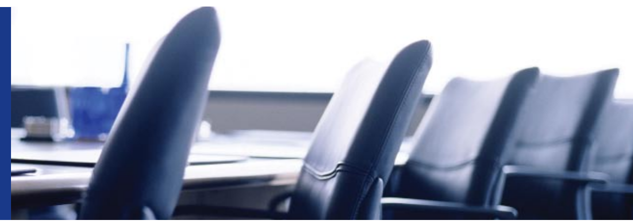
Silicon Valley 130



Equity Compensation Practices

October 2007

Compensia
THOUGHTFUL PAY

1731 TECHNOLOGY DRIVE SUITE 810
SAN JOSE, CA 95110
408 876 4025

770 TAMALPAIS DRIVE SUITE 207
CORTE MADERA, CA 94925
415 462 2990
compensia.com

IN SUMMER AND FALL 2007, Compensia analyzed the equity 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 report.

Methodology

All data reported in the charts and graphs represent medians (or 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)

Where data were analyzed on the basis of industry grouping, we examined the practices at:

- Hardware (n = 31)
- Software (n = 23)
- Semiconductor (n = 47)

Data were collected in May/June, 2007 from public filings, and represent the most current practices, based on the most recent fiscal year reported. Annual and cumulative utilization ("burn rate" and "overhang") analyses are also based on data as of last fiscal year. (Burn rate is defined as the number of shares/options allocated divided by common shares outstanding; overhang is defined as the number of outstanding options and unvested shares divided by common shares outstanding.)

In this report, restricted stock/units refers to full value stock awards that vest based solely on continued employment. Performance shares refer to full value stock awards that vest based on the achievement of pre-established performance goals (often in addition to a service requirement).

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 and performance shares are valued based on the number of shares granted (in the case of performance shares, the target was used) multiplied by the grant date stock price.

Executive Summary

In recent years, few areas of compensation in technology companies have received more attention than equity. Technology companies have long relied on equity, especially stock options, to create an ownership culture, align employee interests with those of shareholders, tie pay to performance and conserve cash. In the wake of stock option accounting changes, companies have increased their use of other forms of equity, including full value shares (e.g., restricted stock and performance shares). However, in reaction to increased shareholder pressure to mitigate equity utilization, overall burn rates have continued to decrease.

As in other areas of compensation, company size is a significant determinate of equity pay practices. Company size impacts equity practices for a variety of reasons, including the correlation between revenue/market cap and organization/life cycle of the company (for example, small companies tend to be higher in risk and higher in growth potential, and thus rely heavily on equity). Company size also tends to predict how much external influence is exerted on companies (for example, a significant proportion of larger company shares tend to be held by institutional investors, many of which have pressured Boards and management on equity compensation issues).

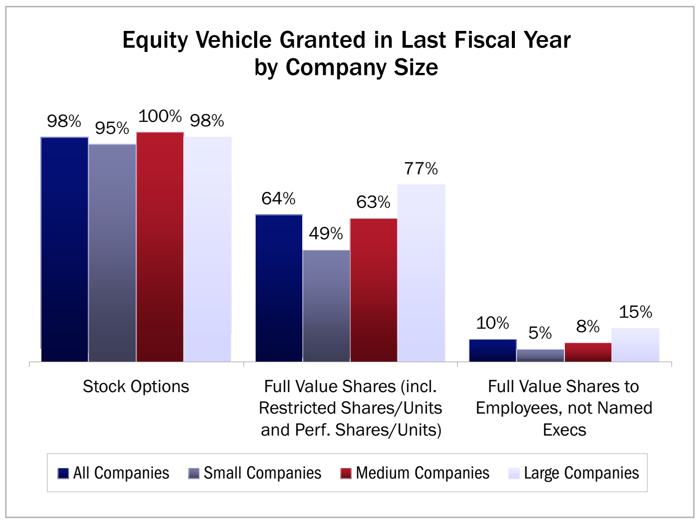
SV130 Equity Compensation

THIS REPORT examines equity practices at the SV130, including:

- **Stock options and full value shares:** Trends in the usage of equity vehicles.
- **Utilization ("burn rate" and "overhang"):** Practices related to how much equity companies allocate to senior Executives and other employees.
- **Value delivered through equity:** The expected dollar value of equity granted to employees.
- **Equity expenses:** The accounting cost associated with equity grants.

