

“Say on Pay” at the Life Sciences 80 – A First Look at 2015

Now that the traditional annual meeting season has drawn to a close, it's time to take a look at this 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. So far, 2015 has been notable for the generally high level of shareholder support for most companies' executive pay programs.

As we have done since 2011, Compensia has been monitoring the Say-on-Pay Vote results for the most prominent companies in the life sciences sector (many of which are headquartered in the San Francisco Bay Area). We call this group the Life Sciences 80. (The companies comprising the Life Sciences 80 are listed on the Exhibit to this article.)

This Thoughtful Pay Alert summarizes our findings as of July 15, 2015, based on the results of their 2015 annual meeting of shareholders as disclosed by the Life Sciences 80 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.

For the Say-on-Pay results of companies in the technology sector, see our companion Thoughtful Pay Alert, “[Say on Pay](#)” at the Bay Area Tech 120 – A First Look at 2015.

Companies Reviewed

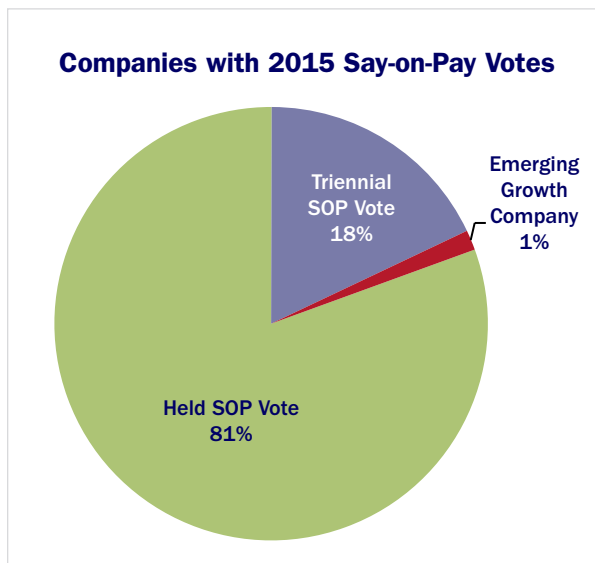
As of July 15, 2015, 67 of the companies in the Life Sciences 80 (83.8%) had held their 2015 annual meeting of shareholders and reported the results of the various votes con-

Four Things That Life Sciences Companies Should Know About the 2015 Say-on-Pay Votes

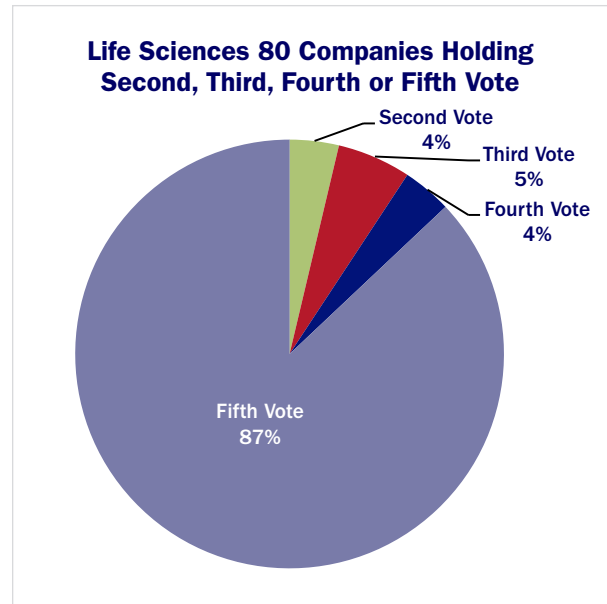
- This year's results are shaping up to be consistent with prior year patterns.** As in 2014, the vast majority of Life Sciences 80 companies have seen their shareholders overwhelmingly support the compensation of their named executive officers. To date, of the 54 life sciences companies that have held a Say-on-Pay vote, 94.4% have seen their shareholders approve the compensation of their named executive officers, while only 5.6% have had their vote fail. Consistent with the patterns reflected in the Russell 3000, just over 70% of the Life Sciences 80 companies that have held Say-on-Pay Votes to date have received more than 90% support. So far, only six Life Sciences 80 companies (11.0%) have received less than 70% support.
- The Level of Support in 2015 is Generally Consistent with Prior Years' Support Levels.** The 47 Life Sciences 80 companies that held their fifth Say-on-Pay Vote in 2015 have received average support of 89.0%, compared to 95.2% average support for the same group of companies in 2014, 92.4% average support in 2013, 85.6% average support in 2012, and 88.2% average support in 2011.
- The Say-on-Pay Vote for Each Year Stands on Its Own Merits.** We continue to see examples of significant swings in the level of support for Say-on-Pay Votes from year-to-year. So far this year, four Life Sciences 80 companies have experienced decreases in support of more than 36%, with two companies registering declines of nearly 60% from their 2014 vote totals. As has been the case since 2012, a successful vote in one year is no guarantee of the same result in the next year.
- Companies That Fail the Say-on-Pay Vote Experienced Difficulty Reversing this Result.** The two Life Sciences 80 companies that failed their Say-on-Pay Vote in 2014 and have held their 2015 Annual Meeting of Shareholders were able to obtain approval from their shareholders this year, but it wasn't easy. One company saw its Say-on-Pay proposal approved with support from only 50.1% of the votes cast, while the second company received support from just 54.4% of the votes cast.

