



Pay-for-Performance in an Era of Uncertainty

Breakfast Roundtable
September 29, 2011
The Fairmont
San Jose, CA

Co-sponsored with



■ Welcome and Introductions

Moderator

Matthew Stinner
Senior Managing Director
Pearl Meyer & Partners

Panel Members

Theodore Slaughter
Director of Global Compensation
Autodesk

Joseph M. Yaffe
Partner, Executive Compensation and Benefits
Skadden, Arps, Slate, Meagher & Flom LLP

Aaron Boyd
Head of Research
Equilar

Shekhar Purohit
Managing Director
Pearl Meyer & Partners

■ Agenda

- **2011 Executive Compensation Trends – Aaron Boyd**
- **Pay for Performance in an Era of Uncertainty**
 - 2011 Proxy Review and Analysis – Shekhar Purhoit
 - The Corporate View – Ted Slaughter
 - The Legal Perspective – Joe Yaffe
- **Discussion and Questions**

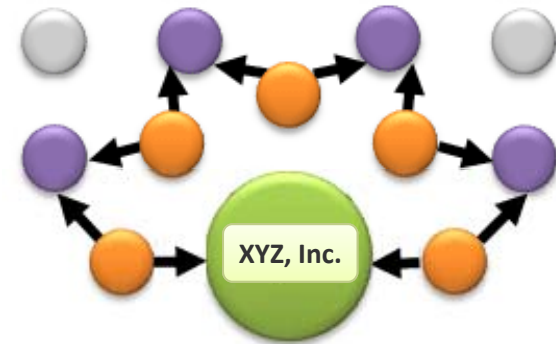
2011 Executive Compensation Headlines

- **Pay was up over 20%**
 - Driven by performance incentive pay
- **Say on Pay**
 - Most companies passed
- **Increased influence of proxy advisors**
 - Complaints about their methodology



2011 Executive Compensation Headlines

- **What is the right peer group(s)?**
 - Who would create the best peer group?
- **How do you look at pay for performance?**
 - Grant-date pay versus Realizable pay
- **What's the right measurement for performance?**
 - Right measurement = Right alignment



■ About this Discussion Document

Two PM&P studies are referenced within this document:

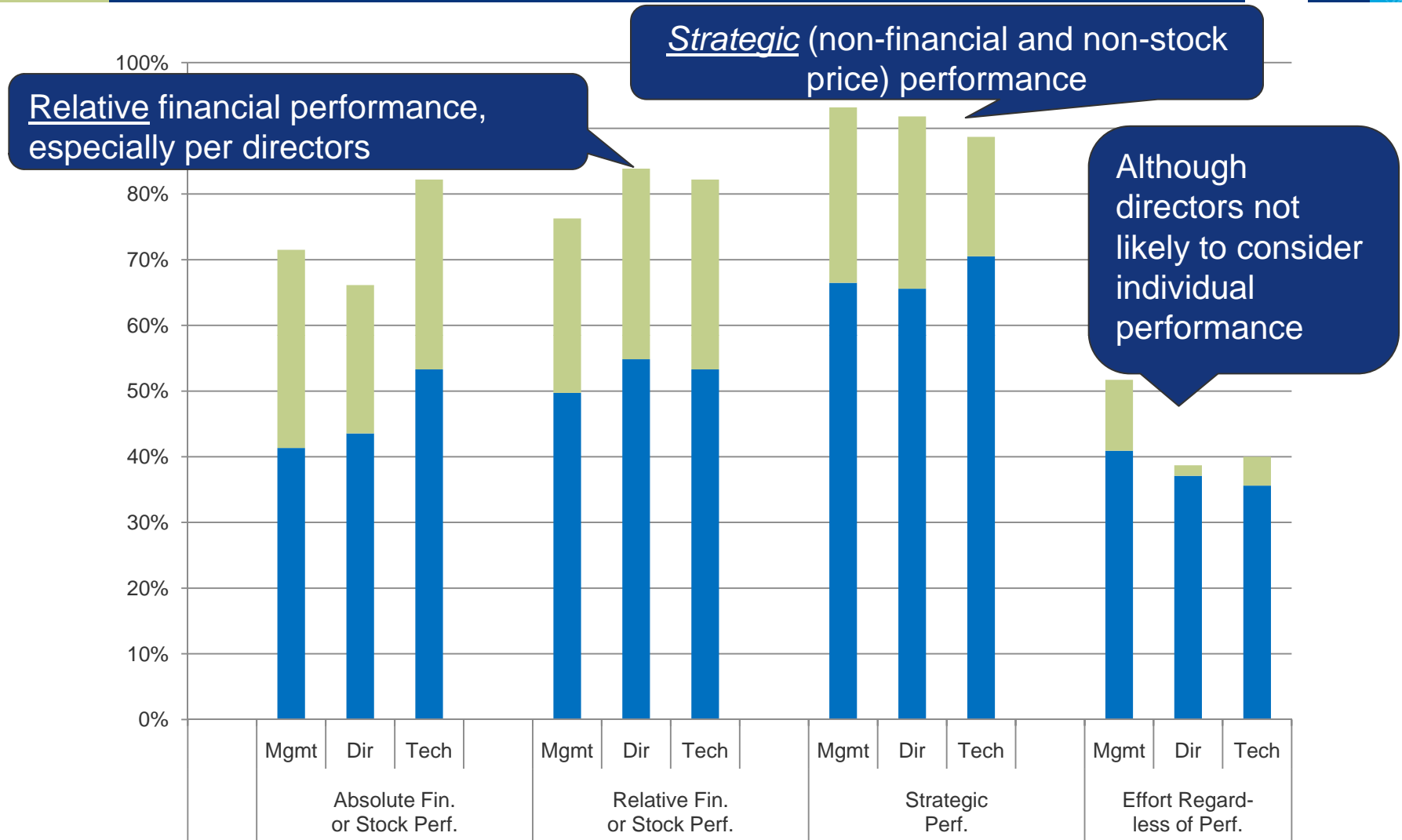
1. PM&P's 2011 Executive Pay-for-Performance Survey:

- This survey provides a unique look at the views held by board members and management regarding multiple aspects of pay-for-performance
- The survey is based on 241 participants, with 179 who responded as company managers and 62 who responded as members of the board of directors of their company (approximately 61% of participants represent publicly traded companies, with the balance from mutual and not-for-profit organizations)
- Data presented compare management responses to director responses as well as a special cut focused on Tech companies

2. PM&P's Value Driver Analysis:

- This analysis is based on 85 companies from the greater Silicon Valley specifically focused on hardware, software, biotech/pharmaceuticals and medical devices/instruments
- Each industry cut includes about 20 to 25 area companies
- Value drivers are the financial metrics that exhibit the most correlation (R-square) to organizational value
- This analysis highlights the strength of relationship between financial metrics and organizational value (e.g.;TSR, market to book ratio)

Pay-for-Performance Should Reflect...

