"Say on Pay" at the Bay Area Tech 120 – A Look at 2016

Now that 2016 has drawn to a close, it's time once again to take a look at last year's results for the non-binding shareholder advisory vote on the compensation of a company's named executive officers (the so-called "Say-on-Pay Vote") required by the Dodd-Frank Wall Street Reform and Consumer Protection Act. 2016, the sixth year of Say-on-Pay, was notable for the high number of companies that have received over 90% support for their Say-on-Pay proposal (73.0%) as well as the small number of companies – 11 (11.5%) – that have either failed the vote or registered significant opposition from shareholders.

As we have done since 2011, Compensia monitored the Say-on-Pay Vote results for the most prominent technology companies headquartered in the San Francisco Bay Area (primarily in Silicon Valley). We call this group, which consists of the largest companies in the computer/hardware, internet/ software, and semiconductor sectors (but excluding companies that conducted their initial public offering in 2016), the Bay Area Tech 120. (The companies comprising the Bay Area Tech 120 are listed on the Exhibit to this article.)

This Thoughtful Pay Alert summarizes our findings as of December 31, 2016, based on the results of their 2016 annual meeting of shareholders as disclosed by the Bay Area Tech 120 companies. These results are reflected in the Exchange Act reports of these companies as filed with the Securities and Exchange Commission.

Companies Reviewed

As of December 31, 2016, 110 of the companies in the Bay Area Tech 120 (91.6%) had held their 2016 annual meeting of shareholders and reported the results of the various votes conducted at the meeting. With respect to the remaining 10 companies, all were either acquired during the year
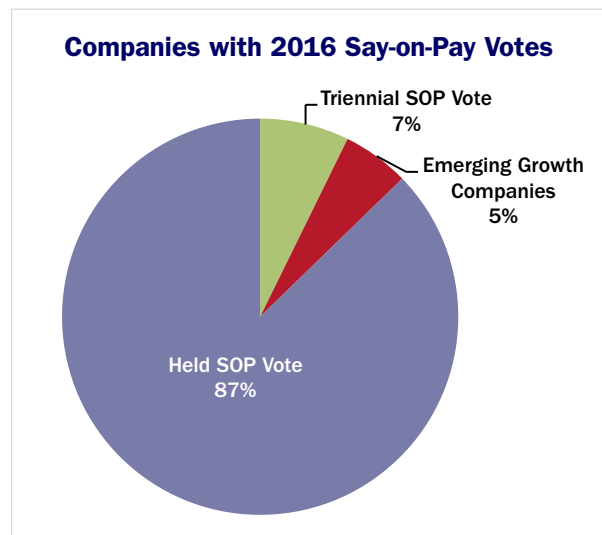
Four Things That Technology Companies Should Know About the Results of the 2016 Say-on-Pay Votes

1. **2016's Results Were Consistent with Prior Years' Patterns.** Consistent with the past five years, the majority of Bay Area Tech 120 companies saw their shareholders approve the compensation of their named executive officers. Of the 96 technology companies that held a Say-on-Pay vote, 95.8% registered a favorable vote, while four (4.2%) had their vote fail. Consistent with the results experienced by the Russell 3000, over two-thirds (70 of 96) of these Bay Area Tech 120 companies received more than 90% support. Only 11 Bay Area Tech 120 companies received less than 70% support (in other words, 88.5% received more than 70% support).

2. **The Level of Support in 2016 was Consistent with Prior Years' Support Levels.** The 69 Bay Area Tech 120 companies that held their sixth Say-on-Pay vote in 2016 received average support of 89.3%, compared to 87.7% average support for the same group of companies in 2015 and then again in 2014, 86.0% average support in 2013, 86.5% average support in 2012, and 87.4% average support in 2011 – a slight increase of approximately 2% since the Say-on-Pay requirement was enacted.

3. **The Say-on-Pay Vote for Each Year Stands on Its Own Merits.** Even with the relative year-over-year stability seen from most companies, shareholder support for a Say-on-Pay proposal can change almost overnight. Two Bay Area Tech 120 companies that received more than 90% support in 2015 saw this support drop by at least 20% in 2016. Similarly, four Bay Area Tech 120 companies that received less than 70% support in 2015 saw support increase by an average of nearly 47% in 2016.

