Silicon Valley 135

Executive Compensation Practices

October 2008

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IN SUMMER 2008, Compensia analyzed the executive compensation practices of the largest 135 high-technology and life sciences companies headquartered in Silicon Valley. This report—which we call the SV135—covers our findings from these analyses and updates our findings from similar analyses conducted in 2007.

A list of the companies whose executive compensation data were analyzed in 2008 is provided at the end of this report. Roughly 85% of the companies in the 2008 report were covered in the 2007 report as well.

Overview

This report analyzes executive compensation practices at the SV135 from a number of perspectives, including:

- **Base Salary:** An examination of levels of fixed, annual compensation paid to the named executive officers;
- **Short-term Incentives:** An analysis of target opportunities and actual payments as a percentage 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;
- **Pay Mix:** A discussion of practices related to the relative mix of base salary, short-term incentives (bonuses) and long-term incentives (equity awards);
- **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;
- **Senior Executive Pay Relative to CEO Pay:** An examination of compensation of the CFO and other three named executive officers, relative to the CEO; and
- **Cost of Management:** An analysis of the total direct compensation of the CEO, CFO and three other named executive officers.

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:** Less than $250 million in revenue (n = 42)
- **Medium:** Revenue of $250M to $1B (n = 47)
- **Large:** Revenue greater than $1B (n = 46)

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

- CEO
- CFO (who is 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 2008 from public filings, and represent the most current practices, based on the most recent fiscal year reported. In this report, restricted stock/units (RSUs) refers to full-value stock awards that vest based solely on continued employment (also known as "time-based" shares). 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 option pricing model with assumptions as reported in each company's annual report; ii) restricted shares (including RSUs) and performance shares are valued based on the number of shares granted (in the case of performance shares, the target number was used) multiplied by the grant date stock price; and iii) cash-based long-term incentive awards are valued based on their target value.

SV135 Executive Compensation

Executive Summary—Year-Over-Year Highlights

Our 2008 report finds continued changes in long-term incentive instrument use. While the prevalence of option use was essentially unchanged, the use of restricted shares and performance shares increased dramatically in 2007 as companies began to grant full-value shares in addition to stock options. These figures signal that few companies are abandoning stock options, but a majority now use a "portfolio approach" to providing long-term incentives. Although performance shares still have a much lower prevalence of use than restricted shares or stock options, their use more than doubled in 2007. **[Figure 1]**

Median total direct compensation figures were nearly identical in our 2007 and 2008 reports. A declining stock market and a slowing economy kept annual and/or long-term compensation increases to a minimum. **[Figure 2]**

The median value of unvested equity awards increased considerably from the 2007 report to 2008. This is largely attributable to the increased use of full-value equity awards which still provide value when a company's stock price is flat or declining. **[Figure 3]**

Base Salary

Median base salaries were up in 2007 across all positions and company size categories, with increases ranging from 3-5% over median salaries in 2006.

The range of base salaries at the CEO level was significant. The median SV135 CEO base salary was $475,000; it was $403,000 at Small Companies and $750,000 at Large Companies. **[Figure 4]**