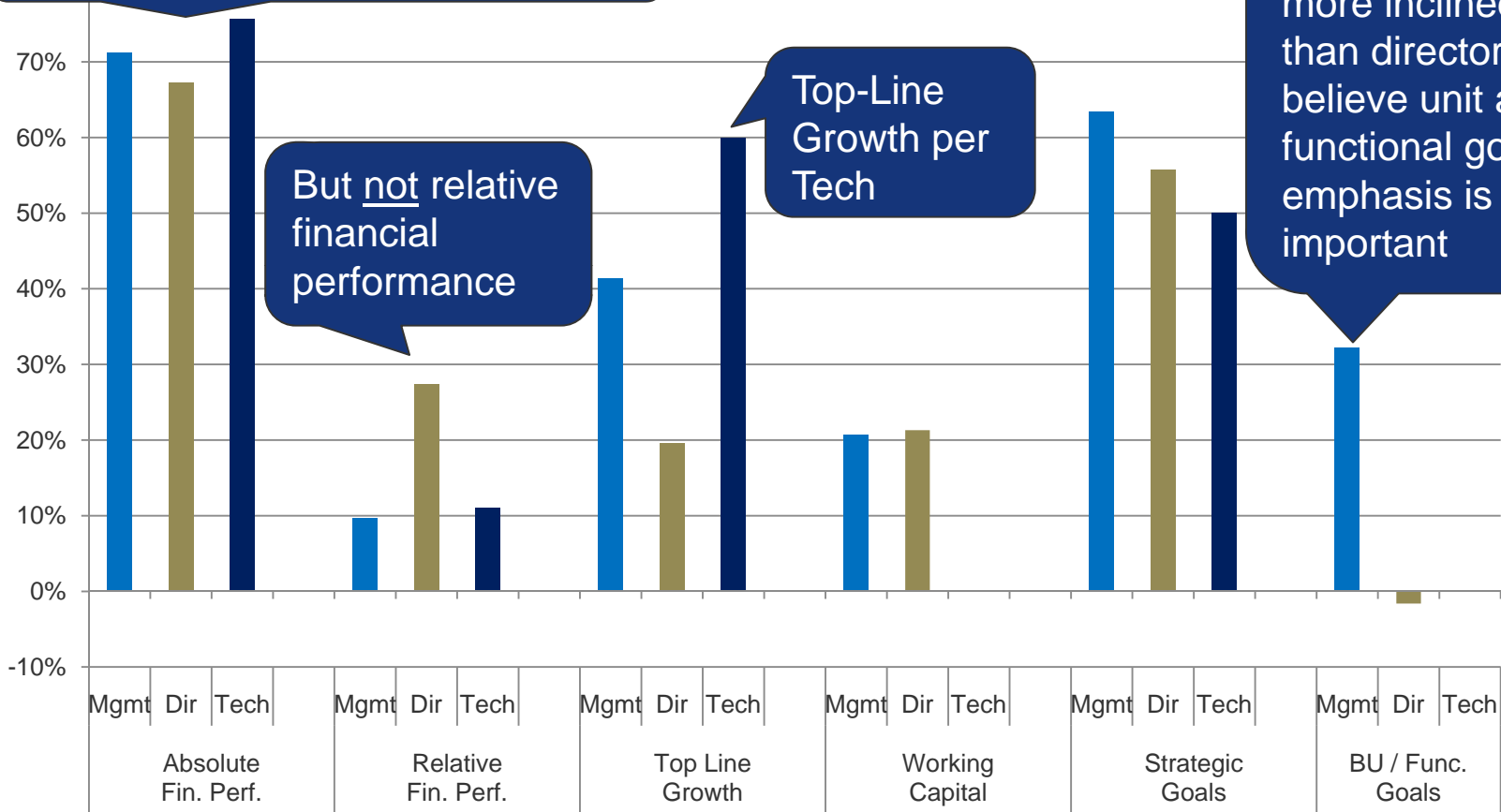


Source: PM&P's 2011 Executive Pay and Performance Survey

Percentage of management and director responses that "agree" (blue) and "strongly agree" (beige) with the form of measurement

Annual Incentive Plans Should Focus on...

Absolute financial performance as it is viewed as the “centerpiece”



