



ANALYZING, MANAGING AND DISCLOSING RISK IN THE EMERGING-GROWTH COMPANY

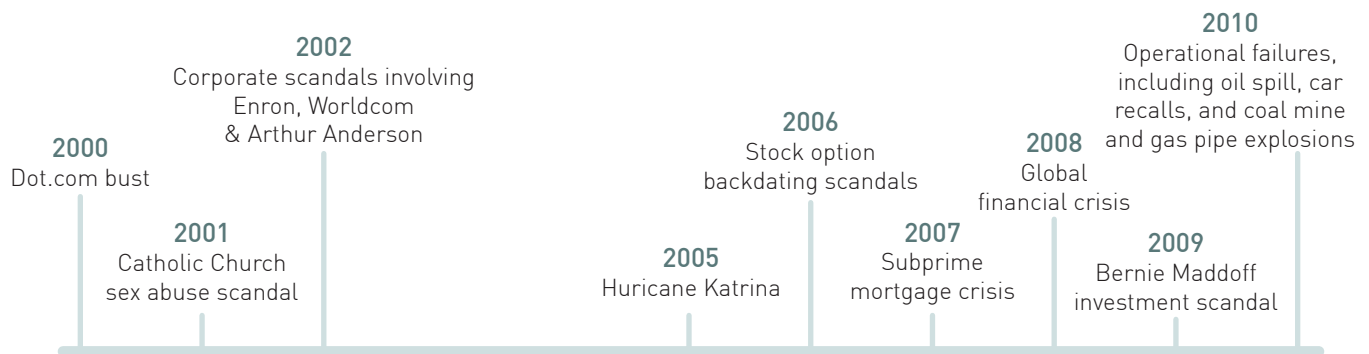
The new risk-related governance rules applicable to US public companies were adopted in direct response to the subprime mortgage and resulting financial crises, a circumstance that may lead some to question their relevancy for smaller technology and biotechnology companies. For many emerging-growth companies, business risk is simple and binary: either the company, its product, or its market, will succeed -- or it won't.

It is important to keep in mind that the new focus on and rules related to risk grew from learning that came over a decade in which occurred many high-profile risk management situations involving a variety of risks, industries and types of organizations. We prepared this Alert to help our clients and their Boards of Directors make sense of these new "round hole, square peg" rules.

PUTTING RISK INTO PERSPECTIVE

Looking Back:

The current focus on risk must be considered in the context of the high-profile organizational risk (mis)management case studies coming out of the past decade, including:



While you might question the inclusion of some of the above situations, each presents a sobering reminder of the scope of financial loss, social harm and reputational damage that are possible when significant risk management failures occur. They also underscore two important points: first, that the recent focus on risk is not directed at ordinary business risks and, second, that risk must be analyzed in the context of the particular entity, its particular business and its unique operational and management structure.

Looking Forward:

We would suggest that Directors of our clients acknowledge that our emerging-growth sector has not been immune to risk concerns and approach these governance and disclosure issues keeping the following in mind:

- Recognize that their roles put them on the frontlines of a dynamic commercial, technological and financial landscape that is changing so fast as to be almost incapable of regulation
- Recognize that our innovative emerging-growth companies have played and continue to play a critical role in speeding up that rate of change
- Accept the new risk-related corporate governance rules as a call by regulators on behalf of the public for help in identifying serious problems that have the potential to damage not only a particular company and those directly involved with it, but also the broader community in which the company operates
- Evaluate the companies on whose Boards they sit for potential serious risks, using processes that have been developed by risk management experts
- As compensation committee members, be mindful not to create or permit incentives that exacerbate business risk, and
- Not hesitate to conclude, if in their business judgment the circumstances support the conclusion, that the company's historic approach to risk management and disclosure is sufficient in light of its particular circumstances

ASSESSMENT PROCESSES AND FACTORS

RISK ASSESSMENT PROCESSES

General Processes:

It is beyond the scope of this Alert to describe the processes that a Board might take in performing its general risk oversight function. We would refer clients to any of a number of excellent publications emanating from the accounting firms on this topic including the 2004 report of the Committee of Sponsoring Organizations ("COSO") of the Treadway Commission (in which PricewaterhouseCoopers participated); Deloitte & Touche's "Creating a Risk Intelligent infrastructure: Getting Risk Intelligence done;" Ernst & Young's "The future of risk: Protecting and enabling performance," and the KPMG (in association with others) report "Managing risk in perilous times: Practical steps to accelerate recovery."

Compensation-Related Processes:

With respect to evaluating the company's compensation-related risks, a compensation committee might go through a process that includes consideration of the following questions:

- What are the general (business) risks currently facing the company?
 - Review company's Risk Factors
 - Participate in Board-level discussions with management about risk
 - Fulfill general responsibilities with respect to risk oversight function as Board member
- Is there sufficient coordination and communication between the various necessary constituencies (audit and risk committees, management, outside advisors) and the compensation committee to allow the committee to conduct an effective evaluation of potential risk posed by compensation programs?
- What are the components of the company's executive and non-executive compensation programs?
 - The committee will already be familiar with the executive-level programs, but may need to familiarize itself with non-executive programs
- How do these components relate to the general risks the company faces? Do any aspects of the compensation programs exacerbate such risk or drive employee behavior in ways that could lead to material risks?
- Are any aspects of the compensation programs risk-indicators? If so, should changes be made to mitigate these? (See "Factors to Consider" below).
- Are any aspects of the compensation programs risk-mitigators? Should additional risk-mitigating policies be adopted? (See "Factors to Consider" below).
- Does the committee consider risk issues before adopting new or amending existing compensation programs?

FACTORS TO CONSIDER IN COMPENSATION-RELATED RISK ASSESSMENT

The following have emerged as factors indicating or mitigating against potential risk in compensation programs.

Risk-Indicators:

- "Stand-outs" -- business units or groups, or individuals, whose compensation structure or risk/reward potential varies greatly from the rest of the company, and possibly also a company whose compensation programs differ significantly from others in its industry
- Too much emphasis on short-term goals and rewards
- Single-metric or otherwise very narrow goals, especially if that metric is used for long and short-term programs
- Large lump-sum or guaranteed payouts
- Metrics the achievement of which are in the control of a single person or small group
- Metrics that are easily manipulated
- Goals that are entirely quantitative and have no qualitative component
- Overall compensation package too heavily weighted toward variable compensation, or where the potential variability is large
- "Excessive" compensation of any sort, in particular in termination packages

Risk Mitigators:

- Balanced mix of fixed and variable compensation components
- Balance between long- and short-term incentive arrangements
- Balance between performance metrics -- e.g., financial versus nonfinancial
- Modulated pay-out curve/absence of large lump-sum payouts
- Caps set on amount of pay-outs
- Compensation committee/Board retains discretion to reduce payment even when performance goals are met
- Corporate policies that require or encourage long holding periods for stock -- e.g., hold-till-retirement-type policies, stock retention ratios
- Clawback policies applicable to incentive compensation
- Performance reviews that include a risk-rating component
- Comprehensive corporate approach to risk management matters
- Restrictive covenants (e.g., noncompetes)
- Prohibitions on hedging transactions