FIGURE 1

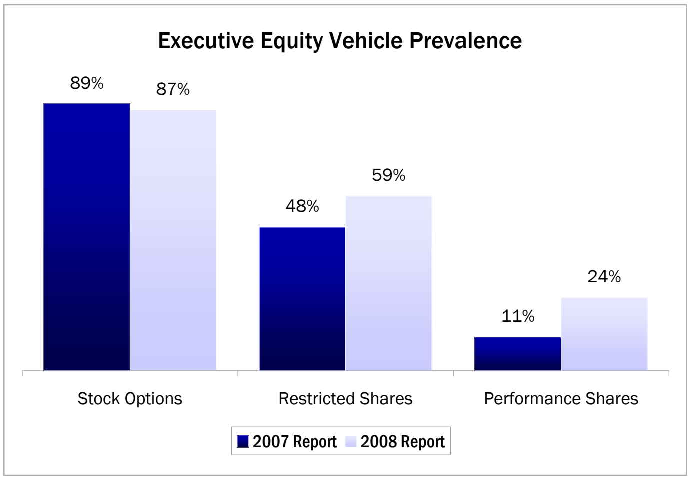


FIGURE 2

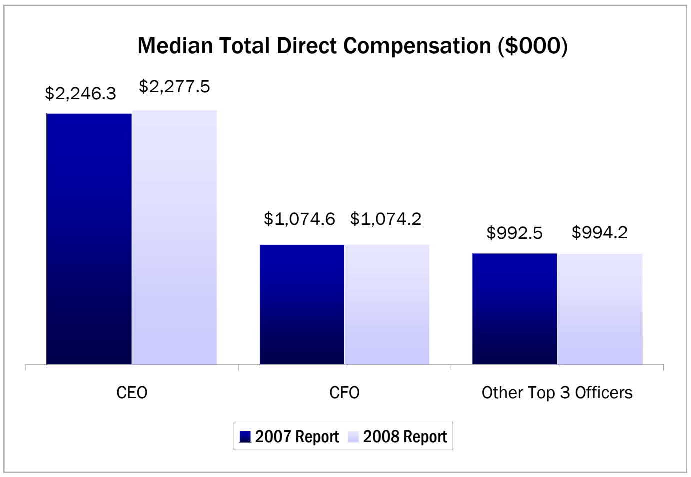
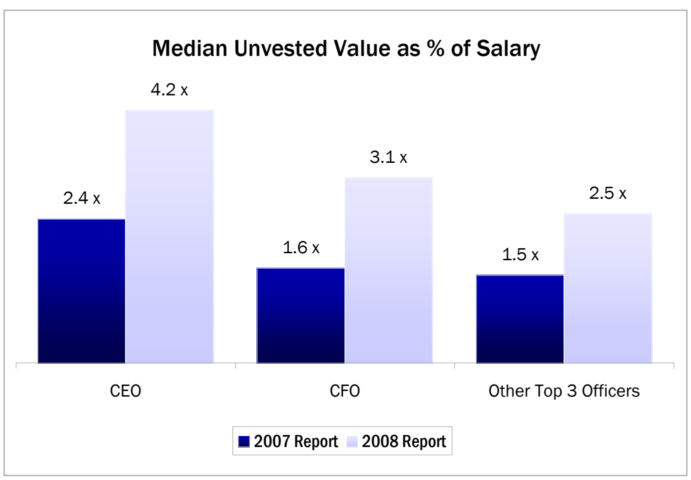


FIGURE 3



Short-term Incentives

Virtually all companies (98%) provide some form of short-term cash incentive, and most position target short-term incentive opportunities as a percentage of base salary. **[Figure 5]**

Overall, target incentives rose across all positions and company size categories. For example, the CEO target incentive at Large Companies was 120% in 2007, up from 100% in 2006. Target incentives for CEOs also increased in Medium Companies from 82% to 87%. The target incentive for Small Company CEOs decreased from 75% to 65%, which mirrors an overall decrease in targets across Small Companies.

For CFOs, the variability in target incentives between Small and Large companies increased, with CFOs at large companies receiving a target bonus of nearly twice that of small companies (similar to the difference we observe for CEOs and the next three officers). The target incentive for CFOs at Smaller Companies is 45%, compared with 85% at Large Companies.

Median actual bonus payouts ranged from 139% for Large Company CEOs to 50% for Small Company CEOs. The median actual CEO bonus across all companies was 76%, roughly unchanged from 2006. **[Figure 6]**

Large Companies delivered higher actual payouts across all executive levels. CFO actual payouts were 99% in 2007, compared to 86% in 2006; for the other three top executives, actual payouts were 91%, an increase from 77% in 2006.