But not relative financial performance

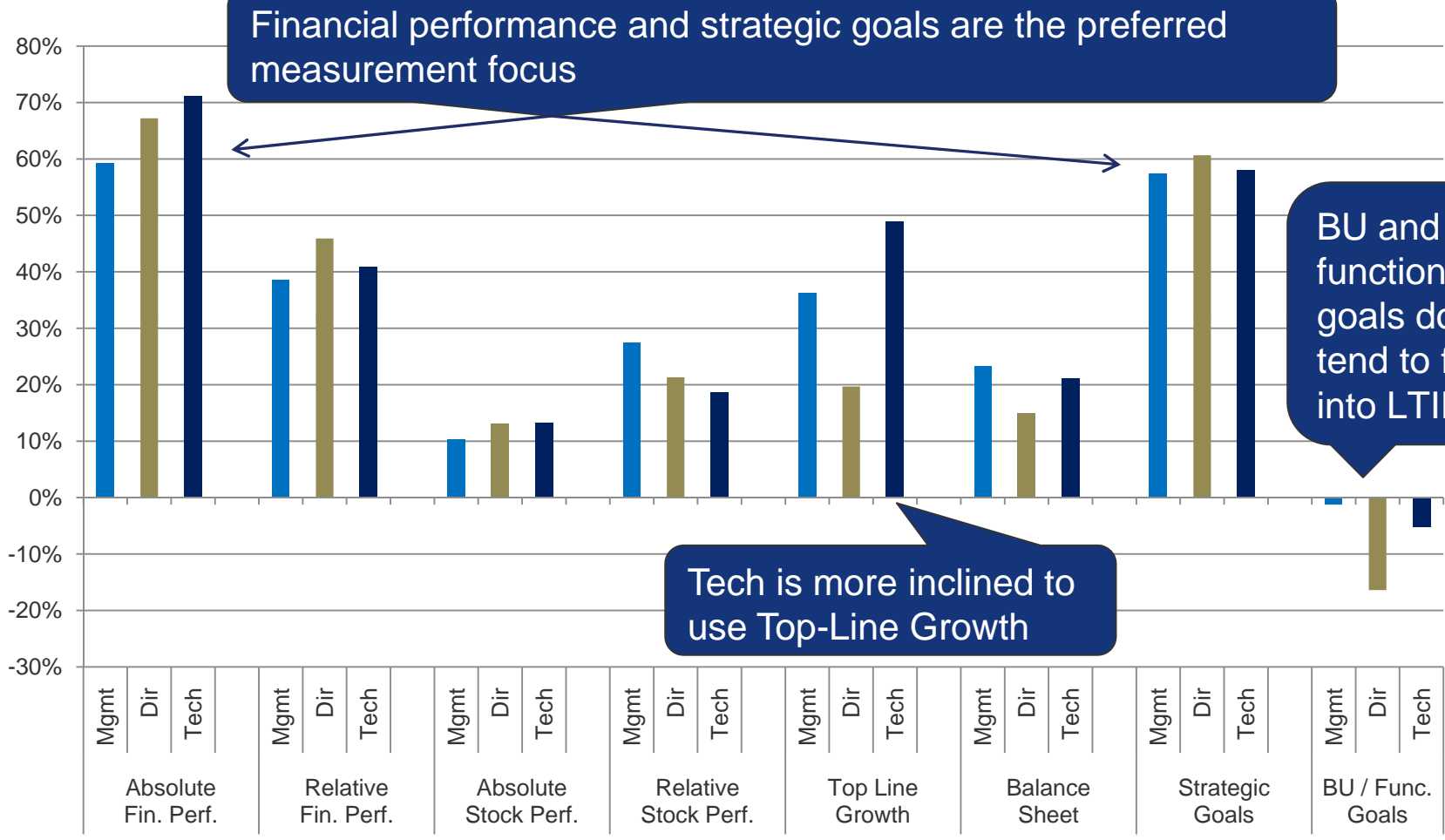
Top-Line Growth per Tech

Management is more inclined than directors to believe unit and functional goal emphasis is important

Source: PM&P's 2011 Executive Pay and Performance Survey

Bars represent the difference between “critical” versus “less important” responses for each aspect of performance and respondent type. The middle response (“somewhat important”) is not reflected above

Long-Term Incentive Plans Should Focus on...



Financial performance and strategic goals are the preferred measurement focus

BU and functional goals don't tend to fit into LTIP

Tech is more inclined to use Top-Line Growth

Source: PM&P's 2011 Executive Pay and Performance Survey

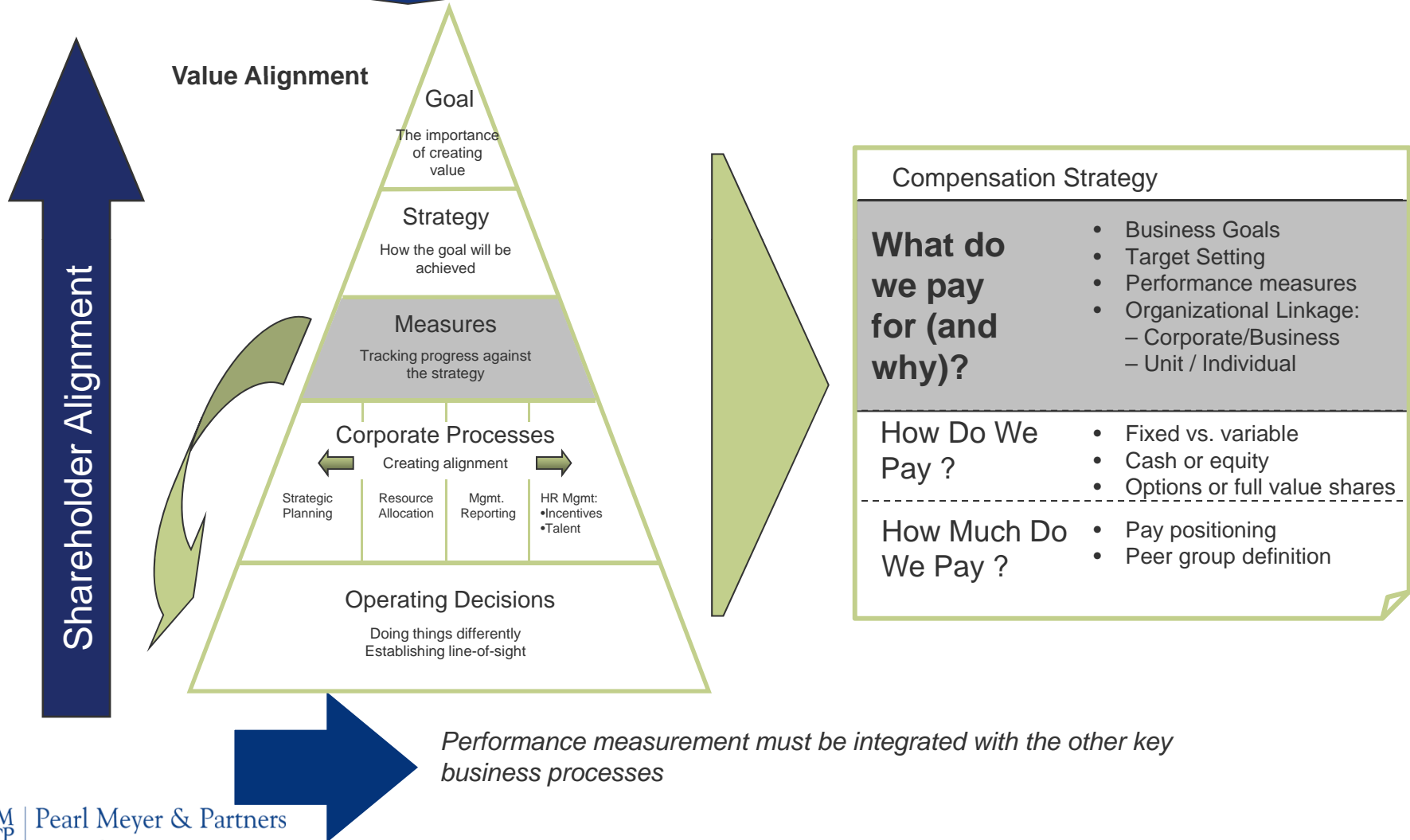


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Performance Integration

Getting the measures and targets correct is critical to effective incentive plan design



