"Say on Pay" at the Bay Area 150 – A Look at Year Three

One of the focal points of the 2013 proxy season has been 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. Now in its third year, the Say-on-Pay Vote continues to serve as the "report card" on the effectiveness of a company's executive compensation program, as well as a leading indicator of how well the company is engaged with its shareholders on important corporate governance and executive pay matters.

Once again, Compensia has been monitoring the Say-on-Pay Vote results for the 150 largest technology and life sciences companies headquartered in the San Francisco Bay Area (primarily in Silicon Valley), which we call the Bay Area 150.

This Thoughtful Pay Alert summarizes our findings as of September 5, 2013, based on the results of their 2013

Five Things That Technology and Life Sciences Companies Should Know About the 2013 Say-on-Pay Votes

1. **The 2013 Say-on-Pay Results Are Consistent With Prior Year Patterns**. As in 2012, the majority of Bay Area 150 companies have seen their shareholders support the compensation of their named executive officers. Consistent with the patterns reflected in the Russell 3000, to date over 70% of the Bay Area 150 companies that have held Say-on-Pay Votes have received more than 90% support. So far, only 14 Bay Area 150 companies (13.6%) have received less than 70% support.

2. **The Level of Support in 2013 is Consistent With Support Levels in 2012 and 2011**. The Bay Area 150 companies that have held their third Say-on-Pay Vote in 2013 have received average support of 88.7%, compared to 88.3% average support for the same group of companies in 2012 and 89.0% average support in 2011 – a negligible decline of 0.7% over this three-year period.

3. **Newly-Public Companies Are Taking Advantage of the Exemption From the Say-on-Pay Vote for Emerging Growth Companies**. Six Bay Area 150 companies that completed their IPO in the last 12 months took advantage of the scaled disclosure requirements of the JOBS Act for "emerging growth companies" and did not conduct a Say-on-Pay Vote at their initial annual meeting of shareholders following their IPO.

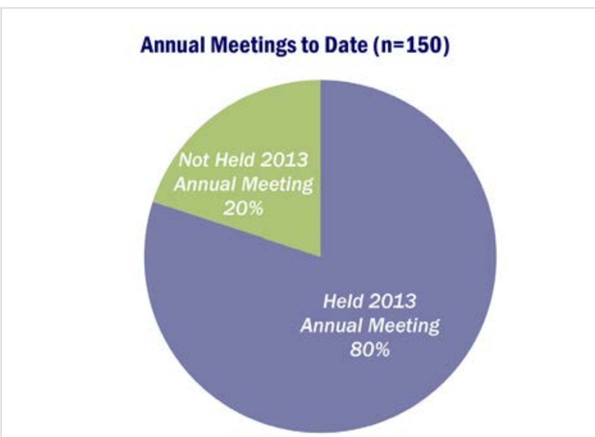
4. **Each Year's Say-on-Pay Vote Stands on Its Own Merits**. We continue to see dramatic fluctuations in the level of support for Say-on-Pay Votes from year-to-year. Eight Bay Area 150 companies that received more than 90% support in 2012 saw this support drop by at least 25% in 2013 (including one company that saw its support decline by just over 74%). As we first saw in 2012, a successful vote in one year is no guarantee of the same result in the next year. On the other hand, Bay Area 150 companies that received less than 70% support for their Say-on-Pay vote in 2012 saw this support increase by an average of nearly 32% in 2013.

5. **Companies That Failed the Say-on-Pay Vote in 2012 Reversed This Result in 2013**. The two Bay Area 150 companies that failed their Say-on-Pay Vote in 2012 saw their support increase by, on average, 50% in 2013. In each case, this was largely attributable to (a) improved financial performance (leading to a favorable vote recommendation from the major proxy advisory firms), (b) enhanced proxy disclosure, and (c) increased shareholder engagement resulting in one or more significant compensation program changes.

