

Perquisite and Executive Benefit Practices in the Technology Sector

Whether a result of the egalitarian culture in which many of these companies were founded, or simply a by-product of the current investor and regulatory environment which frowns on excessive personal benefits provided at shareholders' expense, perquisites and other personal benefits tend to represent a nominal portion of the pay packages of most executives at technology companies.

In addition, the role of equity awards as the centerpiece of most executive compensation programs continues to contribute to an environment where technology companies tend not to provide significant retirement benefit arrangements to their executives. Instead, these companies rely on equity to drive long-term alignment of executive and shareholder interests and serve the purpose of executives to potentially accumulate significant realized value over time for retirement purposes.

Five Things That Technology Companies Should Know About Current Perquisite and Executive Benefit Practices

- 1. Executive Perquisites are Generally Very Limited In Broad Sector, with the Most Common Benefits Involving Car Allowances, Financial Planning, and Family Travel Expenses.** The most common disclosed perquisites provided to executives in the Tech 150 include company car allowances (provided at only approximately 15% of companies), financial and/or tax planning services (provided at 9% of companies), coverage of spousal and/or family travel expenses (provided at 9% of companies) and corporate housing (provided at 9% of companies).
- 2. Personal Use of Corporate Aircraft and Personal Security Arrangements Generally are Found Only at Largest Companies.** Just over one-third of the companies in the Blue Chip 25 (36%) disclosed personal use of corporate aircraft by their CEO and/or other executives, while only 3% of the companies in the Tech 150 disclosed such use. Similarly, over half of the companies in the Blue Chip 25 (52%) disclosed personal security arrangements for one or more executives. Only one company in the Tech 150 disclosed such arrangements for its CEO only.
- 3. Median Value of CEO Perquisites.** Relative to other industry sectors, the median aggregate value* of the disclosed perquisites provided to the CEO of a Blue Chip 25 company was approximately \$111,000, while, for companies in the Tech 150, this value was more modest, totaling only approximately \$9,300.
- 4. Relative Value of CEO and Other Executive Perquisites.** On average, the disclosed value* of the perquisites provided to the CEO of a technology company in the Tech 150 was approximately 1.7x the value provided to the other named executive officers, while, for companies in the Blue Chip 25, such value was approximately 6.9x the value provided to the other named executive officers.
- 5. Executive Benefits Generally Limited to Section 401(k) Plans and Supplemental Life Insurance.** The most common retirement benefits provided to executives in the technology sector consist of modest company matching contributions to a Section 401(k) or similar retirement savings plan (82% of companies in the Tech 150 and 92% of companies in the Blue Chip 25) and the payment of premiums for supplemental life insurance (43% of companies in the Tech 150 and 40% of companies in the Blue Chip 25).

*Under SEC rules, the disclosed "value" represents the aggregate incremental cost to the company of the reported perquisites and other personal benefits.

Perquisite and Executive Benefit Practices in the Technology Sector (continued)

Nonetheless, recent enforcement actions by the Securities and Exchange Commission (“SEC”) serve as a reminder that close attention needs to be paid to ensure that perquisites are correctly identified and, along with benefits, properly reported.

Recently, we examined the executive perquisite and benefit practices at the companies in the Tech 150 (150 publicly-traded technology companies distributed across the software/services, semiconductor, and technology hardware/equipment industries with revenues ranging from \$50 million to \$6 billion (for the last four fiscal quarters disclosed through April 2, 2018). Of these companies, 60% are headquartered in California and the other 40% are headquartered across the United States.

For purposes of comparison, we also looked at these practices among 25 of the largest publicly-traded technology companies (companies with market capitalizations ranging from \$16 billion to \$886 billion (reflecting their 30-day average market capitalization through April 2, 2018)), which we call the “Blue Chip 25.”

The companies reviewed are listed on Exhibit A and B to this Thoughtful Pay Alert. Data reflect fiscal years ending March 2017 through February 2018.

This Thoughtful Pay Alert summarizes our key findings with respect to the provision of perquisites and executive benefits.