Performance Measure Selection

- Directors are less inclined to have non-CEO executive involvement on a routine basis

- Management is less inclined to have the full Board involved in the measurement selection process
- Both management and directors see a “sometimes” role for outside advisors

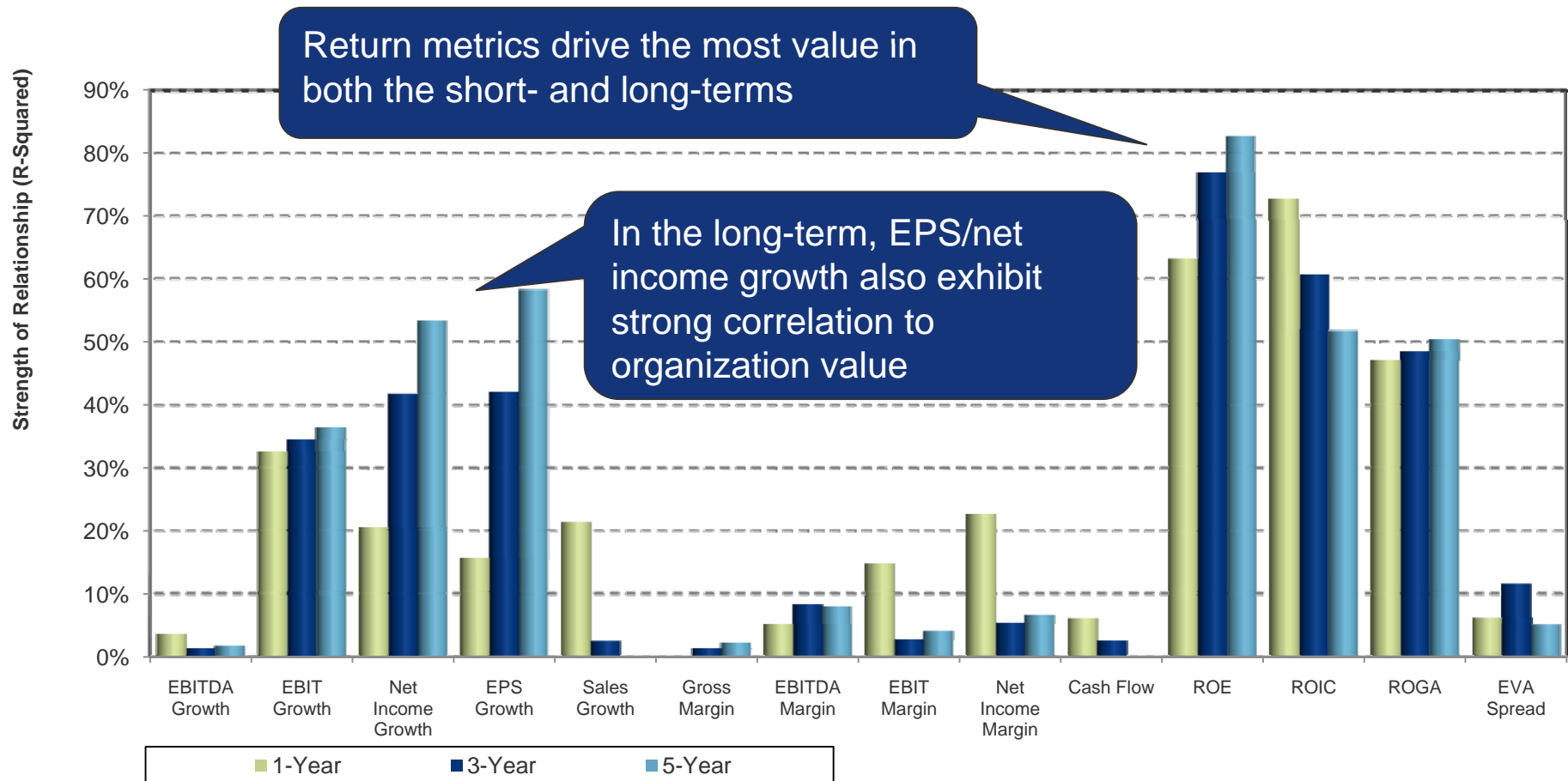
Who Should be Involved in Measurement Selection?

		All Firms		
		Mgmt	Directors	Tech
CEO	Never	1%	0%	0%
	Sometimes	11%	11%	16%
	Always	89%	89%	84%
CFO	Never	6%	5%	2%
	Sometimes	20%	43%	31%
	Always	74%	52%	67%
HR	Never	7%	10%	5%
	Sometimes	18%	41%	26%
	Always	75%	49%	70%
Other senior executives	Never	17%	38%	20%
	Sometimes	67%	48%	73%
	Always	16%	14%	8%
The Compensation Committee	Never	0%	0%	0%
	Sometimes	11%	3%	13%
	Always	89%	97%	87%
The Board of Directors	Never	5%	0%	5%
	Sometimes	50%	39%	40%
	Always	45%	61%	56%
Outside advisors	Never	16%	10%	21%
	Sometimes	50%	54%	50%
	Always	34%	36%	29%

