Silicon Valley 130

Executive 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 executive 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 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. 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)

We report data for the five most highly-compensated named executives, as reported in company proxy statements. This group includes:

- CEO
- CFO (now required to be included in the Summary Compensation Table but not necessarily one of the five most highly-compensated executive officers)
- An average of Positions 3-5 (the roles associated with these positions can vary considerably)

Data were collected in May/June, 2007 from public filings, and represent the most current practices, based on the most recent fiscal year reported. 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; 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; and iii) cash-based long-term incentive awards are valued based on their target value.

Executive Summary

As is demonstrated throughout the report, company size is the most significant determinate of pay practices for the top five named executive officers at Silicon Valley's largest technology and biotech companies. For example, while the median base salary for all CEOs was $459,000, the median base salary of a CEO at small companies was $350,000, and $700,000 at large companies. These significant differences in pay levels occur in all areas of executive compensation, including short-term incentives (bonuses), and long-term equity awards. There are company-size related differences in pay mix as well, with equity representing a much larger piece of the CEO's total compensation at large companies than is the case with small company CEOs. And, these company-size related differences are seen in the types of equity awards granted as well, with large companies notably more likely than small companies to grant restricted stock/units.

SV130 Executive Compensation

EXECUTIVE COMPENSATION PRACTICES IN SILICON VALLEY have undergone significant review and revision in the past several years, reflecting the legacy of the dot-com collapse, stock option expensing changes and increased disclosure requirements. This review/revision cycle is likely to continue, as companies, regulatory agencies, and shareholders further digest these changes.

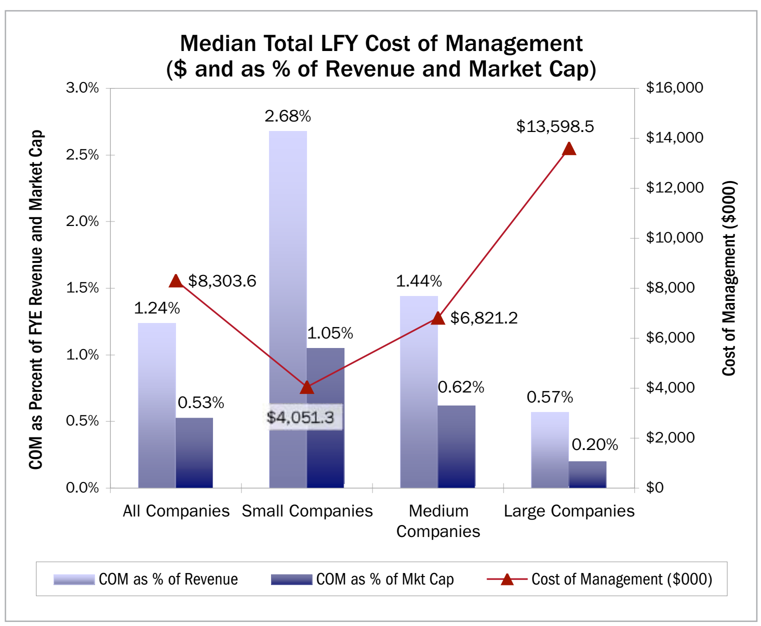
The following section analyzes executive pay from a number of perspectives, including:

- **Cost of Management**: An analysis of the total direct compensation for the CEO, CFO and three other named executive officers.
- **Pay Mix**: A discussion of practices related to the relative mix of base salary, short-term incentives (bonuses) and long-term incentives (equity awards).
- **Base Salary**: An examination of levels of fixed, annual compensation paid to executives.
- **Short-term Incentives**: An analysis of target opportunities and actual payments as a percent of base salary.
- **Long-term Incentives**: An analysis of equity vehicles used by companies, and the value of those vehicles.
- **Total Direct Compensation**: A review of the total direct compensation (base salary, bonus and equity) for the named executive officers.
- **Senior Executive Pay Relative to CEO Pay**: An examination of compensation of the CFO and other three named executive officers, relative to the CEO.
- **Potential Ownership**: An analysis of the percentage of shares outstanding owned by executives.
- **Unvested Equity**: An analysis of the value of unvested equity held by executives, as a percentage of their annual base salary.