Perquisites

Disclosure Requirements

Under SEC rules, a company must disclose in the “All Other Compensation” column of its Summary Compensation Table, among other things, any perquisites or other personal benefits received by its named executive officers for the covered fiscal year (unless the aggregate amount of such compensation is less than \$10,000). If the total value of such perquisites is \$10,000 or more for any

named executive officer, then each perquisite or personal benefit, regardless of its amount, must be identified by type. In addition, if any perquisite exceeds the greater of \$25,000 or 10% of the total amount of perquisites and personal benefits for that officer, the perquisite must be quantified and disclosed in a footnote.

Perquisites and other personal benefits are to be valued on the basis of the aggregate incremental cost to the company. Where footnote quantification of a perquisite is required, the company must describe in the footnote its methodology for computing the aggregate incremental cost.

Perquisite Practices in Technology Sector

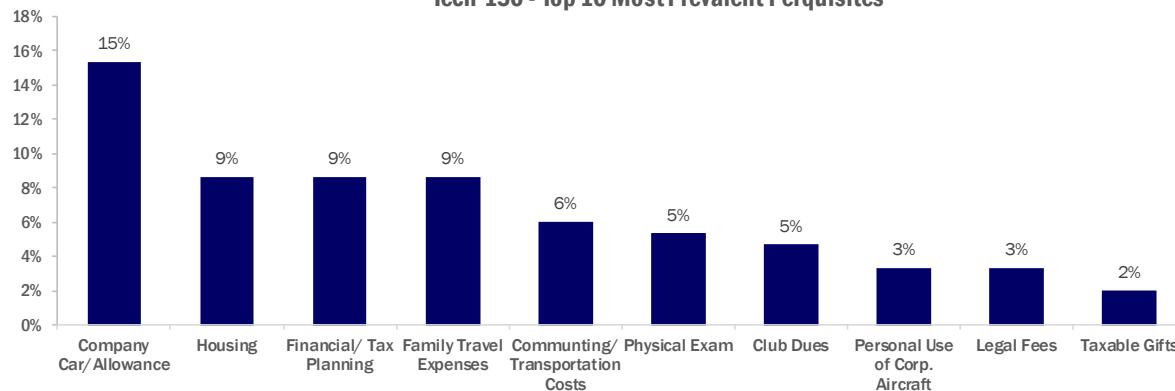
For the period reviewed:

- **Most Common Perquisite** – Among the companies in the Tech 150, the most common perquisites were company car allowances, payment of financial and/or tax planning services, payment of spousal and/or family travel expenses and corporate housing of some sort.

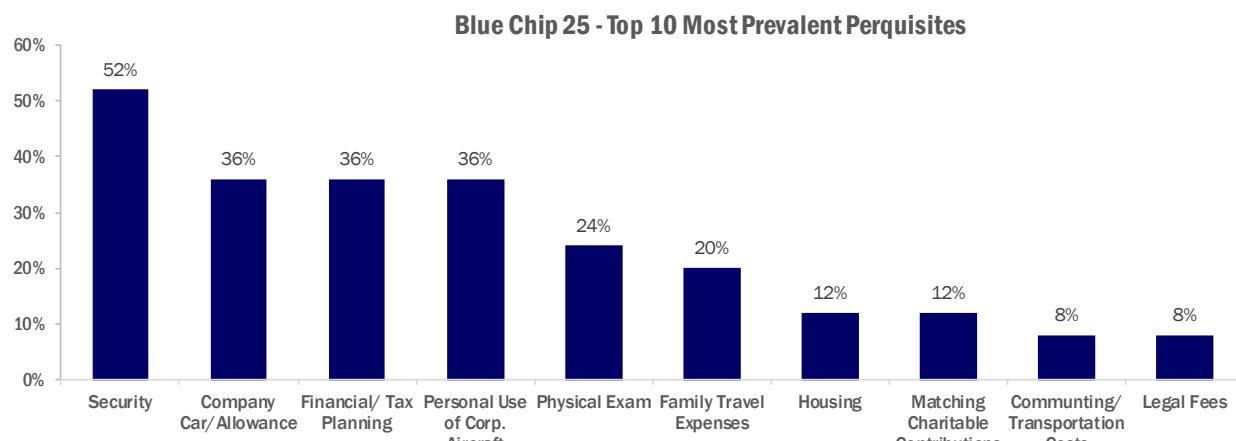
Among the companies in the Blue Chip 25, perquisites prevalence was notably different. The most common perquisites were personal security arrangements, company car allowance, financial and/or tax planning, and personal use of corporate aircraft.

