



2004 Senior Management Compensation Survey

Report Date: January 2005

Attached are the results of the 2004 River Cities Capital Funds Senior Management Compensation Survey. Twenty-eight private growth companies from the IT-enabled business services, technology 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 October and November 2004, with compensation, company head count and trailing twelve months (TTM) revenue noted as close to September 2004 as possible.

The salary survey data is illustrated in the five attached exhibits. The first numerical summary presents the main “dashboard” of the report. 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 \$220K, bonus of \$107K at target and 5.7% 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 17% 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 compensation, but not dramatically so.
- 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 very weak relationship between size of the company (measured by revenue) and the compensation of management teams taken as a whole; it appears that some teams are leaner or just work for less than some other teams at companies of similar size.

When we have a significant number of exits from companies that participated in this survey in prior years, we will test for any relationship between compensation practices and growth in equity value.

For further information about this report, please contact Sid D’Souza of River Cities Capital Funds at (513) 621-9700 or sdsouza@rccf.com; the report can be accessed online from the “Downloads” section of the River Cities Capital Funds website, <http://www.rccf.com>

¹ An exponential curve trend line was fit to each data set using the Least Squares Method. Correlation was described by R-squared values: very weak (0.01-0.2), weak (0.21-0.4), moderate (0.41-0.6), strong (0.61-0.8) and very strong (0.81-1.0).

2004 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	\$219,224 ²⁷ \$116,000 \$398,566	\$106,664 ¹⁷ \$50,000 \$199,283		\$286,383 ²⁷ \$116,000 \$597,849	24.33% ²⁰ 1.25% 43.85%	4.80% ²⁰ 0.19% 29.23%	9.23% ²⁷ 0.60% 40.53%
COO/President	\$177,306 ¹⁶ \$140,000 \$218,400	\$54,491 ¹² \$21,819 \$80,000		\$218,175 ¹⁶ \$140,000 \$268,400	13.09% ¹¹ 0.96% 31.71%	2.79% ¹¹ 0.10% 14.61%	3.82% ¹⁶ 0.10% 14.61%
CTO	\$142,015 ¹⁶ \$100,000 \$170,500	\$37,362 ¹² \$12,000 \$66,496		\$170,036 ¹⁶ \$100,000 \$232,736	6.84% ¹⁵ 0.77% 25.37%	1.15% ¹⁵ 0.13% 2.92%	2.24% ¹⁶ 0.18% 13.76%
VP Development	\$149,254 ¹³ \$105,000 \$202,353	\$40,332 ¹² \$10,000 \$80,941		\$186,484 ¹³ \$120,000 \$283,294	6.72% ¹³ 1.42% 29.80%	0.68% ¹³ 0.14% 1.68%	2.12% ¹³ 0.14% 13.76%
CFO	\$151,775 ²⁰ \$95,000 \$220,000	\$51,361 ¹² \$13,507 \$88,000		\$182,592 ²⁰ \$95,000 \$308,000	7.96% ¹⁷ 0.48% 22.54%	1.37% ¹⁷ 0.05% 5.11%	1.50% ¹⁹ 0.05% 5.11%
Controller	\$91,894 ¹⁷ \$50,000 \$141,395	\$18,939 ¹³ \$5,000 \$42,419		\$106,377 ¹⁷ \$50,000 \$183,814	2.10% ¹⁵ 0.05% 16.67%	0.14% ¹⁵ 0.00% 0.38%	0.15% ¹⁶ 0.00% 0.38%
VP Sales	\$143,971 ¹⁷ \$90,000 \$200,000	\$84,808 ¹² \$14,000 \$150,000	\$130,049 ⁸ \$55,000 \$228,000	\$265,035 ¹⁷ \$110,000 \$490,500	5.98% ¹⁶ 0.66% 20.46%	0.79% ¹⁶ 0.08% 2.47%	0.98% ¹⁷ 0.08% 3.04%
VP Bus Dev	\$136,967 ¹⁵ \$75,000 \$210,000	\$51,407 ⁷ \$27,100 \$75,000	\$79,430 ⁶ \$25,000 \$212,500	\$192,729 ¹⁵ \$95,000 \$362,500	5.22% ¹⁴ 1.59% 14.28%	0.84% ¹⁴ 0.16% 2.51%	1.96% ¹⁵ 0.16% 7.36%
VP Marketing	\$137,813 ¹⁶ \$85,000 \$200,000	\$41,750 ¹⁴ \$16,500 \$75,000		\$174,344 ¹⁶ \$110,000 \$238,000	4.32% ¹⁵ 0.48% 9.72%	0.64% ¹⁵ 0.05% 1.50%	0.86% ¹⁶ 0.05% 3.88%
Totals	\$1,350,218	\$487,114	\$209,479	\$1,782,153	76.57%	13.20%	22.86%
28 Companies Participating				32.0% 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:

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

2004 River Cities Capital Funds Senior Management Compensation Survey -- Graphical Analysis

Exhibit 2

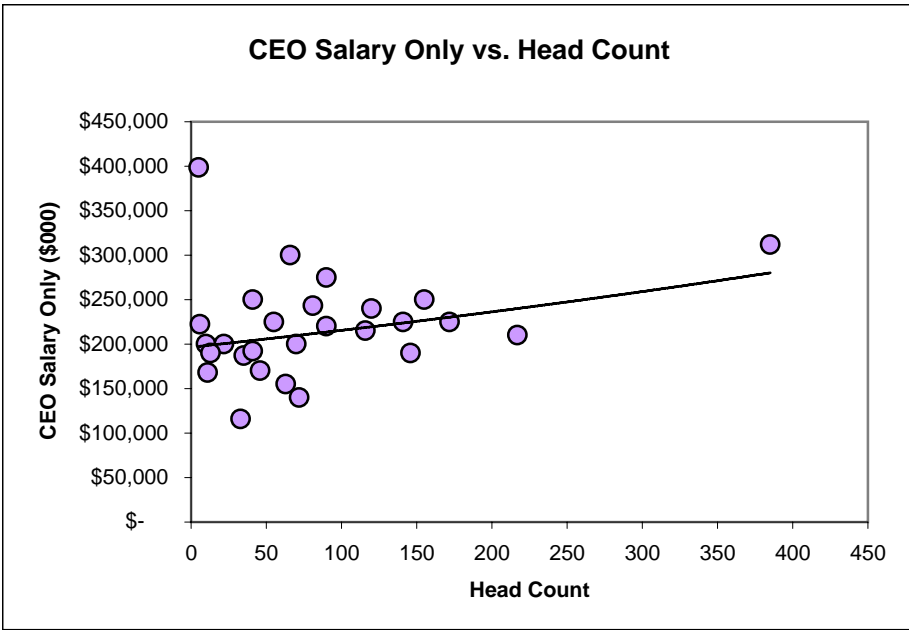
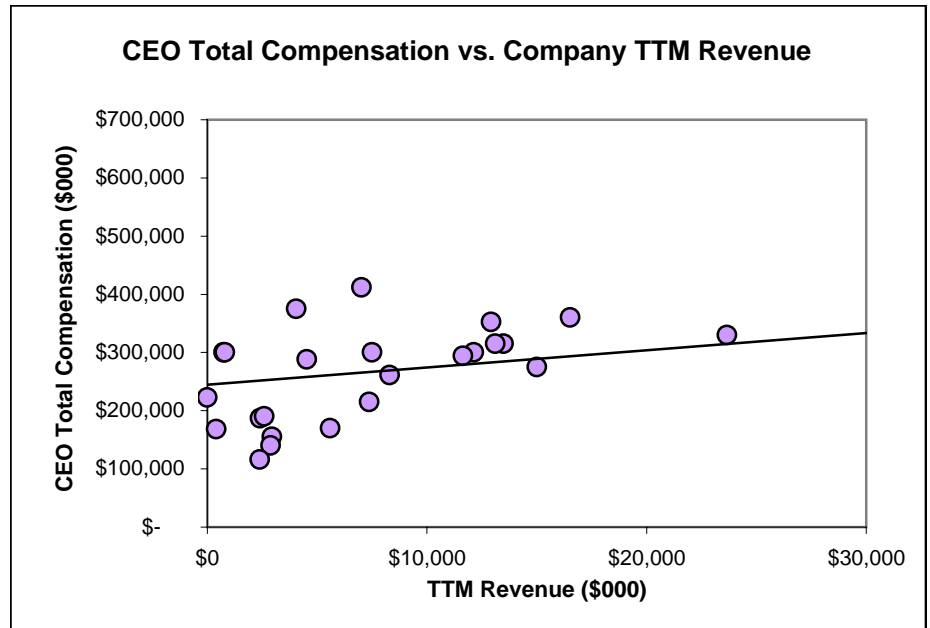
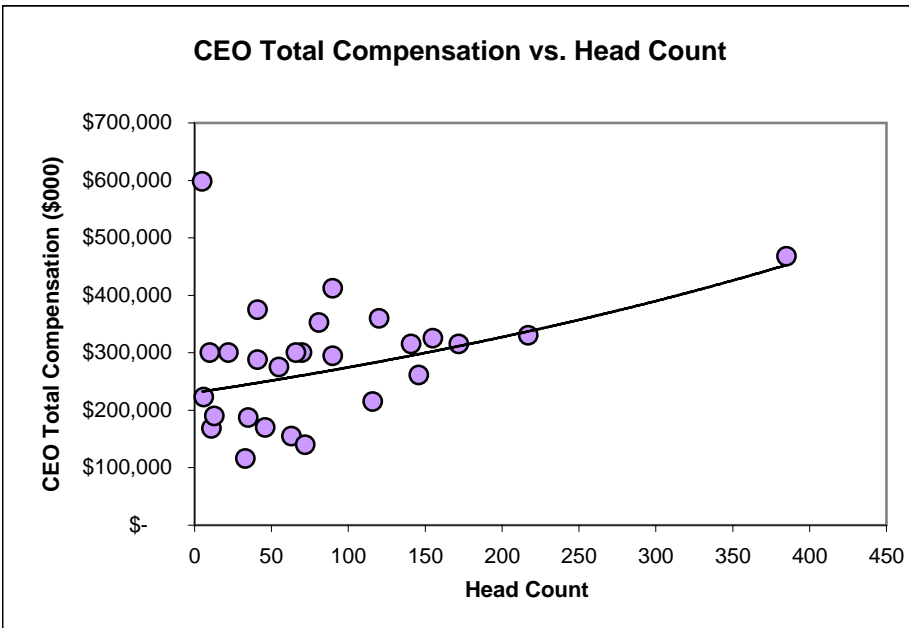
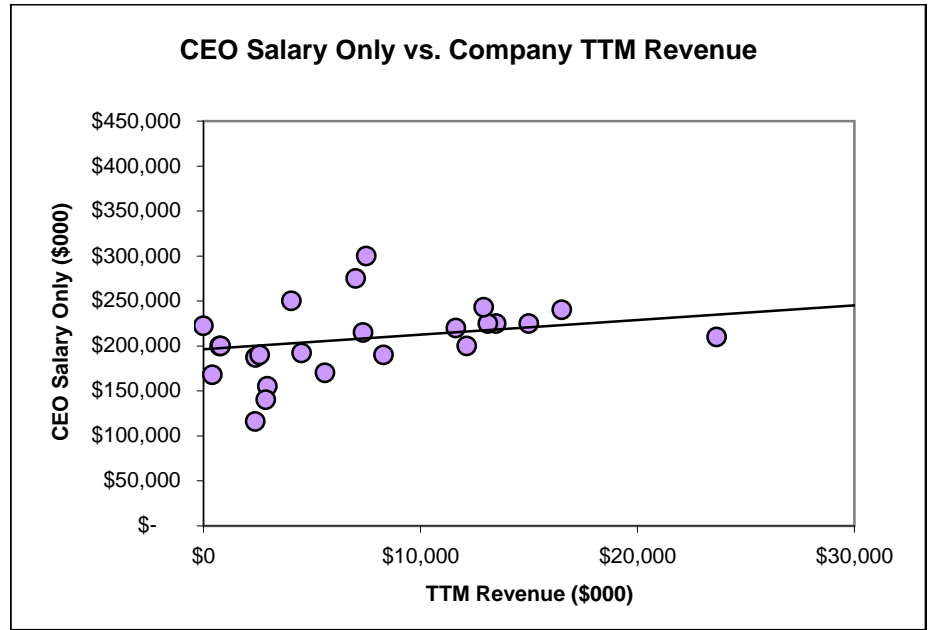


