

“Say on Pay” at the Bay Area Tech 120 – A First Look at 2017

Now that the summer is reaching its conclusion, it's time to take a look at this year's results for the non-binding shareholder advisory vote on the compensation of a company's named executive officers (the so-called “Say-on-Pay Vote”) required by Section 14A of the Securities Exchange Act of 1934 (as added by the Dodd-Frank Wall Street Reform and Consumer Protection Act). So far, 2017 has been notable for the high number of companies that have received over 90% support for their say-on-Pay proposal (75%) and the fact that no company has failed the vote this year.

As we have done since 2011, Compensia has been monitoring the Say-on-Pay Vote results for the most prominent technology companies headquartered in the San Francisco Bay Area (primarily in Silicon Valley). We call this group, which consist of prominent companies in the computer/hardware, internet/software, and semiconductor sectors, the Bay Area Tech 120. (The companies comprising the Bay Area Tech 120 are listed on the Exhibit to this article.)

This Thoughtful Pay Alert summarizes our findings as of August 20, 2017, based on the results of their 2017 annual meeting of

Four Things That Technology Companies Should Know about the 2017 Say-on-Pay and Say-on-Frequency Votes

- 1. To date, support for executive compensation programs has been very positive.** For the first time since we began tracking Say-on-Pay Votes, all of the Bay Area Tech 120 companies that have held their 2017 Annual Meeting of Shareholders as of the middle of the year have seen their shareholders approve the compensation of their named executive officers. To date, no companies have yet experienced a failed Say-on-Pay Vote.
- 2. Level of support for technology companies slightly higher than prior years' support levels.** The average level of support among the Bay Area Tech 120 companies that have held their 2017 Annual Meeting of Shareholders has been 91.3% (compared to 91.7% support in the Russell 3000). Similarly, shareholder support for the Bay Area Tech 120 companies that have held their seventh Say-on-Pay vote this year has been slightly higher, coming in at nearly 93.2%.
- 3. Dramatic Vote Fluctuations Continue to be Possible.** Even with the relative year-over-year stability seen from most companies, shareholder support for a Say-on-Pay proposal can change almost overnight. To date, three Bay Area Tech 120 companies that received more than 85% support in 2016 saw this support drop by at least 30% in 2017. Similarly, two Bay Area Tech 120 companies that received less than 55% support in 2016 saw support increase by an average of just over 43% in 2017.
- 4. Virtually All Companies Holding Say-on-Frequency Vote Will Conduct Future Say-on-Pay Votes on an Annual Basis.** With the exception of Google, each of the Bay Area Tech 120 companies that has conducted a Say-on-Frequency Vote in 2017 has seen its shareholders express a preference for holding future Say-on-Pay Votes on an annual basis (including three companies that held triennial Say-on-Pay Votes in the past). Google's shareholders have indicated that they are satisfied with triennial Say-on-Pay Votes.