RISK ASSESSMENT

BUSINESS RISK

General Risks

While the new rules require specific disclosure of potential risk only with respect to a company's compensation programs, it is very difficult to analyze risk matters solely through a compensation lens. Material risks that might result from compensation programs cannot be identified without an understanding of the general risks facing a company. The primary material risks that corporations face are generally thought to fall into one or more of the following categories:

- *Strategic Risk*: ability to execute strategic corporate plan; competitive market dynamics; macro market dynamics; M&A strategies; resource allocation; R&D
- *Financial Risk*: financial reporting-related matters including having adequate disclosure and internal controls; liquidity/credit risks; interest rate and currency risks; capitalization (appropriate balance of equity, debt and cash); tax planning; counter-party solvency issues; adequacy of insurance coverage
- *Operational Risk*: products liability; disaster/crisis preparedness; environmental issues; health and safety matters; employment practices; information technology issues; security-related matters (including system security, data/identity protection and protection of physical property); intellectual property matters; global expansion of business operations
- *Legal/Compliance Risk*: disclosure risks (protection of confidential information, adequacy/accuracy of disclosure, insider trading matters); bribery/foreign corrupt practices; fraud prevention/detection; anti-trust issues; compliance issues in multi-jurisdictional/global business environment; governance matters
- *Reputational Risk*: any circumstance that could erode customer confidence, damage ability to attract/retain good talent, or threaten enterprise survival

Primary Risks Facing Tech and Biotech Companies

- Strategic, operational and compliance problems resulting from lack of resources
- IT-related issues, including system integrity and security, identity/data protection
- Products liability/product failure including failure to complete development
- Developing and operating ahead of the market and ahead of regulation; for example, in the case of radical medical developments (cloning), creating a new market that threatens existing markets (Napster), or dealing in new financial instruments (derivatives, Linden dollars)
- Compliance/operational problems from global operations; manufacturing process; shortage of materials concerns
- Product obsolescence/failure to gain market acceptance
- Inability to protect/defend use of intellectual property
- Dependence on current management team

COMPENSATION-RELATED RISK

Looking Back:

We have tried to identify situations affecting emerging-growth companies in which the management or structure of compensation programs led to a material adverse effect on a company. In terms of actual problems that have occurred, the following, not unique to the tech/biotech sectors, come to mind:

- Insider trading. This is an area in which the law is highly developed and effective.
- Cases involving actual fraud, e.g., situations in which inadequate internal controls allowed employees to transfer stock plan shares to their own accounts. Sarbanes-Oxley largely closed these gaps by imposing rigorous disclosure and internal controls requirements.
- Financial restatements, with the stock options backdating cases providing the best-known recent example. Although dozens of companies were required to restate their financials as a result of option pricing practices, by and large these cases did not have a material adverse effect on the stock price or overall business success of these companies. They do illustrate, however, that the use of equity instruments as to which the accounting and regulatory rules remain in flux poses risk.

Looking Forward:

In extreme circumstances, it is possible to envision that the following might lead to unfortunate results:

- Sales incentive compensation that overemphasizes short-term revenue at the expense of longer-term business goals.
- Significant value awards having a single performance metric based upon achievement of either a specific stock price point during a narrow window of time or an operational goal with a specific drop-dead deadline.
- Equity compensation programs structured in a manner that causes participants to sell large numbers of shares during narrow windows of time (e.g., to cover tax or purchase price obligations) such that the market price is impacted by the volume of participant sales or that requires the company to use its own cash to pay tax withholding obligations where the amount of such obligations during certain periods of time materially impacts its balance sheet (possible for a company whose stock experiences significant appreciation in the period leading up to the event that triggers the tax obligations).
- Imposing overly stringent "hold" policies on management such that officers are forced to resign in order to satisfy their liquidity needs.
- Failing to compensate adequately mid-level employees who have significant strategic or risk-management responsibilities.
- Compensating with, or compensating for development of, equity or other financial instruments as to which technical and regulatory compliance has not been adequately vetted. Equity or cash-based performance awards without adequately vetting their technical compliance under ever-evolving tax and accounting rules.

RISK FROM THE BOARD'S PERSPECTIVE

Allocation of Responsibilities:

A company's *senior management* is responsible for *managing* enterprise-wide risk, reporting to the board on these matters and implementing the corporation's risk strategy, assessment and response.

The *Board has oversight responsibility* with respect to corporate risk matters. As with other oversight responsibilities having fiduciary implications, Directors should be *well-informed as to the risk issues* facing the company and should *satisfy themselves on an ongoing basis that management has in place and is implementing an adequate risk management program*.

The roles of management and the Board converge in one important respect: They need to confer and concur on the company's risk profile as it likely is not possible to perform adequately either management or oversight responsibilities without general consensus on the appropriate balance between necessary business risk-taking and the company's risk appetite.

Liability Issues:

Under current law, Directors of Delaware corporations continue to have the protection of a robust business judgment rule in the area of risk oversight, even if later facts make it clear that the Board's business judgment was in fact very poor. Two 2009 Delaware cases give comfort that Director liability under Delaware law requires evidence of something more than mere negligence -- e.g., the existence of some element of bad faith in the exercise of the Board's oversight responsibilities, such as the Board's complete failure to oversee or, attempting oversight, its failure to satisfy itself that controls and procedures identified as necessary have been implemented.

While the potential for director liability increases if the Board failed to act with respect to risks in a corporate environment that facilitated or obscured *fraud or criminal misconduct*, engaged and informed directors should operate with confidence that personal liability is unlikely to result from their inability to predict the future as regards *business risks*.

Risk-taking by companies remains a critical and accepted component of business success. However, protection against legal liability provides Directors little protection against reputational damage if serious risk management failures occur.

REQUIRED DISCLOSURE

Current SEC rules applicable to companies that are neither in the financial services sector (in which case more disclosure) nor foreign private issuers (in which case generally less disclosure) require specific risk-related disclosure in three respects and public companies are required to include disclosure of:

- The most significant factors that make purchasing the company's stock speculative or risky, including lack of operating history and profitability, general financial position, issues related to the business itself, or lack of market for the company's stock. It is from this requirement that the "Risk Factors" section in SEC filings has developed over the past 30 years. SEC rules instruct companies not to present risks that could apply to any company or offering.
- The extent of the board's role in oversight, including a description of how the Board administers this function, and of the relationship between the manner in which the Board oversees risk issues and the board's leadership structure.
- Employee compensation programs, not limited to executive officer compensation, but only to *the extent such programs create risks that are reasonably likely to have a material adverse effect on the company*. While no disclosure is required unless a company has concluded its compensation arrangements are likely to have a material adverse effect, the SEC has been active in requiring information from companies when it encounters no discussion of compensation-related risk or unexplained "negative" (no risk likely) disclosure. Comments received by companies in 2010 on this issue require that the company explain to the SEC in detail the process utilized, the factors considered, and the conclusions reached on such factors.

An insert to this Alert includes samples of the second and third categories of disclosure made during 2010.