- **Personal Use of Corporate Aircraft** – While there is a widely-held perception that most executives have access to company aircraft for their personal use, that is not the case for most technology companies. Only five of the companies in the Tech 150 (3%) disclosed the personal use of corporate aircraft (with four of the disclosures limited to the CEO). On the other hand, such use was more common – but still not a majority practice – among the Blue Chip 25, with nine companies disclosing that they permit some of their executives to use company aircraft for personal travel (with 44% of the disclosures limited to the CEO).

Tech 150 - Top 10 Most Prevalent Perquisites



Perquisite and Executive Benefit Practices in the Technology Sector (continued)



- Personal Security Arrangements** – Although most companies consider the provision of security arrangements for one or more of their executives (typically, the CEO) to be a legitimate business expense, rather than a personal benefit, the SEC considers security arrangements to be a disclosable perquisite. Such arrangements are provided at 52% of the companies in the Blue Chip 25, but are uncommon in the broader technology sector. Only one company in the Tech 150 disclosed the provision of personal security arrangements for its CEO only.
- Amount of Chief Executive Officer Perquisites** – As expected, perquisite levels were higher for the CEO of companies in the Blue Chip 25 than in the broader technology sector. The median aggregate value of the disclosed perquisites for the CEO (based on the incremental cost to the company) was approximately \$111,000, while, among the CEOs of the Tech 150, the median aggregate cost of the disclosed perquisites was only \$9,300.
- Amount of Other Named Executive Officer Perquisites** – In the Tech 150, the average cost of the disclosed perquisites provided to the CEO was approximately 1.7x the cost provided to the other named executive officers, while in the Blue Chip 25, excluding one company that had a substantial security expenditure for its CEO, the average cost of the disclosed perquisites provided to the CEO was approximately 4.7x the cost provided to the other named executive officers.

Tax Payments

Under SEC rules, all “gross-ups” or other amounts reimbursed to executives during the fiscal year for the payment of taxes are subject to separate disclosure in the “All Other Compensation” column of the Summary Compensation Table. This is true even if the related item triggering the gross-up payment is not itself a disclosable item (such as, for example, perquisites or other personal benefits that total less than \$10,000).

Over half of the companies in the Blue Chip 25 (52%) disclosed the provision of tax “gross-ups” or other tax-related payments to one or more of their executives in their Summary Compensation Table. Typically, these payments were related to taxable income arising from relocation benefits, financial and/or tax planning arrangements, or housing/ex-patriate arrangements. Reflecting the more limited availability of such benefits in the broader technology sector, only 15% of the companies in the Tech 150 disclosed the use of tax “gross-ups” or tax reimbursement payments.

Executive Benefits

Most technology companies offer only limited retirement benefit programs to their employees, including their executives. Typically, these programs take the form of a defined contribution plan, such as a Section 401(k) savings plan. In addition, from time to time, some technology companies will offer life insurance and/or supplemental disability insurance benefits to their executives in addition to the group insurance coverage that is provided to the entire employee workforce.