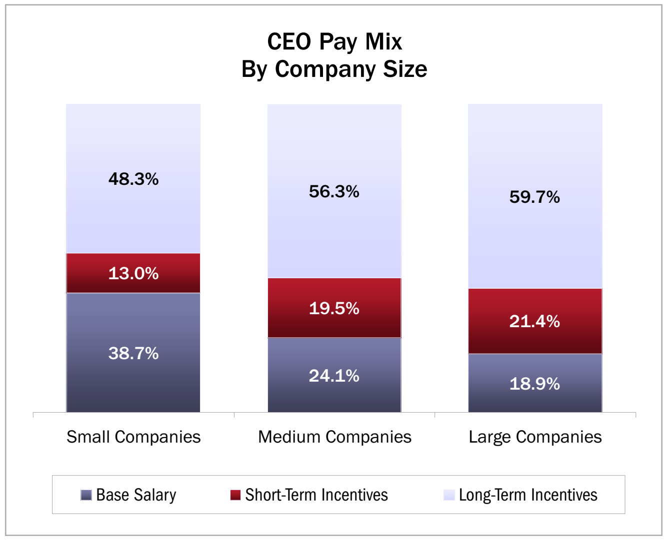
Cost of Management

As the executive pay-for-performance discussion has evolved over the past several years, investors, management and boards have sought to understand, and measure, the connection between what a company pays its senior executives and how the company performs. While there is no single, perfect performance measure, and even less agreement about the best way to compare one company's pay-for-performance to another's, increasingly stakeholders look at the Cost of Management as a key metric for comparison against peer group companies.

For the purposes of this analysis, Cost of Management (COM) is defined as the sum of Total Direct Compensation (including base salary, short-term incentives and long-term incentives) for the top five named executive officers of the company.



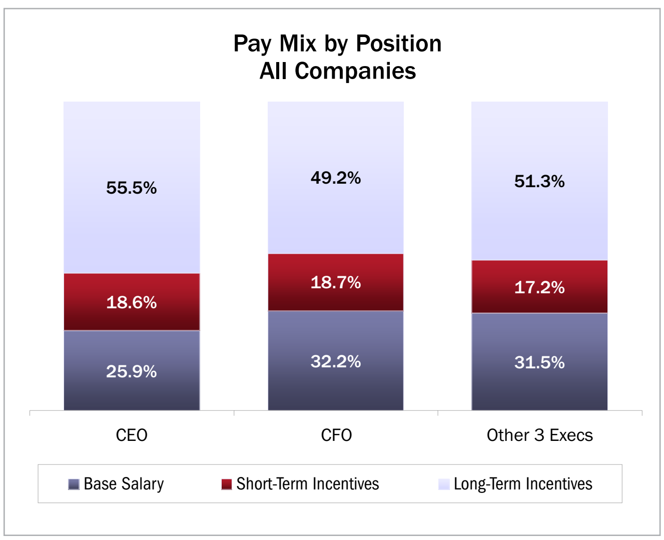
The SV130 companies had a median COM of roughly $8.3 million last year. Not surprising, there is a strong correlation between company size and COM. Larger companies (defined here as those with revenue of more than $1 billion) paid their top five executives a total of $13.6 million last year at the median, while small companies (those with revenue less than $250 million) paid their executives $4.1 million. However, this cost as a percentage of revenue and market cap declines as the size of the company increases. *(See chart on previous page).*



Pay Mix

As companies have responded to the SEC's new executive pay disclosure requirements, we have gained more visibility into how they have designed their executive compensation programs to achieve a strong link between pay and company performance/share price movement. Many companies reported the target pay mix percentages in the Compensation Discussion and Analysis section of their most recent proxy statements.