Gunderson Dettmer's lawyers are available to assist in addressing questions you may have regarding the issues discussed in this Alert. Please contact the Gunderson Dettmer attorney with whom you regularly work. Contact information for our attorneys is located at www.gunder.com.

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SAMPLES OF RISK-RELATED DISCLOSURE

DISCLOSURE OF POTENTIAL RISK (ONLY EXAMPLE FROM 2010)

Convergys

Proxy Statement

March 11, 2010

Risk and Broad-Based Compensation Programs

The Company's pension plan could, under certain circumstances, be reasonably likely to have a material adverse effect on the Company. The Company froze its defined benefit pension plan in 2008. Accrued benefits continue to be funded by the Company with no employee contributions required. The principal risk associated with this pension plan is market volatility of asset prices or interest rates. Risks associated with the management of the \$130 million assets and \$209 million liabilities (as of December 31, 2009) are the responsibility of the Employee Benefits Committee, which includes professionals from Finance and Human Resources. The Employee Benefits Committee receives input and professional advice from its consulting actuary, trust fund investment manager, and an independent investment advisor. The pension plan's performance, including the funding percentages and investment choices, are also reviewed at least annually with the Finance Committee of the Board of Directors.



SAMPLES OF RISK-RELATED DISCLOSURE

DISCLOSURE BY EMERGING-GROWTH COMPANIES

OpenTable

Proxy Statement

April 27, 2010

Information Regarding the Board of Directors and its Committees

Risk Assessment and Compensation Practices

Our Board has reviewed the Company's compensation policies and practices for our employees as they relate to our risk management and, based upon this review, we believe that any risks arising from such policies and practices are not reasonably likely to have a material adverse effect on the Company in the future.

Specifically, we believe that the elements of our compensation program do not encourage unnecessary or excessive risk-taking. Base salaries are fixed in amount and thus do not encourage risk taking. While our sales commission plans focus on achievement of short-term or annual goals, and short-term or annual goals may encourage the taking of short-term risks at the expense of long-term results, given the sales employees' other compensation opportunities and our internal control procedures, our Board believes that the sales commission plans appropriately balance risk and the desire to focus certain employees on specific short-term goals important to the Company's success.

A significant proportion of the compensation provided to our executives, and a material amount of the compensation provided to other employees, is in the form of long-term equity awards that are important to help further align employee interests with those of the Company's stockholders. We do not believe that these awards encourage unnecessary or excessive risk taking because the ultimate value of the awards is tied to the Company's stock price, and because awards are staggered and subject to long-term vesting schedules to help ensure that employees have significant value tied to long-term stock price performance.



SAMPLES OF RISK-RELATED DISCLOSURE

DISCLOSURE BY EMERGING-GROWTH COMPANIES

Skype

Form S-1

August 9, 2010

Risk Considerations in our Compensation Program

We believe that the mix and design of the elements of our employee compensation policies and practices do not motivate imprudent risk taking. Consequently, we are satisfied that any potential risks arising from our employee compensation policies and practices are not reasonably likely to have a material adverse effect on the Company.

Qlik Technology

Form S-1

June 28, 2010

Risk Oversight

Our board of directors oversees the management of risks inherent in the operation of our business and the implementation of our business strategies. Our board of directors performs this oversight role by using several different levels of review. In connection with its reviews of the operations and corporate functions of our company and our various operational subsidiaries, our board of directors and the board of directors of our subsidiaries address the primary risks associated with those operations and corporate functions. In addition, our board of directors reviews the risks associated with our company's business strategies periodically throughout the year as part of its consideration of undertaking any such business strategies.

Each of our board committees also oversees the management of our company's risk that falls within the committee's areas of responsibility. In performing this function, each committee has full access to management, as well as the ability to engage advisors. Our Chief Financial Officer reports to the audit committee and is responsible for identifying, evaluating and implementing risk management controls and methodologies to address any identified risks. In connection with its risk management role, our audit committee meets privately with representatives from our independent registered public accounting firm and our Chief Financial Officer. The audit committee oversees the operation of our risk management program, including the identification of the primary risks associated with our business and periodic updates to such risks, and reports to our board of directors regarding these activities.

Employee Compensation Risks

As part of its oversight of our company's executive compensation program, the compensation committee considers the impact of the program, and the incentives created by the compensation awards that it administers, on our company's risk profile. In addition, the compensation committee reviews all of our company's compensation policies and procedures, including the incentives that they create and factors that may reduce the likelihood of excessive risk taking, to determine whether they present a significant risk to our company. The compensation committee has determined that, for all employees, our company's compensation programs do not encourage excessive risk and instead encourage behaviors that support sustainable value creation.



SAMPLES OF RISK-RELATED DISCLOSURE

DISCLOSURE BY EMERGING-GROWTH COMPANIES

Intralinks Holdings, Inc.

Form S-1

August 3, 2010

Board Leadership Structure and Board's Role in Risk Oversight

The positions of chairman of the board and chief executive officer are presently separated and have historically been separated at IntraLinks. We believe that separating these positions allows our chief executive officer to focus on our day-to-day business, while allowing the chairman of the board to lead the board of directors in its fundamental role of providing advice to and independent oversight of management. Our board of directors recognizes the time, effort and energy that the chief executive officer is required to devote to his position in the current business environment, as well as the commitment required to serve as our chairman, particularly as the board of directors' oversight responsibilities continue to grow. While our amended and restated by-laws, which will be effective upon the completion of this offering, and corporate governance guidelines do not require that our chairman and chief executive officer positions be separate, our board of directors believes that having separate positions is the appropriate leadership structure for us at this time and demonstrates our commitment to good corporate governance.

Risk is inherent with every business, and how well a business manages risk can ultimately determine its success. We face a number of risks, including risks relating to our operations, strategic direction and intellectual property as more fully discussed under "Risk Factors" in this prospectus. Management is responsible for the day-to-day management of risks we face, while our board of directors, as a whole and through its committees, has responsibility for the oversight of risk management. In its risk oversight role, our board of directors has the responsibility to satisfy itself that the risk management processes designed and implemented by management are adequate and functioning as designed.

The board of director's role in overseeing the management of our risks is conducted primarily through committees of the board of directors, as disclosed in the descriptions of each of the committees below and in the charters of each of the committees. The full board of directors (or the appropriate board committee in the case of risks that are under the purview of a particular committee) discusses with management our major risk exposures, their potential impact on IntraLinks, and the steps we take to manage them. When a board committee is responsible for evaluating and overseeing the management of a particular risk or risks, the chairman of the relevant committee reports on the discussion to the full board of directors during the committee reports portion of the next board meeting. This enables the board of directors and its committees to coordinate the risk oversight role, particularly with respect to risk interrelationships.