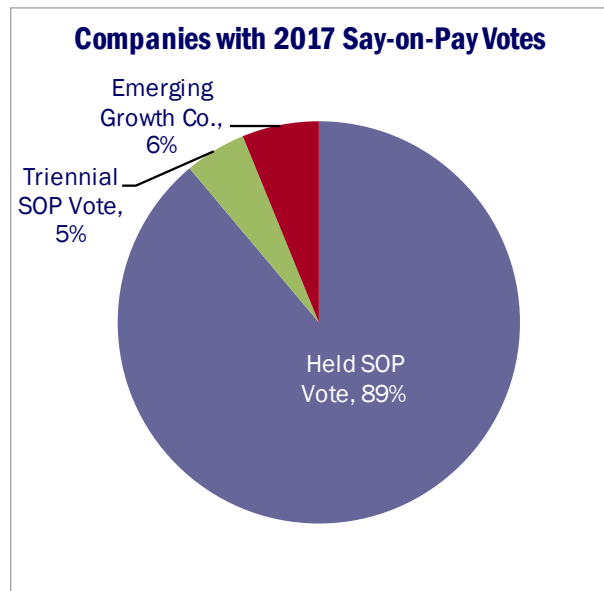
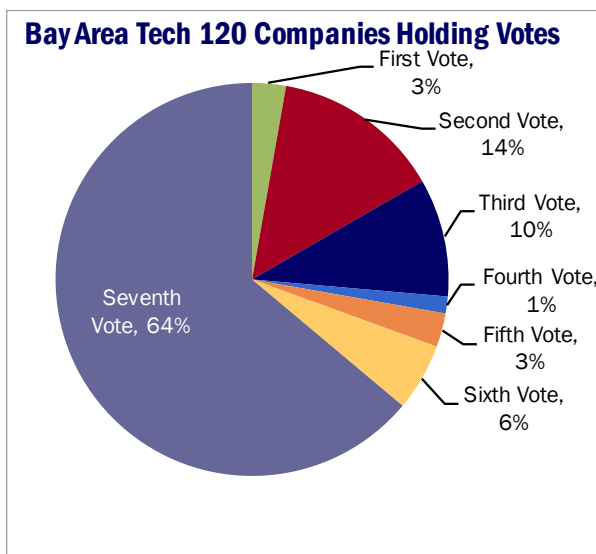
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shareholders as disclosed by the Bay Area Tech 120 companies. These results are reflected in the Exchange Act reports of these companies as filed with the Securities and Exchange Commission. We intend to update this report at the end of the year to report our findings for annual meetings of shareholders conducted this fall.

pay (Imperva), two companies held their fifth shareholder advisory vote on executive pay (Splunk and Yelp), and four companies held their sixth third shareholder advisory vote on executive pay (Dolby Laboratories, Ellie Mae, Sanmina, and Zynga). The remaining 46 companies held their seventh Say-on-Pay Vote.

Companies Reviewed

As of August 20, 2017, 81 of the companies in the Bay Area Tech 120 (67.5%) had held their 2017 annual meeting of shareholders and reported the results of the various votes conducted at the meeting. Of these companies, 72 conducted a Say-on-Pay Vote at the meeting. (The remaining nine companies have either decided to hold their Say-on-Pay Vote on a triennial basis (four companies) and, therefore, held no vote in 2017 or qualified as “emerging growth companies” as established under the Jumpstart Our Business Startups (“JOBS”) Act (five companies) which are not required to conduct a Say-on-Pay vote.)



Of the 72 companies holding Say-on-Pay Votes in 2017, two companies held their first shareholder advisory vote on executive pay (Go Pro and Pure Storage), 10 companies held their second shareholder advisory vote on executive pay (Arista Networks, Box, FireEye, Gigamon, PayPal, Qalsys, RingCentral, Square, Twitter, and Zendesk), seven companies held their third shareholder advisory vote on executive pay (Ambarella, Google, Immersion, Inphi, Servicenow, Super Micro Computer, and Workday), one company held its fourth shareholder advisory vote on executive

