

“Say on Pay” at the Bay Area Tech 120 – A First Look at 2018

Now that the traditional proxy season has ended, 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, 2018 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 companies have failed the vote this year.]

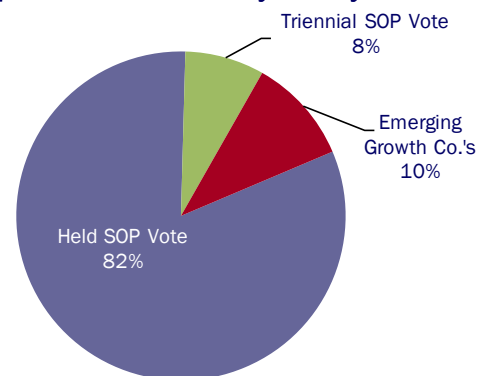
As we have done since 2011, Compensia has been monitoring the Say-on-Pay Vote results for the most prominent technology companies headquartered in the San Francisco Bay Area (primarily in Silicon Valley). We call this group, which consist of prominent companies in the computer/hardware, internet/software, 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 June 30, 2018, based on the results of their 2018 annual meeting of 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.

Companies Reviewed

As of June 30, 2018, 76 of the companies in the Bay Area Tech 120 (63.3%) had held their 2018 annual meeting of shareholders and reported the results of the various votes conducted at the meeting. Of these companies, 63 conducted a Say-on-Pay Vote at the meeting. (The remaining 13 companies have either decided to hold their Say-on-Pay Vote on a triennial basis (six companies) and, therefore, held no vote in 2018 or qualified as “emerging growth companies” as established under the Jumpstart Our Business Startups (“JOBS”) Act (seven companies) which are not required to conduct a Say-on-Pay vote.)

Companies with 2018 Say-on-Pay Votes



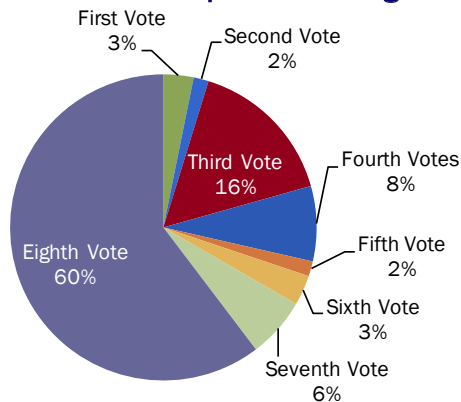
Three Things That Technology Companies Should Know About the 2018 Say-on-Pay

- 1. Support for executive compensation programs continues to be favorable.** Performance-based incentive compensation, whether short-term or long-term, granted to current or former named executive officers would no longer be eligible for exclusion from the \$1 million deduction limit of Section 162(m).
- 2. Level of support is consistent with prior years' support levels.** Employees of privately-held companies who exercise a stock option or vest in a restricted stock unit award that meets certain conditions would be able to elect to postpone taxation from such transaction for up to five years.
- 3. Dramatic Vote Fluctuations Continue to be Possible.** The alternative minimum tax, which captures the “spread” on the exercise of an incentive stock option, would be repealed, possibly reinvigorating the potential use of ISOs.

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Of the 63 companies holding Say-on-Pay Votes so far in 2018, two companies held their first shareholder advisory vote on executive pay (Five9 and MINDBODY), one company held its second shareholder advisory vote on executive pay (Pure Storage), 10 companies held their third shareholder advisory vote on executive pay (Arista Networks, Box, FireEye, Pandora Media, PayPal, Qualys, RingCentral, Square, Twitter, and Zendesk), five companies held their fourth shareholder advisory vote on executive pay (Ambarella, Immersion, Inphi, ServiceNow, and Workday), one company held its fifth shareholder advisory vote on executive pay (Imperva), two companies held their sixth shareholder advisory vote on executive pay (Splunk and Yelp), and four companies held their seventh shareholder advisory vote on executive pay (Dolby Laboratories, Ellie Mae, Sanmina, and Zynga). The remaining 38 companies held their eighth Say-on-Pay Vote.