Compensation Risk Assessment

We have reviewed our compensation policies and practices for all employees and concluded that any risks arising from our policies and programs are not reasonably likely to have a material adverse effect on our company. The compensation committee believes that the mix and design of the elements of executive compensation do not encourage management to assume excessive risks. The compensation committee reviewed the elements of executive compensation to determine whether any portion of executive compensation encouraged excessive risk taking and concluded:

- our allocation of compensation between cash compensation and long-term equity compensation, combined with our typically 54-month vesting schedule, discourages short-term risk taking;
- our approach of goal setting, setting of targets with payouts at multiple levels of performance, capping the amount of our incentive payouts, and evaluation of performance results assist in mitigating excessive risk-taking;
- our compensation decisions include subjective considerations, which restrain the influence of formulae or objective factors on excessive risk taking; and
- our business does not face the same level of risks associated with compensation for employees at financial services (traders and instruments with a high degree of risk).



SAMPLES OF RISK-RELATED DISCLOSURE

DISCLOSURE BY EMERGING-GROWTH COMPANIES

NuPathe Inc.

Form S-1

August 5, 2010

Board Leadership Structure and Board's Role in Risk Oversight

The positions of our chairman of the board and chief executive officer are separated. Separating these positions allows our chief executive officer to focus on our day-to-day business, while allowing the chairman of the board to lead the board of directors in its fundamental role of providing advice to and independent oversight of management. Our board of directors recognizes the time, effort and energy that the chief executive officer must devote to her position in the current business environment, as well as the commitment required to serve as our chairman, particularly as the board of directors' oversight responsibilities continue to grow. Our board of directors also believes that this structure ensures a greater role for the independent directors in the oversight of our company and active participation of the independent directors in setting agendas and establishing priorities and procedures for the work of our board of directors. This leadership structure also is preferred by a significant number of our stockholders. Our board of directors believes its administration of its risk oversight function has not affected its leadership structure.

Although our bylaws that will be in effect upon the closing of this offering will not require that our chairman and chief executive officer positions be separate, our board of directors believes that having separate positions is the appropriate leadership structure for us at this time and demonstrates our commitment to good corporate governance.

Risk is inherent with every business, and how well a business manages risk can ultimately determine its success. We face a number of risks, including those described under "Risk Factors." Our board of directors is actively involved in oversight of risks that could affect us. This oversight is conducted primarily through committees of the board of directors, as disclosed in the descriptions of each of the committees below, but the full board of directors has retained responsibility for general oversight of risks. Our board of directors satisfies this responsibility through full reports by each committee chair regarding the committee's considerations and actions, as well as through regular reports directly from officers responsible for oversight of particular risks within our company. Our board of directors believes that full and open communication between management and the board of directors is essential for effective risk management and oversight.



SAMPLES OF RISK-RELATED DISCLOSURE

LARGER-CAP TECHNOLOGY COMPANIES

Intel Corporation

Proxy Statement

April 2, 2010

Corporate Governance Section

Risk Assessment in Compensation Programs. Consistent with new SEC disclosure requirements, we have assessed the company's compensation programs and have concluded that our compensation policies and practices do not create risks that are reasonably likely to have a material adverse effect on the company. Intel management assessed the company's executive and broad-based compensation and benefits programs on a worldwide basis to determine if the programs' provisions and operations create undesired or unintentional risk of a material nature. This risk assessment process included a review of program policies and practices; program analysis to identify risk and risk control related to the programs; and determinations as to the sufficiency of risk identification, the balance of potential risk to potential reward, risk control, and the support of the programs and their risks to company strategy. Although we reviewed all compensation programs, we focused on the programs with variability of payout, with the ability of a participant to directly affect payout and the controls on participant action and payout. Intel's egalitarian culture supports the use of base salary, performance-based compensation, and retirement plans that are generally uniform in design and operation throughout the company and with all levels of employees. In most cases, the compensation policies and practices are centrally designed and administered, and are substantially identical at each business unit. Field sales personnel are paid primarily on a sales commission basis, but all of our officers (including those in the Sales and Marketing Group) are paid under the programs and plans for non-sales employees. Certain internal groups have different or supplemental compensation programs tailored to their specific operations and goals, and programs may differ by country due to variations in local laws and customs.

Based on the foregoing, we believe that our compensation policies and practices do not create inappropriate or unintended significant risk to the company as a whole. We also believe that our incentive compensation arrangements provide incentives that do not encourage risk-taking beyond the organization's ability to effectively identify and manage significant risks; are compatible with effective internal controls and the risk management practices of Intel; and are supported by the oversight and administration of the Compensation Committee with regard to executive compensation programs.



SAMPLES OF RISK-RELATED DISCLOSURE

LARGER-CAP TECHNOLOGY COMPANIES

Google Inc.

Proxy Statement

March 29, 2010

Risk Considerations

The Leadership Development and Compensation (LDC) Committee believes that although the majority of compensation provided to our named executive officers is performance-based, the following risk oversight and compensation design features guard against excessive risk-taking:

- The board of directors as a whole has responsibility for risk oversight. The board regularly reviews certain areas of focus of the relevant board committees. The committees regularly report on their deliberations to the board. In addition, the board reviews the strategic, financial, and execution risks and exposures associated with the financial, operational, and capital decisions that serve as inputs to our compensation programs (see pages 14–15 of this proxy statement for additional information about the role of the board of directors in the risk oversight process).
- Through discussions with the CEO, the LDC Committee gains valuable insight regarding a reasonable range of future company performance expectations and we incorporate this information in the design of the funding structure of our executive bonus plan.
- We have internal controls over financial reporting and the measurement and calculation of compensation goals, and other financial, operational, and compliance policies and practices that are designed to keep our compensation programs from being susceptible to manipulation by any employee, including our named executive officers.
- Given that a high percentage of our overall pay mix for named executive officers is equity based:
- We provide named executive officers with a competitive base salary to provide them with a steady income. This allows our named executive officers to focus more on Google's long-term performance than on short-term stock price fluctuations.
- We design our executive bonus plan to ensure our named executive officers remain focused on financial performance metrics that drive long-term shareholder value, such as revenue and non-GAAP operating income. At the same time, our use of equity balances against short-term decision making.
- Equity grants typically vest over a four-year vesting period to encourage our named executive officers to maintain a long-term perspective.
- Our named executive officers are subject to share ownership guidelines, as detailed below. This ensures that each named executive officer will hold a significant amount of Google equity to further align their interests with those of our stockholders over the long term.
- We prohibit all hedging transactions involving our stock. As a result, our executive officers cannot insulate themselves from the effects of poor Google stock price performance.



SAMPLES OF RISK-RELATED DISCLOSURE

LARGER-CAP TECHNOLOGY COMPANIES

Cisco Systems, Inc.

Preliminary Proxy Statement

September 10, 2010

The Compensation Committee's annual review and approval of Cisco's compensation strategy includes review of compensation-related risk management. In this regard, the Compensation Committee reviews Cisco's executive compensation program, including the annual variable cash incentive plan and long-term, equity-based incentive awards, and does not believe that the compensation program creates risks that are reasonably likely to have a material adverse effect on Cisco. As part of this review, the Compensation Committee evaluates the need to engage independent consultants for specific assignments and did engage FWC during fiscal 2010 to deliver a report and assist with the risk assessment of Cisco's executive compensation program. FWC advised that Cisco's executive compensation program provides an appropriate pay philosophy, peer group, and market positioning to support business objectives with meaningful risk mitigants. FWC also advised that Cisco's executive compensation program provides an effective balance in cash and equity mix, short- and long-term performance focus, corporate, business unit and individual performance focus, and financial and non-financial performance measurement and discretion.