Source: PM&P's 2011 Executive Pay and Performance Survey

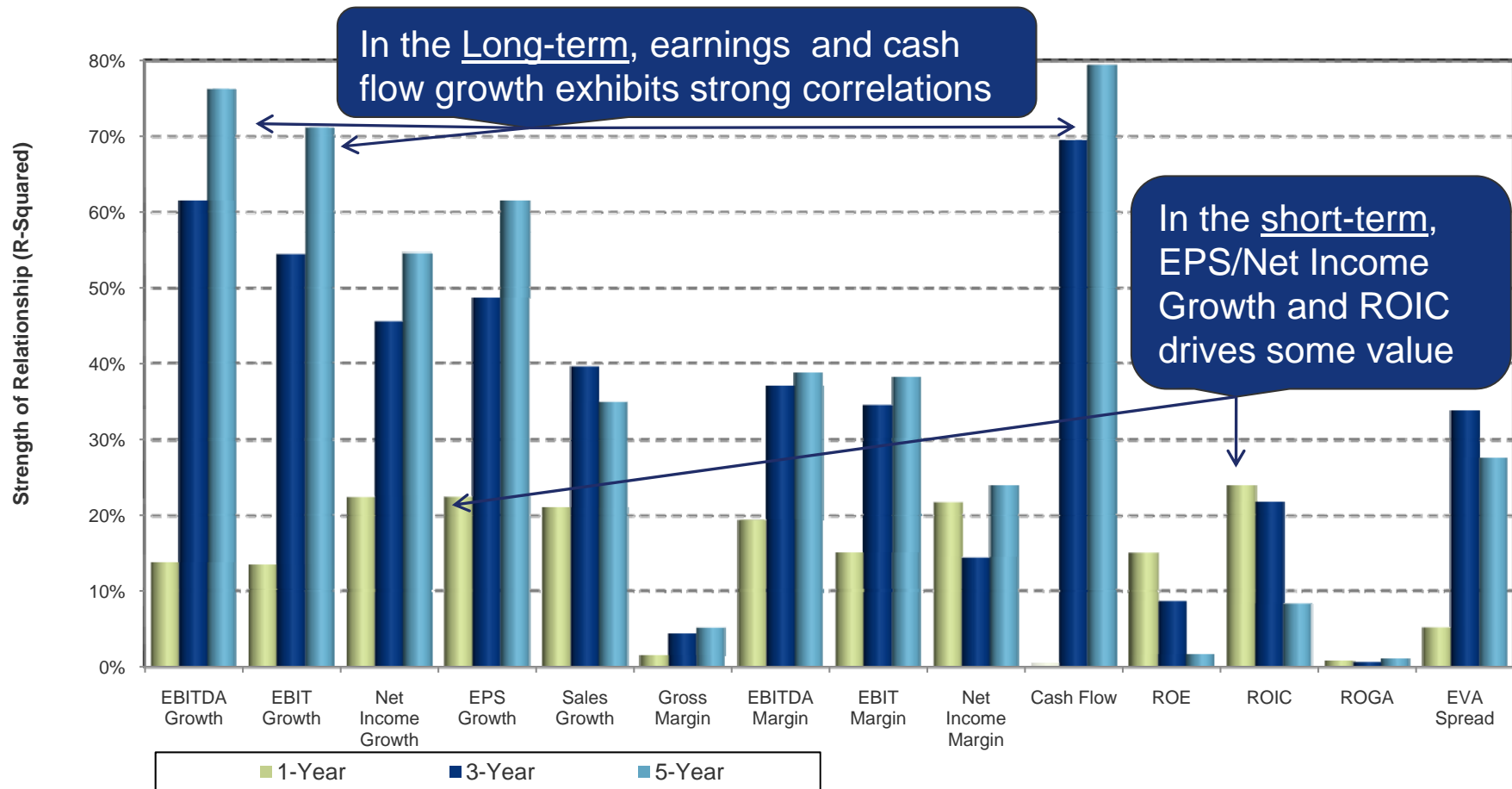
Value Drivers: Hardware

- Short- and long-term plans are typically focused on operating income and revenue, with EPS/net income also used to a lesser extent



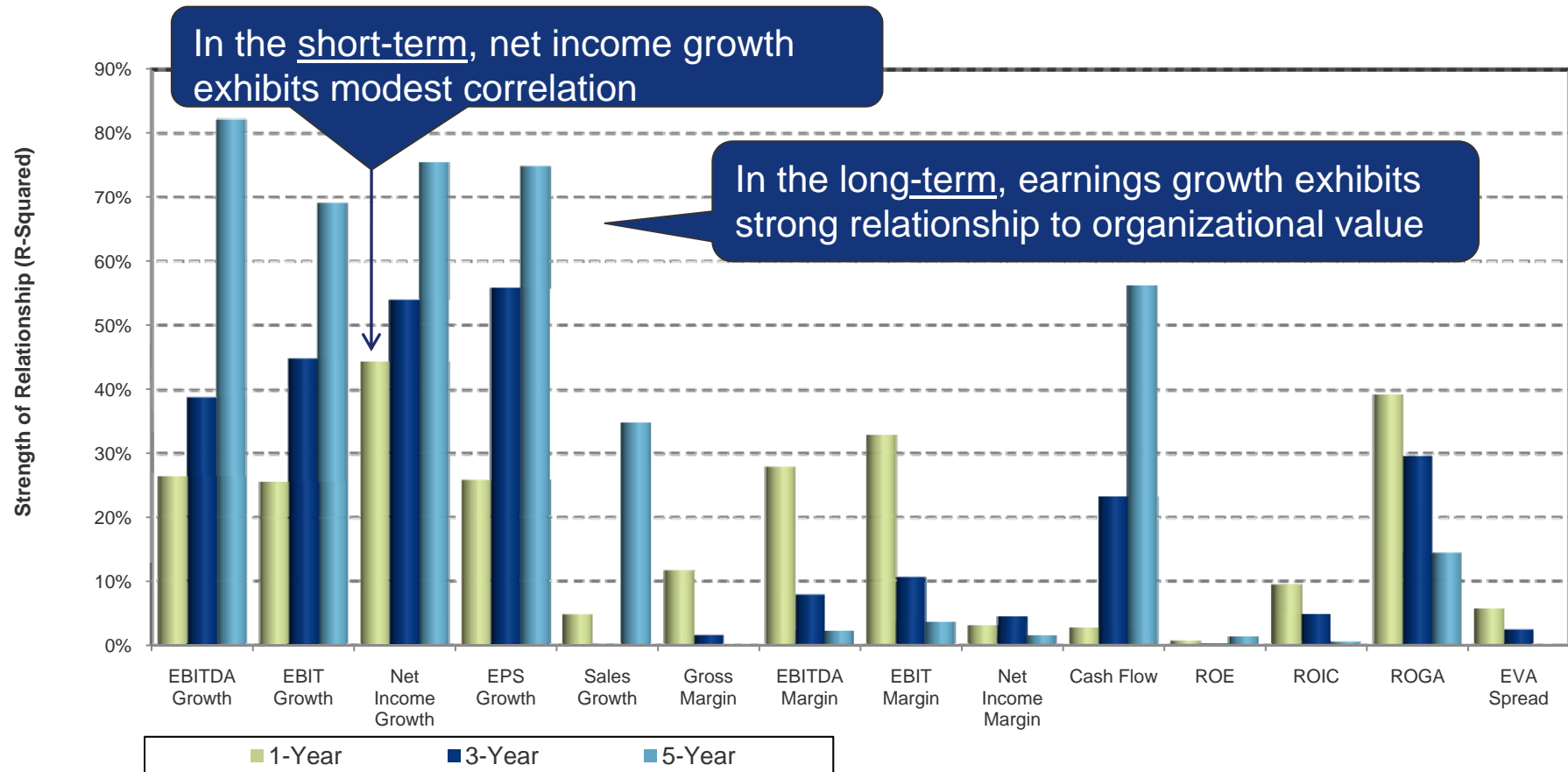
Value Drivers: Software

- Short-term plans are commonly focused on revenue and operating income, while long-term plans tend to be focused on revenue and/or EPS/net income



