AMERICAN HEALTHWAYS INC
Form DEF 14A
December 19, 2003

Table of Contents

SCHEDULE 14A
(Rule 14a-101)

INFORMATION REQUIRED IN PROXY STATEMENT

SCHEDULE 14A INFORMATION
Proxy Statement Pursuant to Section 14(a) of the Securities Exchange Act of 1934 (Amendment No.)

Filed by the Registrant x

Filed by a Party other than the Registrant o
Check the appropriate box:

o Preliminary Proxy Statement

o Confidential, for Use of the Commission Only (as permitted by Rule 14a-6(e)(2))

x Definitive Proxy Statement
o Definitive Additional Materials
o Soliciting Material Pursuant to Rule 14a-11(c) or Rule 14a-12

AMERICAN HEALTHWAYS, INC.

(Name of Registrant as Specified In Its Charter)

(Name of Person(s) Filing Proxy Statement, if other than the Registrant)

Payment of Filing Fee (Check the appropriate box):

x No fee required.
o Fee computed on table below per Exchange Act Rules 14a-6(i)(1) and 0-11.

(1) Title of each class of securities to which transaction applies:

(2) Aggregate number of securities to which transaction applies:

(3) Per unit price or other underlying value of transaction computed pursuant to Exchange Act Rule 0-11 (set forth the amount on which the filing fee is calculated and state how it was determined):

(4) Proposed maximum aggregate value of transaction:

(5) Total fee paid:

o Fee paid previously with preliminary materials:

o Check box if any part of the fee is offset as provided by Exchange Act Rule 0-11(a)(2) and identify the filing for which the offsetting fee was paid previously. Identify the previous filing by registration statement number, or the Form or Schedule and the date of its filing.

(1) Amount Previously Paid:

(2) Form, Schedule or Registration Statement No.:

(3) Filing Party:

(4) Date Filed:

TABLE OF CONTENTS

Table of Contents

3841 Green Hills Village Drive

Nashville, Tennessee 37215

NOTICE OF ANNUAL MEETING OF STOCKHOLDERS

Stockholders of American Healthways, Inc.:

The Annual Meeting of Stockholders of American Healthways, Inc., a Delaware corporation (the Company), will be held at the Loews Vanderbilt Plaza, Platinum Foyer, Lower Level, 2100 West End Avenue, Nashville, Tennessee 37203, at 9:00 a.m., local time, on Wednesday, January 21, 2004 for the following purposes:

(1) To elect three (3) directors to hold office for a term of three (3) years or until their successors have been elected and qualified;

(2) To consider and act upon a proposal to amend the Company s 1996 Stock Incentive Plan (the 1996 Plan) to (i) increase the number of shares of the Company s common stock available for issuance under the 1996 Plan by 500,000 shares (not reflecting the two-for-one stock split as described in the proxy statement accompanying this notice) and (ii) provide that future awards to Outside Directors be in the form of non-qualified stock options instead of restricted stock;

(3) To consider and act upon a proposal to amend the Company s Restated Certificate of Incorporation, as amended (the Certificate of Incorporation), to increase the number of authorized shares from 45,000,000 to 80,000,000, of which 75,000,000 shares shall be common stock and 5,000,000 shares shall be preferred stock; and

(4) To transact such other business as may properly come before the meeting, or any adjournment or postponement thereof.

The proxy statement and form of proxy accompanying this notice are being mailed to stockholders on or about December 19, 2003. Only stockholders of record at the close of business on December 1, 2003 are entitled to notice of and to vote at the meeting or any adjournment or postponement thereof.

Your attention is directed to the proxy statement accompanying this notice for a more complete statement regarding the matters to be acted upon at the meeting.

We hope very much that you will be able to be with us. If you do not plan to attend the meeting in person, you are requested to complete, sign and date the enclosed proxy and return it promptly in the enclosed addressed envelope, which requires no postage if mailed in the United States.

By Order of the Board of Directors

Thomas G. Cigarran
Chairman

December 19, 2003

Table of Contents

AMERICAN HEALTHWAYS, INC.

3841 Green Hills Village Drive
Nashville, Tennessee 37215

PROXY STATEMENT
FOR ANNUAL MEETING OF STOCKHOLDERS

Wednesday, January 21, 2004

The enclosed proxy is solicited by the Board of Directors on behalf of American Healthways, Inc. for use at the Annual Meeting of Stockholders to be held on Wednesday, January 21, 2004, at 9:00 a.m., local time, at the Loews Vanderbilt Plaza, Platinum Foyer, Lower Level, 2100 West End Avenue, Nashville, Tennessee 37203, and at all adjournments or postponements thereof, for the purposes set forth in the foregoing Notice of Annual Meeting of Stockholders. Copies of the proxy, this proxy statement and the attached notice are being sent to stockholders on or about December 19, 2003.

The Company s officers and employees may solicit proxies personally or by mail, telephone or facsimile. All costs of this solicitation will be borne by the Company, including expenses in connection with preparing, assembling and mailing this proxy statement. The Company does not anticipate paying any compensation to any party other than its regular employees for the solicitation of proxies but may reimburse brokerage firms and others for their reasonable expenses in forwarding solicitation material to beneficial owners.

