

SILICON VALLEY 130



Board of Directors Compensation Practices

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Board of Directors Compensation Practices

IN SUMMER AND FALL 2007, Compensia analyzed the Director compensation practices of the largest 133 technology companies headquartered in Silicon Valley. This report—which we call the SV130—documents the findings of the analyses. A list of companies examined in the analyses is provided at the end of the document.

Methodology

All data reported in the charts and graphs represent medians (or the 50th percentile). Analyses are provided on an All Company basis, as well as by company size and in limited cases, by industry. Company size is divided into three categories:

- ▶ Small: Less than \$250 million in revenue (n = 37)
- ▶ Medium: Revenue of \$250M to \$1B (n = 48)
- ▶ Large: Greater than \$1B (n = 48)

Data were collected in May/June, 2007 from public filings, and represent the most current Board 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 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 to employees divided by common shares outstanding.)

In this report, restricted stock/units refers to full value stock awards that vest based solely on continued employment. Equity grant values are based on the following methodology: i) stock options are valued using the Black-Scholes stock option pricing model and ii) restricted stock is valued based on the number of shares multiplied by the grant date stock price.

Executive Summary

As regulators, shareholders and other stakeholders require increased accountability on the part of Boards of Directors, the demands on members’ time, and the scope of their responsibilities has markedly increased. Likewise, the ways in which Board members are compensated have become increasingly more sophisticated and more reflective of the differences in the responsibilities of the respective members. Retainers continue to represent the most highly favored form of cash compensation for Board members in Silicon Valley technology companies, reflecting the increased “on-call” nature of the Director’s job description. Further, some 40% of all companies in the analysis grant full value stock, mirroring a similar move toward granting restricted stock to the executive and employee populations at these companies.

SV130 Board of Directors Compensation

THIS REPORT examines pay practices for Boards at the SV130, and includes the following:

- ▶ **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 a Committee Chair and their participation in Committees
- ▶ **Cost of Governance:** The total compensation expense associated with Boards of Directors

General Board Service Pay and Pay Elements

Cash compensation is delivered to board members primarily through retainers and meeting fees. Companies favor retainers for their administrative simplicity; their use of meeting fees is typically driven by historical practice and/or significant variability in the number of board meetings from one year to the next.

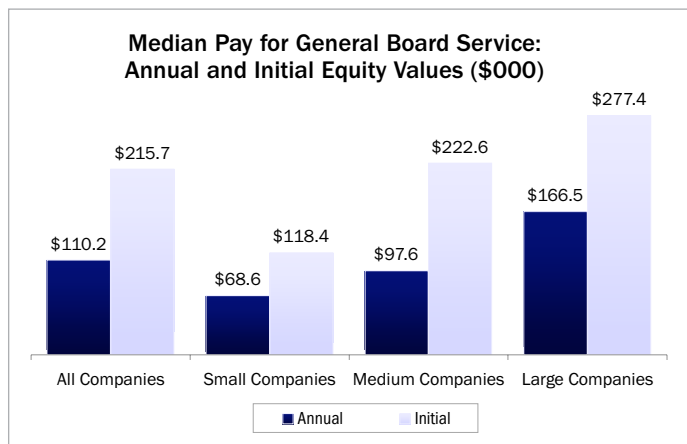
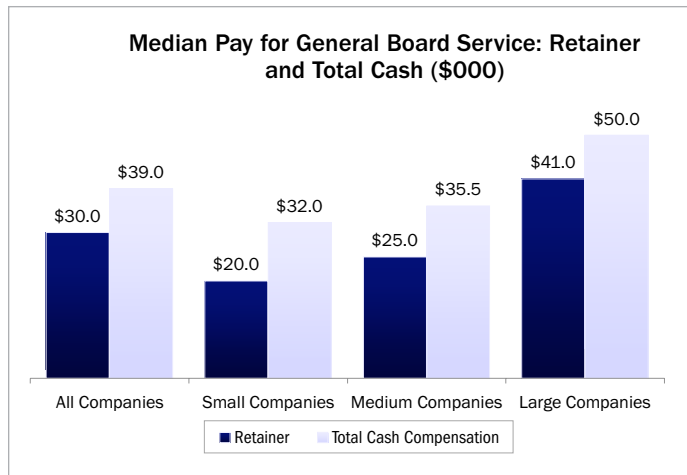
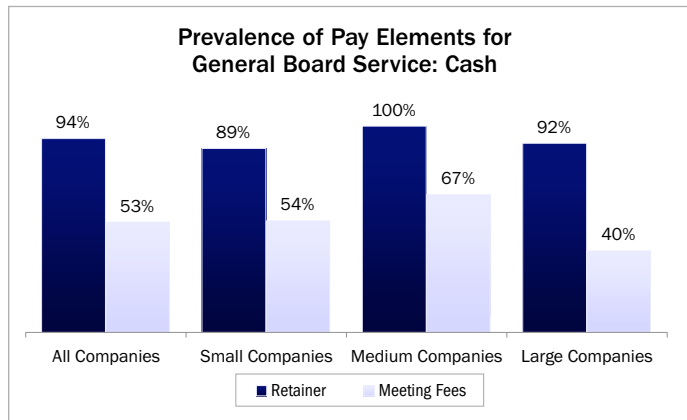
While about half of all companies still use meeting fees to compensate their Board members, and between 40% and 60% of companies use both meeting fees and retainers, the bulk of cash compensation is delivered in the form of a retainer.