Bay Area Tech 120 Companies Holding Votes



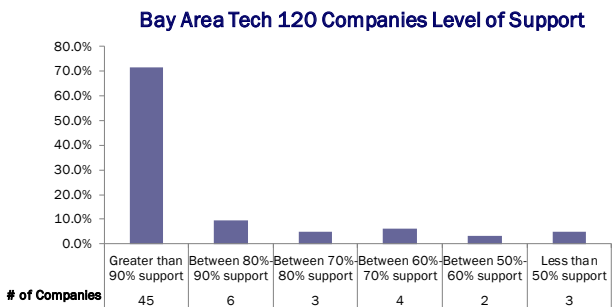
2018 Say-on-Pay Results

Average Level of Support

Overall, the average level of support for the 63 Bay Area Tech 120 companies conducting Say-on-Pay Votes so far in 2018 has been 87.6%. In the case of the 38 companies which held their eighth Say-on-Pay Vote in 2018, average support was nearly 90.1%, compared to 92.6% average support for the same group of companies in 2017, 89.3% average support in 2016, 87.8% average support in 2015, 90.4% average support in 2014, 84.3% average support in 2013, 88.0% average support in 2012, and 88.5% average support in 2011 – a relatively consistent result (with a slight (almost 6%) dip in 2013).

Actual Level of Support

The actual support for the 63 Bay Area Tech 120 companies conducting Say-on-Pay Votes so far in 2018 has been as follows:



While the decided majority of companies continue to receive strong support for the compensation of their named executive officers in 2018, it is notable that 26 of these companies received 95% or more support from their shareholders, including four 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, three of the Bay Area Tech 120 companies, Qualys, Rambus, and Sanmina, have failed to receive a majority of the votes cast in favor of their Say-on-Pay proposal.

At Qualys, 38.8% of the votes cast supported the company’s named executive officer compensation, while 61.2% of the votes were cast against (or abstained on) the proposal. This follows a vote of 96.1% for the proposal and 3.9% against (or abstained on) the proposal in 2017 – a swing of 57.3% of the votes cast on the Say-on-Pay Vote.

In the case of Rambus, 46.0% of the votes cast supported the company’s named executive officer compensation, while 54.0% of the votes were cast against (or abstained on) the proposal. In 2017, only 77.0% of the votes cast on the company’s Say-on-Pay proposal supported the compensation of its named executive officers.

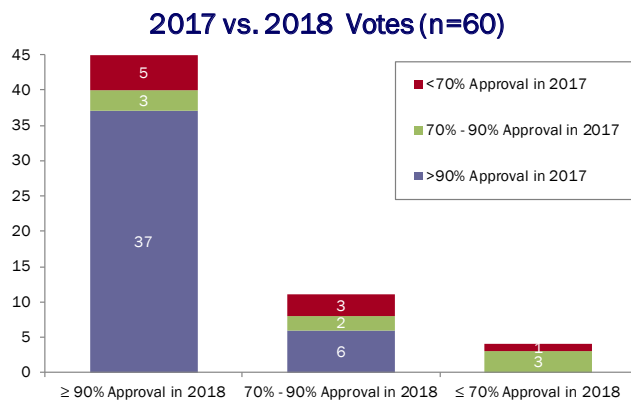
Finally, at Sanmina, only 30.7% of the votes cast on the company’s Say-on-Pay proposal were voted in favor of the compensation of its named executive officers, with nearly 70% (69.3%) of the votes cast on the proposal voted against their compensation. In 2017, the company received almost 76% support for its named executive officer compensation (75.9%).

Year-Over-Year Vote Fluctuations

Of the 38 companies that have now held eight votes, 13 received more support (an average of 6.9%, with a median increase of 1.9%) in 2018 compared to 2017, while 25 saw support for their executive compensation program decline (by an average of 7.5% , with a median decrease of 1.8%).

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As has been the case each year, a handful of companies have experienced a significant vote swing on the Say-on-Pay proposal between 2017 and 2018. So far, three companies have seen support for their executive compensation program increase by over 20% in a single year, while eight companies have seen their support drop by over 20% in a single year (including six companies where support declined by over 30% and one company where support dropped by over 55%).



Most Companies That Received Less Than 70% Support in 2017 Improved Significantly in 2018

Interestingly, two of the four companies that received less than 70% support in 2017 which have held their Annual Meetings experienced a significant increase in support in 2018; typically, by an average of nearly 26%. For example, Imperva, which failed the Say-on-Pay Vote in 2017, improved the support for its named executive officer compensation from 57.1% to 87.4% in 2018 – an increase of over 30%.

Most Companies That Received More Than 90% Support in 2017 Remained Stable in 2018

As in prior years, a number of the Bay Area Tech 120 companies (33) that received more than 90% support in 2017 saw support for their executive compensation program decline in 2018. The average amount of this decline (8.1%) was largely influenced by the fact that one company experienced a decrease in excess of 57% while two other companies recorded decreases of approximately 40%.