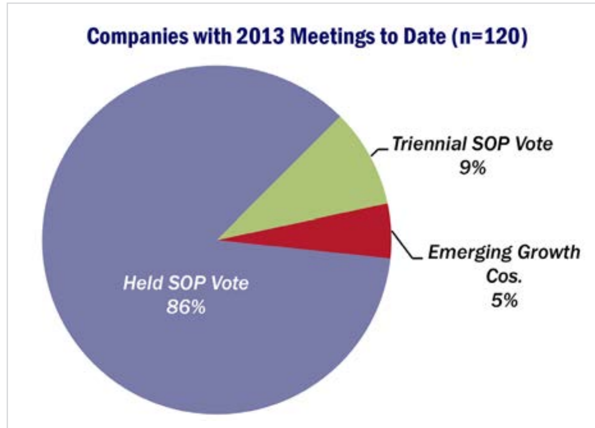
annual meeting of shareholders as disclosed by the Bay Area 150 companies. These results are reflected in the Exchange Act reports of these companies as filed with the Securities and Exchange Commission. We intend to update this report later this year to report our findings for annual meetings of shareholders conducted this fall.

Companies Reviewed

As of September 5, 2013, 120 of the 150 companies in the Bay Area 150 (80%) had held their 2013 annual meeting of shareholders and reported the results of the various votes conducted at the meeting. Of these companies, 103 conducted a Say-on-Pay Vote at the meeting. (The remaining 17 companies either previously decided to hold their Say-on-Pay Vote on a triennial basis (11 companies) and, therefore, held no vote in 2013 or qualified as "emerging growth companies" as created under the Jumpstart Our Business Startups ("JOBS") Act (six companies) which are not required to conduct a Say-on-Pay vote.)



Of the 103 companies holding Say-on-Pay Votes in 2013, five companies (Dialogic, Facebook, Palo Alto Networks, Splunk, and Yelp) held their first shareholder advisory vote on executive pay and seven companies (Dolby Laboratories, Extreme Networks, Jive Software, Responsys, Sanmina-SCI, ServiceSource, and Zynga) held their second shareholder advisory vote. The remaining 91 companies held their third Say-on-Pay Vote.

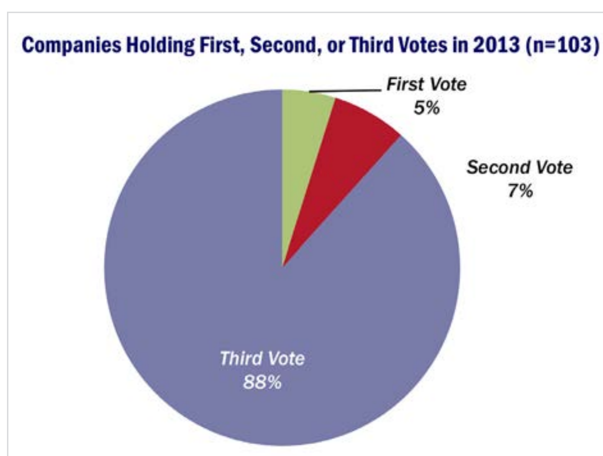


Say-on-Pay Results

Average Level of Support

Overall, the average level of support for the 103 Bay Area 150 companies conducting Say-on-Pay Votes so far in 2013 has been 88.7%. In the case of the 91 companies which held their third Say-on-Pay Vote in 2013, average support was 88.3%, compared to 88.7% average support for the same group of companies in 2012 and 89.0% average support in 2011 – a virtually negligible decline of 0.7% over the three-year period.

In the case of the five companies which held their first Say-on-Pay Vote in 2013, average support was 97.2%. Of particular note, the four companies holding their first annual meeting of shareholders in 2013 following their initial public offering of equity securities in 2012 (Facebook, Palo



