

ON POINT

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PM&P on Compensation Planning: Looking Ahead to Executive Pay Practices in 2012

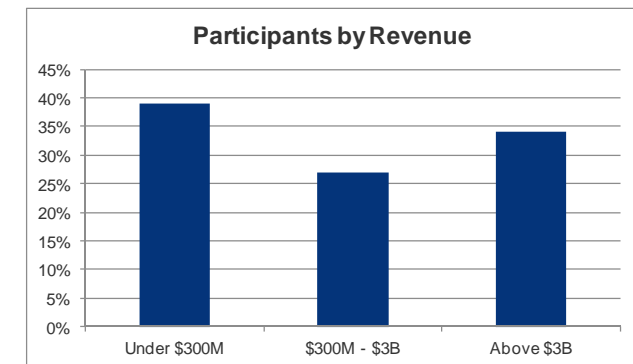
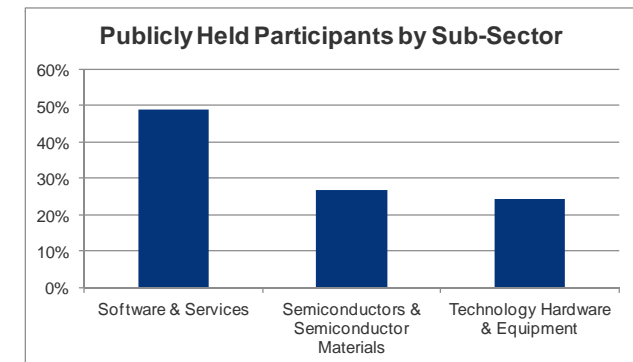
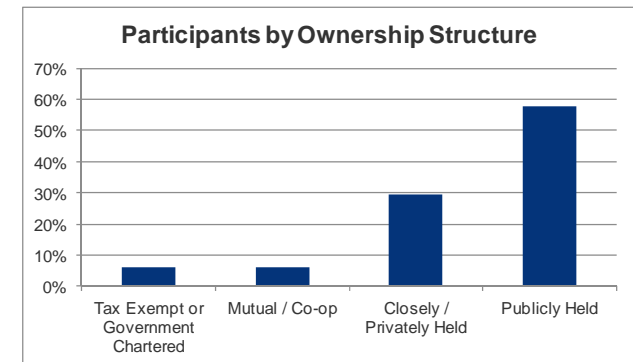
Executive Summary – Information Technology Edition

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Introduction

- This survey series was designed to arm executive pay decision-makers with the latest information on their peers' planned modifications to executive pay levels and program design
- The 2012 survey was conducted online between August 23 and October 14, 2011
- Of the 190 total participants, 41 represented the technology sector
- The complete results are available for purchase at www.pearlmeier.com
- Please contact Jim Heim to discuss any aspect of these findings at jim.heim@pearlmeier.com or (508) 630-1502