Exhibit 3



2004 River Cities Capital Funds Senior Management Compensation Survey -- Graphical Analysis

Exhibit 4

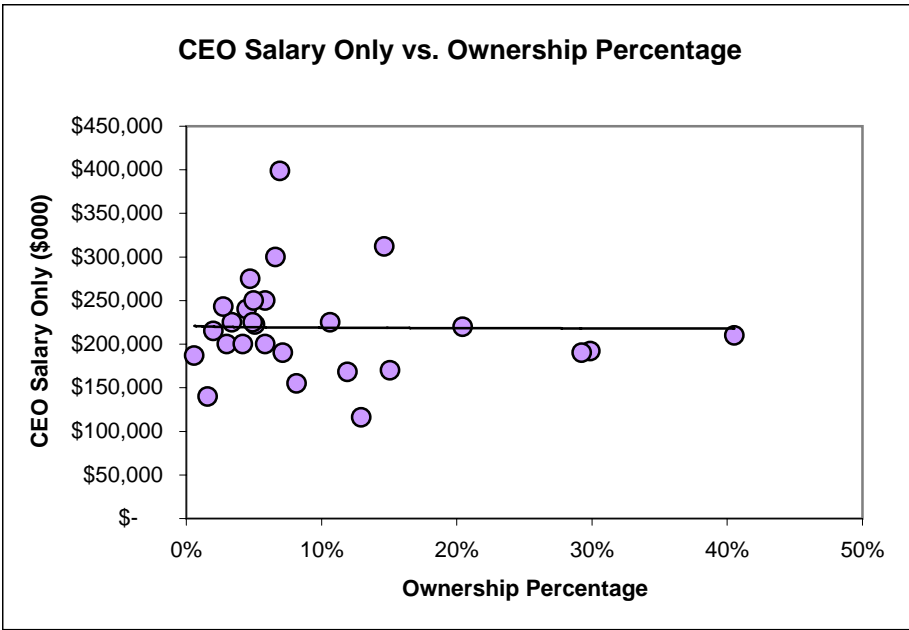


Exhibit 5