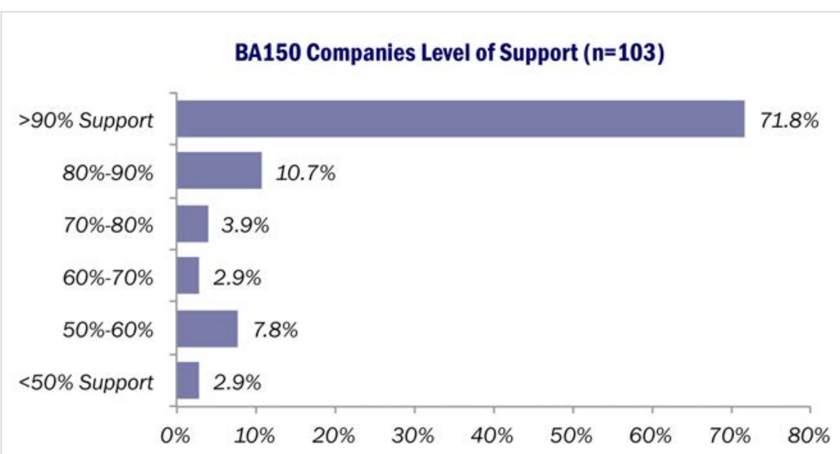
Alto Networks, Splunk, and Yelp) received, on average, 97.85% support for their executive compensation programs (including one, Yelp, which received 99.9% support). This is consistent with the trend that we identified during 2011 and 2012 where companies conducting their initial Say-on-Pay Vote after their IPO received overwhelming support for their executive compensation programs. This trend strongly indicates that newly-public companies continue to benefit from a "grace period" before investors begin to hone in on their executive compensation practices (which may be attributable, at least in part, to concentrated insider ownership and/or a dual class stock structure).

Actual Level of Support

The actual support for the 103 Bay Area 150 companies conducting Say-on-Pay Votes so far in 2013 has been as follows:

- 74 companies (71.8%) with over 90% support
- 11 companies (10.7%) with between 80% and 90% support
- Four companies (3.9%) with between 70% and 80% support
- Three companies (2.9%) with between 60% and 70% support
- Eight companies (7.8%) with between 50% and 60% support
- Three companies (2.9%) with less than 50% support

While the overwhelming majority of companies continue to receive strong support for the compensation of their named executive officers in 2013 – which is consistent with the pattern established in the Russell 3000, it is striking that at 13 companies shareholders demonstrated near unanimous approval of the executive compensation program with more than 99% of the votes cast on the Say-on-Pay proposal voted in favor of the company's pay practices.



Unsuccessful Say-on-Pay Proposals

To date in 2013, only three Bay Area 150 companies, OpenTable, Spansion, and VeriFone Systems, have failed to receive a majority of the votes cast in favor of their Say-on-Pay proposal.

At OpenTable, 47.3% of the votes cast supported the company's named executive officer compensation, while 52.7% of the votes were cast against (or abstained on) the proposal. This follows a vote of 95.0% for and 5.0% against (or abstained on) the proposal in 2012 – a swing of 47.7% of the votes cast on the Say-on-Pay vote. As has become common in instances where a company has experienced a significant swing in support, OpenTable received an unfavorable vote recommendation on its Say-on-Pay proposal from Institutional Shareholder Services, largely as a result of an alleged misalignment of pay and performance and the level of non-performance-based long-term incentive compensation.

In the case of Spansion, 49.0% of the votes cast supported the company's named executive officer compensation, while 51.0% of the votes were cast against (or abstained on) the proposal. In 2012, 80.0% of the votes cast on the company's Say-on-Pay proposal supported the compensation of its named executive officers, a decrease in support of 31%. Once again, an unfavorable vote recommendation on the Say-on-Pay proposal by ISS contributed to this result. This follows a decline from 97.7% support in 2011 to the 80.0% support level recorded in 2012.

Finally, at VeriFone Systems, only 20.7% of the votes cast on the company's Say-on-Pay proposal were voted in favor of the compensation of its named executive officers, with 79.3% of the votes cast on the proposal voted against their compensation. In 2012, the company received just over 95% support for its named executive officer compensation (95.1%).

Year-Over-Year Vote Fluctuations

Of the 91 companies that have now held three votes, 51 received more support (an average of 10.2%, with a median increase of 2.9%) in 2013 compared to 2012, while 38 saw support for their executive compensation program decline (by an average of 14,7%, with a median decrease of 10.0%). Two companies (Pharmacyclics and PMC-Sierra) received the same level of support for their executive compensation programs in 2012 and 2013.

As was the case last year, a notable number of companies experienced a significant vote swing on the Say-on-Pay proposal between 2012 and 2013. So far, seven companies have seen support for their executive compensation program decrease by over 30% in a single year. In each instance, the company received an "against" recommendation on its Say-on-Pay proposal from ISS; typically, in part because of a perceived misalignment of pay and performance.