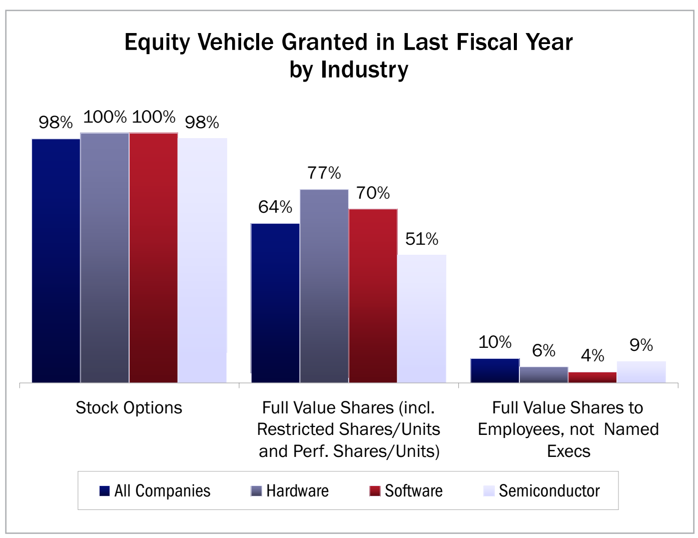
Stock Options and Full Value Shares

With changes in stock option accounting rules, many companies have turned to restricted stock and restricted stock units to augment their equity compensation, and reduce the expense associated with stock options. About two out of three companies used full value shares last year.



Company size is a significant driver in determining how companies use (or do not use) stock options and/or full value shares. While virtually all companies use stock options, the larger the company, the more likely it is to use full value shares. This reflects a more diversified compensation toolbox at larger companies and potentially a realization that the "upside" potential and associated gains from stock options may not be as great relative to smaller, growth companies.

Large companies are far more likely (77%) than small companies (49%) to use full value shares of some type (including restricted stock/units or performance shares/units). That said, larger companies are three times as likely as smaller companies (15% compared to 5%) to distribute full value shares to their non-executive population only, reflecting increased pressure to ensure top executive pay is tied to increased shareholder value.

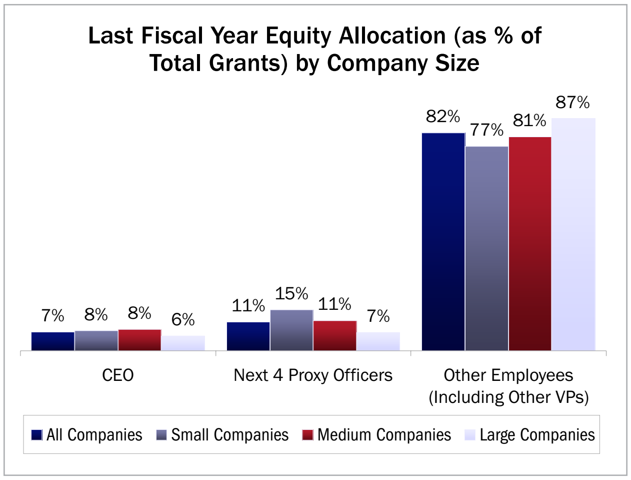


A handful (10%) of companies excluded their named executive officers from full value share grants in favor of, arguably, more shareholder friendly stock options.

On a sector basis, Semiconductor companies are significantly less likely to use full value shares than Hardware and Software companies. Semiconductor companies are also more likely to exclude named executive officers from full value share grants, where full value shares are utilized.

Allocation Within the Company

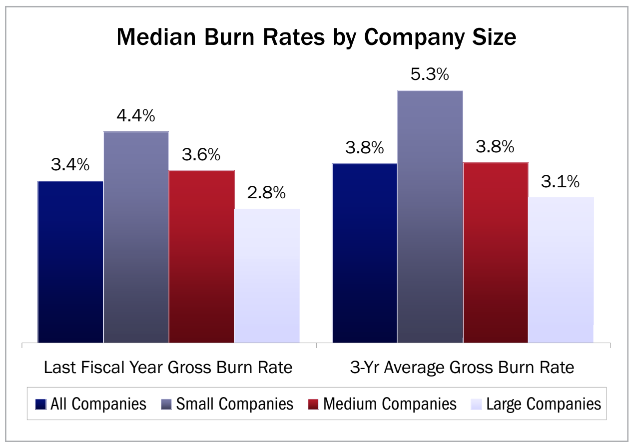
In the past year, technology companies allocated approximately 7% of their total equity grants to the CEO, with the remaining named executive officers receiving about 11%. On a combined basis, the Top 5 (CEO and other named executive officers in the proxy filing) received slightly less than one-fifth of the total company allocation of equity.



Company size also plays a role in determining how equity is allocated among named executive officers and the rest of the employee population (which includes other non-named officer VPs). The named executive officers at smaller firms received about 23% of the company's equity allocation, with their counterparts at larger firms receiving about 13%.