The Current Environment for Executive Pay Decision-Making

Broader Market Trends

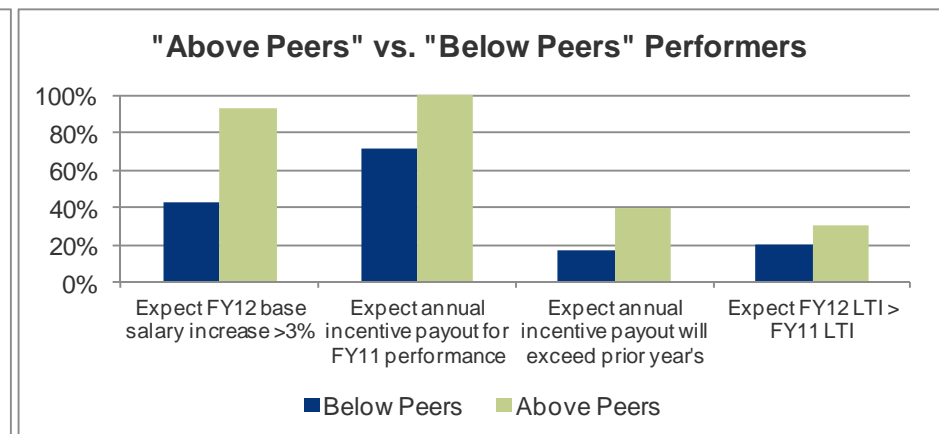
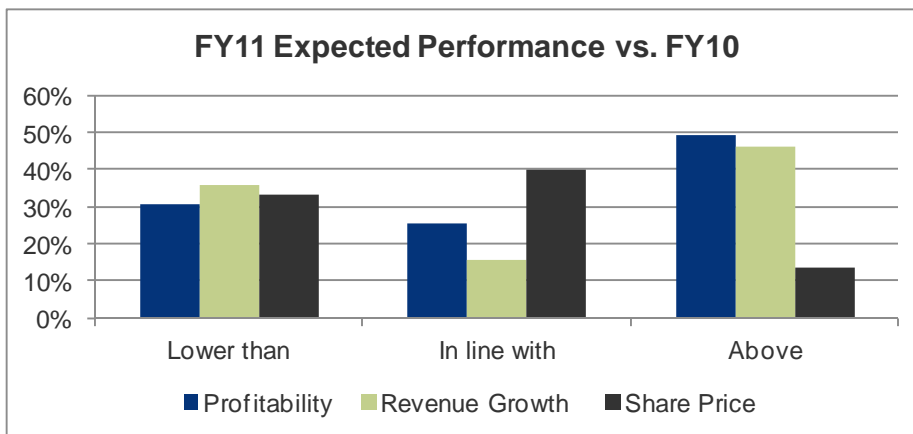
- Increasing focus on linkage of pay with performance
 - Public companies navigated their first Say on Pay votes in the last proxy season and await the SEC's final enhanced disclosure requirements regarding the relationship between compensation actually paid to executives and company performance
 - Various groups advocate alternative definitions of key terms:
 - Pay – Stock option values may be based on notional accounting estimates made on the date of grant, the values actually realized on the date of exercise, or the potential "realizable" value specific to outstanding in-the-money options on the date of measurement; the value of perquisites or annual incremental changes to various retirement plans may or may not be included
 - Performance – May be defined as shareholder returns, earnings growth, operational results, etc.; may use a 1-, 3- or 5-year time-frame; results may be measured on an absolute or relative basis
 - As companies determine what definitions are most appropriate for their specific businesses and attempt to develop pay programs to support their specific goals and challenges, an increasingly sophisticated approach is being taken to both metric selection and goal-setting
 - Companies are also conducting these evaluations more frequently and are more likely to modify incentive program design features on an annual basis in response to heightened investor scrutiny of pay-for-performance
- Volatile markets and heightened pay scrutiny are challenging the traditional balance between "performance" and "retention"
 - Companies must determine how (and sometimes if) to retain their executive team when performance misses the mark, given investor pressure to withhold incentive pay when goals are not met and remove "guarantees" such as traditional defined benefit retirement programs
 - Retention concerns may influence decisions around base salaries, performance levels required for "threshold" incentive payouts, equity vesting schedules, and benefits offered in the event of various termination scenarios

Factors Unique to Tech Industry

- *Equity compensation is emphasized to a greater degree than in other industries. However, goal-setting and metric selection (the bricks and mortar needed to build performance share programs) are especially challenging in cyclical sectors (such as semiconductors and semiconductor equipment) or for companies where new product launches represent a significant portion of each year's revenue. Consequently, technology companies have not embraced performance shares to the extent seen in other sectors. Where performance shares are used, shorter measurement periods (one-year) are more common, as is relative measurement (e.g., shareholder return relative to an industry-relevant index)*
- *Stock options are viewed more favorably by both technology executives and investors than in other sectors. But an option-heavy pay program will tend to have much more volatile pay outcomes year-to-year. Pay may appear out of line with performance in the short-term (1-year) although longer-term (5+ years) alignment may be strong*
- *The lack of defined benefit retirement programs and emphasis on stock option-based compensation provides little retention when share prices are depressed; executive turnover rates tend to be higher for tech firms*