Companies That Received Less Than 70% Support in 2012 Generally Improved in 2013

With two exceptions (Rovi and Shutterfly), companies that received less than 70% support in 2012 increased their support in 2012; often by a significant margin – an average of 31.9%. For example, Yahoo! improved its vote result by 43% from 2012 to 2013, while Infinera saw the support for its executive compensation program increase by over 56% during the same period. Similarly, Affymetrix improved the support for its named executive officer compensation from just over 59% to 99% and Rambus increased its support from 52% to approximately 91%. In each instance, the company engaged in significant shareholder outreach efforts to generate additional support for its pay program; efforts that were described in detail in its definitive proxy materials.

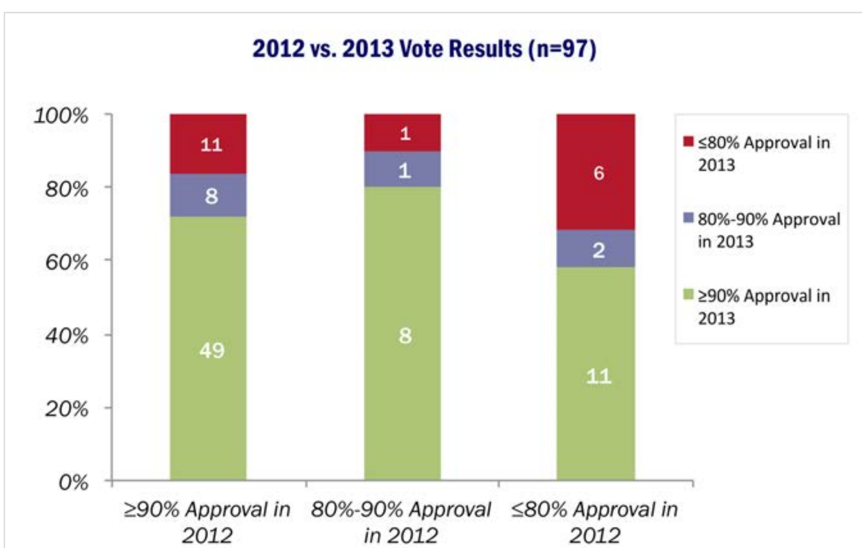
Many Companies that Received More Than 90% Support in 2012 Saw That Support Erode in 2013

On the other hand, 26 Bay Area 150 companies that received more than 90% support in 2012 generally saw support for their executive compensation program decline in 2013. The average amount of this decline (17.7%) was largely influenced by the fact that eight companies experienced decreases in excess of 25% (including one that declined by over 74% and two companies that declined by over 45%).

Interestingly, there was an overall stabilization of support for many of the companies that received more than 90% support in 2012. Twenty-four companies saw the support for their Say-on-Pay proposal stay essentially the same in 2012 (that is, they experienced a decline by less than 1%), while 14 companies actually saw their support increase (by an average of 2.6%).

Companies with Failed Votes in 2012 Enjoy Success in 2013

During 2012, two companies in the Bay Area 150 (Infinera and Yahoo!) failed their Say-on-Pay Votes. Notably, each of these companies rebounded sharply in 2013. Infinera saw its Say-on-Pay proposal approved with 97.7% support – an increase of over 56% from the 2012 vote. Yahoo! also enjoyed strong support in 2013, with nearly 93% of the votes cast on the Say-on-Pay proposal voted in favor of its



named executive officer compensation (compared to just under 50% support in 2012).

Both of these companies invested significant time and effort in engaging with their shareholders on corporate governance and executive compensation issues and in enhancing the executive compensation disclosure in their proxy materials. For example, Infinera disclosed in its Compensation Discussion and Analysis that, among other things, it revamped the long-term incentive compensation component of its executive compensation program, replacing stock options with restricted stock unit awards and performance stock unit awards; modified the composition of its compensation peer group, and enhanced its executive compensation disclosure. It also described in detail its shareholder outreach efforts, the feedback received on its executive compensation program, and the program changes resulting from the assessment of this feedback.