FIGURE 4

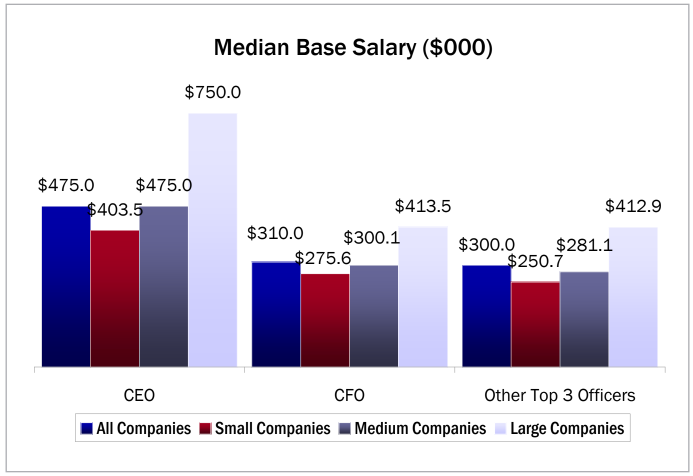


FIGURE 5

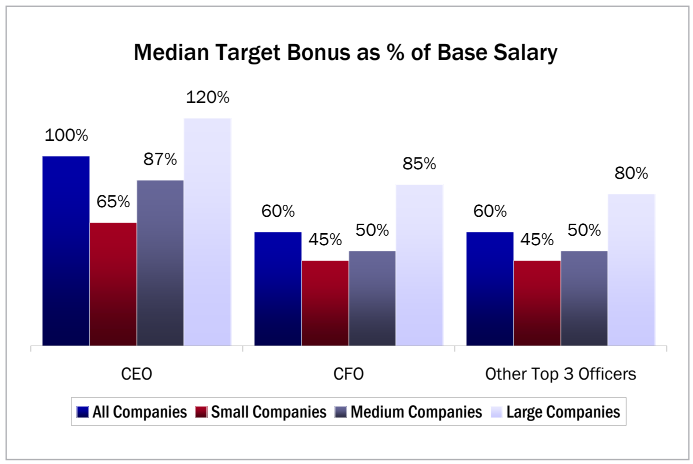


FIGURE 6

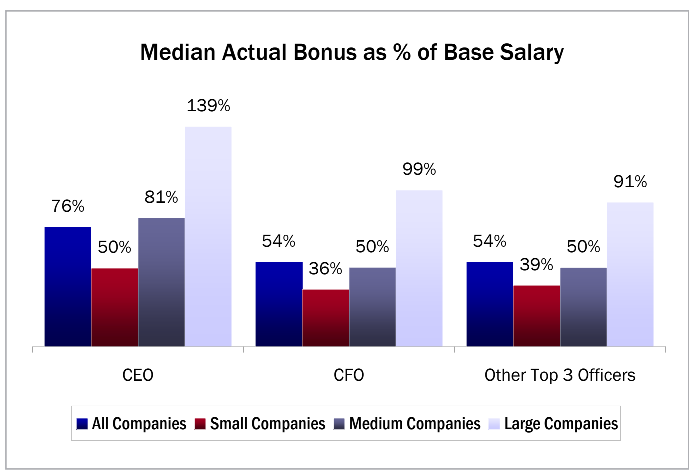
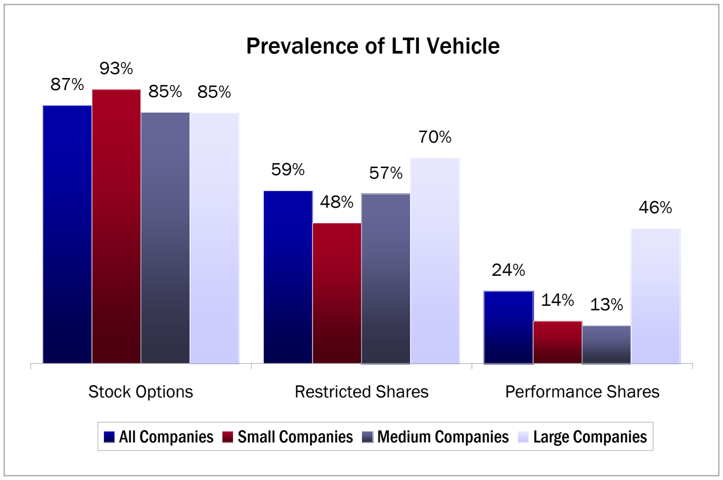


FIGURE 7



Long-term Incentives

While stock options remain a key element of executive compensation (87% of all companies use the vehicle), restricted shares and performance shares have become increasingly more prevalent. **[Figure 7]**