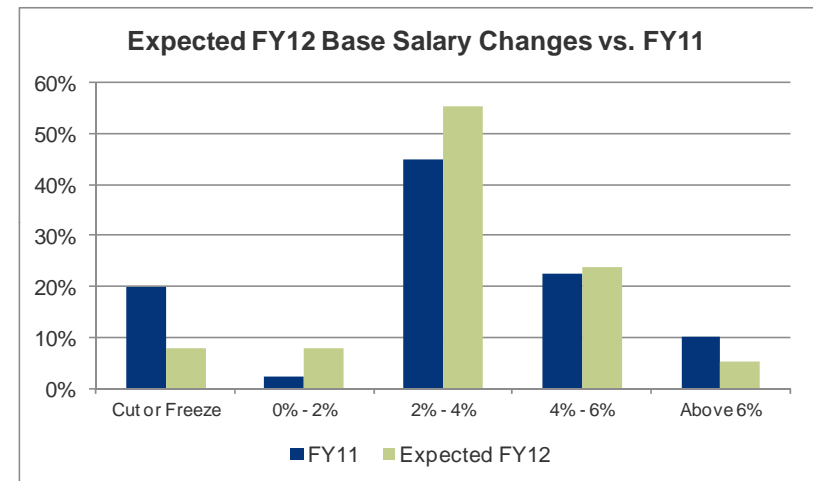
Tech Company Performance and Impact on Decision-Making

- Tech company performance is generally up year-over-year for profitability and revenue growth, but share prices have remained volatile
- Participants who expect FY11 performance to be “above peers” differ from “below peers” performers with respect to their anticipated base salary increases and annual incentive payouts
- There is little differentiation between “above peers” and “below peers” performers with respect to anticipated FY12 LTI award increases



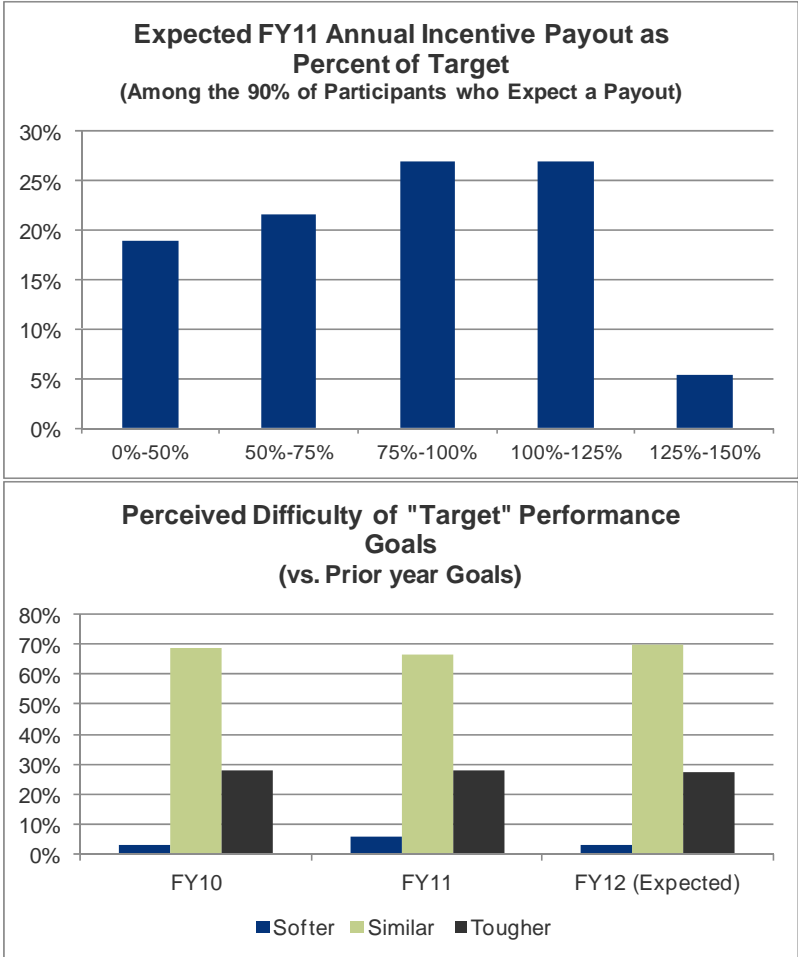
Executive Base Salary Changes

- Anticipated FY12 increases are modest:
 - 8% of participants anticipate a salary freeze or decrease
 - The majority of participants expect an increase in the range of 2% - 4%
 - The data suggests a median technology sector increase of approximately 3.4%