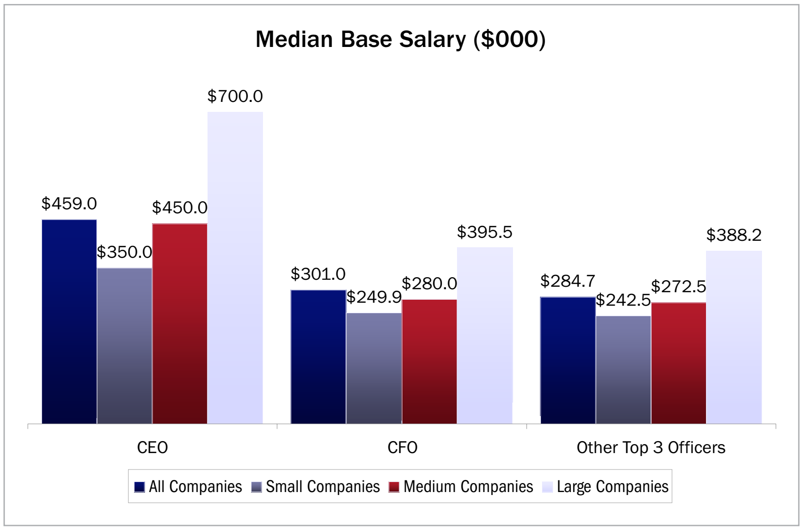
Actual pay mix can vary appreciably from target, based on a variety factors, including the retention needs for specific executives, individual performance, expected future performance, etc. However, it is clear that a significant portion of senior executives' pay is variable and at-risk. At median, only about one-quarter of CEO compensation was base salary; more than half of their compensation was tied to long-term incentives, most frequently equity. (About half of total pay for the CFO and other three named executive officers was variable).



There is marked variability in CEO pay mix based on company size. About 81% of large company CEO pay was variable (short- and long-term incentives) last year, while about 39% of the compensation of their smaller company counterparts was fixed base salary (more than twice the base salary percentage of large company CEOs).

Base Salary

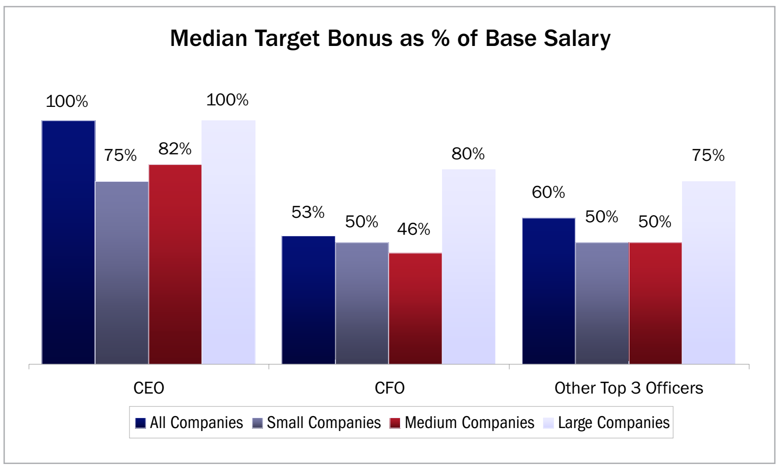
The median base salary of a SV130 CEO is $459,000, with salaries rising as company size grows. CEO base salaries at the largest companies surveyed are, at the median, twice those of CEOs at smaller companies. Among the top five paid executives, the difference is largest for CEOs across company sizes. For example, a CFO base salary is $249,900 at smaller companies and $395,500 at larger companies.



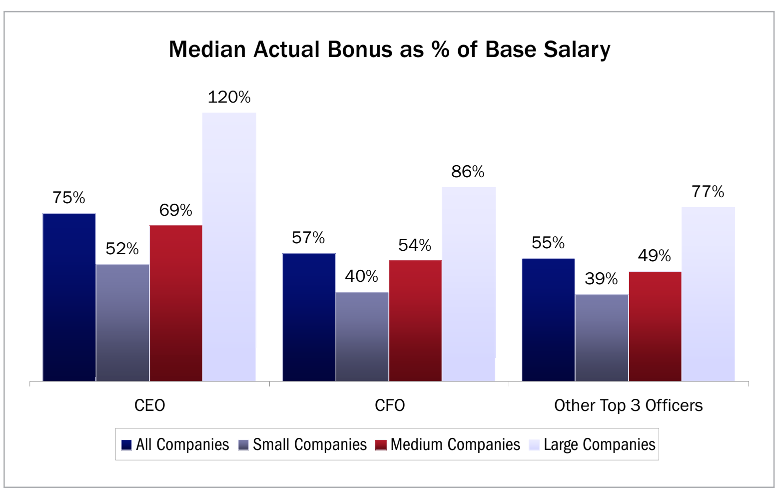
Short-term Incentives

Most companies set short-term incentive bonuses as a percentage of base salary. About 92% of companies in the analysis paid a bonus in the last reported fiscal year; this was consistent with small and large companies (92% each).