Cisco's compensation philosophy and related governance features are complemented by several specific elements designed to align Cisco's executive compensation with long-term shareholder interests, including:

- a compensation recoupment or "clawback" policy that applies to Cisco's executive officers, as described further on page 39 below;
- stock ownership guidelines for Cisco's non-employee directors and executive officers, as described further on pages 16 and 39, respectively;
- a cap of 300% of target for executive officer bonus payouts under the annual variable cash incentive plan; and
- prohibitions on executive officers engaging in any speculative transactions in Cisco securities, including engaging in short sales, engaging in transactions in put options, call options or other derivative securities, or engaging in any other forms of hedging transactions, such as collars or forward sale contracts or holding Cisco securities in a margin account or pledging Cisco securities as collateral for a loan, with limited exceptions.



SAMPLES OF RISK-RELATED DISCLOSURE

LARGER-CAP TECHNOLOGY COMPANIES

Broadcom Corp

Proxy Statement

April 1, 2010

Board Involvement in Risk Oversight and Risk Assessment of Compensation Practices

Our Board oversees an enterprise-wide approach to risk management. While our Board has the ultimate oversight responsibility for the risk management process, various committees of the Board participate in the risk oversight process. Under the supervision of our Audit Committee, we have established an enterprise risk management framework to identify, evaluate and manage risks on a company-wide basis consistent with our business strategy. Under this framework, specified risk owners within the Company identify and assess the risks in their areas of responsibility, define and implement mitigation plans, as appropriate, and monitor the effectiveness of the plans implemented to reduce risk. The risk owners report to a Risk Committee, a management committee that also evaluates the risks and the effectiveness of the mitigation plans. The Risk Committee reports to the Audit Committee and our senior management team. The Audit Committee also makes independent inquiry of our independent public accounting firm and of our Chief Financial Officer regarding our significant risks and exposures, and the steps taken to minimize the same. Our Board of Directors is advised by the Audit Committee and management of significant risks and management's response via periodic updates.

In setting compensation, the Compensation Committee strives to create incentives that encourage a level of risk-taking behavior consistent with our business strategy. In early 2010 the Compensation Committee undertook a review of the compensation programs for our executive officers as well as for our other employees to determine whether those programs encourage excess risk taking that would create a material risk to our economic viability. Based on that review, the Committee concluded that our compensation programs do not present any such material risk that could be reasonably likely to have a material adverse effect on us. In reaching such conclusion, the Compensation Committee considered the following material characteristics of our compensation programs that discourage excessive or unnecessary risk taking:

- Our compensation programs appropriately balance short- and long-term incentives, with approximately 47% of targeted total direct compensation (consisting of base salary, annual cash incentives and equity awards) for employees at or above the director level, provided in equity and focused on long-term performance and only approximately 14% of total direct compensation provided in the form of annual cash incentives.
- The performance objectives under our company-wide annual cash incentive plan are balanced. The 2009 financial metrics for funding our company-wide bonus pool were relative rate of revenue growth rate and cash flow from operation, which were each equally weighted at 40%. The Compensation Committee has discretion over the remaining 20% of the total target bonus pool. The Compensation Committee has flexibility to fund the discretionary component of the bonus pool based on the Company's strategic accomplishments during the year.
- Qualitative factors beyond quantitative financial metrics are a key consideration in the determination of individual cash incentive awards. Based on the funding of total bonus pool, each participant is budgeted a percentage of his or her target bonus opportunity. Bonuses can be awarded over or under the budgeted amounts based on an assessment of the performance and contributions of the participant's group and his/her area of responsibility at year end.
- Maximum payouts under our cash incentive plan are capped.
- We provide a balanced mix of equity awards for executive officers. Pursuant to new equity award guidelines adopted in 2009 employees below the Vice President level receive equity compensation solely in the form of restricted stock unit awards, referred to in this proxy statement as RSUs, which are less subject to stock price volatility.
- The financial opportunity in our long-term incentive program is best realized through long-term appreciation of our stock price, which mitigates excessive short-term risk-taking.



SAMPLES OF RISK-RELATED DISCLOSURE

LARGER-CAP TECHNOLOGY COMPANIES

Dionex Corporation

Proxy Statement

September 17, 2010

Our Board oversees our risk management processes directly and through its committees. Our executive officers responsible for risk management on a day-to-day basis. The role of our Board and its committees is to oversee the risk management activities of our executive officers. Risk assessment reports are periodically provided by our executive officers to the Board and its committees. The Audit Committee assists the Board in fulfilling its oversight responsibilities with respect to risk management in the areas of financial reporting, internal controls and compliance with legal and regulatory requirements, and, in accordance with Nasdaq requirements, discusses policies with respect to risk assessment and risk management, including guidelines and policies to govern the process by which the Company's exposure to risk is handled. The Compensation Committee assists the Board in fulfilling its oversight responsibilities with respect to the management of risks arising from our compensation policies and programs.

The Compensation Committee believes that the Company's executive compensation program supports the executive compensation objectives and policies of the Company. The Compensation Committee believes that the program's use of long-term, equity based compensation, the use of both options and restricted stock awards, and our stock ownership guidelines all encourage management to take a long-term view of the Company's performance and discourage unreasonable risk-taking. The Compensation Committee has reviewed the Company's key compensation policies and practices and concluded that any risks arising from our policies and programs are not reasonably likely to have a material adverse effect on the Company.



SAMPLES OF RISK-RELATED DISCLOSURE

LARGER-CAP TECHNOLOGY COMPANIES

Electronic Arts Inc.

Proxy Statement

June 18, 2010

The Board's Oversight of Risk Issues

The full Board and the Board Committees are responsible for managing different forms of risk. Business risks are reviewed by the full Board in conjunction with management. The Board regularly receives management presentations from different areas of the business regarding the opportunities and risks in those areas and engages in dialogue with executive management regarding these issues. Risks related to investments, financial reporting, internal controls and procedures and compliance issues are reviewed regularly by the Audit Committee, which oversees the financial reporting, global audit and legal compliance functions. The Nominating and Governance Committee reviews issues of director and CEO succession.

Compensation-related risks are reviewed by the Compensation Committee with members of management responsible for structuring the Company's compensation programs. As part of those risk oversight efforts, we evaluated our compensation programs to determine whether the design and operation of our policies and practices could encourage executives or employees to take excessive or inappropriate risks that would be reasonably likely to have a material adverse effect on the Company. In particular, we considered the design, size, and scope of our cash and equity incentive programs and program features that mitigate against potential risks, such as payout caps, equity award clawbacks, the quality and mix of performance-based and "at risk" compensation, and, with regard to our equity incentive programs, the stock ownership requirements applicable to our executives. The Compensation Committee reviewed the results of our evaluation with management and the Committee's consultant, Compensia. The Compensation Committee concluded that our compensation policies and practices strike an appropriate balance of risk and reward in relation to our overall business strategy, and do not create risks that are reasonably likely to have a material adverse effect on the Company. The "Compensation Discussion and Analysis" section below generally describes the compensation policies and practices applicable to our named executive officers.