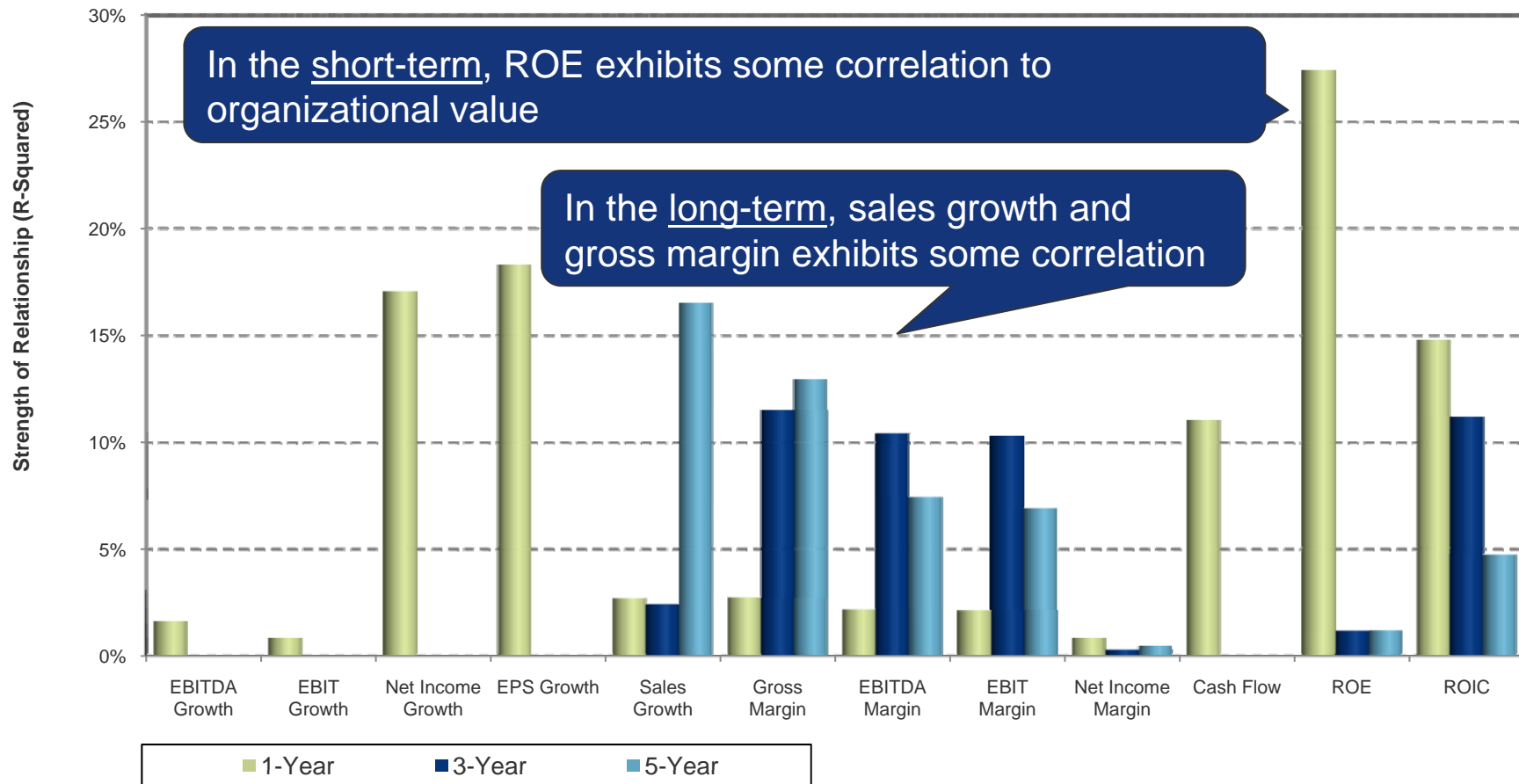
Value Drivers: Medical Devices & Instruments

- Short-term plans are typically focused on revenue, non-financial milestones and operating income, while long-term plans (when used) tend to be focused on EPS/net income



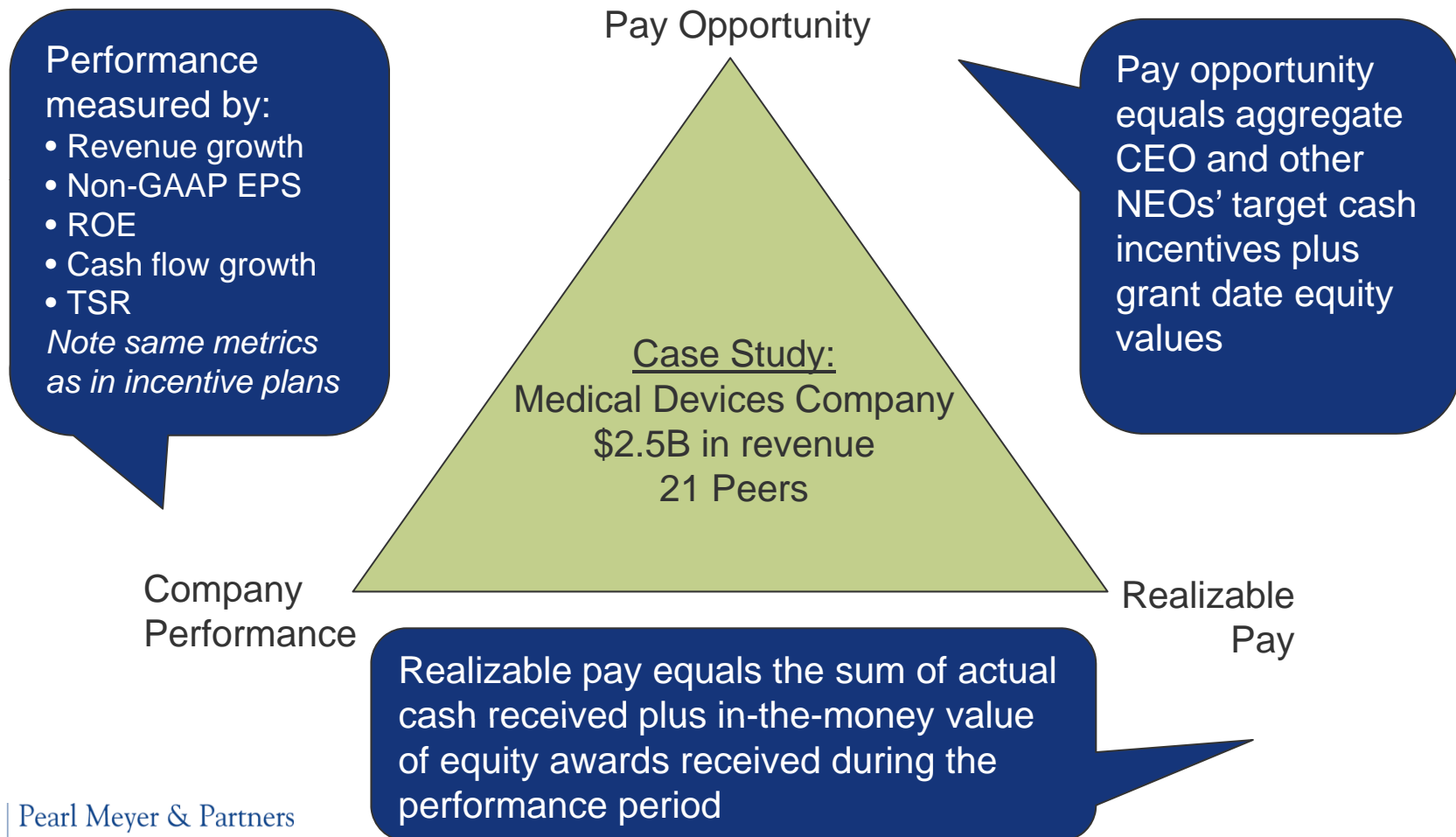
Value Drivers: Biotech & Pharmaceuticals

