

**SILICON VALLEY 135**



# Board of Directors Compensation Practices

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### Introduction

IN SUMMER 2008, Compensia analyzed the director compensation practices of the largest 135 high-technology and life sciences companies headquartered in Silicon Valley. This report—which we call the SV135—covers our findings from these analyses and updates our findings from similar analyses conducted in 2007.

A list of the companies whose non-employee Board member compensation data were analyzed in 2008 is provided at the end of this report. Roughly 85% of the companies in the 2008 report were covered in the 2007 report as well.

### Overview

This report analyzes pay practices for Boards of Directors at the SV135 from a number of perspectives, including:

- ▶ **General Board Service Pay and Pay Elements:** The prevalence of retainer, meeting fees and equity, as well as pay levels for general Board service (i.e., general Board retainer and Board meeting fees);
- ▶ **Board Leadership and Committee Pay:** Additional compensation paid to Board members for service as Committee Chairs, Committee Members and Board Chairs or Lead Directors; and
- ▶ **Cost of Governance:** The total compensation expense associated with Boards of Directors.

### 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:** Less than \$250 million in revenue (n = 42)
- ▶ **Medium:** Revenue of \$250M to \$1B (n = 47)
- ▶ **Large:** Revenue greater than \$1B (n = 46)

Data were collected in May/June 2008 from public filings, and represent the most current Board of Director pay practices, based on the most recent fiscal year reported or changes reflected immediately after the fiscal year end in a Form 8-K. Annual equity utilization (“burn rate”) analyses are based on data as of the last fiscal year. (Burn rate is defined as the number of shares/options allocated during the fiscal year divided by weighted average common shares outstanding.)

In this report, restricted stock/units (RSUs) refers to full-value stock awards. Equity grant values are based on the following methodology: i) stock options are valued using the Black-Scholes option pricing model with assumptions as reported in each Company’s most recent 10-K or 10-Q and ii) restricted shares (including RSUs) are valued based on the number of shares granted multiplied by a recent 30-day average stock price.

## SV135 Board of Directors Compensation

### Executive Summary—Year-Over-Year Highlights

While cash retainers generally remained flat between our 2007 and 2008 reports, the value of equity grants and total direct compensation dropped in the same time period. [Figure 1] The decrease in equity award values is largely attributable to declines in the market value of company stock as share prices dropped an average of 15% among SV135 companies during 2007.

Additional compensation to Audit Committee Chairs and members flattened between our 2007 and 2008 reports, while compensation to Compensation and Nominating/Governance Committee Chairs and members increased slightly over the same time period (approximately 15%-20% for Compensation Committee Chair/Members and approximately 10% for Nominating/Governance Committee Chair/Members). [Figures 2 and 3]

### General Board Service Pay and Pay Elements

Cash compensation for Board members continues to be comprised of some mix of retainers and meeting fees. Retainers, which reflect the “on call” nature of the role, have become more prevalent over the past several years as the demands of Board members have increased to include activities outside of formal meetings.

While 95% of all companies use retainers (up slightly from 94% in 2006), an increasing number of companies are using **only** retainers (48%, up slightly from 47% in 2006). Fifty-two percent of companies use both retainers and meeting fees, with retainers accounting for the largest portion of Board member cash compensation. [Figure 4]