2017 Say-on-Pay Results

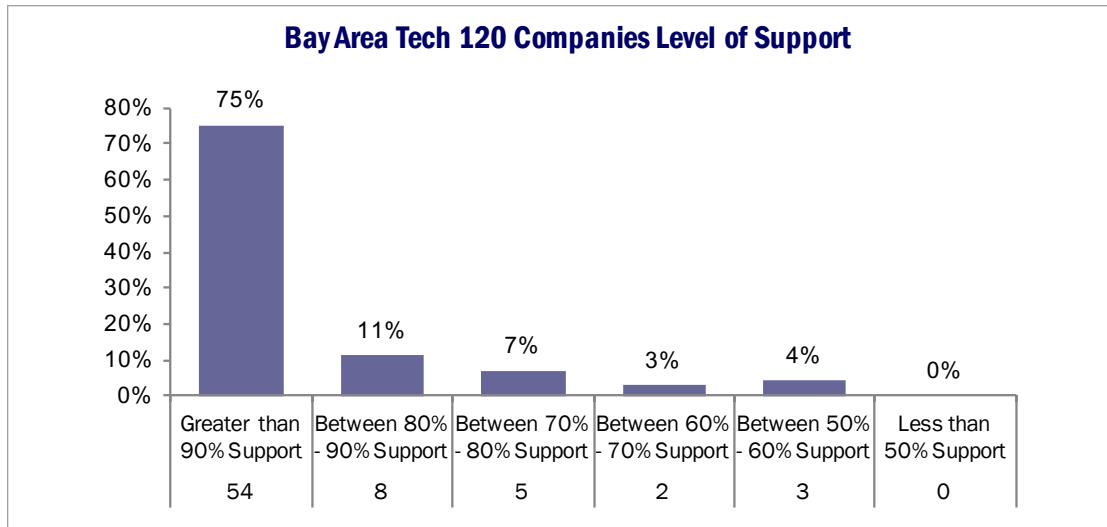
Average Level of Support

Overall, the average level of support for the 72 Bay Area Tech 120 companies conducting Say-on-Pay Votes so far in 2017 has been 91.3%. In the case of the 46 companies which held their seventh Say-on-Pay Vote in 2017, average support was nearly 92.3%, compared to 90.5% average support for the same group of companies in 2016, 89.1% average support in 2015, 88.6% average support in 2014, 84.7% average support in 2013, 87.4% average support in 2012, and 91.4% average support in 2011 – a relatively consistent result (with a slight approximately 5% dip in the middle of this period).

Actual Level of Support

The actual support for the 72 Bay Area Tech 120 companies conducting Say-on-Pay Votes so far in 2017 has been as follows:

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While the decided majority of companies continue to receive strong support for the compensation of their named executive officers in 2017, it is notable that 42 of these companies received 95% or more support from their shareholders, including eight companies that received near unanimous approval of the executive compensation program with 99% or more of the votes cast on the Say-on-Pay proposal voted in favor of the proposal.

Unsuccessful Say-on-Pay Proposals

To date this year, none of the Bay Area Tech 120 companies have failed to receive a majority of the votes cast in favor of their executive compensation program.

Year-Over-Year Vote Fluctuations

Of the 46 companies that have now held seven votes, 23 received more support (an average of 10.8%, with a median increase of 5.1%) in 2017 compared to 2016, while 22 saw support for their executive compensation program decline (by an average of 5.9%, with a median decrease of 1.8%). One company (VMware) received the same level of support in 2016 and 2017.

As has been the case each year, a handful of companies have experienced a significant vote swing on their Say-on-Pay proposals between 2016 and 2017. So far, five companies have seen support for their executive compensation program increase by over 20% in a single year, while four companies have seen their support drop by over 20% in a single year (including two companies where support declined by over 30% and one company where support dropped by over 45%).

Most of Companies That Received Less Than 70% Support in 2016 Improved Significantly in 2017

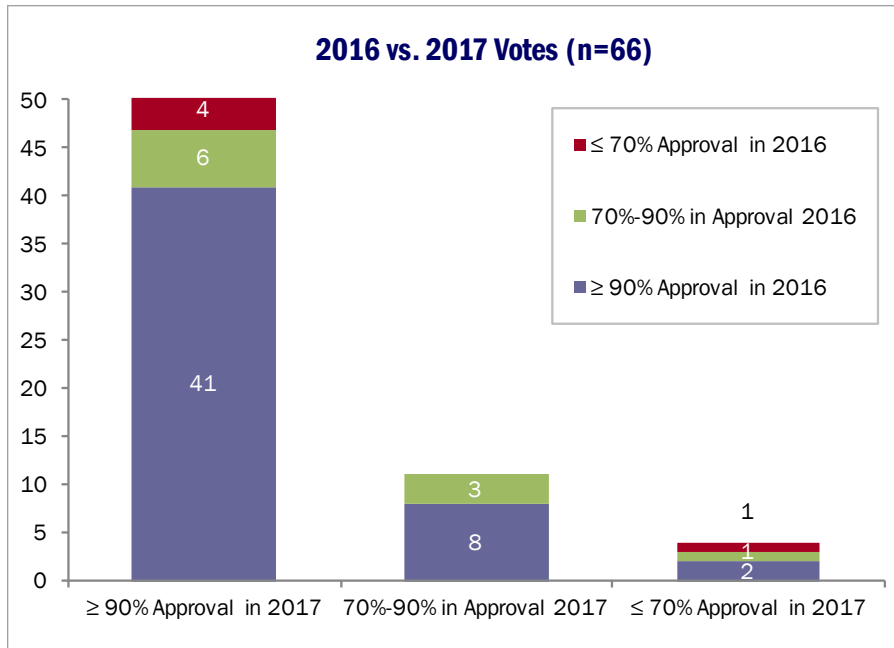
Interestingly, four of the five companies that received less than 70% support in 2016 which have held their Annual Meetings experienced a significant increase in support in 2017; typically, by an average of 39.5%. For example, Verifone Systems, which failed the Say-on-Pay Vote in 2016, improved the support for its named executive officer compensation from 44.8% to 92.0% in 2017 – an increase of over 47%.