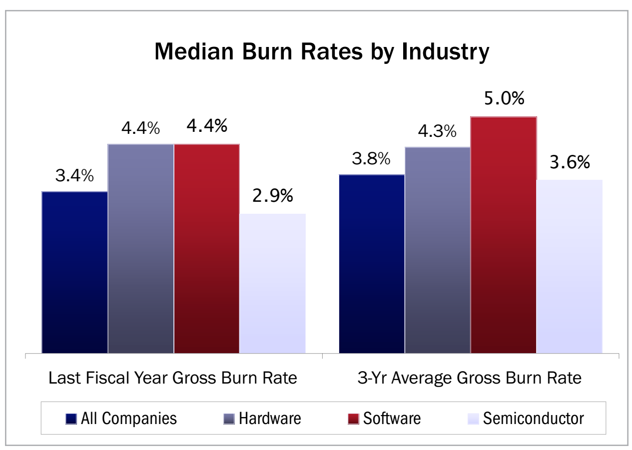
Stock Option Utilization

As companies have increasingly moved toward targeting equity awards at high performers within the organization, and as they have moved to full value equity grants, annual utilization rates have decreased appreciably from levels seen in Silicon Valley at the turn of the century. (The annual utilization – or burn rate – is defined as the number of shares and/or stock options allocated to employees, divided by common shares outstanding. For this calculation, full value shares have been converted into option equivalents using the ISS multiple of 1.5x, 2x or 4x for company volatilities of >53%, 25%-52% and <25%, respectively.)

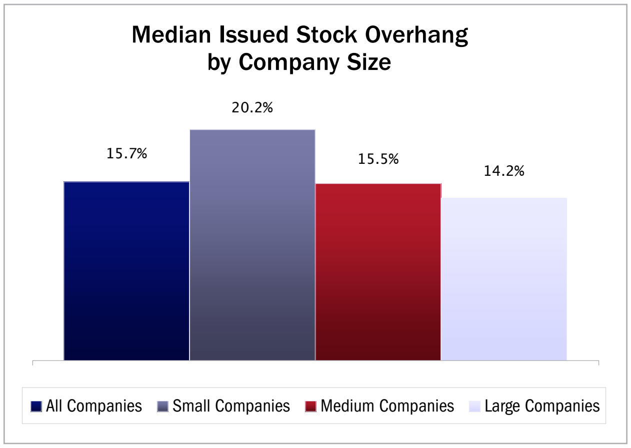


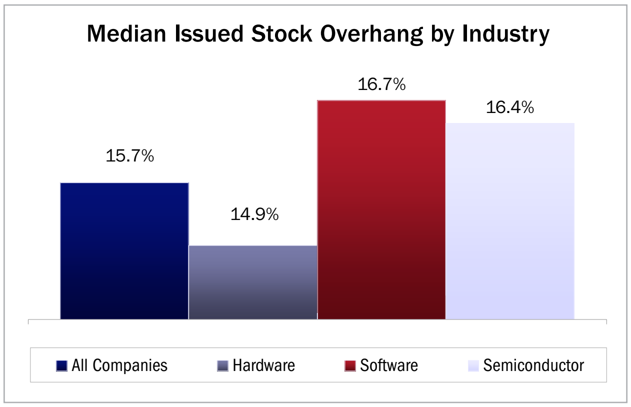
Burn rates have continued to trend down over the past three years. For example, while the gross adjusted burn rate for all companies was an average of 3.8% over the past three years, it was 3.4% in the last fiscal year. That said, burn rates at smaller companies tend to outstrip those at larger companies. For example, the adjusted gross burn rate in the last fiscal year was 4.4% at small companies, but only 2.8% at large companies.

Similarly, variability in annual utilization rates continues to be seen among key industry sectors.



Predictably, issued stock overhang (defined as outstanding employee options and unvested full value shares divided by common shares outstanding) in the last fiscal year also varied by company size. Overhang across all companies in the analysis was 15.7%, with small companies representing the high end (20.2%) and large companies the low end (14.2%) of that range.



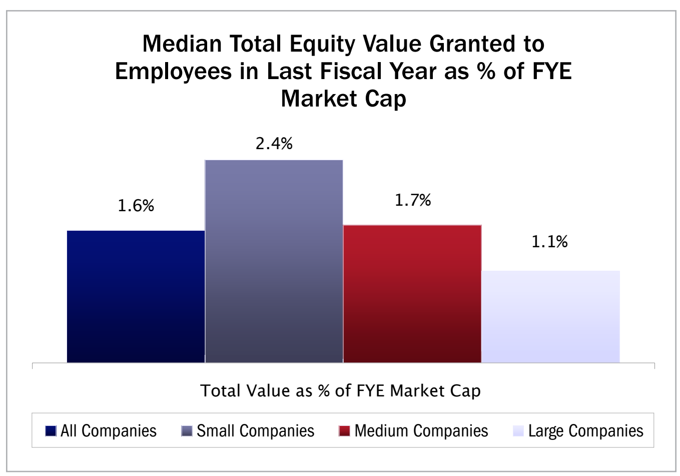


Equity Value and Expense

The change in stock option accounting rules and emergence of restricted stock and performance shares as supplemental equity vehicles has prompted many companies to question whether traditional measures of equity usage, such as burn rate, are still relevant. As industries continue to diversify into alternative equity vehicles, it is increasingly difficult to compare equity practices across companies using historical metrics. As a consequence many companies are now also measuring the value of the equity granted each year.