FIGURE 1

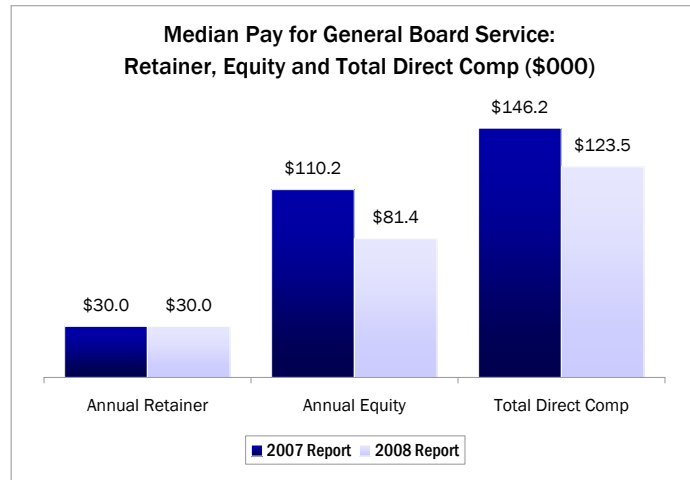


FIGURE 2

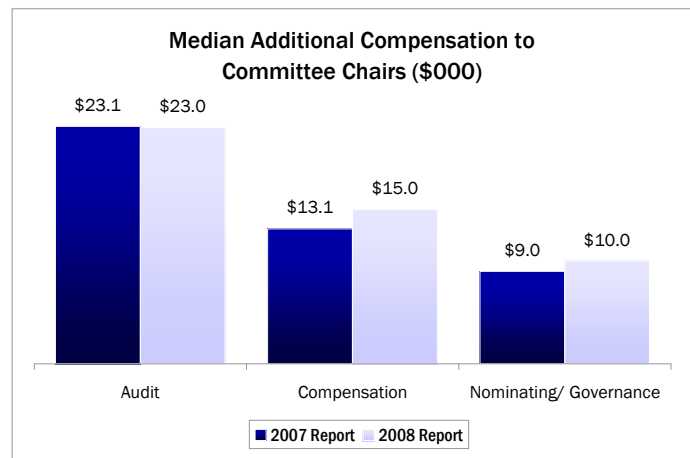
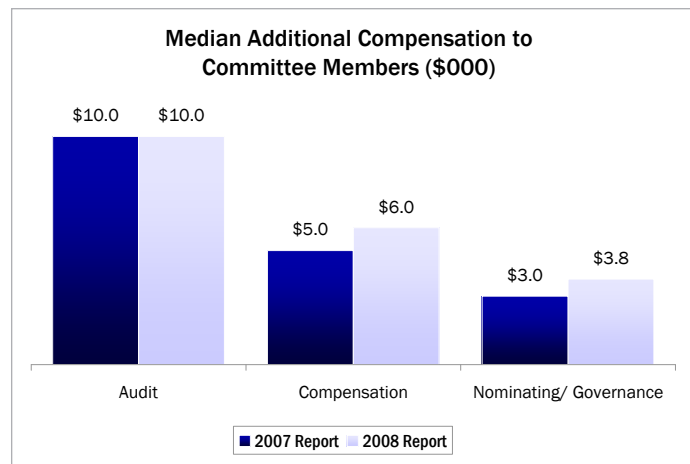
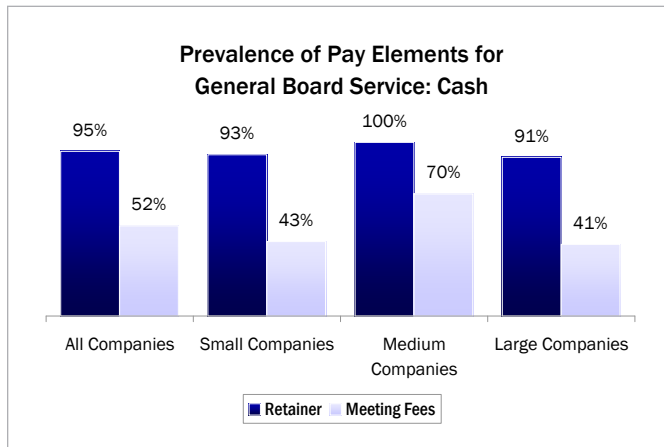


FIGURE 3



**FIGURE 4**



The median cash compensation for Board members in the SV135 was \$40,000, with \$30,000 of that delivered through a retainer. The retainer figure is unchanged from 2006, while the total cash compensation figure increased from \$39,000 in 2006. [Figure 5]

As expected, company size drives compensation levels, with Large Companies delivering a median of \$50,000 in total cash compensation as compared to \$35,000 at Small Companies.

Almost all companies provide Board members with an initial and, thereafter, annual equity awards (98% and 97%, respectively). Almost one-half of all companies grant restricted stock

or restricted stock unit awards to Board members, a substantial increase over 2006 (39%).