Just as notable, 12 of the Bay Area Tech 120 companies that received 90% or more support in 2017 actually saw this support increase in 2018 (by an average of 1.0%) – 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 2018, the decline for 18 of these companies was 2.0% or less.

Final Observations

As in prior years, the experience of the Bay Area Tech 120 companies with the Say-on-Pay Vote continues to past experience. As in the preceding seven years, for most of the Bay Area Tech 120 companies that already have held their annual meeting of shareholders, the vote was largely a non-event. Further, for the companies that have now held eight 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.

It also continues to the case that, 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 should not encounter any significant issues in obtaining majority support for its executive compensation program. Of course, maintaining an effective shareholder engagement program has now become an integral part of this process. By identifying and addressing potential concerns well in advance, technology companies should be able to avoid problems and ensure a favorable outcome for their 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.

About Compensia:

Compensia, Inc. is a management consulting firm that provides executive compensation advisory services to Compensation Committees and senior management. ■

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Bay Area Tech 120
2018 Shareholder Advisory Vote on Named Executive Officer Compensation

Company	2017 Say-on-Pay Vote Support	2018 Say-on-Pay Vote Support	Year-Over-Year Change in Support
8x8	95.5 – 4.5		
A10 Networks	EGC		
Adobe Systems	95.6 – 4.4	94.8 – 5.2	-0.8
Advanced Micro Devices	93.0 – 7.0	94.9 – 5.1	1.9
Aerohive	EGC	EGC	---
Agilent Technologies	97.3 – 2.7	96.6 – 3.4	-0.7
Alpha & Omega	98.3 – 1.7		
Ambarella	95.4 – 4.6	56.2 – 43.8	-39.2
Appfolio	EGC	EGC	---
Apple	95.3 – 4.7	94.9 – 5.1	-0.4
Applied Materials	97.5 – 2.5	95.0 – 5.0	-2.5
Arista Networks	98.7 – 1.3	96.1 – 3.9	-2.6
Autodesk	94.8 – 5.2	96.4 – 3.6	1.6
Barracuda Networks	EGC	Merger	---
Box	99.6 – 0.4	99.1 – 0.9	-0.5
Brocade Communications	93.7 – 6.3	Merger	
Cadence Design Systems	98.1 – 1.9	96.3 – 3.7	-1.8
Calix	98.1 – 1.9	95.3 – 4.7	-2.8
Callidus Software	96.2 – 4.8		
Cavium Networks	89.3 – 10.7	Merger	---
Ceva	93.0 – 7.0	93.5 - 6.5	
Cisco Systems	94.5 – 5.5		
Cloudera	IPO	EGC	---
Coherent	99.2 – 0.8	83.5 – 16.5	-15.7
Coupa Software	EGC	EGC	---
Cypress Semiconductor	82.0 – 18.0	95.0 – 5.0	13.0
DocuSign	---	IPO	---
Dolby Laboratories	99.0 – 1.0	99.3 – 0.7	0.3
Dropbox	---	IPO	---
DSP Group	97.0 – 3.0	67.1 – 32.9	-29.9
eBay	92.7 – 7.3	92.8 – 7.2	0.1
Electronic Arts	96.4 – 3.6		
Electronics for Imaging	98.1 – 1.9	97.5 – 2.5	-0.6
Ellie Mae	98.7 – 1.3	98.0 – 2.0	-0.7
Equinix	98.3 – 1.7	95.9 – 4.1	-2.4
Extreme Networks	85.5 – 14.5		