Most Companies that Received More Than 90% Support in 2016 Remained Stable in 2017

As in prior years, a number of the Bay Area Tech 120 companies (28) that received more than 90% support in 2016 saw support for their executive compensation program decline in 2017. The average amount of this decline 7.4% was largely influenced by the fact that one company experienced a decrease in excess of 35% while a second company saw a decrease in excess of 45%.

Just as notable, 21 of the Bay Area Tech 120 companies that received 90% or more support in 2016 actually saw this support increase in 2017 (by an average of 2.4%) – a truly remarkable result given the limited amount of room to garner additional votes in favor of their executive compensation program. Further, of the companies that saw support for their Say-on-Pay proposal decrease in 2017, the decline for 12 of these companies was 2.0% or less).

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Final Observations

As in prior years, the experience of the Bay Area Tech 120 companies with the Say-on-Pay Vote continues to track past results. It continues to be notable that for the two-thirds of the Bay Area Tech 120 that have held their annual meeting of shareholders this year, the vote was largely a non-event. Further, for the companies that have now held seven Say-on-Pay Votes, support for their executive compensation program has (with just a few exceptions) largely remained strong year-over-year, as reflected by their average annual support at or above the 90th percentile.

Say-on-Frequency Votes

2017 was the year for the second round of the non-binding shareholder advisory vote on the frequency of future shareholder advisory vote on the compensation of a company’s named executive officers (the so-called “Say-on-Frequency Vote”). Companies are required to conduct a Say-on-Frequency Vote at least once every six years. Thus, for companies that held their first Say-on-Pay Vote and Say-on-Frequency Vote in 2011, this year was the time for soliciting input from shareholders in whether to conduct future Say-on-Pay Votes every one, two, or three years.

Of the 52 companies so far holding a Say-on-Frequency Vote in 2017, 48 saw their Board of Directors recommend that future Say-on-Pay Votes be held annually. Two companies (Google and Super Micro Computers) saw their Board of Directors recommend a triennial Say-on-Pay vote and at two companies (Coherent and Electronic Arts) the Board made no recommendation on a vote frequency.

In every case except one (Google), shareholders expressed a preference that future Say-on-Pay Votes be held every year. In the case of Google, the Board of Directors recommended and shareholders supported a triennial Say-on-Pay Vote. At Super Micro Computers, while the Board of Directors recommended that future Say-on-Pay Votes be held every three years, shareholders voted in favor of annual votes.

As long as a technology company’s financial performance (as measured by total shareholder return) is in the top half of its industry sector, and absent a specific problematic compensation decision or policy, it’s unusual to encounter any significant issues in obtaining majority support for its executive compensation program. Of course, maintaining an effective shareholder engagement program is an important part of this process. By identifying potential concerns well in advance, you should be able to address these matters before they ripen into a full-fledged problem and jeopardize the outcome of your Say-on-Pay Vote.

Need Assistance?