Yahoo! disclosed similar shareholder engagement activities, as well as numerous program changes that were made by its board compensation committee following its 2012 annual meeting of shareholders to give its new executive leadership team a greater stake in the company's long-term success and a stronger alignment with shareholder interests. Further, it substantially revised the format and content of its CD&A to enhance the presentation of its 2012 pay actions and decisions.

Perhaps most importantly, the financial and/or operational performance of these companies was up in 2013, thereby eliminating the risk of a "pay for performance" disconnect and an unfavorable vote recommendation from the major proxy advisory firms.

Observations

While the experience of the Bay Area 150 companies with the Say-on-Pay Vote largely tracks that of the companies in the Russell 3000, it's interesting to note that, for nearly half of the Bay Area 150, this vote has been a non-event with support firmly lodged in the mid-90's for each of the first three years of the requirement. Thus, as long as a technology or life sciences company's financial performance as measured by total shareholder return is in the top half of its industry sector, it is unlikely to face a real threat of a failed vote. Although the presence of a problematic compensation policy or program feature could alter this outcome, as a practical matter most major technology and life sciences companies eliminated such provisions long ago.

It's also interesting to note that newly-public technology and life sciences companies have firmly embraced the "IPO on-ramp" provisions of the JOBS Act, thereby sidestepping the Say-on-Pay Vote altogether until their revenues exceed $1 billion. Given the rapid and dynamic growth of many of these companies, some may not be able to take advantage of the full five-year reprieve from this vote allowed by the JOBS Act. However, as evidenced by the strong support for the executive compensation programs of newly-public companies, it's unlikely that the presence or absence of "emerging growth company" status will have a significant effect on how shareholders view the executive compensation programs of these companies and, perhaps more importantly, the effectiveness of the board compensation committee.

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 on the Dodd-Frank Act shareholder advisory 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. ■

“Say on Pay” at the Bay Area 150 – A Look at Year Three (continued)

Exhibit

Bay Area 150 – 2013 Shareholder Advisory Vote on Executive Compensation

	2012 Say-on-Pay Vote Support	2013 Say-on-Pay Vote Support	Year-Over-Year Change in Support
Abaxis			
Accuray			
Actuate	91.9 – 8.1	98.7 – 1.3	6.8
Adobe Systems	57.9 – 42.1	81.2 – 18.8	23.3
Advanced Micro Devices	93.6 – 6.4	85.8 – 14.2	-7.8
Advent Software	99.6 – 0.4	99.0 – 1.0	-0.6
Affymetrix	59.4 – 40.6	99.1 – 0.9	39.7
Agilent Technologies	93.1 – 6.9	96.8 – 3.2	3.7
Align Technology	91.5 – 8.5	93.7 – 6.3	2.2
Altera	65.9 – 34.1	92.8 – 7.2	26.9
Ambarella	IPO	EGC	---
Apple	82.8 – 17.2	61.1 – 38.9	-21.7
Applied Materials	92.3 – 7.7	96.2 – 3.8	3.9
Aruba Networks			
Atmel	70.5 – 29.5	89.7 – 10.3	19.2
Audience	IPO	EGC	---
Autodesk	53.6 – 46.4	64.7 – 35.3	11.1
Avago Technologies			
Bio-Rad Laboratories	Triennial	Triennial	---
Brocade Communications	96.2 – 3.8	97.8 – 2.2	1.6
Cadence Design Systems	97.1 – 2.9	98.2 – 1.8	1.1
Cavium Networks	97.2 – 2.8	95.5 – 4.5	-1.7
Cepheid	98.2 – 1.8	99.1 – 0.9	0.9
Cisco Systems			
Coherent	99.1 – 0.9	88.1 – 11.9	-11.0
Conceptus			
Cypress Semiconductor	98.4 – 1.6	52.6 – 47.4	-45.8
Depomed	93.6 – 6.4	94.8 – 5.2	1.2
Dialogic	No prior vote	94.5 – 5.5	---
Dolby Laboratories	Biennial	97.0 – 3.0	---
DSP Group	96.9 – 3.1	70.4 – 29.6	-26.5
eBay	95.2 – 4.8	59.7 – 40.3	-35.5
Electronic Arts	59.3 – 40.7	92.6 – 7.4	33.3