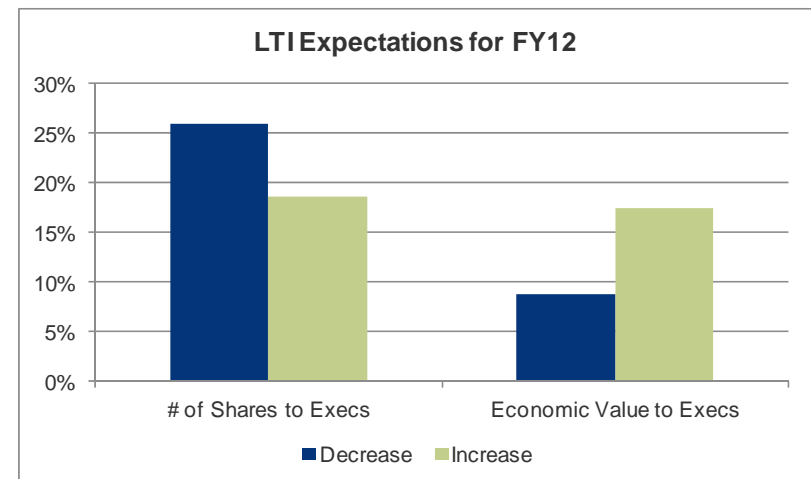
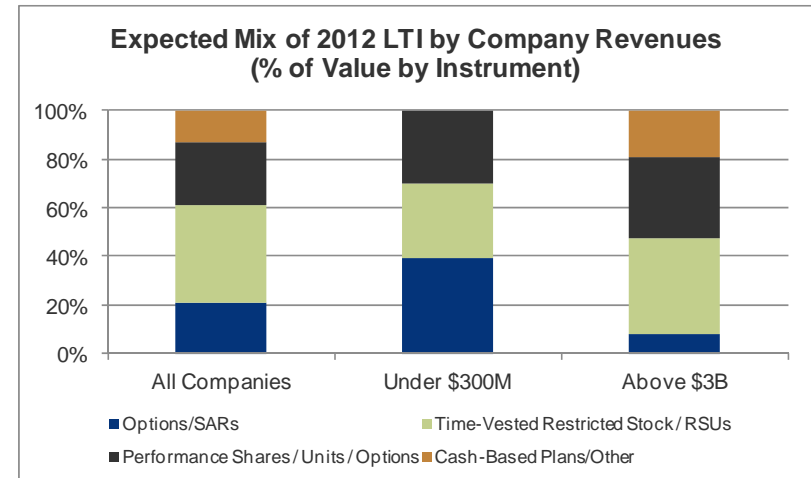
Modifications to Annual Incentive Program Designs and Payout Levels

- 13% of participants did not pay an annual incentive for FY10 performance
- 68% of those who expect a FY11 payment expect it to be below "target" payout levels
- Performance hurdles are generally trending flat, with relatively few companies raising the bar heading into 2012



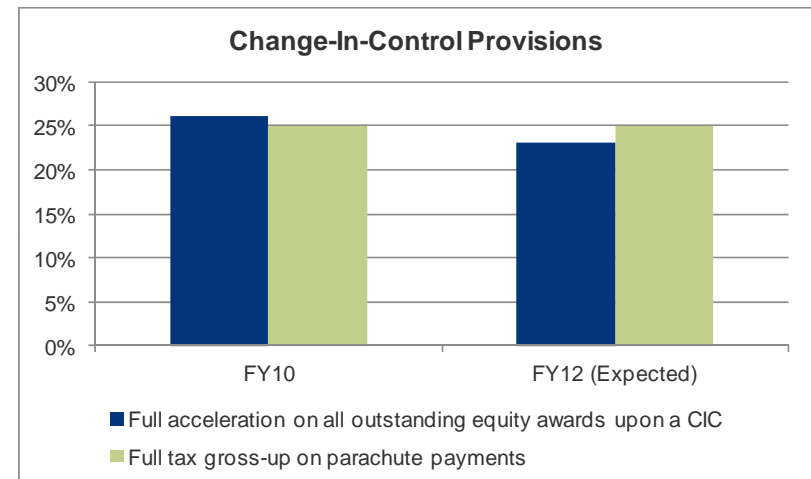
Modifications to Long-Term Incentive Program Designs and Award Levels

- LTI mix varies by company size, with smaller companies more likely to emphasize stock options and larger companies allocating more LTI value to time-vested restricted stock or RSUs
- In the aggregate, participants are not anticipating significantly larger or smaller LTI awards in 2012