“Say on Pay” at the Life Sciences 80 – A First Look at 2015 (continued)

ducted at the meeting. Of these companies, 54 conducted a Say-on-Pay Vote at the meeting. (The remaining 13 companies either previously decided to hold their Say-on-Pay Votes on a triennial basis (12 companies) and, therefore, held no vote in 2015 or qualified as an “emerging growth company” as established under the Jumpstart Our Business Startups (“JOBS”) Act (one company) which are not required to conduct a Say-on-Pay Vote.)



Of the 54 companies holding Say-on-Pay Votes in 2015, two companies (ZELTIQ Aesthetics and Zogenix) held their second Say-on-Pay Vote, three companies (AtriCure, Pacira Pharmaceuticals, and Threshold Pharmaceuticals) held their third Say-on-Pay Vote, and two companies (Horizon Pharma and Raptor Pharmaceutical) held their fourth Say-on-Pay Vote. The remaining 47 companies held their fifth Say-on-Pay Vote. So far, no company has held its first Say-on-Pay vote in 2015.



2015 Say-on-Pay Results

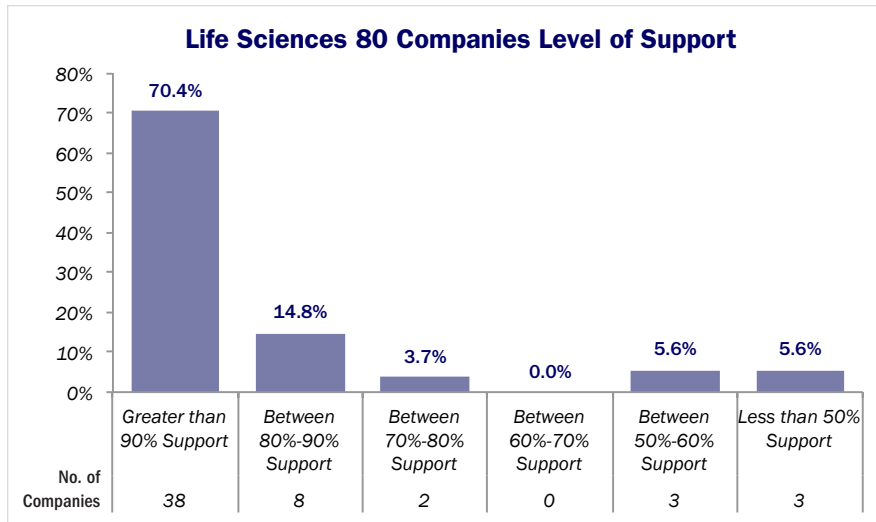
Average Level of Support

Overall, the average level of support for the 54 Life Sciences 80 companies conducting Say-on-Pay Votes so far in 2015 has been 88.6%. In the case of the 47 companies which held their fifth Say-on-Pay Vote in 2015, average support was 89.0%, compared to 95.2% average support for the same group of companies in 2014, 92.4% average support in 2013, 85.6% average support in 2012, and 88.2% average support in 2011 – a virtually negligible decline of less than 1% over the five-year period.

