



2005-06 Senior Management Compensation Survey

Attached are the results of the 2005-06 River Cities Capital Funds Senior Management Compensation Survey. Thirty-three private growth companies from the IT and healthcare sectors participated in this year's survey. Firms provided data on compensation components – cash and stock – for senior management. Data was collected between June – July 2006, with compensation, company head count and trailing twelve months (TTM) revenue noted as close to March 2006 as possible.

The salary survey data is illustrated in the five attached exhibits. The first numerical summary presents the main “dashboard” of the report, with confidential information on which companies were the highest and lowest in the listed compensation categories. Each of the graphical exhibits (2 to 5) presents the raw data observed, accompanied by a calculated trend line¹.

- 1) **Exhibit 1 – Numeric Summary.** Here are just a few interesting observations from the Summary:
 - a) On average, CEOs have a base salary of \$219K, bonus of \$111K and 3.9% in options (or 24% of all options granted).
 - b) Bonuses and commissions provided an average of 32% leverage over base salaries for the average management team.
 - c) On average, option pools accounted for 12% of fully-diluted ownership.
- 2) **Exhibit 2 – “CEO Compensation versus Company Head Count” Graph.** The analysis showed that CEOs who manage more people tend to receive more salary, but not dramatically so. The correlation was very weak when CEOs total compensation was compared with the Head Count
- 3) **Exhibit 3 – “CEO Compensation versus Company TTM Revenue” Graph.** The analysis showed that CEOs who run companies with more revenue tend to receive more compensation, but similar to the comparison to headcount, the relationship was weak.
- 4) **Exhibit 4 – “CEO Compensation versus Ownership Percentage” Graph.** The analysis showed a surprising lack of correlation between compensation and ownership stake; the intuitive hypothesis that CEOs who make less money should have more options and stock to provide an incentive does not seem to hold up.
- 5) **Exhibit 5 – “Senior Management Compensation versus Company Head Count” Graph.** The analysis showed a weak relationship between size of the company (measured by Head Count) and the compensation of management teams taken as a whole.

For further information about this report, please contact Parag Rathi; more detailed analysis is available for interested managers.

¹ A linear trend line was fit to each data set.

2005-2006 River Cities Capital Funds Senior Management Compensation Survey -- Numeric Summary

Exhibit 1

Title	Annual Salary	Bonus @ 100% of Goal *	Commission @ 100% of Goal *	Total Cash @ 100% of Goal *	Percent of Option Pool**	Option Ownership**	Full Ownership^
Chairman/CEO	\$219,108 ³³ \$100,000 \$398,566	\$111,004 ²² \$50,000 \$250,000	\$0 ⁰ \$0 \$0	\$293,111 ³³ \$100,000 \$597,849	24.07% ²³ 5.21% 43.85%	3.86% ²³ 0.39% 7.47%	9.10% ³² 0.60% 41.24%
COO/President	\$184,806 ¹⁸ \$130,000 \$250,000	\$64,637 ¹³ \$35,000 \$125,000	\$0 ⁰ \$0 \$0	\$231,488 ¹⁸ \$140,000 \$375,000	13.60% ¹⁵ 3.76% 31.11%	1.83% ¹⁵ 0.59% 3.55%	3.45% ¹⁸ 0.59% 11.76%
CFO	\$158,954 ²⁴ \$100,000 \$220,000	\$53,499 ¹⁶ \$10,000 \$168,000	\$0 ⁰ \$0 \$0	\$192,933 ²⁴ \$110,000 \$308,000	8.52% ²¹ 1.20% 23.33%	1.18% ²¹ 0.08% 4.01%	1.37% ²³ 0.24% 4.01%
Controller	\$100,606 ¹⁹ \$52,083 \$200,000	\$18,641 ¹⁴ \$5,000 \$42,419	\$0 ⁰ \$0 \$0	\$112,110 ¹⁹ \$52,083 \$200,000	2.21% ¹³ 0.18% 16.67%	0.16% ¹³ 0.02% 0.38%	0.17% ¹⁶ 0.02% 0.38%
CTO	\$159,613 ¹⁶ \$120,000 \$240,000	\$62,284 ¹¹ \$20,000 \$175,000	\$0 ⁰ \$0 \$0	\$202,433 ¹⁶ \$130,000 \$350,000	6.80% ¹³ 1.19% 21.10%	1.14% ¹³ 0.12% 4.30%	3.19% ¹⁶ 0.23% 17.17%
VP Development	\$148,756 ¹⁶ \$95,000 \$202,353	\$42,049 ¹³ \$20,000 \$80,941	\$15,000 ¹ \$15,000 \$15,000	\$183,859 ¹⁶ \$120,000 \$283,294	6.48% ¹⁵ 0.86% 29.80%	0.73% ¹⁵ 0.12% 1.47%	1.16% ¹⁵ 0.14% 3.35%
VP Bus Dev	\$156,173 ¹³ \$95,000 \$240,000	\$69,357 ⁷ \$12,000 \$116,000	\$60,833 ⁴ \$25,000 \$85,000	\$221,596 ¹³ \$120,000 \$312,000	5.48% ¹³ 1.16% 16.67%	1.09% ¹³ 0.22% 2.51%	1.83% ¹³ 0.22% 7.36%
VP Marketing	\$138,769 ¹³ \$76,500 \$225,000	\$52,763 ¹² \$7,650 \$160,000	\$35,000 ¹ \$35,000 \$35,000	\$190,165 ¹³ \$84,150 \$320,000	5.04% ¹¹ 1.16% 10.00%	0.64% ¹¹ 0.10% 1.47%	0.66% ¹² 0.10% 1.47%
VP Sales	\$155,943 ²⁸ \$90,000 \$325,000	\$81,364 ¹⁶ \$14,000 \$225,000	\$112,015 ¹³ \$30,000 \$300,000	\$254,444 ²⁸ \$110,000 \$850,000	6.96% ²⁴ 0.66% 33.33%	0.96% ²⁴ 0.08% 3.43%	1.03% ²⁷ 0.08% 3.43%
Totals	\$1,422,729	\$555,598	\$222,848	\$1,882,138	79.18%	11.59%	21.96%
33 Companies Participating		32.3% Leverage Over Base					