At the median, the CEO target incentive was 100% of base salary. The median target incentive at large companies was also 100%; however, it was 75% at smaller and 82% at mid-sized companies.



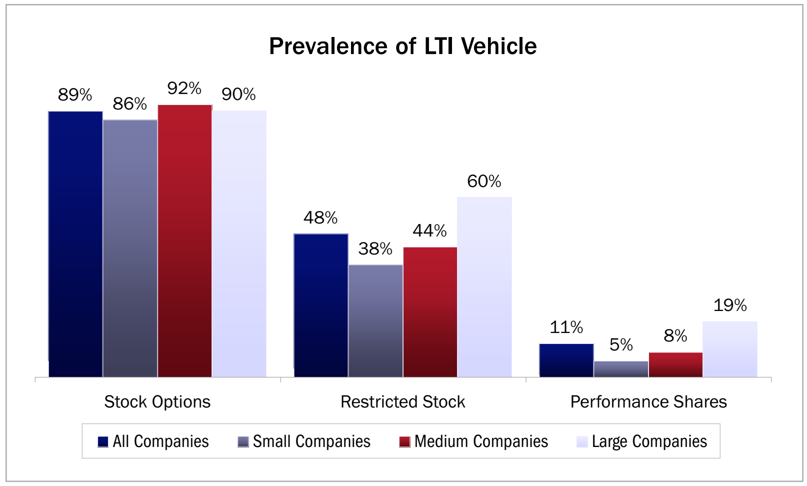
Median target incentive percentages at all companies for the other named executive officers ranged from 53% to 60% in the aggregate. Smaller companies set bonus targets at 50%, while mid-sized companies set target bonuses between 46% and 50%. Larger companies set incentive targets between 75% and 80%.



Median actual bonus payouts ranged from 120% for large company CEOs to less than half that (52%) for small company CEOs. The median actual CEO bonus across all companies was 75%.

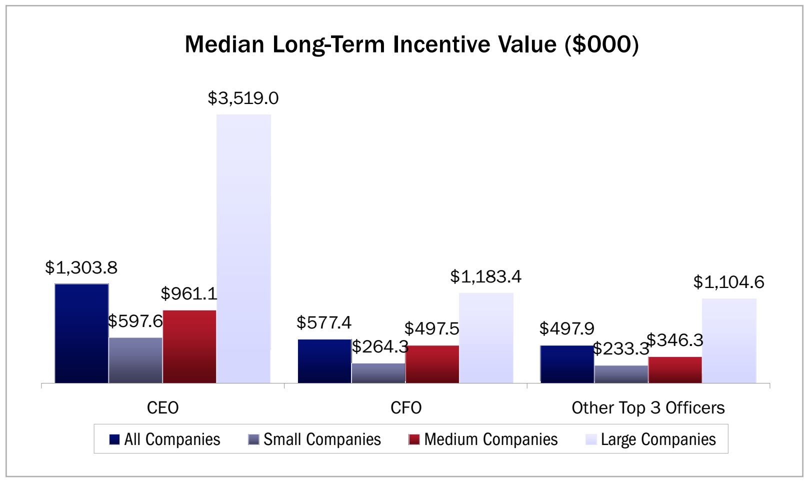
Long-term Incentives

Stock options are ubiquitous, regardless of company size (89% of all companies offer stock options). In aggregate, about half of the SV130 companies included in the analysis also granted restricted stock/units in the last reported fiscal year to named executive officers, with larger companies showing the greatest propensity to use this form of equity (60%) and smaller companies being the least likely to provide them (38%). This disparity reflects a move among larger companies to manage their stock option utilization rates, as well as the traditional role that stock options have played in augmenting cash in exchange for increased upside opportunity in smaller, presumably high-growth companies.