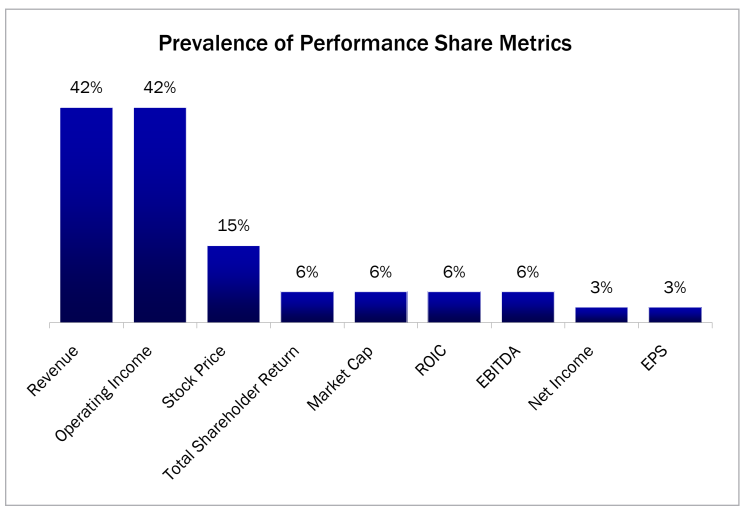
The use of restricted shares increased across all company size categories. At median, 59% of all companies use restricted shares, an increase from 48% in 2006.

Performance shares, while still far less prevalent than either stock options or restricted shares, are now used in significantly more companies than even a year ago. Approximately 25% of all companies used these vehicles in 2007, compared to 11% in 2006.

Company size continues to play a role in the degree of prevalence of restricted shares and performance shares. While their prevalence has increased across all size categories, Large Companies are far more likely to use both restricted shares (70% at Large Companies compared to 48% at Small Companies) and performance shares (46% at Large Companies and 14% at Small Companies).

The growth in restricted shares and performance shares follows a trend that began several years ago when accounting changes eliminated the advantage associated with stock options. However, companies also increasingly look to restricted shares as effective tools in offsetting the retention risks associated with sustained share price declines while performance shares provide the "performance element" (i.e., the link to the company performance) not associated with time-based restricted shares.

FIGURE 8

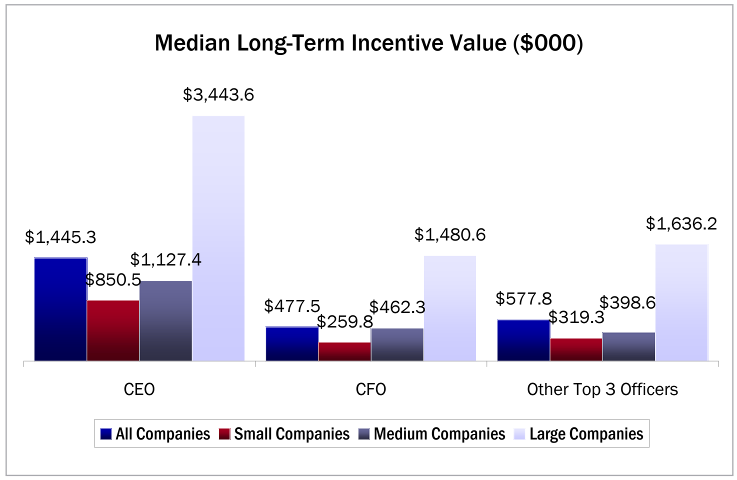


SV135 companies identified nine distinct metrics used to satisfy the performance hurdles associated with these awards. However, they most frequently use top- and bottom-line measures, with 42% of companies using Revenue and/or Operating Income/Profit. Stock price appreciation was used by 15% of the companies. **[Figure 8]**

The median aggregate award value of CEO equity awards was $1.4 million in 2007, up slightly from 2006 ($1.3 million). CEOs at Large Companies were awarded about $3.4 million in equity, with CEOs at Small Companies receiving roughly one-quarter of that amount, or about $850,000. [Figure 9]

Differences also exist across the other named executive officers in these companies. For example, Large Company CFOs received about $1.5 million in equity, while their counterparts in Small Companies received about $260,000.