“Say on Pay” at the Bay Area 150 – A Look at Year Three (continued)

	2012 Say-on-Pay Vote Support	2013 Say-on-Pay Vote Support	Year-Over-Year Change in Support
Electronics for Imaging	95.7 – 4.3	96.2 – 3.8	0.5
Equinix	98.1 – 1.9	99.1 – 0.9	1.0
Exar	88.2 – 11.8	97.9 – 2.1	9.7
Exelixis	83.5 – 16.5	95.0 – 5.0	11.5
Exponent	97.7 – 2.3	98.5 – 1.5	0.8
Extreme Networks	89.4 – 10.6	94.0 – 6.0	4.6
Facebook	IPO	93.4 – 6.6	---
Fairchild Semiconductor	86.0 – 14.0	99.2 – 0.8	13.2
Financial Engines	Triennial	Triennial	---
Finisar	96.4 – 3.6	95.6 – 4.4	-0.8
Fortinet	96.7 – 3.3	98.1 – 1.9	1.4
Genomic Health	98.4 – 1.6	98.5 – 1.5	0.1
Gilead Sciences	75.6 – 24.4	98.0 – 2.0	22.4
Google	Triennial	Triennial	---
Guidewire Software	IPO	EGC	---
Harmonic	94.9 – 5.1	94.4 – 5.6	-0.5
Hewlett Packard	77.2 – 22.8	75.8 – 24.2	-1.4
Ikanos Communications	Triennial	Triennial	---
Impax Laboratories	97.6 – 2.4	84.5 – 15.5	-13.1
Infinera	41.5 – 58.5	97.7 – 2.3	56.2
Infoblox			
Informatica	95.8 – 4.2	95.9 – 4.1	0.1
Integrated Device Technology			
Integrated Silicon Solutions	94.3 – 5.7	97.3 – 2.7	3.0
Intel	96.9 – 3.1	68.2 – 31.8	-28.7
Intersil	97.9 – 2.1	98.2 – 1.8	0.3
Intuit			
Intuitive Surgical	80.8 – 19.2	96.9 – 3.1	16.1
InvenSense	99.5 – 0.5	Triennial	---
iPass	96.6 – 3.4	94.7 – 5.3	-1.9
IXYS	97.7 – 2.3	98.1 – 1.9	0.4
JAZZ Pharmaceuticals	97.7 – 2.3	97.8 – 2.2	0.1
JDS–Uniphase			
Jive Software	99.4 – 0.6	83.2 – 16.8	-16.2
Juniper Networks	66.8 – 31.2	93.9 – 6.1	27.1
Keynote Systems	99.3 – 0.7	86.4 – 13.6	-12.9

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	2012 Say-on-Pay Vote Support	2013 Say-on-Pay Vote Support	Year-Over-Year Change in Support
KLA-Tencor			
Lam Research			
Leapfrog Enterprises	Triennial	Triennial	---
Linear Technology			
LinkedIn	99.9 – 0.1	EGC	---
Logitech International	81.5 – 18.5	83.3 – 16.7	1.8
LSI	83.0 – 17.0	96.7 – 3.3	13.7
Marvell Technology	73.6 – 26.4	58.5 – 41.5	-15.1
Mattson Technology	98.5 – 1.5	88.5 – 11.5	-10.0
Maxim Integrated Products			
Medivation	98.8 – 1.2	78.7 – 21.3	-20.1
Monolithic Power Systems	93.6 – 6.4	73.5 – 26.5	-20.1
Nanometrics	97.3 – 2.7	97.8 – 2.2	0.5
Natus Medical	91.7 – 8.3	89.8 – 10.2	-1.9
NeoPhotonics	Triennial	Triennial	---
NetApp			
Netflix	99.5 – 0.5	95.9 – 4.1	-3.6
NETGEAR	98.0 – 2.0	99.0 – 1.0	1.0
Netsuite	Triennial	Triennial	---
nVIDIA	96.2 – 3.8	96.8 – 3.2	0.6
Oclaro			
Omnicell	94.8 – 5.2	93.0 – 7.0	-1.8
OmniVision Technologies			
Onyx Pharmaceuticals	95.7 – 4.3	96.7 – 3.3	1.0
OpenTable	95.0 – 5.0	47.3 – 52.7	-47.7
Oplink Communications			
Oracle			
Palo Alto Networks	IPO	99.7 – 0.3	---
Pandora Media	98.8 – 1.2	Triennial	---
Pericom Semiconductor			
Pharmacyclics	99.7 – 0.3	99.7 – 0.3	---
Plantronics	96.4 – 3.6	94.9 – 5.1	-1.5
PMC-Sierra	99.1 – 0.9	99.1 – 0.9	---
Polycom	97.0 – 3.0	59.1 – 40.9	-37.9
Power Integrations	94.8 – 5.2	95.5 – 4.5	0.7
Quantum	87.5 – 12.5	99.0 – 1.0	11.5