Compensia has extensive experience in helping companies draft the executive compensation disclosure in the proxy materials for their annual meetings of shareholders and analyze the potential impact on the shareholder advisory vote on named executive officer compensation. If you would like assistance in preparing your executive compensation disclosure for your Say-on-Pay Vote, or if you have any questions on the subjects addressed in this Thoughtful Pay Alert, please feel free to contact Mark A. Borges. ■

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About Compensia

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Exhibit

Bay Area Tech 120 – 2017 Shareholder Advisory Vote on Executive Compensation

	2016 Say-on-Pay Vote Support	2017 Say-on-Pay Vote Support	Year-Over-Year Change in Support
Adobe Systems	94.3 – 5.7	95.6 – 4.4	1.3
Advanced Micro Devices	53.9 – 46.1	93.0 – 7.0	39.1
Agilent Technologies	92.2 – 7.8	97.3 – 2.7	5.1
Ambarella	92.3 – 7.7	95.4 – 4.6	3.1
Apple	94.6 – 5.4	95.3 – 4.7	0.7
Applied Materials	83.3 – 16.7	97.5 – 2.5	14.2
Applied Micro Circuits	91.7 – 8.3	Tender Offer	---
Arista Networks	99.5 – 0.5	98.7 – 1.3	-0.8
Autodesk	86.0 – 14.0	94.8 – 5.2	8.8
Barracuda Networks	EGC	EGC	---
Box	99.6 – 0.4	99.6 – 0.4	0.0
Brocade Communications	97.3 – 2.7	93.7 – 6.3	-3.6
Cadence Design Systems	96.6 – 3.4	98.1 – 1.9	1.5
Calix	98.4 – 1.6	98.1 – 1.9	-0.3
Callidus Software	98.6 – 1.4	96.2 – 4.8	-2.4
Cavium Networks	99.4 – 0.6	89.3 – 10.7	-10.1
Ceva	93.7 – 6.3	93.0 – 7.0	-0.7
Cisco Systems			
Coherent	98.4 – 1.6	99.2 – 0.8	0.8
Coupa Software	IPO	EGC	---
Cypress Semiconductor	89.7 – 10.3	82.0 – 18.0	-7.7
Dolby Laboratories	98.4 – 1.6	99.0 – 1.0	0.6
DSP Group	97.8 – 2.2	97.0 – 3.0	-0.8
eBay	92.6 – 7.4	92.7 – 7.3	0.1
Electronic Arts	98.3 – 1.7	96.4 – 3.6	-1.9
Electronics for Imaging	77.5 – 22.5	98.1 – 1.9	20.6
Ellie Mae	94.4 – 5.6	98.7 – 1.3	4.3
Equinix	96.4 – 3.6	98.3 – 1.7	1.9
Exar	98.5 – 1.5	Tender Offer	---
Extreme Networks			
Fabrinet			
Facebook	98.7 – 1.3	Triennial	---
Fair Isaac	68.8 – 31.2	96.5 – 3.5	27.7
FireEye	53.4 – 46.6	60.3 – 39.7	7.1

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	2016 Say-on-Pay Vote Support	2017 Say-on-Pay Vote Support	Year-Over-Year Change in Support
Finisar			
Fitbit	99.7 – 0.3	Triennial	---
FormFactor	97.9 – 2.1	98.7 – 1.3	0.8
Fortinet	96.8 – 3.2	96.0 – 4.0	-0.8
Gigamon	97.2 – 2.8	50.2 – 49.8	-47.0
Google	Triennial	75.2 – 24.8	---
Go Pro	EGC	99.7 – 0.3	---
Guidewire Software			
Harmonic	98.1 – 1.9	97.7 – 2.3	-0.4
Hewlett-Packard	95.3 – 4.7	92.8 – 7.2	-2.5
Immersion	Triennial	68.7 – 31.3	---
Imperva	94.6 – 5.4	57.1 – 42.9	-37.5
Infinera	98.5 – 1.5	85.2 – 14.8	-13.3
Inphi	Triennial	82.8 – 17.2	---
Integrated Device Technology			
Intel	95.8 – 4.2	94.4 – 5.6	-1.4
Intersil	96.2 – 3.8	Merger	---
Intuit			
InvenSense	Triennial	Merger	---
IXYS			
Jive Software	69.1 – 30.9	Tender Offer	---
Juniper Networks	83.5 – 16.5	74.9 – 25.1	-8.6
KLA-Tencor			
Lam Research			
LinkedIn	Triennial	Merger	---
Logitech International			
Marin Software	EGC	EGC	---
Marketo	EGC	Merger	---
Marvell Technology Group	88.8 – 11.2	95.1 – 4.9	6.3
Maxim Integrated Products			
Monolithic Power Systems	99.6 – 0.4	98.0 – 2.0	-1.6
Nanometrics	92.7 – 7.3	94.5 – 5.5	1.8
NetApp			
Netflix	95.9 – 4.1	95.5 – 4.5	-0.4
NETGEAR	97.2 – 2.8	98.1 – 1.9	0.9
Netsuite	63.6 – 36.4	Tender Offer	---
New Relic			