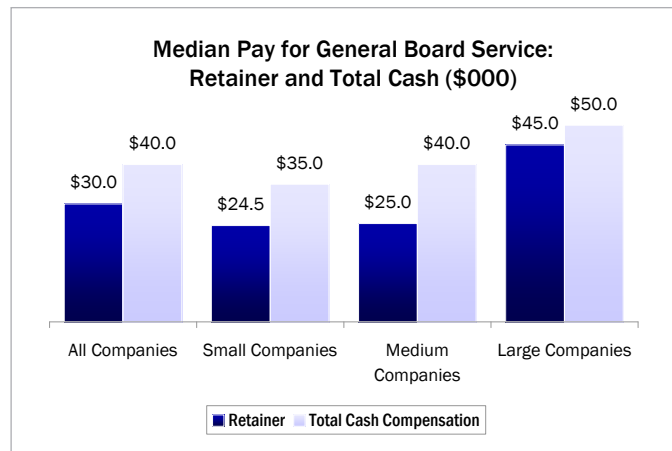
Both initial and annual equity award values decreased in 2007 from 2006 levels. The median initial equity award value at all companies was \$150,000, down significantly from \$215,750, in 2006. Likewise, the 2007 median annual grant value of \$81,400 is lower than the \$110,200 in 2006. [Figure 6]

The decrease in equity award values is largely attributable to declines in the market value of company stock as share prices dropped an average of 15% among SV135 companies during 2007.

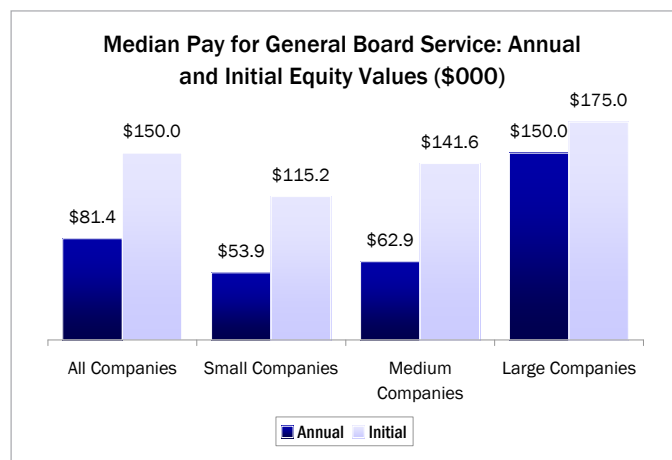
The impact of Board member equity awards on stock utilization (“burn rates”), was 0.09% at the median for all companies in 2007, a decrease from 0.10% in 2006. [Figure 7]

As was the case in 2006, Small Company median utilization was 2x the All Companies median in 2007.

**FIGURE 5**



**FIGURE 6**



## Board Leadership and Committee Pay

Approximately 84% of the SV135 companies have either an outside (that is, non-executive) Chairman of the Board or Lead Director, up from about two-thirds in 2006.

Of those companies with either an outside Chairman or Lead Director, 59% provide some form of additional compensation for those positions, with most of that coming in the form of an additional cash retainer.

Total additional compensation is \$23,000 for Board Chairs across all companies (an increase from \$20,000 in 2006) and \$10,000 for Lead Directors (unchanged from 2006).

[Figure 8]

Chairs of Large Companies continue to receive significantly more additional cash compensation than is the case for their Small Company counterparts. Large Company Board Chairs received \$80,000 in additional cash (up from \$75,000 in 2006), compared to \$15,000 at Small Companies (up from \$10,000 in 2006).

Directors who serve as committee Chairs or members also generally receive some form of additional compensation. Virtually all companies provide additional compensation for Audit Committee Chairs and members. Further, additional compensation for Audit Committee members is higher than for Compensation and Nominating/Governance Committee members. At the median, Audit Committee Chairs received \$23,000 in additional compensation, compared to \$15,000 for Compensation Committee Chairs and \$10,000 for Nominating/Governance Committee Chairs. [Figures 9 and 10]

Additional compensation levels were relatively stable between 2007 and 2006, for both committee Chairs and members.