Disclosure Requirements

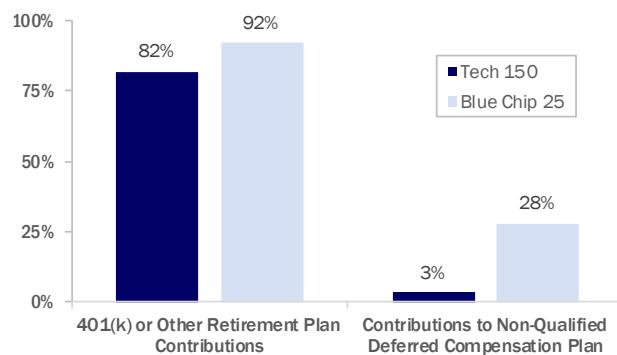
Under SEC rules, a company must disclose in the “All Other Compensation” column of its Summary Compensation Table, among other things, company contributions to defined contribution plans, such as a Section 401(k) plan, and the dollar value of any insurance premiums paid by the company with respect to life insurance for the benefit of a named executive officer. Unlike perquisites, there is no minimum disclosure threshold for these amounts.

Perquisite and Executive Benefit Practices in the Technology Sector (continued)

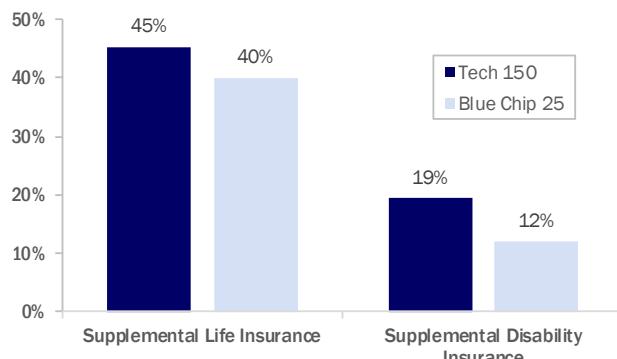
Executive Benefit Practices in Technology Sector

For the period reviewed:

- Section 401(k) Plan Matching Contributions** – 82% of the companies in the Tech 150 maintain Section 401(k) savings plans to which the company makes matching contributions to plan participants, including the named executive officers who participate in the plan, while 92% of the companies in the Blue Chip 25 provide matching contributions pursuant to their Section 401(k) plans. While only 3% of the companies in the Tech 150 make matching contributions to a nonqualified deferred compensation plan on behalf of their executive participants, 28% of the companies in the Blue Chip 25 do so.



- Supplemental Insurance Premiums** – 45% of the companies in the Tech 150 provide supplemental life insurance policies to their Chief Executive Officer and/or all executive officers, while 19% of the companies offer supplemental disability insurance to their senior executives. 40% of the companies in the Blue Chip 25 provide supplemental life insurance policies to their Chief Executive Officer and/or all executive officers, while only 12% offer supplemental disability insurance to their senior executives.



About the Authors

The authors of this Thoughtful Pay Alert are Mark A. Borges and Jason Borrevik, principals at Compensia, and Jin Fu, a Senior Consultant at Compensia. If you have any questions about this Thoughtful Pay Alert or perquisite practices generally, Mark can be reached at 415.462.2995 or mborges@compensia.com, Jason can be reached at 408.876.4035 or jborrevik@compensia.com, and Jin can be reached at 669.263.9808 or jfu@compensia.com.

Need Assistance?

Compensia has extensive experience in assisting companies in designing their executive compensation programs, including navigating the use of perquisites or other personal benefits. If you have any questions on the topics covered in this Thoughtful Pay Alert or would like assistance on understanding the disclosure requirements of various personal benefits, please feel free to contact Jin Fu, Mark A. Borges, or Jason Borrevik.■

Perquisite and Executive Benefit Practices in the Technology Sector (continued)