FIGURE 9

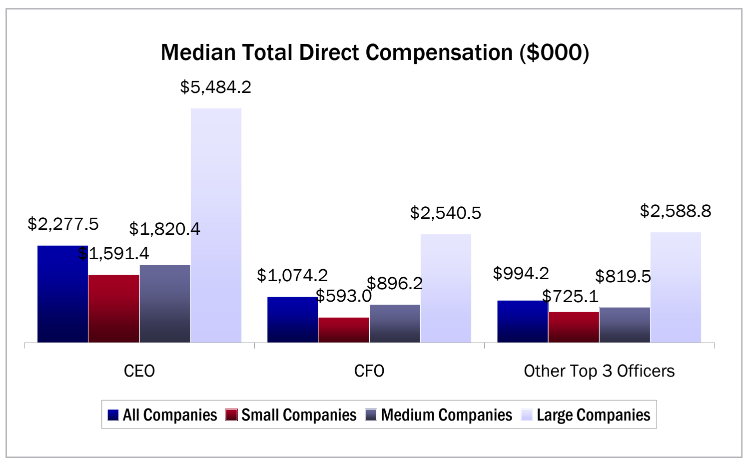


Total Direct Compensation

Total direct compensation (TDC) levels varied significantly depending on company size. Small Company CEOs received $1.6 million at median, while their Large Company counterparts received $5.5 million, with a significant increase between the Medium Company and Large Company categories. [Figure 10]

Large Company CFOs and the other three top executives recognized the most significant change in TDC between 2006 and 2007. CFOs received $1.9 million in 2006 and $2.5 million in 2007. The median for the other three top executives was $1.8 million in 2006 and $2.6 million in 2007.

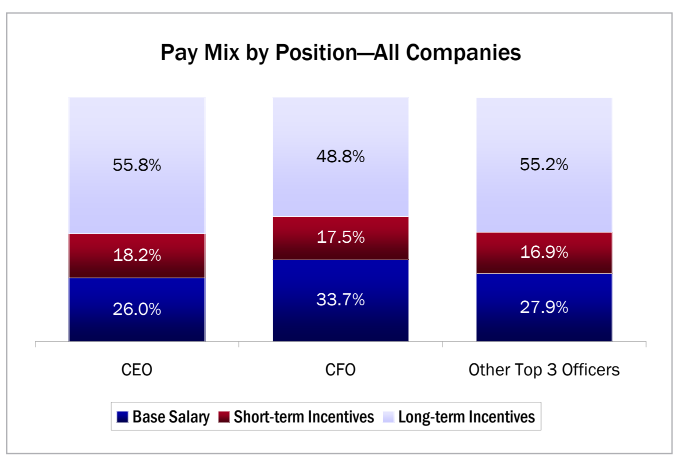
FIGURE 10



Pay Mix

Target pay mix – the relative percentages of base salary, short-term incentives and long-term incentives – is indicative of how a company's executive pay practices mirror their stated philosophy for linking value created with reward received. Generally, the higher the percentage of at-risk, variable pay (typically, bonus and equity), the tighter the alignment between pay and performance.

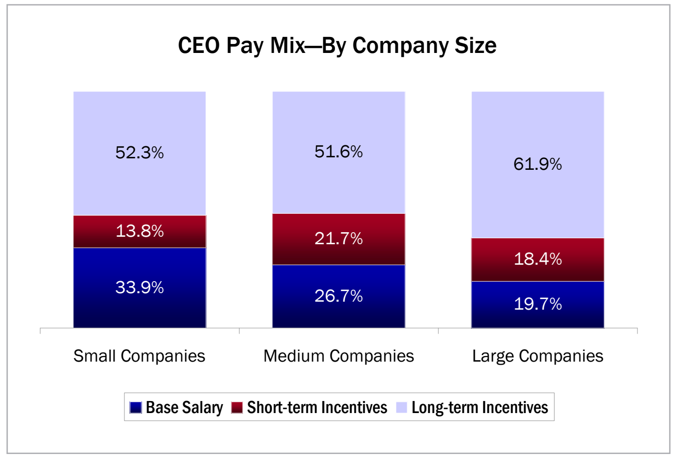
FIGURE 11



For the top five named executive officers, variable compensation constitutes the majority of compensation, regardless of company size. Almost 75% of CEO compensation was variable in 2007, compared with 66% and 72% for CFOs and the other three named executive officers, respectively. **[Figure 11]** The CEO variable compensation percentage was roughly unchanged from 2006; however, incentives for the CFO decreased slightly from 68% while increasing slightly to 69% for other three named executive officers.