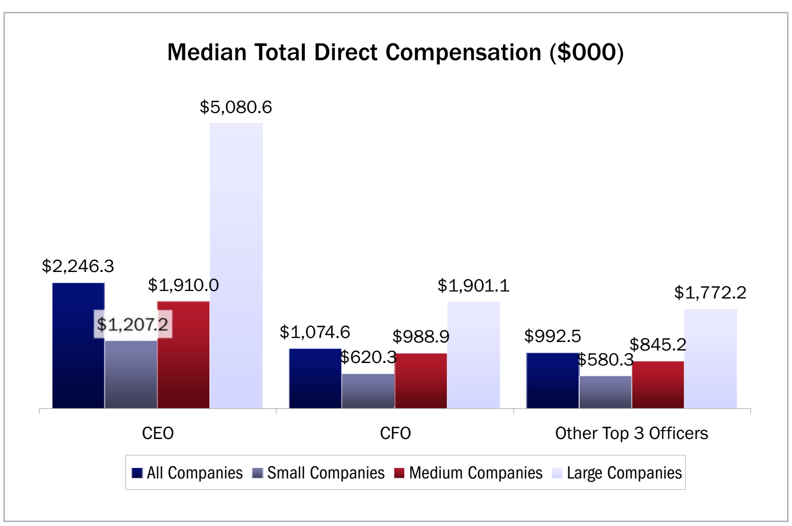


Slightly more than 10% of companies also offer performance shares, again with prevalence showing a relationship to company size (19% at larger companies, and 8% and 5% at medium-sized and smaller companies, respectively).

The median aggregate grant value of SV130 CEOs equity awards was $1.3 million. CEOs at the largest companies in the survey were awarded about $3.5 million in equity, with CEOs at smaller companies receiving about one-sixth of that, or about $598,000.



Smaller, though similar, differences exists across the other named executive officers in these companies. For example, Large Company CFOs received about $1.2 million in equity, while their counterparts in smaller companies received about $264,000.



Total Direct Compensation

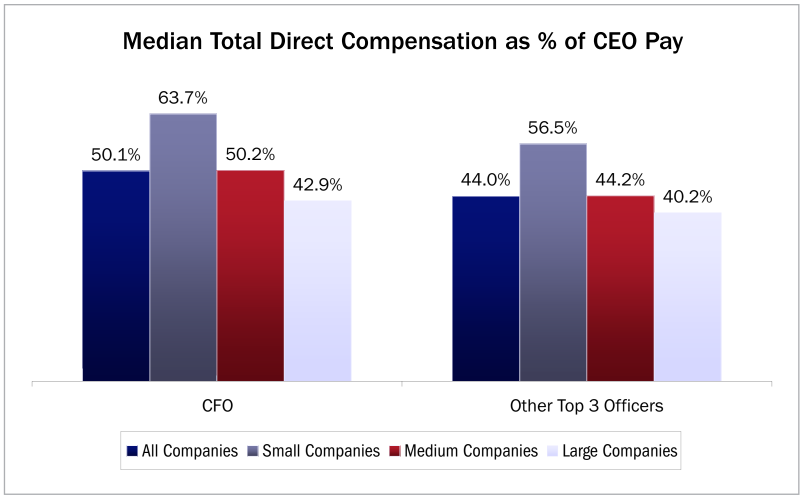
Not surprisingly, total direct compensation (TDC) varied significantly, depending on company size. Large company CEO TDC was in excess of $5.0 million, while it was just over $1.2 million at small companies.

Similar, though less dramatic, differences in TDC was seen among the other three named executive officers.

Senior Executive Pay Relative to CEO

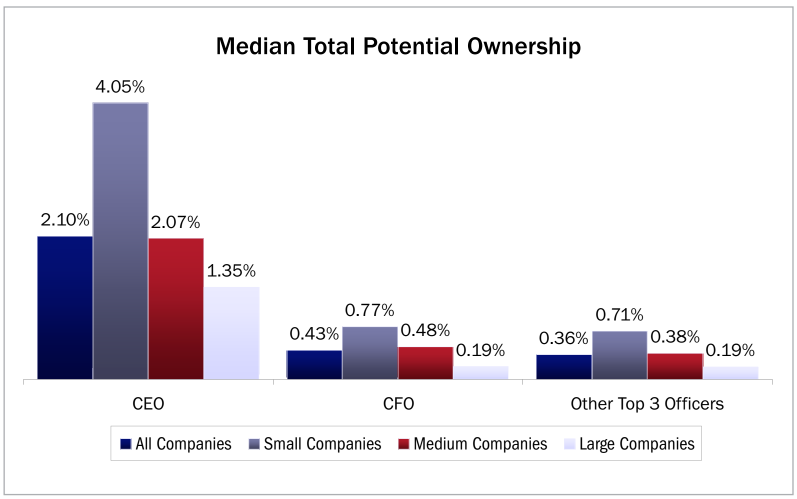
One metric companies use in the executive compensation design process is TDC relative to that of the CEO. Across all companies in the survey, CFO TDC was a little more than 50% of the CEO's.