One emerging measure of relative equity usage is annual equity grant value as a percentage of market cap. This is defined as the FAS 123R value of the equity granted during the year (not what is expensed) divided by market capitalization. This is arguably a better metric than the traditional burn rate (or even adjusted burn rate) measure because it is agnostic as to whether a company grants more options or full value shares than comparable companies. Moreover, this metric does not require companies or investors to establish a somewhat arbitrary exchange ratio to convert full value shares to option equivalents in order to make an apples-to-apples comparison across companies.

At the median, SV130 companies granted $24.0 million in equity, or 1.6% of market capitalization, in the last fiscal year. The average SV130 employee received about $16,000 in equity value, at the median, during the period.



Though Silicon Valley companies have reined in their use of broad-based stock options in the past several years in response to changes in stock option accounting rules, they continue to invest in stock options as a valuable form of compensation for attracting and retaining key employees. At the median, SV130 companies recognized $15.6 million in stock option-related expenses, or 3.5% of revenue.

When viewed from a company-size perspective, there is an inverse relationship between company size and the percentage of last fiscal year revenue represented by stock option expenses. The expense accounted for 3.9% of revenue at smaller companies, and 3.0% at larger companies.

Conclusion

Interestingly, when we examined practices compared to company performance (as measured by total shareholder return), equity practices was the one area in which we saw the greatest differentiation. However, the result is not necessarily what one would expect. In fact, those companies with the highest reliance on full value shares tended to perform the best. A fuller dataset is required to draw a statistically significant conclusion, one way or another, about the connection between equity practice and company performance. ■

Company List

Actel
Adaptec
Adobe Systems
Advanced Micro Devices
Affymetrix
Agile Software
Agilent Technologies
Align Technology
Altera Integrated
Apple
Applied Materials
Applied Micro Circuits
Applied Signal Technology
Ariba
Asyst Technologies
Atheros Communications
Atmel
Avanex
Aviza Technology
BEA Systems
Bell Microproducts
Blue Coat Systems
Bookham
Borland Software
Brocade Communications Systems
Cadence Design Systems
Cisco Systems
Coherent
Covad
CPI International
Credence Systems
Cypress Semiconductor
Dionex
DSP Group
eBay
Electronic Arts
Electronics For Imaging
Equinix
ESS Technology
Exponent
Extreme Networks
Finisar
Foundry Networks
Foxhollow Technologies
Genesis Microchip
Gilead Sciences
Globalstar
Google
Harmonic
Hewlett-Packard
Ikanos Communications
Informatica
Integrated Device Technology
Silicon Solution
Intel
Intersil
Interwoven
Intevac
Intuit
Intuitive Surgical
iPass
IXYS
JDS Uniphase
Juniper Networks
KLA-Tencor
Komag
Kyphon
Lam Research
Leadis Technology
Linear Technology
LSI
Macrovision
Magma Design Automation
Mattson Technology
Maxim Integrated Products
McAfee
Micrel
Monolithic Power Systems
National Semiconductor
Nektar Therapeutics
NetFlix
NetGear
Network Appliance
Novellus Systems
NVIDIA
Omnicell
OmniVision Technologies
Openwave Systems
Opsware
Oracle
Packeteer
Palm
PDL BioPharma
Pericom Semiconductor
Photon Dynamics
Plantronics
PMC-Sierra
Power Integrations
Quantum
Rackable Systems
Rambus
SanDisk
Sanmina-SCI
Shutterfly
Silicon Image
Silicon Storage Technology
SiRF Technology
SMART Modular Technologies
Solectron
SonicWALL
Spansion
SumTotal Systems
Sun Microsystems
SunPower
Symantec
Symmetricom
Symyx Technologies
Synaptics
SYNNEX
Synopsys
Tessera Technologies
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Trimble Navigation
Ultratech
Varian
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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

For more information about this survey or Compensia, contact:

Michael I. Benkowitz, Principal
mbenkowitz@compensia.com
415 462 2986

Anna-Lisa Espinoza, Principal
alespinoza@compensia.com
858 509 1179

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SAN JOSE • SAN FRANCISCO
408 876 4025 • 415 462 2990
compensia.com