# Board of Directors Compensation Practices

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## **Board of Directors Compensation Practices**

#### Introduction

IN SUMMER 2009, Compensia analyzed the director 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 director 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 compensation practices for Boards of Directors at the BA150 from a number of perspectives, including:

- General Board Service Pay and Pay Elements: The prevalence of retainer, meeting fees and equity awards, 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 a Committee Chair and their participation in Board Committees; 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**: 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)

Data were collected in May/June 2009 from public filings, and represent the most current practices, based on the most recent fiscal year reported or changes reflected immediately after the fiscal year end in a Form 8-K. Annual share utilization, or "burn rate," analyses are based on data as of the last fiscal year. Burn rate is defined as the number of shares and/or stock options allocated divided by the weighted average common shares outstanding. For this calculation, full value shares have been converted into option equivalents using RiskMetrics Group (formerly ISS) multiples ranging from 1.5X to 4x depending on each company's stock price volatility.

In this report, "restricted shares/units" 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 and ii) restricted shares/units are valued based on the number of shares granted multiplied by a recent 30-day average stock price.

# **BA150 Board of Directors Compensation**

# Executive Summary – Year over Year Highlights

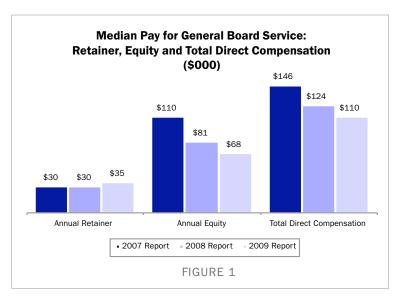
The prominence of cash retainers increased slightly in our 2009 report relative to the previous two years. Total direct compensation ("TDC") dropped in the same time period. [Figure 1] The decrease in equity award values was largely attributable to ongoing declines in the market value of company stock, as share prices dropped approximately 40% at median among BA150 companies over the previous year. Looking ahead, we expect Board compensation levels to increase due both to increased responsibilities and stock price improvement as the market rebounds.

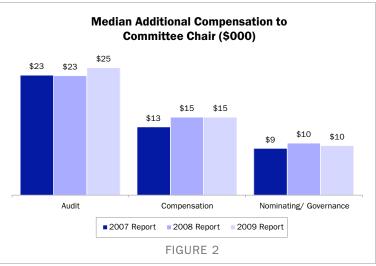
Additional compensation to Audit Committee Chairs and members increased slightly over our previous two analyses, while compensation to Compensation Committee and Nominating/Governance Committee members increased dramatically over that timeframe (approximately 25% for the Compensation Committee Chair and members and approximately 33% for the Nominating/Governance Committee Chair and members). [Figures 2 and 3]

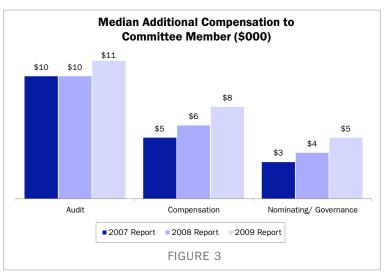
# General Board Service Pay and Pay Elements

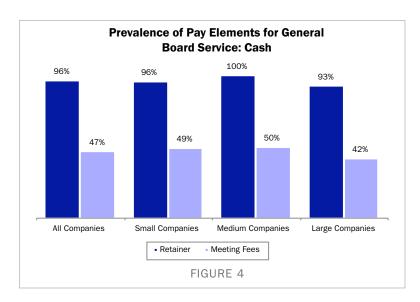
Cash compensation for Board members continues to be comprised of a mix of retainers and meeting fees. Retainers, which reflect the "on call" nature of the role, have become more prevalent over the past several years as the demands on Board members have increased dramatically to include numerous activities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

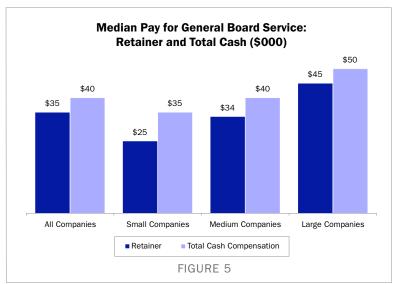
Ninety-six (96%) of all companies used retainers and 47% of companies used both retainers and meeting fees. [Figure 4] Retainers continued to account for

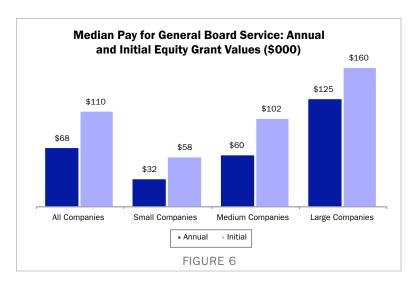












the largest portion of Board member cash compensation.