SAMPLES OF RISK-RELATED DISCLOSURE

LARGER-CAP TECHNOLOGY COMPANIES

International Business Machines Corporation

Proxy Statement

March 8, 2010

Compensation Program as it Relates to Risk

IBM management, the Committee and the Committee's outside consultant review IBM's compensation policies and practices, with a focus on incentive programs, to ensure that they do not encourage excessive risk taking. Specifically, this review includes the annual cash incentive program that covers 80% of IBM executives and the LTIP that covers all executives. This year the review was expanded to include the incentive plans that cover the remaining 20% of IBM's executives. These plans are designed to drive financial results at specific client accounts or groups of client accounts. Based on this comprehensive review, we concluded that our compensation program does not encourage excessive risk taking for the following reasons:

- Our programs appropriately balance short- and long-term incentives, with approximately 70% of total target compensation for the senior executive team provided in equity and focused on long-term performance.
- Our executive compensation program pays for performance against financial targets that are set to be challenging to motivate a high degree of business performance, with an emphasis on longer-term financial success and prudent risk management.
- Our incentive plans include a profit metric as a significant component of performance to promote disciplined progress toward financial goals. None of IBM's incentive plans are based solely on signings or revenue targets, which mitigates the risk of employees focusing exclusively on the short term.
- Qualitative factors beyond the quantitative financial metrics are a key consideration in the determination of individual executive compensation payments. How our executives achieve their financial results, integrate across lines of business, and demonstrate leadership consistent with the IBM values are key to individual compensation decisions.
- As explained in the "2009 Potential Payments upon Termination Narrative," we further strengthened our retirement policies on equity grants for our senior leaders beginning in 2009 to ensure that the long-term interests of the Company continue to be the focus even as these executives approach retirement.
- Our share ownership guidelines require that our senior executives hold a significant amount of IBM equity to further align their interests with stockholders over the long term.
- IBM has a policy for "clawback" of cash incentive payments in the event that an officer's conduct leads to a restatement of the Company's financial results. Likewise, the Company's equity plan has a "clawback" provision which states that awards may be cancelled and certain gains repaid if an executive engages in detrimental activity. To further reinforce our commitment to ethical conduct, IBM expanded the clawback provisions by amending the Excess 401(k) Plus Plan to allow the clawback of Company contributions made after March 2010.

We are confident that our compensation program is aligned with the interests of our stockholders, rewards for performance, and is an example of the strong pay practice emphasized by expert commentators on this topic.



SAMPLES OF RISK-RELATED DISCLOSURE

LARGER-CAP BIOTECHNOLOGY COMPANIES

Eli Lilly

Proxy Statement

March 8, 2010

Compensation Committee Matters

Risk assessment. With the help of its compensation consultant, in 2009 the committee reviewed the company's compensation policies and practices for all employees, including executive officers, and determined that our compensation programs will not have a material adverse effect on the company. The committee also reviewed our compensation programs for certain design features that have been identified by experts as having the potential to encourage excessive risk-taking, including:

- too much focus on equity
- compensation mix overly weighted toward annual incentives
- highly leveraged payout curves and uncapped payouts
- unreasonable goals or thresholds
- and steep payout cliffs at certain performance levels that may encourage short-term business decisions to meet payout thresholds.

The committee noted several design features of the company's cash and equity incentive programs for all employees that reduce the likelihood of excessive risk-taking:

- The program design provides a balanced mix of cash and equity, annual and longer-term incentives, and performance metrics (revenue, earnings, and total shareholder return).
- Maximum payout levels for bonuses and performance awards are capped at 200 percent of target.
- All regular U.S. employees participate in the same bonus plan.
- Bonus and equity programs have minimum payout levels for nonexecutive officers.
- The company currently does not grant stock options.
- The compensation committee has downward discretion over incentive program payouts.
- The executive compensation recovery policy allows the company to "claw back" payments made using materially inaccurate financial results.
- Executive officers are subject to share ownership and retention guidelines.
- Compliance and ethical behaviors are integral factors considered in all performance assessments.

The committee determined that, for all employees, the company's compensation programs do not encourage excessive risk and instead encourage behaviors that support sustainable value creation. Nonetheless, as a result of the review, the committee is implementing certain changes to the bonus and equity incentive plan designs for 2010 to further reduce incentives to incur excessive risk as follows:

- Key risks to the business strategy are reviewed by the board as part of the company's annual long-range planning process. These risks will be an input into an annual review by the compensation committee to assess the potential for compensation programs to encourage excessive risk-taking (or excessively risk-averse behaviors).
- The bonus plan has been modified to allow for greater differentiation based on individual performance and smoother payout curves.
- A linear payout formula for the PA is replacing the nine discrete earnings-per-share (EPS) ranges, eliminating payout "cliffs" between ranges. Additionally, the threshold payout level will be increased from zero to 50 percent of target, and the maximum payout level will be lowered from 200 percent to 150 percent of target for all participants.
- The committee expanded the executive compensation recovery policy (described in more detail on pages 39-40).



SAMPLES OF RISK-RELATED DISCLOSURE

LARGER-CAP BIOTECHNOLOGY COMPANIES

Amgen Inc.

Proxy Statement

March 29, 2010

Compensation Risk Management

In 2009, the Compensation Committee directed management to work with the Compensation Committee's independent compensation consultant to conduct an assessment of the Company's compensation policies and practices for all staff members for material risk to the Company. The results of this assessment were reviewed and discussed with the Compensation Committee. Based on this assessment, review and discussion, the Company believes that, through a combination of risk-mitigating features and incentives guided by relevant market practices and Company-wide goals, the Company's compensation policies and practices are not reasonably likely to have a material adverse effect on the Company.

In evaluating our Company's compensation policies and practices, a number of factors were identified which the Company, the Compensation Committee and its independent consultant believe discourage excessive risk-taking, including the factors described below.

- Our compensation programs consist of a mix of incentives that are tied to performance periods and are designed to balance our need to drive our current performance with the need to position the Company for longer-term success.
- Of this mix of incentives, Company-wide results are the most important factor in determining the amount of an incentive award for each of our staff members. Additionally, we limit short-term incentives and make long-term incentive equity awards a component of compensation for all staff members. In particular, the CEO and the other Named Executive Officers participate in compensation plans that are designed to ensure that over 65% of their compensation is in the form of long-term equity awards to ensure that a significant portion of their compensation is associated with long-term outcomes rather than short-term outcomes, which aligns these individuals with stockholder interests.
- We employ strong practices with respect to equity awards: we do not award mega-grants, discounted stock options or immediately vesting stock options or restricted stock units to staff members; we have grant guidelines that generally limit the time period in which we can make equity grants to two business days after our announcement of earnings and we prohibit staff members from hedging the economic risk of our Company's Common Stock.
- We have robust stock ownership guidelines for vice presidents and above that require significant investment by these individuals in our Company's Common Stock.
- For the portion of compensation that is based on individual performance, our Company values and leadership behaviors are an integral part of the performance assessments of our staff members and are particularly emphasized in our assessment tools at higher levels in the Company.
- The Compensation Committee retains full discretion to reduce or eliminate annual cash incentive awards to our executive officers, and can and has modified awards downwards.
- We have a clawback policy that allows us to recover past cash or equity compensation payouts to our executive officers in cases where the financial results on which the payouts were based are subsequently restated and the executive officer's fraud or misconduct partially caused the restatement.