- Short- and long-term plans are primarily focused on non-financial, milestone-based metrics with some weight to revenue and cash flow management



Case Study: Pay and Performance Assessment

Pay and performance analysis looks back at the historic relationship between pay opportunity, actual pay delivered, and the Company's performance relative to peers



Case Study: Assessing Pay and Performance

Peer Percentiles	Three-Year Performance					CEO			Other NEOs		
	Revenue Growth (CAGR)	Non-GAAP Diluted EPS Growth ¹ (CAGR)	ROE (3-Y Avg.)	Cash Flow Growth	TSR	Pay Opportunity (\$000)	Realizable Pay (\$000)	Realizable Pay / Pay Opportunity	Pay Opportunity (\$000)	Realizable Pay (\$000)	Real. Pay / Pay Opportunity
75 th Percentile	10%	16%	19%	84%	21%	\$19,287	\$14,701	125%	\$392	\$527	129%
Median	6%	12%	13%	45%	0%	\$13,730	\$9,299	79%	\$345	\$396	112%
25 th Percentile	4%	8%	9%	22%	-8%	\$8,636	\$6,417	50%	\$289	\$298	100%
Company	7%	14%	24%	26%	-1%	\$19,594	\$14,305	73%	\$428	\$434	102%
Company Percentile	57 th	63 rd	87 th	28 th	47 th	75 th	70 th	44 th	80 th	61 st	28 th
Company Average Performance	Three-Year Average: 56 th					Three-Year Realizable Pay: 70 th Percentile			Three-Year Realizable Pay: 61 st Percentile		
Company Percentile of Average Performance	Three-Year Percentile Ranking: 67 th										

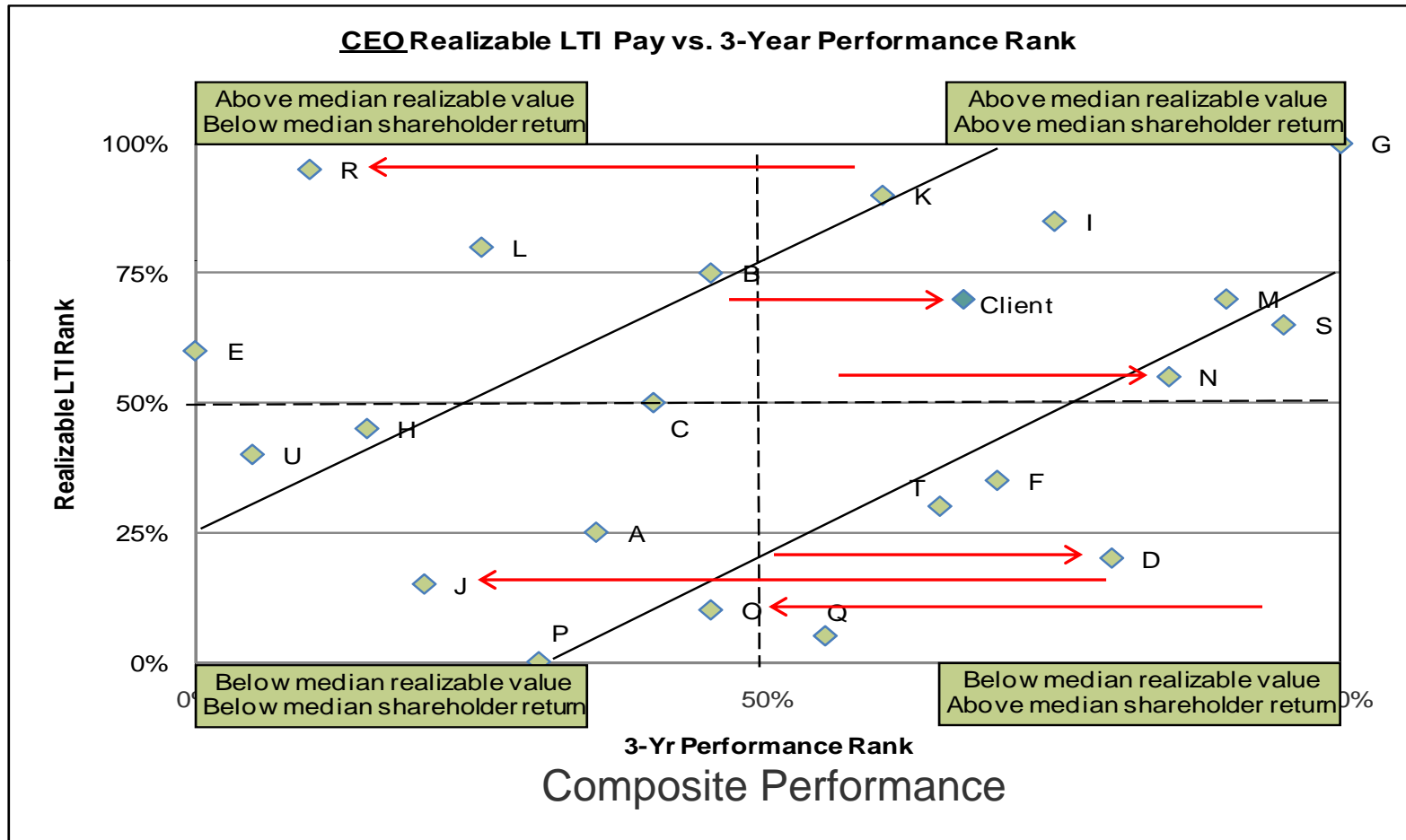
Pay and TSR performance about 20 percentage points apart