* Note: Bonus and Commission averages were computed only across those companies identifying bonus or commission, and therefore reflect the averages only in cases where they were awarded. Therefore, in most cases, average Annual Salary, Bonus and Commission will not sum to average Total Cash Compensation.

** Note: Percent of Option Pool measures the portion of the option pool allocated to the title. The corresponding total provides a measure of the concentration of the option pool within the senior management. Option Ownership is on a fully diluted basis.

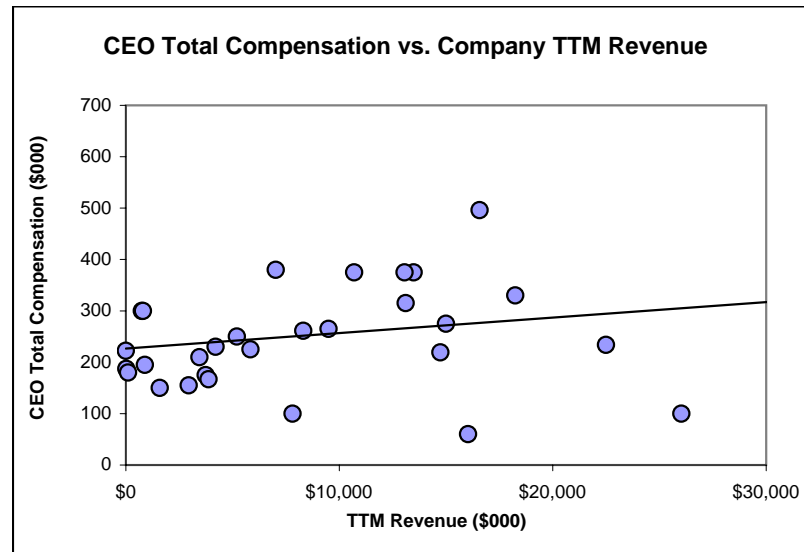