4. **Companies That Fail Say-on-Pay Vote Can Reverse This Result in the Following Year.** Three of the seven Bay Area Tech 120 companies that failed their Say-on-Pay Vote in 2015 saw support increase by an average of almost 50% in 2016.
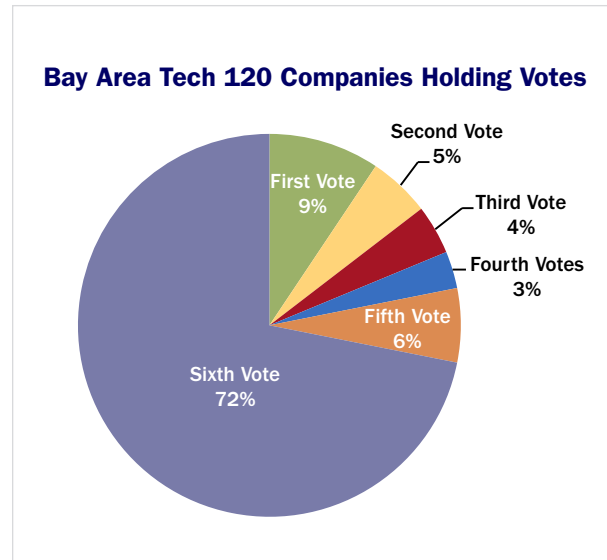
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or are in the process of being acquired (and thus held no regular annual meeting of shareholders) or had yet to hold their annual meeting of shareholders.

Of the companies that have held an annual meeting of shareholders, 96 conducted a Say-on-Pay Vote at the meeting. The remaining 14 companies either hold their Say-on-Pay Vote on a periodic basis (eight companies, all of which hold their Say-on-Pay vote once every three years) and, therefore, held no vote in 2016 or qualified as "emerging growth companies" as established under the Jumpstart Our Business Startups ("JOBS") Act (six companies) which are not required to conduct a Say-on-Pay vote.

Bay Area Tech 120 Companies Holding Votes

First Vote 9%
Second Vote 5%
Third Vote 4%
Fourth Votes 3%
Fifth Vote 6%
Sixth Vote 72%

2016 Say-on-Pay Results
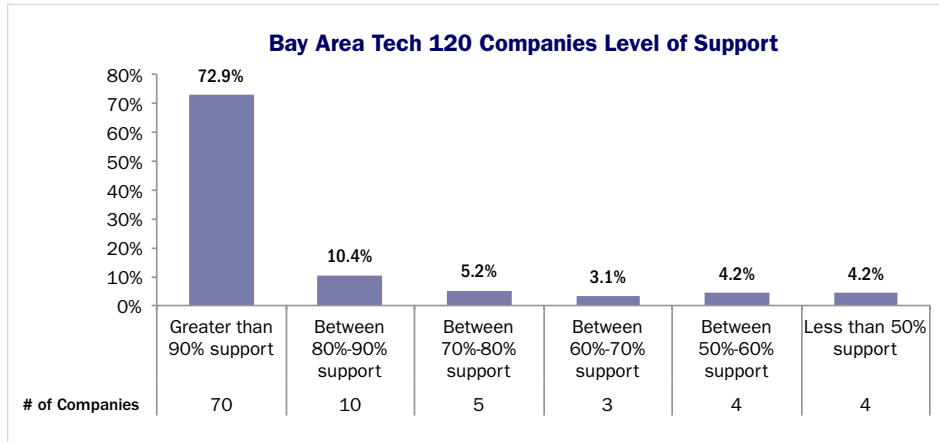
Average Level of Support

Overall, the average level of support for the 96 Bay Area Tech 120 companies conducting Say-on-Pay Votes in 2016 was 88.4%. In the case of the 69 companies which held their sixth Say-on-Pay Vote in 2016, average support was nearly 89.3%, compared to 87.7% average support for the same group of companies in 2015, 87.7% average support in 2014, 86.0% average support in 2013, 86.5% average support in 2012, and 87.4% average support in 2011 – a variation of less than 2% over this entire period.

Companies with 2016 Say-on-Pay Votes

Triennial SOP Vote 7%
Emerging Growth Companies 5%
Held SOP Vote 87%

Actual Level of Support

The actual support for the 96 Bay Area Tech 120 companies conducting Say-on-Pay Votes in 2016 was as shown on the following page.

With the decided majority of companies continuing to receive strong support for the compensation of their named executive officers in 2016, it is notable that 49 of these companies received 95% or more support from their shareholders, including eight companies that received near unanimous approval of their executive compensation program with 99% or more of the votes cast on the Say-on-Pay proposal voted in favor of the proposal.