SAMPLES OF RISK-RELATED DISCLOSURE

LARGER-CAP BIOTECHNOLOGY COMPANIES

Johnson & Johnson

Proxy Statement

March 17, 2010

Reducing the Possibility for Excessive Risk-Taking

The Company's executive compensation program, which is reviewed and approved by the Committee, is designed to motivate and reward the executive officers for their performance during the fiscal year and over the long term and for taking appropriate risks toward achieving the long-term financial and strategic growth objectives of the Company. The following characteristics of the Company's executive compensation program work to reduce the possibility of the executive officers, either individually or as a group, to make excessively-risky business decisions that could maximize short-term results at the expense of long-term value:

- **Balanced Mix of Pay Components:** The target compensation mix is not overly weighted toward annual incentive awards and represents a balance of cash, long-term equity-based compensation vesting over three years and long-term performance-based units vesting over five years.
- **Balanced Approach to Performance-Based Awards:**
 - Performance targets are tied to several financial metrics, including operational sales growth, free cash flow, EPS growth, and long-term shareholder return.
 - Performance-based awards are based on the achievement of strategic and leadership objectives in addition to financial metrics.
 - **Performance Period and Vesting Schedules:** The performance period and vesting schedules for long-term incentives overlap and, therefore, reduce the motivation to maximize performance in any one period. Restricted Share Units and Stock Options vest three years from the grant date. CLPs vest 20% per year over 5 years.
 - **Capped Incentive Awards:** Salary increases, annual performance bonuses, and long-term incentive awards are capped at 200% of target.
 - **Stock Ownership Guidelines:** Requires the Chairman/CEO to directly or indirectly own equity in the Company of five times salary and other executive officers to own equity of three times salary and to retain this equity throughout their tenure. This policy is described below under "Section IV — Additional Information Concerning Executive Compensation".
 - **Executive Compensation Recoupment Policy:** Gives the Board the authority to recoup executive officers' past compensation in the event of a material restatement of the Company's financial results. This policy is discussed in more detail below under "Section IV — Additional Information Concerning Executive Compensation".
 - **No Employment or Change-in-Control Arrangements:** None of the executive officers have in place any employment or change-in-control arrangements that would result in guaranteed payouts. This is discussed in more detail below under "Section IV — Additional Information Concerning Executive Compensation".

Maintaining a long-term perspective is a core part of the Company's business strategy, which allows management to focus on shaping the Company's future rather than simply reacting to change. Given the currently volatile nature of the health care industry, the Company has found success in establishing thoughtful processes that focus on the ongoing, future growth of the Company's business. A long-term view means placing greater emphasis on researching new products and technologies that will enable future growth and looking at investments that will deliver long-term shareholder value. This strategy encourages employees to take calculated risks that capitalize on anticipated changes in all segments of health care. In summary, the long-term focus of the Company's compensation program is key to motivating the Company's employees to see the bigger picture and take the time to always consider the future state of the Company when they conduct business.



SAMPLES OF RISK-RELATED DISCLOSURE

LARGER-CAP BIOTECHNOLOGY COMPANIES

Gilead Sciences, Inc.

Proxy Statement

March 22, 2010

Risk Assessment of Compensation Programs

Our Compensation Committee undertook a review of the compensation programs for our Named Executive Officers and for our other employees to determine whether any of those programs encourage excess risk taking that would create a material risk to our economic viability. Based on that review, our Compensation Committee concluded it was not reasonably likely that any of our compensation programs, whether individually or in aggregate, would have a material adverse effect upon us. In reaching such conclusion, the Compensation Committee took into account the following factors, including factors specifically analyzed in terms of the compensation programs for our Named Executive Officers:

- Our overall compensation structure is applied uniformly throughout the company, with the only major exception relating to the form in which the equity component is granted. For individuals below the level of Vice President, the equity component is in the form of stock option grants and restricted stock units tied solely to service-vesting requirements, while for employees at the level of Vice President or above, the equity component is primarily in the form of stock option grants and performance share awards. Other than for sales employees, we do not have compensation arrangements that are unique to any of our business units or that otherwise depart significantly from the general uniformity of our overall compensation structure. Our sales employees are included in incentive plans that are subject to multiple levels of review during both the design stage and the incentive calculation and payment process. Only Senior Directors and below are eligible for the incentive plans in which targets range between approximately 20% and 52.5% of base salary. Payments are based on prescriptions written during the previous quarter to ensure results are assessed and confirmed. Performance objectives and potential payouts are reviewed on a quarterly basis and are subject to a cutback feature that allows for payment reductions if there is a large transaction that was not expected or foreseen at the time the goals were set or should any other unusual or extraordinary event occur after the goals are set.
- For our broad-based manager and above employee population, a significant component of compensation is in the form of equity awards tied to the price of our common stock, and increasing levels of compensation are derived from those awards as our stock price appreciates and shareholder value is thereby created. Accordingly, our overall compensation program is structured so as to encourage long-term growth and appreciation in the value of our business and stock price. For our entry-level employees, the predominant component of compensation is base salary.
- Although stock options have the potential to encourage risk taking our equity awards vest over a period of years. This vesting period encourages our executive officers and other employees to focus on sustaining our long-term performance. Because the grants are made annually, our executive officers and employees always have unvested awards outstanding that could decrease significantly in value if our business is not managed for the long term.
- Our overall compensation structure is not overly weighted toward short-term incentives. The short-term cash incentive programs that we do have are subject to a dollar cap per individual tied to a multiple of his or her annual base salary. For instance, our Chief Executive Officer's target annual bonus award in 2009 was about 125% of his annual base salary for that year. We believe that capping our short-term incentive award in this manner protects against disproportionately large short-term incentives that might encourage excessive risk taking. In addition, our Compensation Committee has broad discretion in determining the size of annual bonus awards for our Named Executive Officers by taking into consideration such factors as it deems appropriate, including whether an executive officer has caused us to incur unnecessary or excessive risk.
- The performance goals for our 2009 cash bonus program were based on a variety of performance metrics (both company-wide financial and non-financial goals as well as individual performance goals) that we believe are strategic to our long-term financial success and correlate to the creation of long-term shareholder value. We also have a formal



SAMPLES OF RISK-RELATED DISCLOSURE

internal business risk assessment structure that identifies the major risks to our business and implements techniques and processes to control and mitigate those risks. Accordingly, to the extent any of the performance metrics established for our short-term incentive programs might otherwise contribute to any potential risks identified for our business, there are already procedures in place to control and limit those risks.