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	2016 Say-on-Pay Vote Support	2017 Say-on-Pay Vote Support	Year-Over-Year Change in Support
Nimble Storage	88.2 – 11.8	Merger	---
nVIDIA	97.7 – 2.3	97.8 – 2.2	0.1
Oclaro			
Oracle			
Palo Alto Networks			
Pandora Media	Triennial	Triennial	---
PayPal	95.6 – 4.4	96.1 – 3.9	0.5
Plantronics	91.1 – 8.9	98.1 – 1.9	7.0
Power Integrations	91.5 – 8.5	89.5 – 10.5	-2.0
Proofpoint	90.5 – 9.5	Triennial	---
Pure Storage	EGC	99.9 – 0.1	---
Qualys	99.5 – 0.5	96.1 – 3.9	-3.4
Quantum			
QuinStreet			
Rambus	97.1 – 2.9	77.0 – 23.0	-20.1
RingCentral	98.6 – 1.4	94.5 – 5.5	-4.1
Rocket Fuel	EGC	EGC	---
Rovi	91.8 – 8.2	95.7 – 4.3	3.9
Salesforce.com	52.6 – 47.4	96.9 – 3.1	44.3
Sanmina	71.5 – 28.5	75.9 – 24.1	4.4
Semtech	86.2 – 13.8	96.4 – 3.6	10.2
ServiceNow	98.9 – 1.1	83.4 – 16.6	-15.5
Shoretel			
Shutterstock	85.9 – 14.1	53.4 – 46.6	-32.5
Sigma Designs			
Solar City	Triennial	Merger	---
Splunk	88.7 – 11.3	94.5 – 5.5	5.8
Square	99.5 – 0.5	98.9 – 1.1	-0.6
Super Micro Computer	Triennial	99.2 – 0.8	---
Symantec			
Synaptics			
Synopsys	95.7 – 4.3	93.6 – 6.4	-2.1
Tessera Technologies	98.8 – 1.2	Merger	---
Tivo	30.7 – 69.3	Merger	---
Trimble Navigation	93.5 – 6.5	79.8 – 20.2	-13.7
Twitter	90.2 – 9.8	97.2 – 2.8	7.0
Ubiquiti Networks			

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	2016 Say-on-Pay Vote Support	2017 Say-on-Pay Vote Support	Year-Over-Year Change in Support
Ultra Clean Holdings	94.5 – 5.5	95.9 – 4.1	1.4
Ultratech	55.2 – 44.8	Merger	---
Viavi Solutions			
Verifone Systems	44.8 – 55.2	92.0 – 8.0	47.2
VMware	99.8 – 0.2	99.8 – 0.2	0.0
Workday	97.9 – 2.1	99.3 – 0.7	1.4
Xilinx	92.7 – 7.3	98.2 – 1.8	5.5
Yahoo!	79.7 – 20.3	Merger	---
Yelp	94.7 – 5.3	86.3 – 13.7	-8.4
YuMe	EGC	EGC	---
Zendesk	98.9 – 1.1	95.6 – 4.4	-3.3
Zynga	95.6 – 4.4	85.3 – 14.7	-10.3

“EGC” is an emerging growth company.

“Triennial” is a company that has elected to hold its shareholder advisory votes on named executive compensation once every three years.