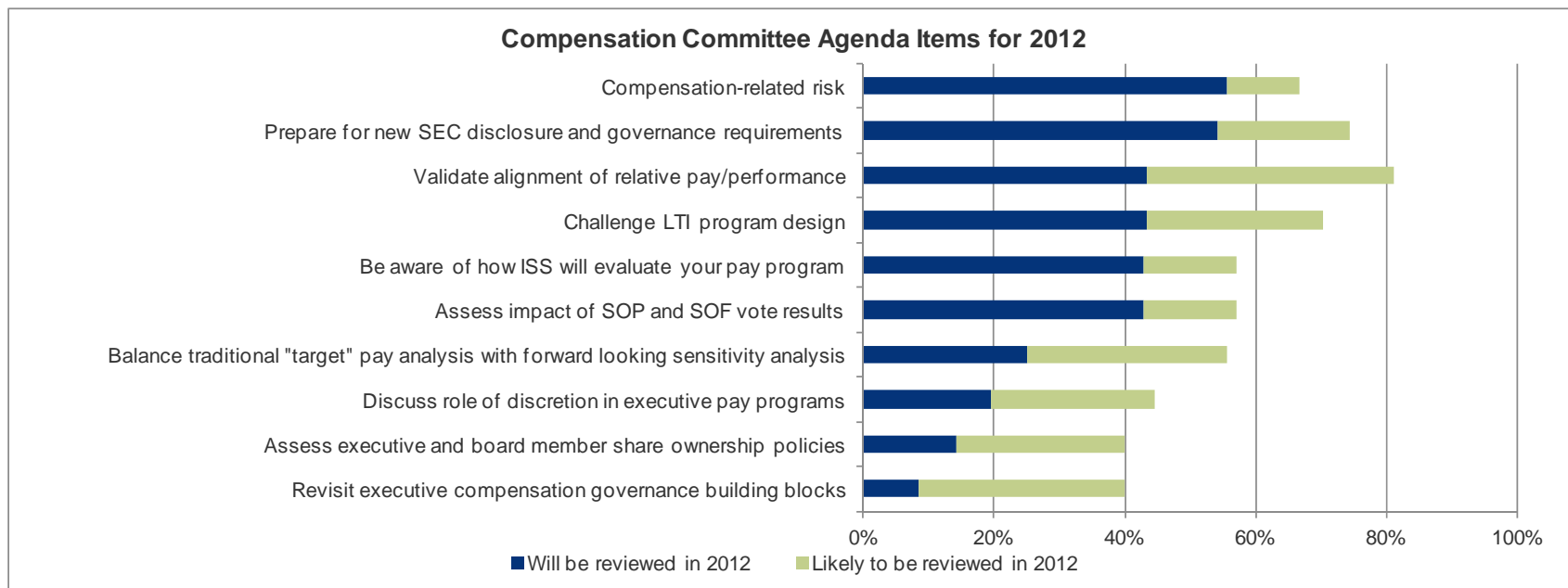
Severance and Change-In-Control Payments

- There is a three-year trend toward decreasing cash severance upon terminations that do not follow a change-in-control: 20% curtailed provisions in FY10; an additional 12% curtailed in FY11; and 9% anticipate doing so in FY12
- Full acceleration of all outstanding equity awards upon a CIC (single-trigger) and full gross-up for excise tax attributable to parachute payments are now clearly minority practices, with relatively little movement in prevalence over the past 3 years



Top Compensation Committee Agenda Items for 2012

- Participants were asked which issues from our 2011 “Top 10 Compensation Committee Agenda Items” report they plan to review in 2012
- For our detailed commentary relating to each of the agenda items, please visit www.pearlmeyer.com/Top102011



About Pearl Meyer & Partners

For more than 20 years, PM&P has served as a trusted independent advisor to Boards and their senior management in the areas of compensation governance, strategy and program design. The firm provides comprehensive solutions to complex compensation challenges through the development of programs that align rewards with business goals to create long-term value for all stakeholders: shareholders, executives and employees. The firm maintains offices in New York, Atlanta, Boston, Charlotte, Chicago, Houston, Los Angeles, San Francisco and San Jose.

About our Technology Industry Expertise

PM&P specializes in working with technology firms from venture-backed start-ups to the largest multi-nationals. We handle hundreds of assignments each year in software, semiconductors and semiconductor equipment, computers and peripherals, technology services, research & development, consumer electronics, new media, medical devices, pharmaceuticals, and bioscience. We know your market. To learn more about PM&P's technology compensation services and to review additional content go to www.pearlmeyer.com/technology or email us at technology@pearlmeyer.com.

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