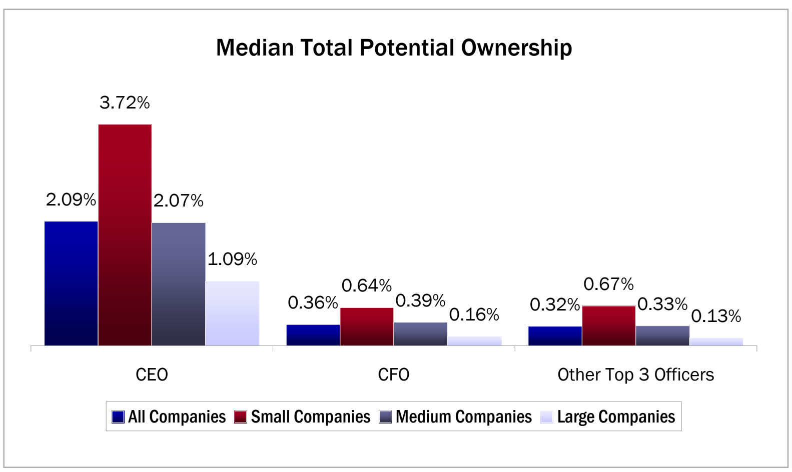
In 2007, CEO base salary accounted for 19.7%, 26.7% and 33.9%, respectively, at Large, Medium and Small companies. **[Figure 12]** While Small Company CEO base salaries accounted for 38.7% of total direct pay in 2006, CEO base pay percentages were minimally changed in Medium and Large companies in 2007.

FIGURE 12



Company size continued to be a dominant driver of CEO pay mix in 2007, with long-term incentives accounting for about 62% of total direct pay at Large Companies, compared to approximately 52% at Small and Medium Companies.

FIGURE 13



Potential Ownership

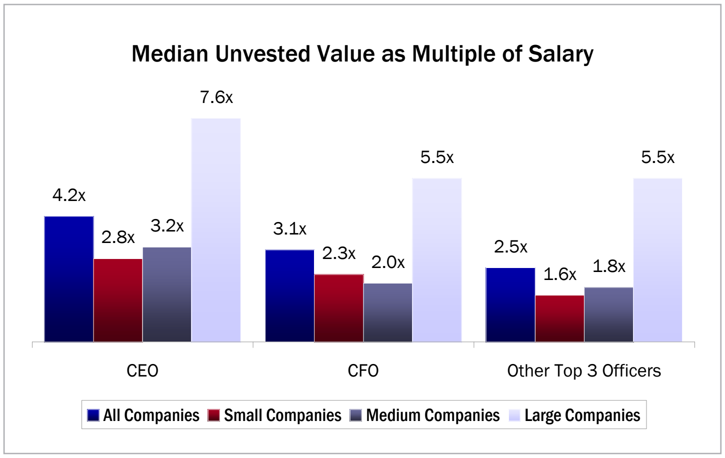
One measure of the retention value of a company's equity program, as well as executive "skin in the game" is the total potential ownership, which is the percentage of a company's total shares outstanding owned by the individual executives (including shares owned outright, unvested restricted shares/units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

Comparing 2007 to 2006, ownership was essentially the same for All Company CEOs. However, ownership levels among CFOs and the other three top executives were lower across all company size categories. **[Figure 13]** For example, CFOs at Medium Companies held 0.39% in 2007, compared to 0.48% in 2006. This could be due, in part, to an increase in new hires over the past year, which would lead to decreased tenure and time to build equity holdings.

Ownership levels typically vary considerably based upon an executive's stock option exercise history, time in position, the degree to which any options are "underwater," personal purchases of stock and Founder status. However, the data in the accompanying chart show, as expected, executives at Small Companies hold a much higher percentage compared to their Large Company counterparts, roughly 3:1-4:1 across the top five executive positions.

