Ernst & Young LLP
5 Times Square
New York, NY 10036

News Release

<u>For Immediate Release</u>

Contact for more information or a copy of the reports:

Nicole M. Thomas
Ernst & Young LLP
213-977-3348
Nicole.Thomas@ey.com

Rachahd Garguilo-Tosado
River Communications
(914) 686-5599
rdgarguilo-tosado@riverinc.com

Ernst & Young Releases 2006 Compensation & Entrepreneurship Report For Information Technology and Health Sciences Industries

-- Growth in Venture Backed IT and Health Sciences Companies Continues to Fuel Increases in Executive Pay --

New York, October 25, 2006 – According to the 2006 Compensation and Entrepreneurship Reports in IT and Health Sciences released today, total cash compensation for CEOs in both these industries showed robust growth in 2006. CEOs in the IT sector enjoyed a 4.3% increase in base salary and an overall 17% increase in total cash compensation, and Health Sciences CEOs reported a 16% rise in their total cash compensation with base salary accounting for 5.1% of that increase.

The report, co-sponsored by Ernst & Young LLP's Strategic Growth Markets Practice, J. Robert Scott Executive Search, and Wilmer Cutler Pickering Hale and Dorr LLP (WilmerHale), presents a correlation between executive compensation and a number of other variables including financing stage, company size in terms of revenue and headcount, founder/non-founder status, industry segment, product stage and geography.

Some additional trends in the IT sector include:

- Incentive stock options remain the most common form of equity granted, accounting for 62% of the aggregate equity given.
- Equity holdings for the founding CEO, President/COO and Chief Technology Officer drop significantly after the first round of financing.
- Average CEO salaries increased from $211,000 in 2005 to $220,000 in 2006.
- The average target bonus for the CEO is $93,000 in 2006 versus $57,000 in 2005.
- With the increasing headcount, total cash compensation for the CEO generally rises from $260,000 in companies with 20 full-time employees (FTEs) to $397,000 at the largest companies surveyed with greater than 75 FTEs.

Some additional trends in the Health Sciences sector include:

- The average target bonus for the CEO in 2006 is $94,000, a rise of $39,000 from the 2005 actual.
- Average equity holdings across the 13 executive positions surveyed totaled 16.2%, an increase from 14.5% in 2005.
- There was an increase in the use of stock options in 2006. Approximately 82% of the companies surveyed utilized options while just 4% used restricted or common stock only.
- Approximately 66% of the non-founding CEOs in the survey have a severance package with a median of 12 months. Forty-four percent (44%) of non-founding CSOs (Head of Research and Development) had a severance package.
- A non-founding CEO commands a 22% premium in total cash compensation over the founding CEO.
- Dilution of equity for the founding CEO is consistent across rounds of financing raised, moving from an average of 18.10% at companies with one or fewer rounds raised, to 7% at companies with four or more rounds of financing.

Companies nearing a liquidity event, or the 24-month “Red Zone,” should be addressing compensation issues that could dramatically impact the success of their exit strategy.

“We are in an era of increasing pressure on transparency to have refined and well articulated compensation strategies and philosophies,” said Dave Johnson, National Functional Leader, Executive Compensation, Ernst & Young. “Companies preparing to go public need to articulate their overall compensation strategy including the rationale for the pay mix between short and long-term incentives, the rationale for the mix between cash and stock-based compensation, and the rationale for how competitive pay is determined. Additionally, how does the company ensure it is paying not only for short-term performance but for sustained performance and shareholder value creation?”

“The time to ensure your equity valuations are correct is well before you get in front of the SEC,” explained Arthur Miller, Valuation and Business Modeling, Ernst & Young. “And companies need to be aware that the timing between 409A and FAS 123R is different. With 409A your valuation can last all year and 123R is every time you issue options.”

“Companies should be proactive and thinking about all of their compensation programs throughout the entire lifecycle,” said Kimberly Wethly, Partner, WilmerHale. “The convergence of 409A and FAS 123R requires companies to look at those issues on an ongoing basis. And while companies review their executive agreements for 409A compliance, it is the perfect opportunity to look at the program in its entirety to determine what preparation needs to be done for the next stage of development. The ‘Red Zone’ is the time to make some meaningful changes as far as adding performance metrics and in terms of the equity awards mix used."

"While I would categorize the talent market's current state as being more frothy than it was a couple of years ago, it has yet to reach the levels of the boom market of the late 90s," said Aaron Lapat, Managing Director, J. Robert Scott Executive Search. "The job market for executive talent for private, venture-backed companies is becoming increasingly more competitive. Executives are also becoming more open to embrace the cash for equity trade-off inherent in considering small, emerging businesses, which is a change from only a few years ago when the level of risk aversion was disproportionately high."

About the 2006 Compensation & Entrepreneurship Reports in Information Technology and Life Sciences

This is the seventh annual Compensation and Entrepreneurship Report in Information Technology, which collects data on the top executive positions in privately held, primarily venture-backed companies. 2006 represents the largest participation in the history of the survey with responses from more than 1,500 executives representing over 300 companies from across the country in five industry segments: Software and Communications, Hardware, Semiconductors and Electronics, Services, Consulting and Integration, and Content and Information Providers.

The annual Compensation and Entrepreneurship Report in Life Sciences collects data on the top executive positions in privately held, primarily venture-backed companies. 2006 represents the largest participation in the history of the survey with responses from more than 800 executives representing over 170 companies in a wide variety of industry segments: Pharmaceuticals, Therapeutics, Diagnostics, Devices, Bioformatics, Genomics and Molecular Technologies.

The survey data was collected between April and June of 2006. The surveys were designed by Noam Wasserman, Assistant Professor at the Harvard Business School, and used extensively in his ongoing academic studies surrounding the early choices faced by founders that have important implications for them and for their ventures. The development of these reports is supported by WilmerHale, J. Robert Scott, and Ernst & Young's Strategic Growth Markets practice, which tailors the firm's national and global capabilities to meet the unique needs of emerging and high-growth companies.

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WilmerHale is internationally recognized for its expertise in representing both venture-back companies and venture capital firms in their initial public offerings, mergers and acquisitions, intellectual property and intellectual property litigation. As a leader in technology and life sciences, the firm represents clients in a wide variety of sectors, including telecom and wireless, software, electronics, biotechnology and medical devices. The firm's full-service practice also includes antitrust and competition; aviation; bankruptcy; civil and criminal trial and appellate litigation (including white collar defense); communications; defense and national security; financial institutions; international arbitration; securities regulation, enforcement and litigation; tax; and trade. The firm has more than 1,100 lawyers strong and has office in Baltimore, Beijing, Berlin, Boston, Brussels, London, Munich, New York, Northern Virginia, Oxford, Palo Alto, Waltham and Washington DC. If you would like more information about WilmerHale's compensation and benefits practice group, please go to www.wilmerhale.com.

About J. Robert Scott
J. Robert Scott is a retainer-based executive search firm specializing in the recruitment and selection of senior executives across a broad range of selected industries. Founded in 1986 as a wholly owned subsidiary of Fidelity Investments, the firm has developed a specialization in entrepreneurial oriented businesses. Specialty vertical practices include: Information Technology, Life Sciences, Financial Services, Higher Education and Not-for-Profit. J. Robert Scott provides a thorough, timely and proven process for locating and attracting highly qualified candidates to fill key positions. Our approach is client-oriented and distinguished by a commitment to service that is not only promised, but guaranteed. If you would like more information about J. Robert Scott's services, please go to www.j-robert-scott.com.

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