Actual Level of Support

The actual support for the 54 Life Sciences 80 companies conducting Say-on-Pay Votes so far in 2015 has been as follows:

“Say on Pay” at the Life Sciences 80 – A First Look at 2015 (continued)



While the decided majority of companies continue to receive strong support for the compensation of their named executive officers in 2015 – which is consistent with the experience of the Russell 3000, it is notable that 29 of these companies received more than 95% support from their shareholders, including six companies that received near unanimous approval of their named executive officer compensation with more than 99% of the votes cast on the Say-on-Pay proposal voted in favor of the proposal.

Unsuccessful Say-on-Pay Proposals

To date, three Life Sciences 80 companies, ICU Medical, Insulet, and Luminex, have failed to receive a majority of the votes cast in favor of their Say-on-Pay proposal in 2015.

At ICU Medical, only 28.4% of the votes cast supported the company’s named executive officer compensation, while 71.6% of the votes were cast against the proposal. This follows a vote of 87.4% for the proposal and 12.6% against the proposal in 2014 – a decrease of 59.0% of the votes cast on the Say-on-Pay proposal.

In the case of Insulet, 40.3% of the votes cast supported the company’s named executive officer compensation, while 59.7% of the votes were cast against (or abstained on) the proposal. In 2014, 98.6% of the votes cast on the company’s Say-on-Pay proposal supported the compensation of its named executive officers, resulting in a decrease in support of 58.3% in 2015.

Finally, at Luminex, only 35.9% 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 64.1% of the votes cast on the proposal voted against their compensation. In 2014, the company received 81.1% support for its named executive officer compensation.

Year-Over-Year Vote Fluctuations

Of the 47 companies that have now held five votes, 22 received more support (an average of 5.3%, with a median increase of 2.9%) in 2015 compared to 2014, while 24 saw support for their executive compensation program decline (by an average of 9.7%, with a median decrease of 1.6%). One company (Cutera) received the same level of support in 2014 and 2015.

As has been the case each year since 2012, several companies experienced a significant vote swing on the Say-on-Pay proposal between 2014 and 2015. So far, three companies have seen support for their executive compensation program decrease by over 45% in a single year.

Companies That Received Less Than 70% Support in 2014 Saw Mixed Results in 2015

Similar to the technology sector, companies that received approximately 70% or less support in 2014 have experienced mixed results so far in 2015. Two companies – Cynosure and OraSure Technologies – which received less than 50% support in 2014 saw their Say-on-Pay Votes approved in 2015, but only by the thinnest of margins (in fact, Cynosure received support from only 50.1% of the votes cast on its Say-on-Pay proposal). A third company, Raptor Pharmaceutical, which received just 67.5% support in 2014 saw support for its 2015 Say-on-Pay proposal increase by just under 10% to 77.2% this year. The remaining three companies that received less than 70% support in 2014 and have conducted their annual meetings to date

“Say on Pay” at the Life Sciences 80 – A First Look at 2015 (continued)

(CTI BioPharma, Orexigen Therapeutics, and Regeneron Pharmaceuticals) did not hold a Say-on-Pay Vote this year.

Companies that Received More Than 90% Support in 2014 Generally Stable in 2015

As in prior years, a number of the Life Sciences 80 companies (24) that received more than 90% support in 2014 saw support for their named executive officer compensation decline in 2015. The average amount of this decline (6.9%) was largely influenced by the fact that one company (Insulet) experienced a decrease of nearly 59%, while a second company (AtriCure) saw its support decline by just over 36%. It is notable that 13 companies saw support for their named executive officer compensation dip by less than 2%, maintaining overall support at above 90% levels.

In contrast, 13 of the Life Sciences 80 companies that received more than 90% support in 2014 actually saw this support increase in 2015 (by an average of nearly 2.0%) – a noteworthy result given the limited amount of room to garner additional votes in favor of their named executive officers’ compensation. Further, of the companies that saw support for their Say-on-Pay proposal decrease in 2015, the decline for eight of these companies was less than 1%.