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Company	2017 Say-on-Pay Vote Support	2018 Say-on-Pay Vote Support	Year-Over-Year Change in Support
Fabrinet	74.7 – 25.3		
Facebook	Triennial	Triennial	---
FICO (formerly Fair Isaac)	96.5 – 3.5	98.8 – 1.2	2.3
Finisar	79.9 – 20.1		
FireEye	60.3 – 39.7	60.1 – 39.9	-0.2
Fitbit	Triennial	Triennial	---
Five9	EGC	96.5 – 3.5	---
ForeScout	IPO	EGC	---
FormFactor	98.7 – 1.3	97.8 – 2.2	-0.9
Fortinet	96.0 – 4.0	93.1 – 6.9	-2.9
Gigamon	75.9 – 24.1	Merger	---
Go Pro	99.7 – 0.3	Triennial	---
Google	75.2 – 24.8	Triennial	---
Guidewire Software	91.5 – 8.5		
Harmonic	97.7 – 2.3	98.1 – 1.9	0.4
Hewlett Packard	92.8 – 7.2	92.4 – 7.6	-0.4
Hortonworks	EGC	EGC	---
Immersion	68.7 – 31.3	70.2 – 29.8	1.5
Imperva	57.1 – 42.9	87.4 – 12.6	30.3
Infinera	85.2 – 14.8	96.3 – 3.7	11.1
Inphi	82.8 – 17.2	84.1 – 15.9	1.3
Integrated Device Technology	97.4 – 2.6		
Intel	94.4 – 5.6	93.9 – 6.1	-0.5
Intuit	96.1 – 3.9		
Juniper Networks	74.9 – 25.1	95.3 – 4.7	20.4
KLA-Tencor	93.2 – 6.8		
Lam Research	94.8 – 5.2		
Logitech International	86.4 – 13.6		
Lumentum	91.8 – 8.2		
Marin Software	EGC	EGC	---
Marvell Technology Group	95.1 – 4.9	91.1 – 8.9	-4.0
Maxim Integrated Products	94.8 – 5.2		
MINDBODY	EGC	94.2 – 5.8	---
Monolithic Power Systems	98.0 – 2.0	97.0 – 3.0	-1.0
Nanometrics	94.5 – 5.5	96.3 – 3.7	1.8
Neophotonics	97.3 – 2.7	Triennial	---

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Company	2017 Say-on-Pay Vote Support	2018 Say-on-Pay Vote Support	Year-Over-Year Change in Support
NetApp	97.6 – 2.4		
Netflix	95.5 – 4.5	61.1 – 38.9	-34.4
NETGEAR	98.1 – 1.9	92.6 – 7.4	-5.5
New Relic	99.0 – 1.0		
nVIDIA	97.8 – 2.2	97.6 – 2.4	-0.2
Oclaro	95.3 – 4.7		
Oracle	47.6 – 52.4		
Palo Alto Networks	94.4 – 5.6		
Pandora Media	Triennial	72.2 – 27.8	---
PayPal	96.1 – 3.9	88.3 – 11.7	-7.8
Plantronics	98.1 – 1.9		
Power Integrations	89.5 – 10.5	83.8 – 16.2	-5.7
Proofpoint	Triennial	Triennial	---
Pure Storage	99.9 – 0.1	99.3 – 0.7	-0.6
Qualys	96.1 – 3.9	38.8 – 61.2	-57.3
Quantum	92.6 – 7.4		
QuinStreet	64.3 – 35.7		
Quotient Technology	EGC	EGC	---
Rambus	77.0 – 23.0	46.0 – 54.0	-31.0
RingCentral	94.5 – 5.5	95.0 – 5.0	0.5
Rocket Fuel	EGC	Tender Offer	---
Rovi	95.7 – 4.3	Merger	---
Salesforce.com	96.9 – 3.1	98.1 – 1.9	1.2
Sanmina	75.9 – 24.1	30.7 – 69.3	-45.2
Semtech	96.4 – 3.6	95.7 – 4.3	-0.7
ServiceNow	83.4 – 16.6	60.1 – 39.9	-23.3
Shutterfly	53.4 – 46.6	74.5 – 25.5	21.1
Sigma Designs	74.5 – 25.5	Merger	---
Splunk	94.5 – 5.5	86.9 – 13.1	-7.6
Square	98.9 – 1.1	98.6 – 1.4	-0.3
Stitchfix	IPO		
Super Micro Computer	99.2 – 0.8		
Symantec	86.8 – 13.2		
Synaptics	92.0 – 8.0		
Synopsys	93.6 – 6.4	93.1 – 6.9	-0.5
Trimble Navigation	79.8 – 20.2	94.9 – 5.1	15.1

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Company	2017 Say-on-Pay Vote Support	2018 Say-on-Pay Vote Support	Year-Over-Year Change in Support
Twitter	97.2 – 2.8	98.1 – 1.9	0.9
Ubiquiti Networks	Biennial		
Ultra Clean Holdings	95.9 – 4.1	95.6 – 4.4	-0.3
Verifone Systems	92.0 – 8.0	50.4 – 49.6	-41.6
Viavi Solutions	90.3 – 9.7		
VMware	99.8 – 0.2		
Workday	99.3 – 0.7	99.1 – 0.9	-0.2
Xilinx	98.2 – 1.8		
Yelp	86.3 – 13.7	91.7 – 8.3	5.4
YuMe	EGC	Merger	---
Zendesk	95.6 – 4.4	97.1 – 2.9	1.5
Zynga	85.3 – 14.7	97.7 – 2.3	12.4