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	2012 Say-on-Pay Vote Support	2013 Say-on-Pay Vote Support	Year-Over-Year Change in Support
QuinStreet			
Rambus	52.1 – 47.9	91.2 – 8.8	39.1
Responsys	96.6 – 3.4	91.2 – 8.8	-.5.4
Riverbed Technology	95.5 – 4.5	92.3 – 7.7	-3.2
Rovi	69.6 – 30.4	53.2 – 46.8	-16.4
Ruckus Wireless	IPO	EGC	---
Salesforce	93.6 – 6.4	82.5 – 17.5	-11.1
SanDisk	96.4 – 3.6	95.2 – 4.8	-1.2
Sanmina-SCI	72.3 – 27.7	99.2 – 0.8	26.9
SciClone Pharmaceuticals	90.5 – 9.5	93.4 – 6.6	2.9
ServiceSource	99.8 – 0.2	57.1 – 42.9	-42.7
Shoretel			
Shutterfly	63.6 – 26.4	54.6 – 45.4	-9.0
Sigma Designs	74.8 – 25.2	98.8 – 1.2	24.0
Silicon Graphics			
Silicon Image	76.1 – 23.9	98.2 – 1.8	22.1
Solarcity	IPO	EGC	---
Spansion	80.0 – 20.0	49.0 – 51.0	-31.0
Splunk	IPO	98.4 – 1.6	---
SunPower	85.0 – 15.0	93.1 – 6.9	8.1
Super Micro Computer	Triennial	Triennial	---
Symantec			
Symmetricom			
Synaptics			
SYNNEX	99.7 – 0.3	99.6 – 0.4	-0.1
Synopsys	99.2 – 0.8	98.5 – 1.5	-0.7
TeleNav	Triennial	Triennial	---
Tesla Motors	Triennial	Triennial	---
Thoratec	91.3 – 8.7	92.9 – 7.1	1.6
TIBCO Software	99.3 – 0.7	95.8 – 4.2	-3.5
Tivo	91.3 – 8.7	56.4 – 43.6	-34.9
Trimble Navigation	91.2 – 8.8	92.2 – 7.8	1.0
Ubiquiti Networks			
Ultra Clean Holdings	97.9 – 2.1	94.7 – 5.3	-3.2
Ultratech	92.9 – 7.1	96.3 – 3.7	3.4
Varian Medical Systems	91.5 – 8.5	93.4 – 6.6	1.9

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	2012 Say-on-Pay Vote Support	2013 Say-on-Pay Vote Support	Year-Over-Year Change in Support
VeriFone Systems	95.1 – 4.9	20.7 – 79.3	-74.4
VMware	99.1 – 0.9	98.9 – 1.1	-0.2
Volterra Semiconductor	97.3 – 2.7	98.0 – 2.0	0.7
Workday	IPO	EGC	---
Xilinx	90.8 – 9.2	93.7 – 6.3	2.9
Yahoo!	49.9 – 50.1	92.7 – 6.3	42.8
Yelp	IPO	99.9 – 0.1	---
Zhone Technologies	Triennial	Triennial	---
Zynga	95.7 – 4.3	95.2 – 4.8	-0.5

About Compensia

Compensia, Inc. is a management consulting firm that provides executive compensation advisory services to Compensation Committees and senior management.

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