The small company CFO realized about 64% of the CEO's compensation, while his larger company counterpart realized less than half of what the CEO earned.



Potential Ownership

One measure of the retention value of a company's equity program, as well as executive "skin in the game" is the total potential ownership, which is the percentage of a company's total shares outstanding owned by the individual executives (including shares owned outright, unvested restricted shares/units and vested and unvested stock options/SARs).



Ownership generally varies considerably based upon an executive's exercise history, time in position, the degree to which any shares are underwater, the personal purchase of stock and Founder status. That said, the percentages represented in the accompanying chart are as expected, with executives at smaller companies holding a relatively much higher percentage compared to their large company counterparts, roughly 3:1-5:1 across the top five positions.

Executive equity holdings at larger companies typically represented a much higher dollar amount in realized and potential equity value, given the significantly larger volume of shares at play in larger companies.

Unvested Equity

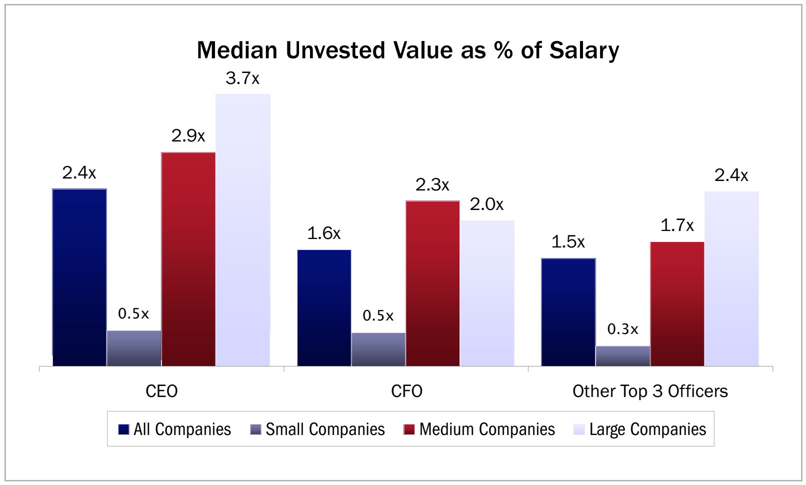
Unvested equity is another key measure of how much retention "glue" is provided through equity granted to executives.

At the median, across all companies, CEOs hold about 2.4x their annual base salary in paper gain associated with their equity grants. At 3.7x, the multiple is significantly higher at larger companies, and significantly lower (0.5x) at smaller companies.

EXECUTIVES AT SMALLER COMPANIES HOLD A MUCH HIGHER PERCENTAGE (OF EQUITY) COMPARED TO THEIR LARGE COMPANY COUNTERPARTS.

Typically, a range of 2.0x – 4.0x is acknowledged as providing sufficient retention value. At the aggregate, SV130 companies sit in the middle of this range, as do executives at mid-sized and larger companies.

Executives at smaller companies, in contrast, are significantly below that ideal range.



Conclusion

Executive pay practices, both the levels of pay and design of programs, at the SV130 vary appreciably depending on the size of the company. In an industry comprised of companies with a wide range of revenue, this can present challenges to executive compensation design.

Perhaps most importantly, it puts pressure on the peer group selection process. Revenue size is arguably one of the most important criteria a company should consider when selecting peer companies. However, it should not be the only factor. Market cap, company performance and talent competitors are also relevant criteria. The key, or challenge, is to strike an appropriate balance between these factors to ensure that the compensation program is appropriate for the company and its shareholders. ■

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
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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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408 876 4025 • 415 462 2990
compensia.com