The median cash compensation for Board members in the SV130 is \$39,000, with \$30,000 of that delivered through retainer. As expected, larger companies deliver higher levels of pay with a median of \$50,000 as compared to \$32,000 at smaller companies.

Virtually all companies provide Board members with annual and initial equity grants (98%).

Between 35% and 46% of companies grant restricted stock or restricted stock units to Board members, with larger companies representing the high end of that range.

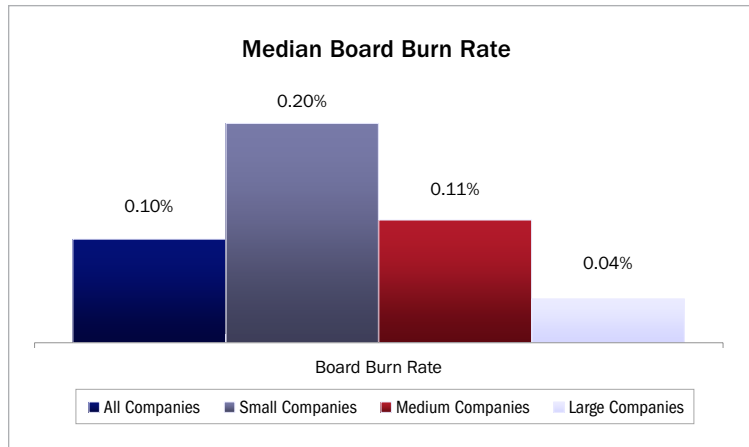
The largest equity grants are delivered to Directors at the time they join the Boards. The initial equity grant value at all companies was \$215,750, compared to the \$110,221 in annual grant value. In terms of the impact of equity



grants to Board members on utilization (“burn” rates), these grants represented a modest 0.10% burn rate, at the median across all companies.

As is the case with utilization rates associated with grants elsewhere in the organization, the portion of utilization represented by equity delivered to Boards at small companies tend to be higher than is the case at large companies.

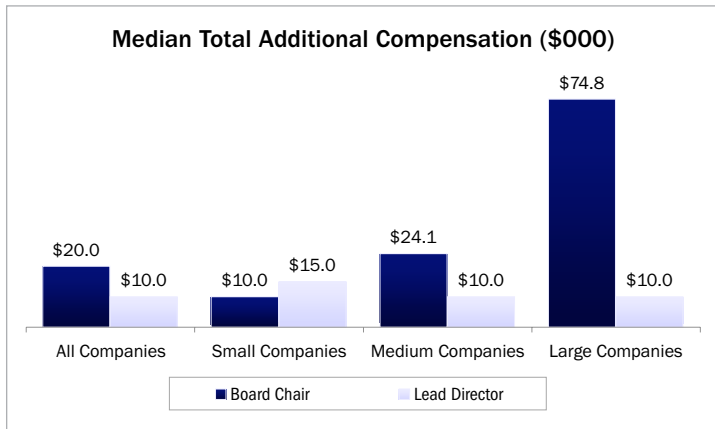
Small company median utilization is roughly 2x of the All Company median.