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

FIGURE 14



Unvested Equity

At the median, CEOs hold about 4.2x their annual base salary in paper gain associated with their unvested and unexercised equity awards. This metric is used to determine the retention value of the executive's current equity holdings. The 2007 CEO median was significantly higher than it was in 2006 (2.4x). **[Figure 14]**

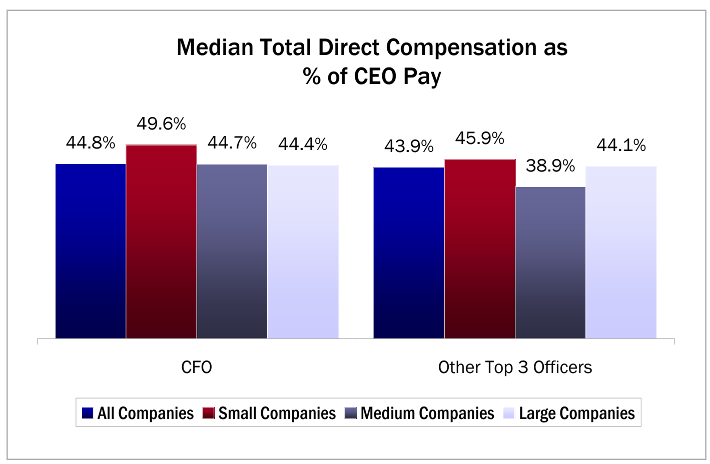
Similar increases are seen across the top five executive positions, with a CFO median unvested value of 3.1x in 2007 compared to 1.6x in 2006 and the other three top executives' median unvested value of 2.5x in 2007, compared to 1.5x in 2006. Typically, a range of 2.0x – 4.0x is acknowledged as providing sufficient retention value for non-CEO executives.

Senior Executive Pay Relative to CEO

Companies often evaluate the total direct pay of their top executives relative to that of the CEO, in order to maintain internal pay equity, as well as to gauge absolute pay levels.

Across the SV135 companies, CFO total direct compensation was 44.8% of the CEO's pay (a decrease from 50% in 2006) and the total direct compensation of the other three top executives was 43.9% of the CEO's pay (unchanged from 2006). **[Figure 15]**

FIGURE 15



Cost of Management

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

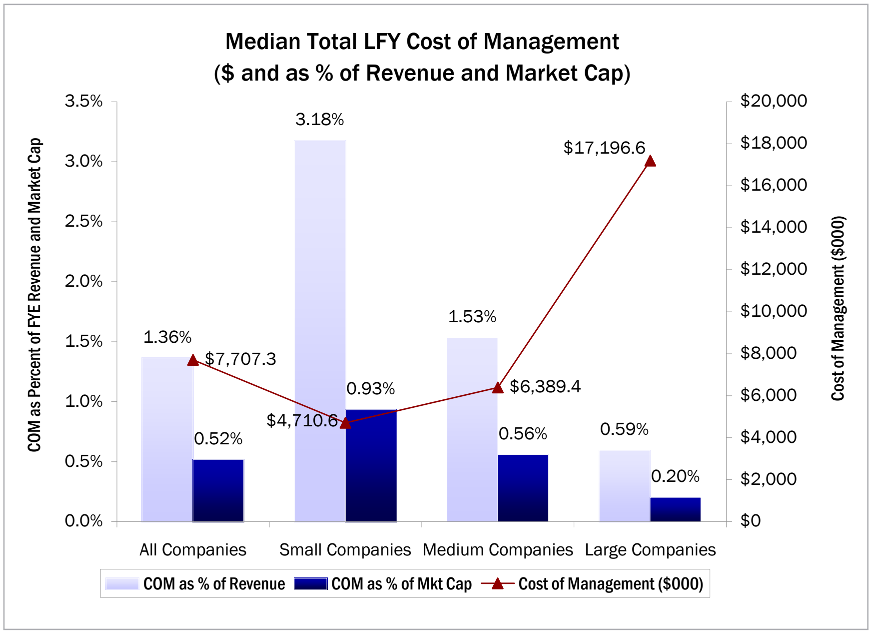
COM, relative to a company's revenue and market capitalization, is a key measure of both management effectiveness and a company's pay-for-performance philosophy. It is increasingly used by shareholders, investor services organizations, the media and internal management as a way to determine performance relative to peers.