FIGURE 7

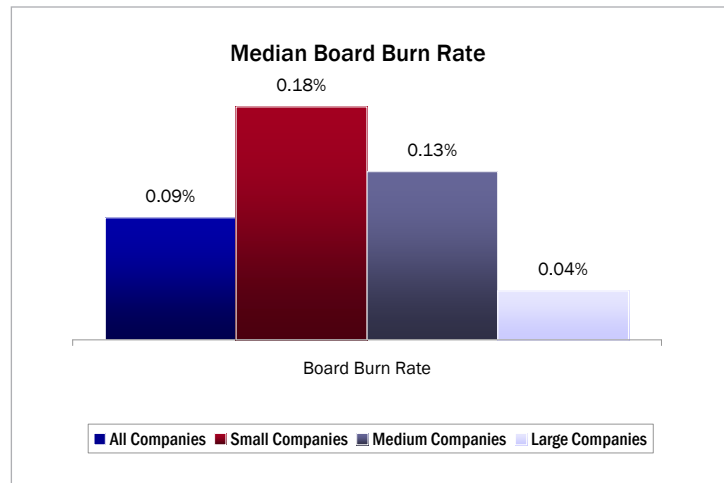


FIGURE 8

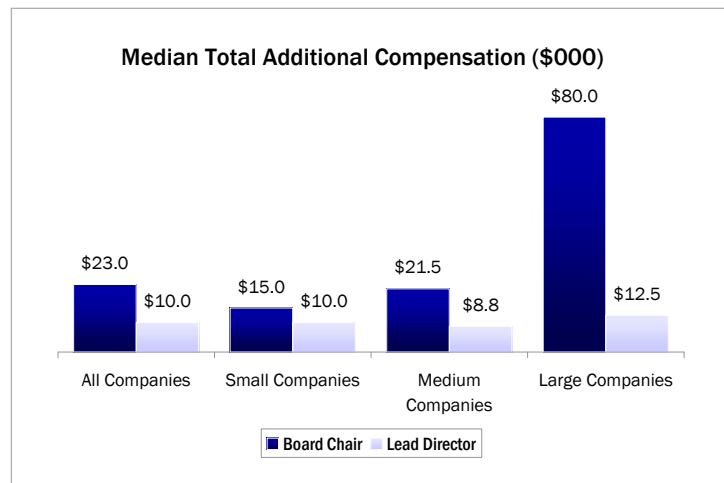
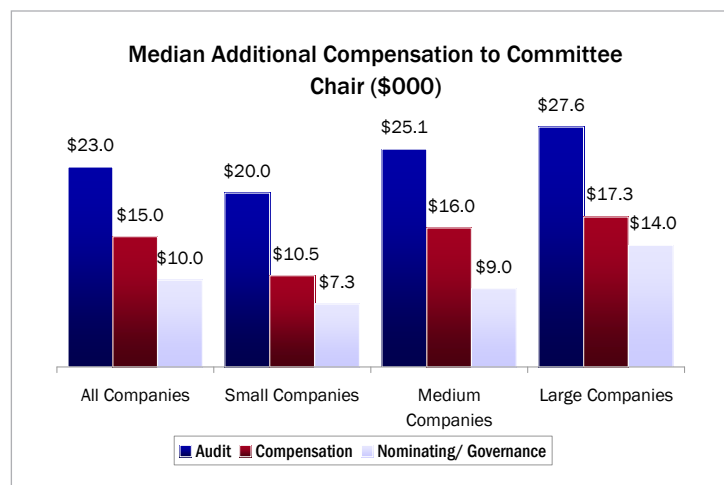


FIGURE 9



## Cost of Governance

The cost of governance—that is, the total direct compensation expense (meetings fees, retainers and equity) paid to a company’s Board of Directors—dropped in 2007.