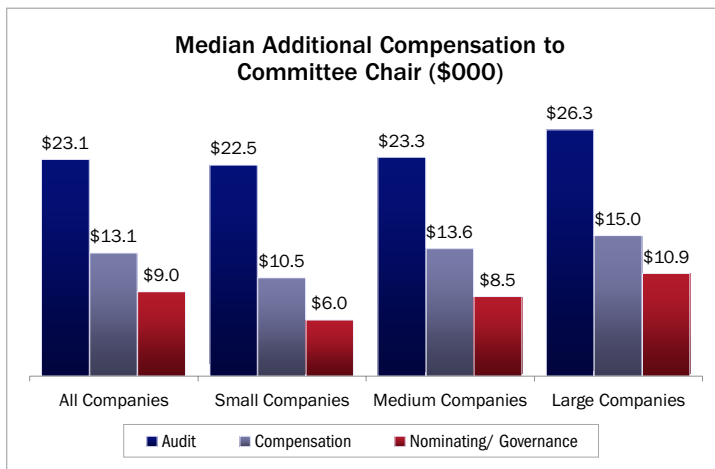
Board Leadership and Committee Pay

Approximately two-thirds of all SV130 companies have either an outside Chairman of the Board or Lead Director role; of those, about three-quarters provide some form of additional compensation to those Board members holding either the Chair or Lead Director role, with most of that coming in the form of an additional cash retainer. A small percentage of companies provide additional compensation in the form of meeting fees and/or equity.

Total additional compensation for Board Chairs is about \$20,000 across all companies, compared to \$10,000 for Lead Directors. Company size tends to drive pay delivered to Chairs (about \$75,000 at large companies compared to \$10,000 at small companies); however the same does not hold true with Lead Directors, for whom additional pay is relatively consistent across company sizes.



The majority of all SV130 companies provide some form of additional compensation to Directors for their roles either as Chairs or members of Board committees (e.g., Audit, Compensation, Governance).

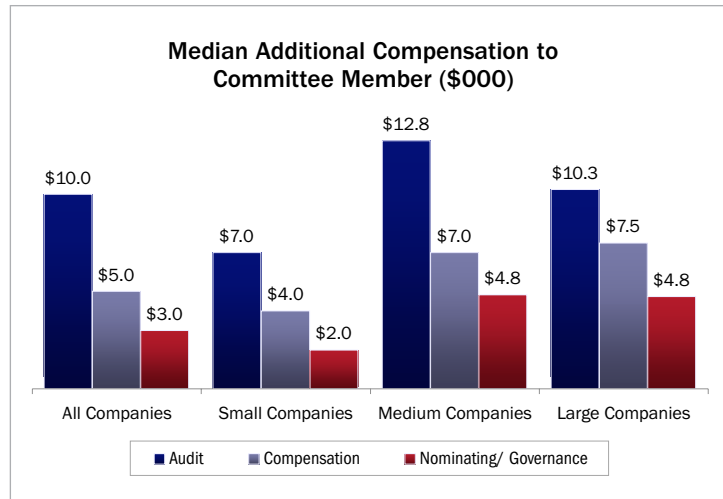


Virtually all companies provide additional compensation to Audit Chairs, not surprising given the increased personal responsibility Audit committees hold for financial statements. Committee members are also typically compensated as well.

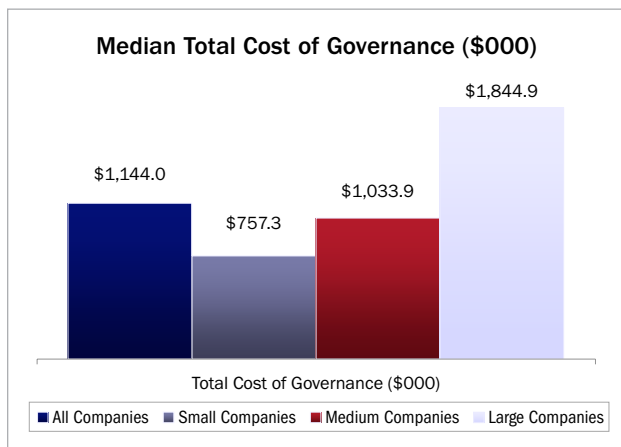
Given the above, it is not surprising that, excluding the Chair/Lead director roles, the highest pay is provided to those in Audit Chair roles; about 70% of all companies do so. Between approximately 30% and 50% of companies make similar pay distinctions for members of that committee.