The SV135 companies had a median COM of roughly $7.7 million in 2007, or 1.36% of revenue and 0.52% of market capitalization. **[Figure 16]** In 2006, the median COM was $8.3 million, or 1.24% of revenue and 0.52% of market capitalization.

As is the case throughout much of the SV135 analysis, company size drives significant variability in pay and pay practices. With respect to COM, Large Companies (that is, companies with revenue greater than $1 billion) paid their top five named executive officers a total of $17.2 million in 2007 at the median, while Small Companies (that is, companies with revenue less than $250 million) paid their top five executives a total of $4.7 million.

The $17.2 million Large Company COM represents a significant rise from the $12.6 million Large Company COM in 2006. We believe this is attributable to the timing of equity awards from one year to the next (i.e., in some cases, equity was awarded in 2007 and not 2006). Further, there was an influx of new hires into this group's top five ranks, resulting in increased new hire equity awards.

FIGURE 16



Conclusion

Once again this year, company size was the most significant factor in executive pay levels. While base salary and short-term incentives generally grew for all companies, regardless of size, in 2007, the biggest increases were registered at the largest companies. This result was true for long-term incentives as well, with large companies noticeably altering their equity mix to include more full-value share awards.

The differences reflected in the data underscore the importance of ensuring that your executive compensation comparator group has been carefully and thoughtfully vetted. With competitive positioning assuming an ever-more prominent role in the executive compensation-setting process, it is critical that companies measure themselves against a truly representative sample of their peers. ■

Company List

Accuray
Actel
Adaptec
Adobe Systems
Advanced Micro Devices
Affymetrix
Agilent Technologies
Align Technology
Altera
Apple
Applied Materials
Applied Micro Circuits
Applied Signal Technology
Ariba
Aruba Networks
Asyst Technologies
Atheros Communications
Atmel
Avanex
Aviza Technology
BigBand Networks
Blue Coat Systems
Bookham
Brocade Communications Systems
Cadence Design Systems
Cepheid
Chordiant Software
Cisco Systems
Coherent
Covad Communications
CPI International
Credence Systems
CyberSource
Cypress Semiconductor
Data Domain
Dionex
DSP Group
eBay
Echelon
Electronic Arts
Electronics For Imaging
Equinix
Exponent
Extreme Networks
Finisar
Foundry Networks
Gilead Sciences
Google
Harmonic
Hewlett-Packard Company
Infinera
Informatica
Integrated Device Technology
Integrated Silicon Solution
Intel
Intersil
Interwoven
Intevac
Intuit
Intuitive Surgical
iPass
IXYS
JDS Uniphase
Juniper Networks
KLA-Tencor
Lam Research
Linear Technology
LSI
Macrovision
Magma Design Automation
Mattson Technology
McAfee
Micrel
Monolithic Power Systems
Nanometrics
National Semiconductor
Natus Medical
Nektar Therapeutics
NetApp
Netflix
NetGear
Novellus Systems
NVIDIA
Omnicell
OmniVision Technologies
Openwave Systems
Oplink Communications
Oracle
Packeteer
Palm
PDL BioPharma
Pericom Semiconductor
Plantronics
PMC-Sierra
Power Integrations
Quantum
Rackable Systems
Rambus
SanDisk
Sanmina-SCI
ShoreTel
Shutterfly
Sigma Designs
Silicon Graphics
Silicon Image
Silicon Storage Technology
SiRF Technology
SMART Modular Technologies
SonicWALL
Spansion
SumTotal Systems
Sun Microsystems
SunPower
Super Micro Computer
Symantec
Symmetricom
Symyx Technologies
Synaptics
SYNNEX
Synopsys
Tessera Technologies
TIBCO Software
TiVo
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Varian
Varian Medical Systems
Veraz Networks
VeriFone Holdings
VeriSign
VMware
XenoPort
Xilinx
Yahoo!
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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, 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 results and rewards is clear.
Independence	Compensation programs are designed and approved by the 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 executive 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 advisory services
- Total rewards strategy
- Comparable pay and performance benchmarking
- Compensation program review/audit
- Incentive plan design
- Equity/long-term compensation strategy
- Stock ownership retention
- Employment, change-in-control and severance arrangements
- Merger and acquisition/restructure incentives
- 280G analytics
- Board of Directors compensation

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