At the median, companies in the SV135 paid about \$947,000 in total Board compensation in 2007, a decrease from \$1.1 million in 2006. Decreases in the total cost of governance were seen across all company size groupings. [Figure 11]

As was the case with declines in the value of initial and annual equity awards, much of the decline in the cost of governance can be attributed to declines in the market value of company stocks.

Meanwhile, the cost of governance as a percent of market capitalization rose during the same period. The 2007 All Companies median cost of 0.095% of market capitalization rose from 0.074% in 2006. [Figure 12]

## Conclusion

After a series of continuous upticks in recent years, director pay appeared to level off in 2007. While it is tempting to attribute this development to the enhanced transparency surrounding director compensation practices, it is more likely the result of the recent market downturn than any conscious effort to limit pay. As Board member responsibilities continue to increase, look for compensation levels to keep pace, at least in the near term.

FIGURE 10

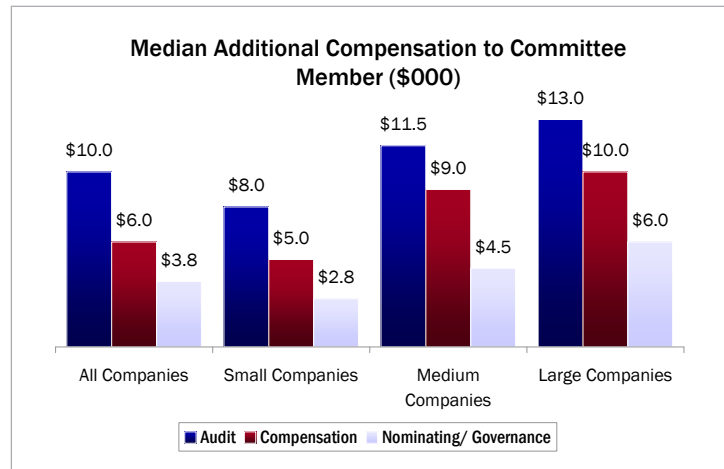


FIGURE 11

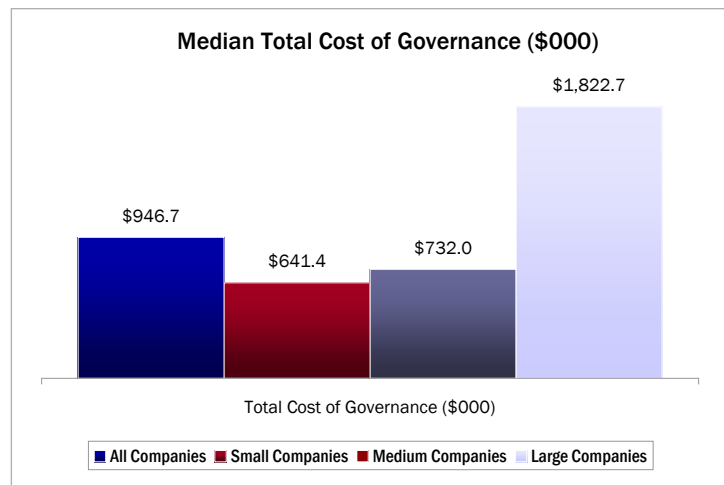
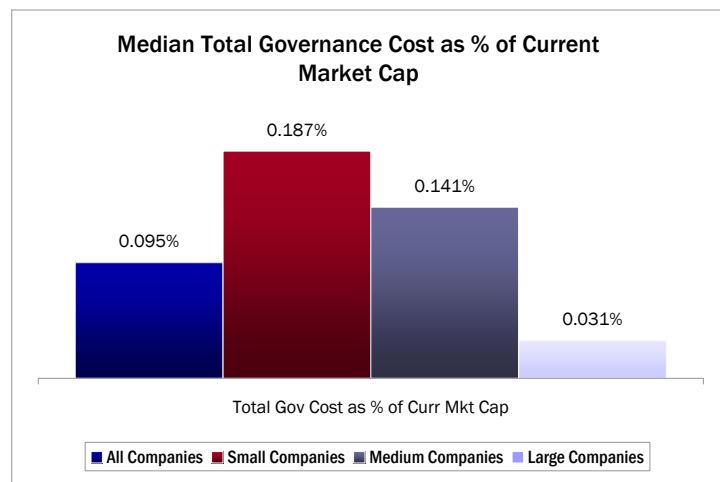