Of the 96 companies holding Say-on-Pay Votes in 2016, nine companies held their first shareholder advisory vote on executive pay (Arista Networks, Box, FireEye, Fitbit, Gigamon, Nimble Storage, Qualys, Twitter, and Zendesk), five companies held their second shareholder advisory vote on executive pay (Ambarella, Facebook, ProofPoint, ServiceNow, and Workday), four companies held their third shareholder advisory vote (Guidewire Software, Imperva, Netsuite, and Ubiquiti Networks), three companies held their fourth shareholder advisory vote (Palo Alto Networks, Splunk, and Yelp), and six companies held their fifth Say-on-Pay vote (Dolby Laboratories, Ellie Mae, Extreme Networks, Jive Software, Sanmina, and Zynga). The remaining 69 companies held their sixth Say-on-Pay Vote.

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Bay Area Tech 120 Companies Level of Support

	Greater than 90% support	Between 80%-90% support	Between 70%-80% support	Between 60%-70% support	Between 50%-60% support	Less than 50% support
%	72.9%	10.4%	5.2%	3.1%	4.2%	4.2%
# of Companies	70	10	5	3	4	4

Unsuccessful Say-on-Pay Proposals

Only four Bay Area Tech 120 companies – Oracle, Palo Alto Networks, TiVo, and Verifone Systems – failed to receive a majority of the votes cast in favor of their Say-on-Pay proposal in 2016 (compared to seven companies in 2015).

In the case of Oracle, 45.1% of the votes cast were cast in favor of the company's named executive officer compensation, while 54.9% of the votes were cast against (or abstained on) the proposal. This was a slight decline in support from 2015, when just over 48% of the votes cast were voted in favor of the executive compensation program, but still less than majority support.

At Palo Alto Networks, 29.3% of the votes cast supported the company's named executive officer compensation, while 70.7% of the votes were cast against (or abstained on) the proposal. This follows a vote of 36.3% for the proposal and 63.7% against (or abstained on) the proposal in 2015.

At TiVo, 30.7% of the votes cast supported the company's named executive officer compensation, while 69.3% of the votes were cast against (or abstained on) the proposal. This follows a vote of 40.0% support for the proposal and 60.0% against (or abstained on) the proposal in 2015.

Finally, in the case of Verifone Systems, 44.8% of the votes cast supported the company's named executive officer compensation, while 55.2% of the votes were cast against (or abstained on) the proposal. This follows a vote of 83.1% for the proposal and 16.9% against (or abstained on) the proposal in 2015 – a decrease of 38.3% of the votes cast on the Say-on-Pay proposal.

Year-Over-Year Vote Fluctuations

Of the 69 companies that have now held six votes, 37 received more support (an average of 7.8%, with a median increase of 1.7%) in 2016 compared to 2015, while 31 saw support for their executive compensation program decline (by an average of 5.9%, with a median decrease of 2.4%). One company (Electronic Arts) received the same level of support in 2015 and 2016.
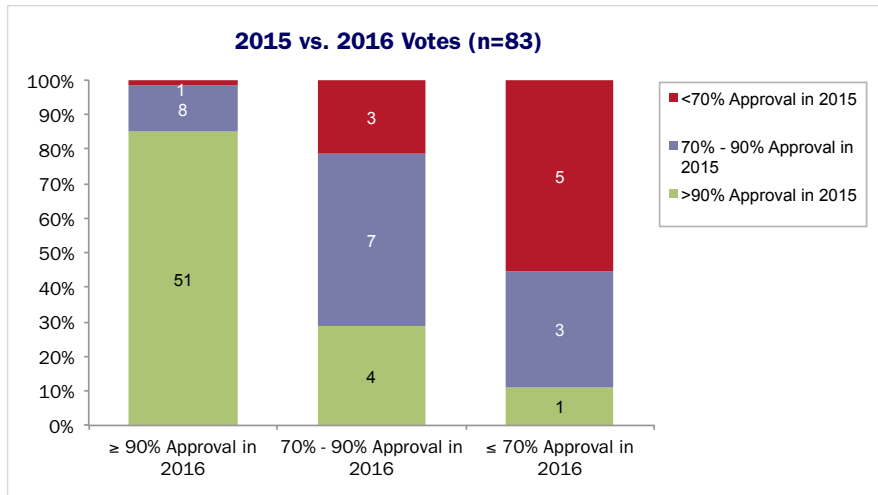
As has been the case each year since 2012, a notable number of companies experienced a significant vote swing on their Say-on-Pay proposal between 2015 and 2016. For example, six companies saw support for their executive compensation program increase by 20% or more in a single year, while three companies saw support for their decrease by over 20% in the same period.