Exhibit A

Tech 150 Companies

Company	Company	Company
HARDWARE COMPANIES		
Aerohive Networks	MaxLinear	QuinStreet
Quantenna Communications	Power Integrations	HubSpot
Electro Scientific Industries	Photronics	Twilio
CalAmp	Monolithic Power Systems	Progress Software
Harmonic	Veeco Instruments	Ellie Mae
Applied Optoelectronics	Cabot Microelectronics	Zendesk
Acacia Communications	FormFactor	Cornerstone OnDemand
Calix	Semtech	Aspen Technology
Novanta	Advanced Energy Industries	RingCentral
InterDigital	MACOM Technology Solutions	Box
Oclaro	Silicon Laboratories	Proofpoint
ADTRAN	Integrated Device Technology	Shutterstock
Knowles	Cavium	Guidewire Software
Infinera	Cirrus Logic	RealPage
Extreme Networks	Synaptics	GrubHub
Viavi Solutions	Microsemi	Envestnet
Plantronics	Teradyne	Commvault Systems
Ubiquiti Networks	Cypress Semiconductor	Web.com Group
Electronics for Imaging	Maxim Integrated Products	FireEye
Pure Storage	Marvell Technology Group	Blackbaud
OSI Systems	Xilinx	TiVo
NetScout Systems	Qorvo	Tyler Technologies
Dolby Laboratories	Skyworks Solutions	Yelp
Lumentum Holdings	Microchip Technology	Tableau Software
GoPro	Advanced Micro Devices	Ultimate Software Group
National Instruments	ON Semiconductor	Fair Isaac
Finisar	Analog Devices	LogMeIn
NETGEAR	SOFTWARE COMPANIES	ACI Worldwide
ViaSat	AppFolio	Zillow Group
Arista Networks	Instructure	ANSYS
FLIR Systems	PROS Holdings	j2 Global
VeriFone Systems	BlackLine	VeriSign
Coherent	MINDBODY	PTC
Palo Alto Networks	Coupa Software	Shutterfly
F5 Networks	Q2 Holdings	Splunk
Trimble	Five9	Pandora Media
Ciena	Rapid7	Fortinet
Juniper Networks	Workiva	ServiceNow
SEMICONDUCTOR COMPANIES	Varonis Systems	Cadence Design Systems
CEVA	SPS Commerce	Nuance Communications
PDF Solutions	Qualys	Autodesk
Sigma Designs	Callidus Software	Workday
Rudolph Technologies	Benefitfocus	Square
Nanometrics	Hortonworks	Twitter
NeoPhotonics	8x8	Akamai Technologies
Ambarella	Trade Desk	Citrix Systems
Inphi	Imperva	Synopsys
Lattice Semiconductor	Quotient Technology	Red Hat
Rambus	TrueCar	Symantec
Alpha & Omega Semiconductor	Paylocity Holding	Electronic Arts
	New Relic	Intuit

Perquisite and Executive Benefit Practices in the Technology Sector (continued)

Exhibit B

Blue Chip 25 Companies

Company
Adobe Systems
Alphabet
Amazon.com
Apple
Applied Materials
Broadcom
Cisco Systems
eBay
Expedia
Facebook
Hewlett Packard
Intel
International Business Machines
Lam Research
Microsoft
NetApp
Netflix
NVIDIA
Oracle
PayPal Holdings
QUALCOMM
salesforce.com
Texas Instruments
VMware
Western Digital

Perquisite and Executive Benefit Practices in the Technology Sector (continued)

About Compensia

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

Silicon Valley

125 S. Market Street
Suite 1000
San Jose, California 95113
408.876.4025

Thomas G. Brown, Chairman &
Managing Principal
tbrown@compensia.com
408.876.4023

Susan Gellen
sgellen@compensia.com
408.907.4302

Tom LaWer, Managing Principal
tlawer@compensia.com
408.907.4309

Timothy Sparks

tsparks@compensia.com
408.876.4024

Greg Lochmann

gloehmann@compensia.com
408.907.4319

San Francisco

One Embarcadero Center
Suite 2830
San Francisco, California 94111
415.462.2990

Mark A. Borges

mborges@compensia.com
415.462.2995

Erik Beucler

ebeucler@compensia.com
408.907.4314

Amanda Feyerabend

afeyerabend@compensia.com
415.462.2988

Southern California

Ralph Barry
rbarry@compensia.com
858.603.2288

Pacific Northwest

Jason Borrevik
jborrevik@compensia.com
408.876.4035