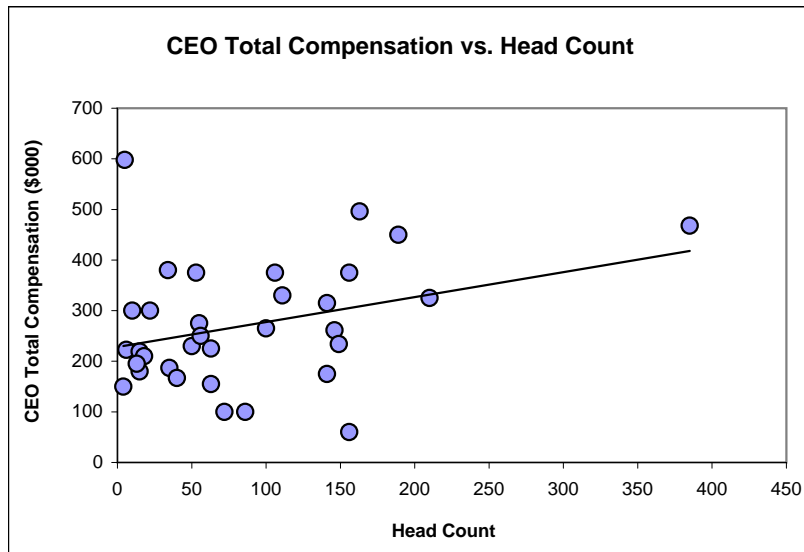
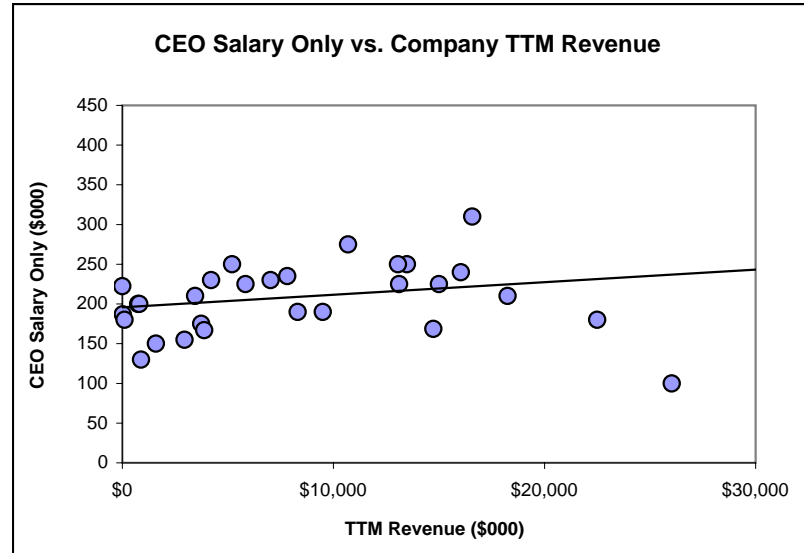
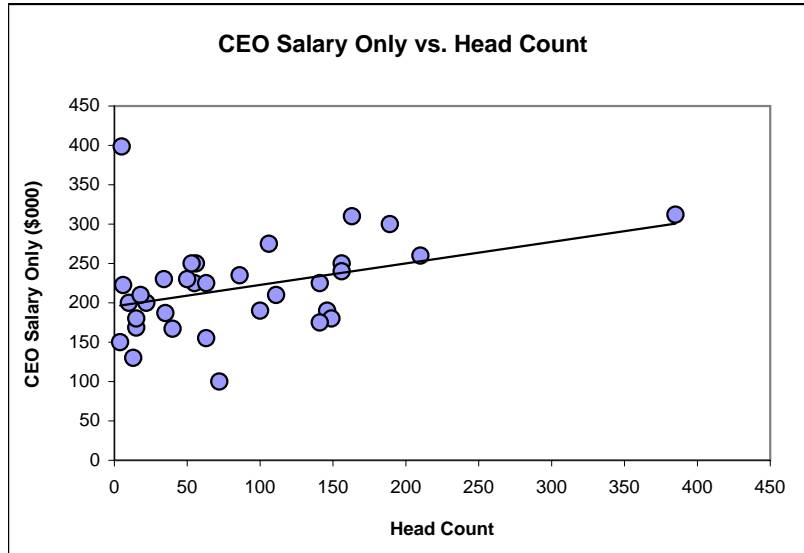
^ Full Ownership is Option Ownership plus Stock Ownership outside of the option pool.

KEY:
No. of Observations
 Title/Position Average Val
Min Val Max Val

2005-2006 River Cities Capital Funds Senior Management Compensation Survey -- Graphical Analysis

Exhibit 2

Exhibit 3



2005-2006 River Cities Capital Funds Senior Management Compensation Survey -- Graphical Analysis

Exhibit 4

Exhibit 5