Companies That Received Less Than 70% Support in 2015 Generally Improved in 2016

Six of the 11 companies that received less than 70% support in 2015 increased their support in 2016 (by an average of just over 35%). This was largely the result of four companies increasing their support by nearly 40% or more. For example, Shutterfly improved its vote result by 64% in 2016 (from 21.9% in 2015 to 85.9% in 2016). Similarly, Marvell Technology Group, which failed the Say-on-Pay Vote in 2015, improved the support for its named executive officer compensation from 43.9% in 2015 to 88.8% in 2016 – an increase of nearly 45%.

Of the remaining five companies, one (Invense) did not hold a Say-on-Pay vote in 2016 and one (Linear Technology) was acquired. As described above, the other three - Oracle, Palo Alto Networks, and TiVo – failed their 2016 Say-on-Pay vote.

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2015 vs. 2016 Votes (n=83)

Legend:
- ■ <70% Approval in 2015
- ■ 70% - 90% Approval in 2015
- ■ >90% Approval in 2015

Category	<70%	70%-90%	>90%
≥ 90% Approval in 2016	1	8	51
70% - 90% Approval in 2016	3	7	4
≤ 70% Approval in 2016	5	3	1

Most Companies that Received More Than 90% Support in 2015 Remained Stable in 2016

As in prior years, numerous Bay Area Tech 120 companies (28) that received more than 90% support in 2015 saw support for their executive compensation program decline in 2016. The average amount of this decline was 4.3%. Unlike prior years, the amount of this decline on an individual basis was relatively small, with only two companies experiencing decreases in excess of 20%.

Just as notable, 26 of the Bay Area Tech 120 companies that received more than 90% support in 2015 actually saw this support increase in 2016 (by an average of 1.7%) – a truly remarkable result given the limited amount of room to garner additional votes in favor of their executive compensation program. In fact, one company – Monolithic Power Systems – saw support for its executive compensation program increase from 99.1% to 99.6%. Further, of the companies that saw support for their Say-on-Pay proposal decrease in 2016, the decline for 14 of these companies was less than 2.0%).

Three Companies with Failed Votes in 2015 Registered Success in 2016

Three of the seven companies in the Bay Area Tech 120 that failed their Say-on-Pay Votes in 2015 – Shutterfly, Marvell Technology Group, and Ultratech – experienced a significant increase in the support of their executive compensation program with 85.9%, 88.8%, and 55.2%, respectively, of the votes cast on their Say-on-Pay proposal voted in favor of the compensation of their named executive officers – an increase of almost 50%, on average, from their 2015 votes.

Final Observations

While the experience of the Bay Area Tech 120 companies with the Say-on-Pay Vote continues to track the results from prior years, we note that this vote has clearly become a routine event for many companies with support firmly lodged in the 90% range. Thus, as long as a technology company's financial performance (as measured by total shareholder return) is in the top half of its industry sector, and absent a specific problematic compensation decision or policy, it isn't likely to face any significant issues in obtaining a favorable Say-on-Pay Vote. Of course, an integral piece of this equation is an effective shareholder engagement philosophy. By identifying potential concerns well in advance, technology companies should be able to address these matters before they ripen into a full-fledged problem and threaten continued support for your executive compensation program.

Need Assistance?

Compensia has extensive experience in helping companies draft the executive compensation disclosure in the proxy materials for their annual meetings of shareholders and analyze the potential impact of their Say-on-Pay Votes on their executive compensation programs. If you would like assistance in preparing your executive compensation disclosure for the required shareholder advisory vote on executive compensation, or if you have any questions on the subjects addressed in this Thoughtful Pay Alert, please feel free to contact Mark A. Borges. ■

