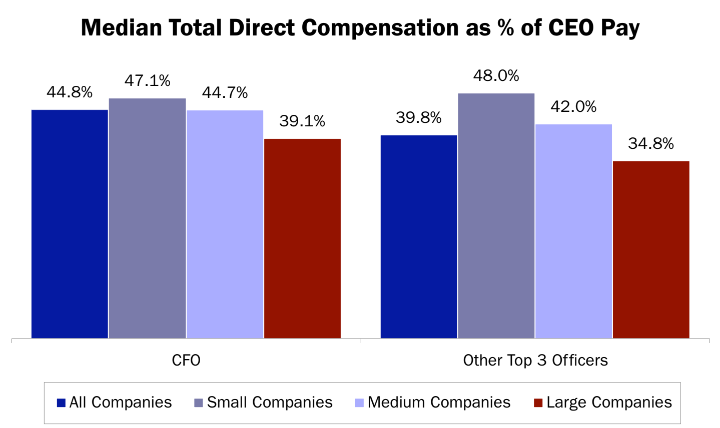

FIGURE 14

Cost of Management

Cost of Management ("COM") is defined as the sum of TDC (including base salary, short-term incentives and long-term incentives) for the top five named executive officers. COM, relative to a company's revenue and market capitalization, is a key measure of both management effectiveness and a company's pay-for-performance philosophy. It is increasingly used by shareholders, investor services organizations, the media and internally as a way to determine performance relative to the company's peers.

The BA150 companies had a median COM of roughly $7.3 million in 2008, or 1.16% of revenue and 0.85% of market capitalization. [Figure 15] This marks the second year of decline in COM (which was $7.7M in 2007 and $8.3 million in 2006). As a percentage of revenue, COM declined as well (from 1.36% last year), likely due to lower bonus payouts in 2008. As a percentage of market capitalization, COM jumped significantly (from 0.52% last year), due to significantly lower stock prices in 2008 versus 2007.

As is the case throughout much of our analysis, company size drove significant variability in pay and pay practices. With respect to COM, large companies paid their top five named executive officers a total of $14.8M in 2008 at the median, while small companies paid their top five named executive officers a total of $4.5 million.

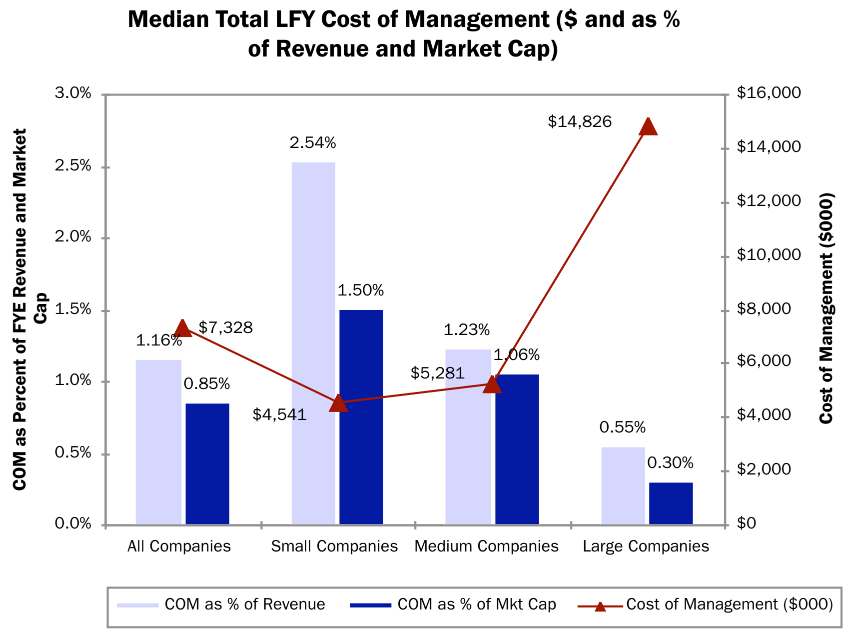

FIGURE 15

Conclusion

While it is typical that company size drives the size of executive pay levels, it appears that in 2008 company size also was the most significant influence on pay sensitivity. Our study indicates that senior executives at small companies have seen the most substantial decline in the unrealized value of their equity awards and have received the lowest payouts under short-term cash incentive plans. While the lack of pay sensitivity at large companies may reflect their greater financial stability, it may also be the case that small companies have developed incentive programs that more closely align pay and performance. ■

Company List

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Accuray
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Advent Software
Affymetrix
Agilent Technologies
Align Technology
Altera
Apple
Applied Materials
Applied Micro Circuits
Applied Signal Technology
Ariba
Aruba Networks
Asyst Technologies
Atheros Communications
Atmel
Autodesk
Avanex (now Oclaro)
Aviza Technology
BigBand Networks
Bio-Rad Laboratories
Blue Coat Systems
Bookham (now Oclaro)
Brocade Communications Systems
Cadence Design Systems
Cepheid
Cisco Systems
Coherent
CPI International
CyberSource
Cypress Semiconductor
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Echelon
Electronic Arts
Electronics For Imaging
Equinix
Exelixis
Exponent
Extreme Networks
Finisar
FormFactor
Gilead Sciences
Google
Harmonic
Hewlett-Packard Company
iGATE
Impax Laboratories
Infinera
Informatica
Integrated Device Technology
Integrated Silicon Solution
Intel
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Intuitive Surgical
iPass
IXYS
JDS Uniphase
Juniper Networks
KLA-Tencor
Lam Research
LeapFrog Enterprises
Linear Technology
Logitech International SA
LSI
Marvell Technology Group
Mattson Technology
Maxim Integrated Products
McAfee
Micrel
Monolithic Power Systems
National Semiconductor
Natus Medical
NetApp
Netflix
NetGear
NetLogic Microsystems
NetSuite
Novellus Systems
NVIDIA
Omnicell
OmniVision Technologies
Onyx Pharmaceuticals
Openwave Systems
Oplink Communications
Opnext
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Rambus
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Rovi (formerly Macrovision)
salesforce.com
SanDisk
Sanmina-SCI
ShoreTel
Shutterfly
Sigma Designs
Silicon Graphics
Silicon Image
Silicon Storage Technology
SiRF Technology Holdings
SMART Modular Technologies
SonicWALL
Spansion
SumTotal Systems
Sun Microsystems
SunPower
Super Micro Computer
Sybase
Symantec
Symmetricom
Symyx Technologies
Synaptics
SYNNEX
Synopsys
Tessera Technologies
The Cooper Companies
Thoratec
Tibco Software
TiVo
Trident Microsystems
Trimble Navigation Limited
Ultra Clean Holdings
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Effectiveness	Pay programs are aligned with the Company's compensation philosophy and business strategy.
Balance	Compensation opportunities delivered balance 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	The "rules of the game" are clearly communicated to and understood by all constituencies, and the "line of sight" between the individual's actions and rewards is clear.
Independence	Compensation programs are designed and approved by an informed Compensation Committee.
Simplicity	The 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 management 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 advisors
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- Current compensation program review/audit
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- Advisory vote on executive compensation
- Contractual arrangements
- Board of Director compensation
- Continuing education

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