The median cash compensation for Board members at the BA150 companies was \$40,000, with \$35,000 of that delivered through a retainer. The retainer figure was up 17% from the previous year, while total cash compensation remained flat. [Figure 5]

As expected, company size drove 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 provided Board members with initial and, thereafter, annual equity awards (93% and 95%, respectively). Approximately one-half to three-quarters of all companies granted restricted shares or restricted stock unit awards to Board members, with large companies representing the high end of that range and small companies the low end. The use of full value equity awards rose appreciably over the past year at small companies (from 33% the previous year), quite possibly in step with the increased use of full value equity awards for the named executive officers.

Both initial and annual equity award values decreased relative to the previous year's values. The median initial equity award value at all companies was \$110,000, down significantly from \$150,000 the previous year. Likewise, the median annual equity award value of \$68,200 was lower than the \$81,400 reported for the previous year. [Figure 6]

The decrease in equity award values was once again attributable to declines in the market value of company stock, as share prices dropped approximately 40% at median over the previous year's analyses.

The impact of Board member equity awards on share utilization ("burn rate") was 0.11% at the median for all companies. This represents an increase from 0.09% reported for the previous year as companies adjusted their equity mix to incorporate more restricted shares/units. [Figure 7]

#### **Board Leadership and Committee Pay**

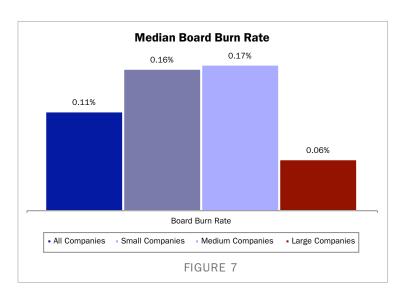
Approximately 80% of the BA150 companies had either an outside (i.e., nonexecutive) Chairman of the Board or a Lead Director. Of those companies with either an outside Chair or Lead Director, 63% provided some form of additional compensation to the individual holding this position, with most of that compensation coming in the form of an additional cash retainer.

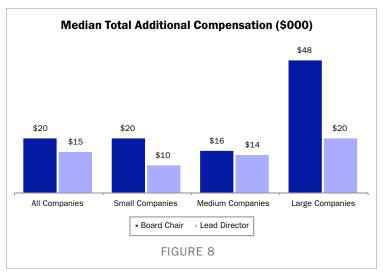
Total additional compensation for Board Chairs was \$20,000 across all companies (a slight decrease from \$23,000 for the previous year) and \$15,000 for Lead Directors (up from \$10,000 in the previous year's report). [Figure 8]

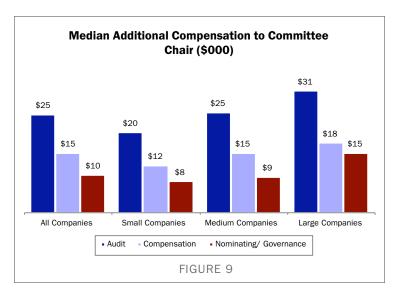
Directors who serve as Committee Chairs or members also generally received some additional compensation. Virtually all companies provided additional compensation for Audit Committee Chairs, and most provided additional compensation to Audit Committee members. However, 2008 saw a marked increase in additional compensation to Compensation Committee and Nominating/Governance Committee members as well; at the median, Compensation Committee members received an additional \$7,500 for their service and Nominating/Governance Committee members received an additional \$5,000. [Figures 9 and 10]

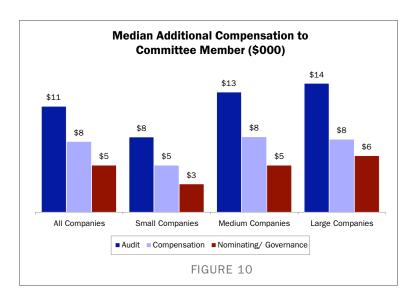
#### **Cost of Governance**

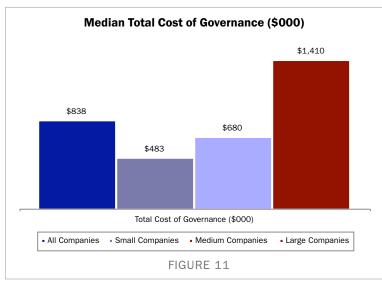
Continuing the trend from the previous year, the cost of governance – that is, the total direct compensation expense (meet-