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About Compensia

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Exhibit

Bay Area Tech 120 – 2016 Shareholder Advisory Vote on Executive Compensation

	2015 Say-on-Pay Vote Support	2016 Say-on-Pay Vote Support	Year-Over-Year Change in Support
Adobe Systems	91.8 – 8.2	94.3 – 5.7	2.5
Advanced Micro Devices	70.7 – 29.3	53.9 – 46.1	-16.8
Ambarella	92.5 – 7.5	92.3 – 7.7	-0.2
Apple	73.7 – 26.3	94.6 – 5.4	20.9
Applied Materials	84.9 – 15.1	83.3 – 16.7	-1.6
Applied Micro Circuits	90.3 – 9.7	91.7 – 8.3	1.4
Arista Networks	EGC	99.5 – 0.5	---
Atmel	94.7 – 5.3	Merger	---
Autodesk	88.3 – 11.7	86.0 – 14.0	-2.3
Barracuda Networks	EGC	EGC	---
Box	IPO	99.6 – 0.4	---
Brocade Communications	97.8 – 2.2	97.3 – 2.7	-0.5
Cadence Design Systems	97.9 – 2.1	96.6 – 3.4	-1.3
Calix	93.8 – 6.2	98.4 – 1.6	4.6
Callidus Software	98.3 – 1.7	98.6 – 1.4	0.3
Cavium Networks	98.9 – 1.1	99.4 – 0.6	0.5
Ceva	99.5 – 0.5	93.7 – 6.3	-5.8
Cisco Systems	92.8 – 7.2	94.2 – 5.8	1.4
Coherent	97.3 – 2.7	98.4 – 1.6	1.1
Cypress Semiconductor	97.2 – 2.8	89.7 – 10.3	-7.5
Dolby Laboratories	94.5 – 5.5	98.4 – 1.6	3.9
DSP Group	96.5 – 3.5	97.8 – 2.2	1.3
eBay	94.5 – 5.5	92.6 – 7.4	-1.9
Electronic Arts	98.3 – 1.7	98.3 – 1.7	---
Electronics for Imaging	78.0 – 22.0	77.5 – 22.5	-0.5
Ellie Mae	90.3 – 9.7	94.4 – 5.6	4.1
Equinix	98.8 – 1.2	96.4 – 3.6	-2.4
Exar	97.3 – 2.7	98.5 – 1.5	1.2
Extreme Networks	74.8 – 25.2	93.9 – 6.1	19.1
Facebook	Triennial	98.7 – 1.3	---
Fairchild Semiconductor	97.0 – 3.0	Merger	---
Fair Isaac	96.9 – 3.1	68.8 – 31.2	-28.1
FireEye	EGC	53.4 – 46.6	---

"Say on Pay" at the Bay Area Tech 120 – A Final Look at 2016 (continued)

	2015 Say-on-Pay Vote Support	2016 Say-on-Pay Vote Support	Year-Over-Year Change in Support
Finisar	66.2 – 33.8	73.5 – 26.5	7.3
Fitbit	IPO	99.7 – 0.3	---
FormFactor	98.2 – 1.8	97.9 – 2.1	-0.3
Fortinet	99.5 – 0.5	96.8 – 3.2	-2.7
Gigamon	EGC	97.2 – 2.8	---
Google	Triennial	Triennial	---
Go Pro	EGC	EGC	---
Guidewire Software	99.6 – 0.4	95.9 – 4.1	-3.7
Harmonic	96.8 – 3.2	98.1 – 1.9	1.3
HP	95.2 – 4.8	95.3 – 4.7	0.1
Immersion	Triennial	Triennial	---
Imperva	55.8 – 44.2	94.6 – 5.4	38.8
Infinera	95.9 – 4.1	98.5 – 1.5	2.6
Infoblox	88.2 – 11.8	Tender Offer	---
Inphi	Triennial	Triennial	---
Integrated Device Technology	98.7 – 1.3	98.9 – 1.1	0.2
Intel	95.0 – 5.0	95.8 – 4.2	0.8
Intersil	98.7 – 1.3	96.2 – 3.8	-2.5
Intuit	83.1 – 16.9		
InvenSense	48.7 – 51.3	Triennial	---
IXYS	97.5 – 2.5	98.1- 1.9	0.6
Jive Software	79.2 – 20.8	69.1 – 30.9	-10.1
Juniper Networks	95.6 – 4.4	83.5 – 16.5	-12.1
KLA-Tencor	97.0 – 3.0	96.1 – 3.9	-0.9
Lam Research	96.6 – 3.4	98.3 – 1.7	1.7
Linear Technology	56.1 – 43.9	Merger	---
LinkedIn	75.5 – 24.5	Triennial	---
Logitech International	80.0 – 20.0	85.0 – 15.0	5.0
Marketo	EGC	EGC	---
Marin Software	EGC	EGC	---
Marvell Technology Group	43.9 – 56.1	88.8 – 11.2	44.9
Maxim Integrated Products	79.1 – 20.9	92.9 – 7.1	13.8
Monolithic Power Systems	99.1 – 0.9	99.6 – 0.4	0.5
Nanometrics	95.1 – 4.9	92.7 – 7.3	-2.4
NetApp	95.5 – 4.5	98.1 – 1.9	2.6
Netflix	97.7 – 2.3	95.9 – 4.1	-1.8