Final Observations

While the experience of the Life Sciences 80 companies with the Say-on-Pay Vote is on track with that of the companies in the Russell 3000, it’s notable that for the majority of the life sciences companies that already have held their

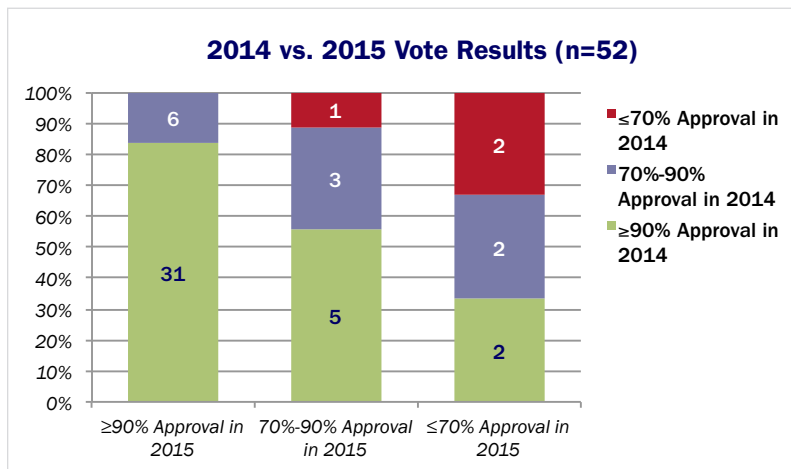
annual meeting of shareholders this year, this vote was a non-event. Further, for the companies that have now held five Say-on-Pay Votes, support for their executive compensation program has (with just a few exceptions) largely remained strong year-over-year, as reflected by their average annual support at or above the 90th percentile.

As with the broader corporate community, as long as a life sciences 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 shouldn’t encounter any significant issues in obtaining a favorable Say-on-Pay result. Of course, an integral piece of this equation is an effective shareholder engagement philosophy. By identifying potential concerns well in advance, life sciences 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 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 Life Sciences 80 – A First Look at 2015 (continued)

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“Say on Pay” at the Life Sciences 80 – A First Look at 2015 (continued)

Exhibit

Life Sciences 80 – 2015 Shareholder Advisory Vote on Executive Compensation

	2014 Say-on-Pay Vote Support	2015 Say-on-Pay Vote Support	Year-Over-Year Change in Support
Abaxis			
ABIOMED			
Accuray			
Aegerion Pharmaceuticals	95.4 - 4.6	Triennial	---
Affymetrix	98.9 - 1.1	97.8 - 2.2	-1.1
Align Technology	93.4 - 6.6	94.1 - 5.9	0.7
Amgen	97.1 - 2.9	96.9 - 3.1	-0.2
Anacor Pharmaceuticals	99.7 - 0.3	86.5 - 13.5	-13.2
AngioDynamics			
Arena Pharmaceuticals	89.4 - 10.6	87.8 - 12.2	-1.6
AtriCure	91.2 - 8.8	55.0 - 45.0	-36.2
Atrion	98.3 - 1.7	96.0 - 4.0	-2.3
Bio-Rad Laboratories	95.5 - 4.5	Triennial	---
BioMarin Pharmaceutical	88.2 - 11.8	97.0 - 3.0	8.8
Cepheid	99.2 - 0.8	93.1 - 6.9	-6.1
Cerus	96.2 - 3.8	94.7 - 5.3	-1.5
ChemoCentryx	EGC	EGC	---
CONMED	90.5 - 9.5	97.5 - 2.5	7.0
The Cooper Companies	99.0 - 1.0	97.8 - 2.2	-1.2
Corcept Therapeutics	99.7 - 0.3	Triennial	---
CTI BioPharma	54.1 - 45.9	Triennial	---
Cutera	95.1 - 4.9	95.1 - 4.9	0.0
Cyberonics			
Cynosure	47.2 - 52.8	50.1 - 49.9	2.9
Cytokinetics	97.2 - 2.8	Triennial	---
Depomed	96.1 - 3.9	95.8 - 4.2	-0.3
Dyax	99.1 - 0.9	Triennial	---
Edwards Lifesciences	88.0 - 12.0	94.9 - 5.1	6.9
Endologix	99.6 - 0.4	97.2 - 2.8	-2.4
Exactech	75.4 - 24.6	96.7 - 3.3	21.3
Exelixis	90.3 - 9.7	92.0 - 8.0	1.7
Fluidigm			
Genomic Health	95.1 - 4.9	87.9 - 12.1	-7.2