FIGURE 12



The move by many major US corporations from a retainer-plus-meeting fees approach to an enhanced retainer-only approach (eliminating meeting-fees) is being mirrored by a number of companies in the tech sector. We expect this trend will continue over the next several years, as well as more companies establishing explicit equity grant values for Board members as opposed to a set number of options and/or restricted shares. ■

## Company List

Accuray	Foundry Networks	Pericom Semiconductor
Actel	Gilead Sciences	Plantronics
Adaptec	Google	PMC-Sierra
Adobe Systems	Harmonic	Power Integrations
Advanced Micro Devices	Hewlett-Packard Company	Quantum
Affymetrix	Infinera	Rackable Systems
Agilent Technologies	Informatica	Rambus
Align Technology	Integrated Device Technology	SanDisk
Altera	Integrated Silicon Solution	Sanmina-SCI
Apple	Intel	ShoreTel
Applied Materials	Intersil	Shutterfly
Applied Micro Circuits	Interwoven	Sigma Designs
Applied Signal Technology	Intevac	Silicon Graphics
Ariba	Intuit	Silicon Image
Aruba Networks	Intuitive Surgical	Silicon Storage Technology
Asyst Technologies	iPass	SiRF Technology
Atheros Communications	IXYS	SMART Modular Technologies
Atmel	JDS Uniphase	SonicWALL
Avanex	Juniper Networks	Spansion
Aviza Technology	KLA-Tencor	SumTotal Systems
BigBand Networks	Lam Research	Sun Microsystems
Blue Coat Systems	Linear Technology	SunPower
Bookham	LSI	Super Micro Computer
Brocade Communications Systems	Macrovision	Symantec
Cadence Design Systems	Magma Design Automation	Symmetricom
Cepheid	Mattson Technology	Symyx Technologies
Chordiant Software	McAfee	Synaptics
Cisco Systems	Micrel	SYNNEX
Coherent	Monolithic Power Systems	Synopsys
Covad Communications	Nanometrics	Tessera Technologies
CPI International	National Semiconductor	TIBCO Software
Credence Systems	Natus Medical	TiVo
CyberSource	Nektar Therapeutics	Trident Microsystems
Cypress Semiconductor	NetApp	Trimble Navigation
Data Domain	Netflix	Varian
Dionex	NetGear	Varian Medical Systems
DSP Group	Novellus Systems	Veraz Networks
eBay	NVIDIA	VeriFone Holdings
Echelon	Omnicell	VeriSign
Electronic Arts	OmniVision Technologies	VMware
Electronics For Imaging	Openwave Systems	XenoPort
Equinix	Oplink Communications	Xilinx
Exponent	Oracle	Yahoo!
Extreme Networks	Packeteer	Zoran
Finisar	Palm	
	PDL BioPharma	

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<b>Effectiveness</b>	Pay programs are aligned with the Company's compensation philosophy and business strategy, appropriately rewarding performance.
<b>Balance</b>	Compensation delivered balances the interests of the executive, other employees and shareholders given industry and specific business performance.
<b>Market Competitiveness</b>	Reward opportunities are consistent with business and labor market peers of comparable size and performance.
<b>Transparency</b>	Rules of the game are clearly communicated to and understood by all constituencies and the "line of sight" between results and rewards is clear.
<b>Independence</b>	Compensation programs are designed and approved by the Compensation Committee.
<b>Simplicity</b>	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 executive 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 advisory services
- ▶ Total rewards strategy
- ▶ Comparable pay and performance benchmarking
- ▶ Compensation program review/audit
- ▶ Incentive plan design
- ▶ Equity/long-term compensation strategy
- ▶ Stock ownership retention
- ▶ Employment, change-in-control and severance arrangements
- ▶ Merger and acquisition/restructure incentives
- ▶ 280G analytics
- ▶ Board of Directors compensation

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