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	2015 Say-on-Pay Vote Support	2016 Say-on-Pay Vote Support	Year-Over-Year Change in Support
NETGEAR	98.6 – 1.4	97.2 – 2.8	-1.4
Netsuite	Triennial	63.6 – 36.4	---
New Relic	EGC	EGC	---
Nimble Storage	EGC	88.2 – 11.8	---
nVIDIA	98.3 – 1.7	97.7 – 2.3	-0.6
Oclaro	96.9 – 3.1	98.3 – 1.7	1.4
Oracle	48.1 – 51.9	45.1 – 54.9	-3.0
Palo Alto Networks	36.3 – 63.7	29.3 – 70.7	-7.0
Pandora Media	98.1 – 1.9	Triennial	---
Plantronics	93.8 – 6.2	91.1 – 8.9	-2.7
Polycom	97.3 – 2.7	Merger	---
Power Integrations	94.5 – 5.5	91.5 – 8.5	-3.0
Proofpoint	Triennial	90.5 – 9.5	---
Qualys	EGC	99.5 – 0.5	---
Quantum	96.7 – 3.3		
QuinStreet	98.8 – 1.2	96.1 – 3.9	-2.7
Rambus	97.3 – 2.7	97.1 – 2.9	-0.2
Rocketfuel	EGC	EGC	---
Rovi	84.1 – 15.9	91.8 – 8.2	7.7
Ruckus Wireless	72.0 – 28.0	Merger	---
Salesforce.com	52.4 – 47.6	52.6 – 47.4	0.2
SanDisk	81.1 – 18.9	Merger	---
Sanmina	73.9 – 26.1	71.5 – 28.5	-2.4
Semtech	83.4 – 16.6	86.2 – 13.8	2.8
ServiceNow	98.9 – 1.1	98.9 – 1.1	---
Shoretel	95.6 – 4.4	97.8 – 2.2	2.2
Shutterfly	21.9 – 78.1	85.9 – 14.1	64.0
Sigma Designs	96.8 – 3.2	97.4 – 2.6	0.6
Silicon Graphics	91.2 – 8.8	Merger	---
SolarCity	94.3 – 5.7	Triennial	---
Splunk	98.4 – 1.6	88.7 – 11.3	-9.7
Super Micro Computer	Triennial	Triennial	---
Symantec	96.3 – 3.7	96.8 – 3.2	0.5
Synaptics	95.9 – 4.1	74.5 – 25.5	-21.4
Synopsys	96.7 – 3.3	95.7 – 4.3	-1.0
Tessera Technologies	78.6 – 21.4	98.8 – 1.2	20.2

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	2015 Say-on-Pay Vote Support	2016 Say-on-Pay Vote Support	Year-Over-Year Change in Support
TiVo	40.0 – 60.0	30.7 – 69.3	-9.3
Trimble Navigation	89.0 – 11.0	93.5 – 6.5	4.5
Twitter	EGC	90.2 – 9.8	---
Ubiquiti Networks	Biennial	99.7 – 0.3	---
Ultra Clean Holdings	89.3 – 10.7	94.5 – 5.5	5.2
Ultratech	15.2 – 84.8	55.2 – 44.8	40.0
Verifone Systems	83.1 – 16.9	44.8 – 55.2	-38.3
Viavi Solutions (JDS Uniphase)	72.9 – 27.1	95.8 – 4.2	22.9
VMware	98.8 – 1.2	99.8 – 0.2	1.0
Workday	99.8 – 0.2	97.9 – 2.1	-1.9
Xilinx	94.6 – 5.4	92.7 – 7.3	-1.9
Yahoo!	85.2 – 14.8	79.7 – 20.3	-5.5
Yelp	95.0 – 5.0	94.7 – 5.3	-0.3
Zendesk	EGC	98.9 – 1.1	---
Zynga	90.1 – 9.9	95.6 – 4.4	5.5

"EGC" is an emerging growth company.

"Biennial" or "triennial" is a company that has elected to hold its shareholder advisory votes on named executive compensation once every two or three years, as applicable.

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