- The vesting of the performance share awards that we make to employees at the level of Vice President or above is tied to the comparison of our total shareholder return and revenue growth for the performance period to that of our peer industry group. Performance objectives tied to total shareholder return and revenue growth are aligned with our overall goal to create and sustain long-term shareholder value. In addition, our performance share awards have overlapping performance periods, so any risks taken to increase the payout under one award could jeopardize the potential payouts under other awards. To further ensure that there is not a significant incentive for unnecessary risk taking, we cap the payout of these awards at 200% of target.
- The wealth creation opportunities for our Named Executive Officers and other senior management are primarily in the form of their equity awards. We do not have retirement plans or other meaningful sources of wealth creation provided under our cash compensation programs. Excessive risk taking would not only jeopardize the financial viability of our company but would also subject our named executive officers and other senior management to substantial economic loss were our common stock to become worthless or drop substantially in price. For that reason, there is a substantial alignment between the structure of our compensation programs and the creation of shareholder value.
- We have also instituted share ownership guidelines which require our executive officers to maintain a substantial ownership interest in us. By requiring that a significant amount of their personal wealth be tied to long-term holdings in our stock, we further align their interests with those of our shareholders and mitigate the risk of excessive risk taking.
- We have adopted a compensation recovery policy that permits us to recoup compensation earned as a result of misconduct by our executive officers that results in an obligation on our part to file financial restatements.
- Finally, we have adopted policies that preclude any hedging transactions in our common stock, such as put and call options or pre-paid forward sale contracts. Accordingly, the executive officers bear the full risk of economic loss, like any other shareholder, with respect to their equity holdings, whether in the form of actual shares of our common stock or restricted stock units or performance shares that will convert into such shares upon the satisfaction of the applicable vesting requirements.

For the foregoing reasons, our Compensation Committee concluded that it was not reasonably likely that our overall employee compensation structure, when analyzed either in terms of its company-wide application or its specific application to our various major business units, including those that represent a significant portion of our overall risk profile, those that are substantial profit centers and those with significant compensation cost in relation to their revenue, would have any material adverse effect upon the company.



SAMPLES OF RISK-RELATED DISCLOSURE

DISCLOSURE BY OTHER LARGER-CAP COMPANIES

Procter & Gamble Company

Proxy Statement

August 27, 2010

Risk management oversight by the full Board includes a comprehensive annual review of the Company's overall strategic plan and the plans for each of the Company's global business units, including the risks associated with these strategic plans. The Board also conducts an annual review of the conclusions and recommendations generated by management's enterprise risk management process. This process involves a cross-functional group of the Company's senior management which, on a continual basis, identifies current and future potential risks facing the Company and ensures that actions are taken to manage and mitigate those potential risks. The Board also has overall responsibility for leadership succession for the Company's most senior officers and reviews succession plans each year.

In addition, the Board has delegated certain risk management oversight responsibilities to certain Board committees, each of which reports regularly to the full Board. In performing these oversight responsibilities, each committee has full access to management, as well as the ability to engage independent advisors. The Audit Committee oversees the Company's compliance with legal and regulatory requirements and its overall risk management process. It also regularly receives reports regarding the Company's most significant internal controls and compliance risks, along with management's processes for maintaining compliance within a strong internal controls environment. In addition, the Audit Committee receives reports regarding potential legal and regulatory risks and management's plans for managing and mitigating those risks. Representatives from the Company's independent auditor attend Audit Committee meetings, regularly make presentations to the Audit Committee and comment on management presentations. In addition, the Company's Chief Financial Officer, Chief Legal Officer, chief audit executive and representatives of the Company's independent auditor individually meet in private session with the Audit Committee to raise any concerns they might have with the Company's risk management practices.

The Board's Compensation & Leadership Development Committee employs an independent compensation consultant who does no work for management and, among other tasks, reviews the Company's compensation programs, including the potential risks and other impacts of incentives created by these programs. At the same time, this consultant reviews the design of the Company's executive compensation programs, including those features that mitigate any potential risks, such as the Company's combination of performance based compensation, the use of equity as a significant portion of incentive compensation, stock ownership and retention requirements, and clawback provisions. Based upon the comprehensive review of the executive compensation programs provided by the independent compensation consultant, and the assessment of other compensation programs provided by company management, the Compensation & Leadership Development Committee has concluded that the Company's compensation programs are not reasonably likely to have a material adverse effect on the Company as a whole. Finally, the Board's Governance & Public Responsibility Committee reviews annually the Company's key corporate governance documents to ensure they are in compliance with the changing legal and regulatory environment and appropriately enable the Board to fulfill its oversight duties.



SAMPLES OF RISK-RELATED DISCLOSURE

DISCLOSURE BY OTHER LARGER-CAP COMPANIES

General Electric

Proxy Statement

March 5, 2010

Management Development and Compensation Committee. The members of the MDCC are directors Larsen, who chairs the committee, Cash, Jung, Lane, Nunn and Warner. The committee's primary responsibilities include: (1) establishing, reviewing and approving CEO compensation, and reviewing and approving other senior executive compensation, (2) monitoring our management resources, structure, succession planning, development and selection process as well as the performance of key executives, (3) reviewing incentive compensation arrangements to assure that incentive pay does not encourage unnecessary risk taking, and (4) reviewing and discussing, at least annually, the relationship between risk management policies and practices, corporate strategy and senior executive compensation. It also oversees the GE 2007 Long-Term Incentive Plan and the Incentive Compensation Plan and any other compensation and equity-based plans. This committee met eight times during 2009.

Compensation Actions for 2009

The MDCC and management believe that our compensation programs are balanced and reasonable and help us retain and motivate the world's best talent through a range of economic cycles. Because GE has always taken the long view, we use judgment and discretion rather than rely solely on formulaic results, and we do not reward executives for taking outsized risks that produce short-term gains. Instead, we reward sustained performance over time by emphasizing multi-year performance awards, stock options and other equity with long vesting periods, requiring senior executives to own significant amounts of GE stock, and offering pension benefits that are only earned and become payable annually if an executive successfully works with the company to age 60. Even our annual cash bonuses are intended to reward performance factors over many years as well as the achievement of annual performance, operating and risk goals and, as a result, are not characterized by year-to-year volatility between large payouts and declines tied to short-term performance. Although we strive to maintain consistency in our compensation philosophy and approach, our programs are designed and operate on the belief that it is appropriate for certain components of compensation to be restrained during periods of economic stress, reduced earnings and significantly lower stock prices. As shown in the charts below, our focus on rewarding long-term performance has generated sustained company performance over the long term.

In connection with setting 2009 compensation and the incentive compensation we provide to our named executives, the MDCC considered the risk profile of our compensation programs, policies and practices and confirmed that our incentive compensation does not encourage unnecessary and excessive risks.

Gunderson Dettmer's lawyers are available to assist in addressing questions you may have regarding the issues discussed in this Alert. Please contact the Gunderson Dettmer attorney with whom you regularly work. Contact information for our attorneys can be found at www.gunder.com.

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