Pay and composite performance approximates the 65th percentile

Pay opportunity near 80th although realizable pay as a % of target below median indicating more challenging goals

Case Study: Composite Performance

- Based on a broader definition of performance (versus TSR alone), some companies have significantly different pay and performance stories



* Composite Performance includes revenue growth, adjusted (non-GAAP) EPS growth, ROE, cash flow and TSR

Red arrows indicate a significant change in pay and performance alignment

■ Say on Pay, Rebuttals and Class Action Suits

Say on Pay:

- Of the companies that have disclosed SOP vote results, 99% voted in favor of the proposal and 1% voted against
- 37 companies have lost their SOP vote

Rebuttals:

- In all, there have been approximately 90 total rebuttals to date:
 - 87% have specifically responded to ISS
 - 64% were filed with respect to Say-on-pay
 - 83% of the companies eventually won the vote
- The most common reason for advisory firms recommending a vote against an executive compensation program is a pay-for-performance disconnect
- Rebuttals often discredit the advisory firms' methodology frequently in reference to:
 - Option valuation not in accordance with SEC rules
 - Incorrect peer group selection methodology

Class Action Suits:

- Suits take issue with proxy disclosure of a “pay for performance” philosophy when pay happens without performance



Discussion and Questions



Appendix

Companies Included in Study

Biotech & Pharma

Company	Revenue	Market Cap
Impax Laboratories Inc	\$638	\$1,430
Biomarin Pharmaceutical Inc	\$419	\$3,036
Onyx Pharmaceuticals Inc	\$328	\$2,243
Cepheid Inc	\$242	\$2,170
Jazz Pharmaceuticals Inc	\$212	\$1,392
Genomic Health Inc	\$194	\$823
Exelixis Inc	\$163	\$1,156
Depomed Inc	\$145	\$453
Codexis Inc	\$114	\$346
Nektar Therapeutics	\$112	\$831
Sciclone Pharmaceuticals Inc	\$101	\$352
Rigel Pharmaceuticals Inc	\$73	\$653
Medivation Inc	\$61	\$748
Supergen Inc	\$57	\$180
Affymax Inc	\$54	\$243
Xoma Ltd	\$53	\$76
Alexza Pharmaceuticals Inc	\$45	\$131
Xenoport Inc	\$40	\$252
Map Pharmaceuticals Inc	\$38	\$476
Durect Corp	\$33	\$178

Devices & Instruments

Company	Revenue	Market Cap
Agilent Technologies Inc	\$6,479	\$14,630
Varian Medical Systems Inc	\$2,530	\$8,198
Intuitive Surgical Inc	\$1,547	\$14,550
Resmed Inc	\$1,243	\$4,694
Cooper Companies Inc	\$1,283	\$3,651
Align Technology Inc	\$414	\$1,785
Thoratec Corp	\$399	\$1,961
Affymetrix Inc	\$292	\$558
Omniceil Inc	\$232	\$517
Accuray Inc	\$209	\$543
Conceptus Inc	\$131	\$365
Iris International Inc	\$112	\$179
Epocrates Inc	\$111	\$432
Solta Medical Inc	\$110	\$168
Staar Surgical Co	\$59	\$188
Digirad Corp	\$56	\$51
Cutera Inc	\$54	\$118
Iridex Corp	\$45	\$36
Fluidigm Corp	\$38	\$335
Zeltiq Aesthetics Inc -Redh	\$38	@NA

Hardware

Company	Revenue	Market Cap
Juniper Networks Inc	\$4,425	\$16,775
Lam Research Corp	\$3,238	\$5,472
Kla-Tencor Corp	\$3,175	\$6,765
Sunpower Corp	\$2,531	\$1,819
Maxim Integrated Products	\$2,472	\$7,560
Xilinx Inc	\$2,390	\$9,639
Lsi Corp	\$2,267	\$4,067
Altera Corp	\$2,167	\$15,016
Brocade Communications Sys	\$2,147	\$2,685
Atmel Corp	\$1,842	\$6,461
Polycom Inc	\$1,357	\$5,686
Spansion Inc	\$1,227	\$1,190
Omnivision Technologies Inc	\$1,039	\$1,742
Finisar Corp	\$969	\$1,532
Super Micro Computer Inc	\$943	\$624
Cypress Semiconductor Corp	\$940	\$3,620
Intersil Corp -CI A	\$821	\$1,617
Plantronics Inc	\$689	\$1,706
Quantum Corp	\$663	\$759
Pmc-Sierra Inc	\$650	\$1,776

Software

Company	Revenue	Market Cap
Symantec Corp	\$6,410	\$14,785
Adobe Systems Inc	\$4,049	\$17,099
Intuit Inc	\$3,851	\$14,177
Electronic Arts Inc	\$3,773	\$7,812
Vmware Inc -CI A	\$3,315	\$42,256
Autodesk Inc	\$2,079	\$7,871
Salesforce.Com Inc	\$1,936	\$19,608
Synopsys Inc	\$1,521	\$3,444
Cadence Design Systems Inc	\$1,036	\$2,842
Tibco Software Inc	\$827	\$4,680
Zynga Inc -Redh	\$732	@NA
Informatica Corp	\$720	\$6,233
Ariba Inc	\$416	\$3,363
Fortinet Inc	\$375	\$4,173
Advent Software Inc	\$303	\$1,476
Successfactors Inc	\$252	\$2,434
Netsuite Inc	\$213	\$2,631
Telenav Inc	\$210	\$742
Magma Design Automation Inc	\$142	\$499
Actuate Corp	\$128	\$276
Silver Spring Networks -Redh	\$103	@NA
Callidus Software Inc	\$78	\$187

Data reflect four quarters trailing as of the most recently filed quarter (generally June 2011)