Cost of Governance

The total cost of governance is defined by the total direct compensation (meetings fees, retainers and equity) paid to a company's Board of Directors. At the median, companies in the SV130 are paying about \$1.1 million in board compensation.



This cost of governance ranges from \$757,271 at small companies to \$1,844,900 at large companies. Despite the higher dollar figures associated with large company boards, the costs have a much greater impact on the financials of smaller companies.

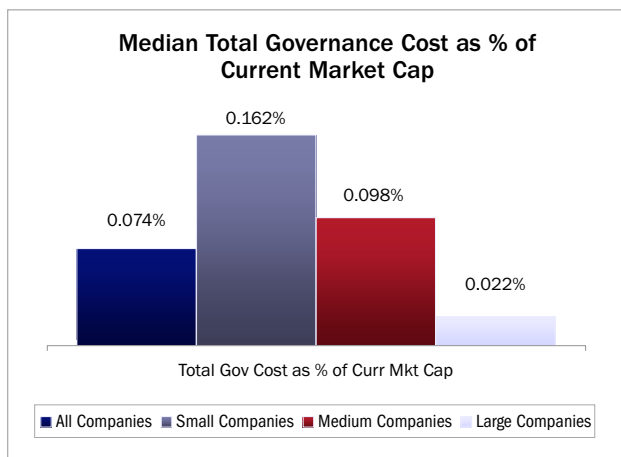


As a percent of revenue, governance costs are 0.20%, ranging from a low of 0.058% at large companies to 0.454% at small companies.

Meanwhile, the total cost of governance represents 0.162% of market cap at small companies, compared to 0.022% at their larger counterparts.

Conclusion

The role of Board membership has changed dramatically over the past several years. Regulatory and shareholder pressures are at perhaps unprecedented levels, resulting in an increased demand for Directors with specific skills (such as in areas of audit and compensation). At the same time, the service as a Director has simply become more time-intensive. Companies are responding by designing Board pay that reflects the time commitment and skill requirements necessary for a high-performing Board. ■



Company List

Actel	Gilead Sciences	Oracle
Adaptec	Globalstar	Packeteer
Adobe Systems	Google	Palm
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 Circuits	Interwoven	Rambus
Applied Signal Technology	Intevac	SanDisk
Ariba	Intuit	Sanmina-SCI
Asyst Technologies	Intuitive Surgical	Shutterfly
Atheros Communications	iPass	Silicon Image
Atmel	IXYS	Silicon Storage Technology
Avanex	JDS Uniphase	SiRF Technology
Aviza Technology	Juniper Networks	SMART Modular Technologies
BEA Systems	KLA-Tencor	Soletron
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
Covad	Mattson Technology	Synaptics
CPI International	Maxim Integrated Products	SYNNEX
Credence Systems	McAfee	Synopsys
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		

COMPENSIA, INC. IS A MANAGEMENT CONSULTING FIRM that provides executive compensation advisory services to Compensation Committees and senior management. Formed in 2003 by a group of leading executive compensation experts with more than 100 years of experience, our mission is to offer Thoughtful Pay™ solutions in an ever-changing executive compensation landscape. We define our Thoughtful Pay™ solution by six guiding principles:

Effectiveness	Pay programs are aligned with the Company's compensation philosophy and business strategy, appropriately rewarding performance.
Balance	Compensation delivered balances 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	Rules of the game are clearly communicated to and understood by all constituencies and the "line of sight" between actions and rewards is clear.
Independence	Compensation programs are designed and approved by Compensation Committee.
Simplicity	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:

- ▶ Compensation Committee advisors
- ▶ Total rewards strategy
- ▶ Comparable pay and performance benchmark
- ▶ Compensation program review/audit
- ▶ Equity (long-term compensation strategy)
- ▶ Stock ownership retention
- ▶ Employment/change-in-control succession arrangements
- ▶ Merge and acquisition/restructure incentives
- ▶ Board of Directors compensation
- ▶ Litigation support

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