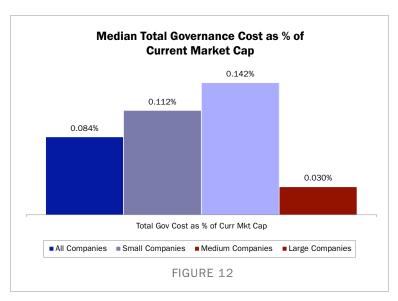












ings fees, retainers and equity awards) paid to a company's Board of Directors – dropped again over the prior year. Almost all of the decline in the cost of governance can be attributed to the drop in company stock price.

At the median, the BA150 companies in this report paid about \$838,000 in total Board compensation, a decrease from \$947,000 for the previous year. Decreases in the total cost of governance were seen across all company size groupings. [Figure 11]

In addition, the cost of governance as a percent of market capitalization fell during the same period. The All Companies median cost of 0.084% of market capitalization was down from 0.095% reported for the previous year. [Figure 12]

#### Conclusion

After flattening over 2007, director compensation saw significant changes in 2008, most notably the increase in use of restricted shares/units, the decrease in overall equity award values and the increase in additional compensation to Compensation Committee members. The first two developments were directly related to the stock market downturn and the shifting mix of equity that we saw in executive compensation programs, while the higher levels in Compensation Committee compensation is likely due to the increased responsibilities of its members.

Looking ahead, we expect Board compensation levels to increase. Part of this anticipated increase will be due to the improved stock prices (and thus higher equity values), but part will also be due to the heightened responsibilities, time commitment, and exposure that comes with joining the Board of a publicly-traded company today.

## **Company List**

ActelGilead SciencesOracleAdaptecGlobalstarPacketeerAdobe SystemsGooglePalm

Advanced Micro Devices Harmonic PDL BioPharma

Affymetrix Hewlett-Packard Pericom Semiconductor
Agile Software Ikanos Communications Photon Dynamics
Agilent Technologies Informatica Plantronics
Align Technology Integrated Device Technology PMC-Sierra

Altera Integrated Silicon Solution Power Integrations

Apple Intel Quantum

Applied Materials Intersil Rackable Systems

Applied Micro CircuitsInterwovenRambusApplied Signal TechnologyIntevacSanDiskAribaIntuitSanmina-SCIAsyst TechnologiesIntuitive SurgicalShutterflyAtheros CommunicationsiPassSilicon Image

Atmel IXYS Silicon Storage Technology

Avanex JDS Uniphase SiRF Technology

Aviza Technology Juniper Networks SMART Modular Technologies

BEA Systems KLA-Tencor Solectron
Bell Microproducts Komag SonicWALL
Blue Coat Systems Kyphon Spansion

Bookham Lam Research SumTotal Systems
Borland Software Leadis Technology Sun Microsystems

Brocade Communications Systems Linear Technology SunPower
Cadence Design Systems LSI Symantec
Cisco Systems Macrovision Symmetricom
Coherent Magma Design Automation Symyx Technologies

CovadMattson TechnologySynapticsCPI InternationalMaxim Integrated ProductsSYNNEXCredence SystemsMcAfeeSynopsys

Cypress Semiconductor Micrel Tessera Technologies
Dionex Monolithic Power Systems TIBCO Software

DSP Group National Semiconductor TiVo

eBay Nektar Therapeutics Trident Microsystems
Electronic Arts NetFlix Trimble Navigation

Electronics For Imaging NetGear Ultratech
Equinix Network Appliance Varian

ESS Technology Novellus Systems Varian Medical Systems

Exponent NVIDIA VeriFone
Extreme Networks Omnicell VeriSign
Finisar OmniVision Technologies Xilinx
Foundry Networks Openwave Systems Yahoo!
Foxhollow Technologies Opsware Zoran

Genesis Microchip

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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:

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- Current compensation program review/audit
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- Stock ownership and retention
- Advisory vote on executive compensation
- Contractual arrangements
- Board of Director compensation
- Continuing education

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