“Say on Pay” at the Life Sciences 80 – A First Look at 2015 (continued)

	2014 Say-on-Pay Vote Support	2015 Say-on-Pay Vote Support	Year-Over-Year Change in Support
Gilead Sciences	97.6 – 2.4	97.1 – 2.9	-0.5
Haemonetics			
Halozyme Therapeutics	98.7 – 1.3	83.4 – 16.6	-15.3
Horizon Pharma	91.2 – 8.8	90.8 – 9.2	-0.4
ICU Medical	87.4 – 12.6	28.4 – 71.6	-59.0
IDEXX Laboratories	99.0 – 1.0	99.1 – 0.9	0.1
Illumina	87.2 – 12.8	96.7 – 3.3	9.5
Impax Laboratories	97.5 – 2.5	98.6 – 1.4	1.1
Insulet	98.6 – 1.4	40.3 – 59.7	-58.3
Integra LifeSciences Holdings	99.1 – 0.9	99.2 – 0.8	0.1
Intuitive Surgical	89.1 – 10.9	94.1 – 5.9	5.0
Ironwood Pharmaceuticals	99.7 – 0.3	Triennial	---
Isis Pharmaceuticals	98.7 – 1.3	97.5 – 2.5	-1.2
Jazz Pharmaceuticals			
Luminex	81.1 – 18.9	35.9 – 64.1	-45.2
Medivation	99.2 – 0.8	98.4 – 1.6	-0.8
Meridian Bioscience			
Myriad Genetics			
Natus Medical	93.0 – 7.0	93.9 – 6.1	0.9
Nektar Therapeutics	98.9 – 1.1	97.0 – 3.0	-1.9
Neogen			
Neurocrine Biosciences	97.8 – 2.2	99.4 – 0.6	1.6
NuVasive	74.7 – 25.3	75.9 – 24.1	1.2
NxStage Medical	98.6 – 1.4	98.8 – 1.2	0.2
Omeros	95.8 – 4.2	Triennial	---
OraSure Technologies	41.3 – 58.7	54.4 – 45.6	13.1
Orexigen Therapeutics	38.3 – 61.7	Triennial	---
Pacira Pharmaceutical	98.9 – 1.1	99.2 – 0.8	0.3
Peregrine Pharmaceuticals			
Quidel	94.3 – 5.7	98.6 – 1.4	4.3
Raptor Pharmaceutical	67.5 – 32.5	77.2 – 22.8	9.7
Regeneron Pharmaceuticals	62.1 – 37.9	Triennial	---
Rigel Pharmaceuticals	99.2 – 0.8	99.1 – 0.9	-0.1
Sangamo BioSciences	81.6 – 18.4	Triennial	---
SciClone Pharmaceuticals	93.1 – 6.9	93.0 – 7.0	-0.1
Seattle Genetics	93.4 – 6.6	95.4 – 4.6	2.0

“Say on Pay” at the Life Sciences 80 – A First Look at 2015 (continued)

	2014 Say-on-Pay Vote Support	2015 Say-on-Pay Vote Support	Year-Over-Year Change in Support
Sequenom	85.7 - 14.3	89.3 - 10.7	3.6
STAAR Surgical	97.6 - 2.4	89.5 - 10.5	-8.1
SurModics	95.4 - 4.6	97.7 - 2.3	2.3
Thoratec	96.8 - 3.2	95.7 - 4.3	-1.1
Threshold Pharmaceuticals	98.7 - 1.3	97.9 - 2.1	-0.8
Varian Medical Systems	93.3 - 6.7	88.7 - 11.3	-4.6
VIVUS			
XenoPort	77.1 - 22.9	99.1 - 0.9	22.0
XOMA	89.8 - 10.2	Triennial	---
ZELTIQ Aesthetics	Triennial	80.1 - 19.9	---
Zogenix	Triennial	98.6 - 1.4	---