Shares represented by such proxies will be voted in accordance with the choices specified thereon. If no choice is specified, the shares represented by such proxies will be voted FOR the election of the director nominees set forth under Proposal No. 1, FOR the approval of the amendments to the 1996 Plan set forth under Proposal No. 2 and FOR the amendment to the Certificate of Incorporation set forth under Proposal No. 3. The Board of Directors does not know of any other matters which will be presented for action at the meeting, but the persons named in the proxy intend to vote or act with respect to any other proposal which may be properly presented for action according to their best judgment in light of the conditions then prevailing.

A proxy may be revoked by a stockholder at any time before its exercise by attending the meeting and electing to vote in person, by filing with the Secretary of the Company a written revocation or by duly executing a proxy bearing a later date.

Each share of the Company s common stock, $.001 par value (the Common Stock), issued and outstanding on the record date, December 1, 2003, will be entitled to one vote on all matters to come before the meeting. Cumulative voting is not permitted. As of December 1, 2003, there were outstanding 15,962,840 shares of Common Stock.

On November 17, 2003, the Board of Directors declared a two-for-one stock split in the form of a stock dividend payable on December 19, 2003 to stockholders of record on December 5, 2003. Unless otherwise specified herein, the number of shares of Common Stock referenced in this proxy statement have not been adjusted to reflect the December 19, 2003 stock split.

Table of Contents

SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

The following table sets forth certain information with respect to those persons known to the Company to be the beneficial owners (as defined by certain rules of the Securities and Exchange Commission (the Commission)) of more than five percent (5%) of the Company s Common Stock, its only voting security, and with respect to the beneficial ownership of the Company s Common Stock by all directors and nominees, each of the executive officers named in the Summary Compensation Table and all executive officers and directors of the Company as a group. The information set forth below is based on ownership information received by the Company as of December 1, 2003. Unless specified otherwise, the shares indicated are presently outstanding, and each of the stockholders listed below has sole voting and investment power with respect to the shares beneficially owned.

Name of Beneficial Owner	Amount of Shares Beneficially Owned(1)	Percent of Class(1)
FMR Corp. 82 Devonshire Street Boston, MA 02109	2,156,779(2)	13.51%
Wasatch Advisors, Inc. 150 Social Hall Avenue, Suite 400 Salt Lake City, UT 84111	1,464,992(2)	9.18%
Waddell & Reed Financial, Inc. 6300 Lamar Avenue Overland Park, KS 66202	1,262,856(2)	7.91%
Capital Research & Management Company 333 South Hope Street, 55th Floor Los Angeles, CA 90071-1447	925,000(2)	5.79%
Chartwell Investment Partners 1235 Westlake Drive, Suite 330 Berwyn, PA 19312	840,660(2)	5.27%
Thomas G. Cigarran****	611,826(3)	3.77%
Henry D. Herr**	376,171(4)	2.35%
Robert E. Stone***	306,732(5)	1.91%
William C. O Neil, Jr.**	242,136(6)	1.52%
Ben R. Leedle, Jr.****	112,067(7)	*
Mary D. Hunter***	54,904(8)	*
Martin J. Koldyke**	53,393	*
Mary A. Chaput***	39,116(9)	*
C. Warren Neel **	23,615(10)	*
Donald B. Taylor***	21,583(11)	*
Frank A. Ehmann**	17,716(12)	*
John W. Ballantine**		*
J. Cris Bisgard, M.D.**		*
All directors and executive officers as a group (13 persons)	1,859,259(13)	11.17%

Table of Contents

* Indicates ownership of less than one percent of the Company s outstanding Common Stock.
** Director of the Company
*** Named Executive Officer
**** Director and Named Executive Officer

(1) Pursuant to the rules of the Commission, certain shares of the Company s Common Stock which an individual owner set forth in this table has a right to acquire within 60 days after the record date hereof pursuant to the exercise of stock options are deemed to be outstanding for the purpose of computing the ownership of that owner, but are not deemed outstanding for the purpose of computing the ownership of any other individual owner shown in the table. Likewise, the shares subject to options held by the other directors and executive officers of the Company which are exercisable within 60 days of the record date hereof, are all deemed outstanding for the purpose of computing the percentage ownership of all executive officers and directors as a group.
(2) Information with respect to stock ownership is based upon a Form 13F dated September 2003 filed with the Commission.
(3) Includes 260,625 shares issuable upon the exercise of outstanding options.
(4) Includes 14,232 shares owned by Mr. Herr s wife, 650 shares owned by Mr. Herr s grandchildren and 70,625 shares issuable upon the exercise of outstanding options.
(5) Includes 125,620 shares issuable upon the exercise of outstanding options.
(6) Includes 5,348 shares issuable upon the exercise of outstanding options.
(7) Includes 111,063 shares issuable upon the exercise of outstanding options.
(8) Includes 53,125 shares issuable upon the exercise of outstanding options.
(9) Includes 35,000 shares issuable upon the exercise of outstanding options.
(10) Includes 5,348 shares issuable upon the exercise of outstanding options.
(11) Includes 4,000 shares owned by Mr. Taylor s wife and 17,500 shares issuable upon the exercise of outstanding options.
(12) Includes 2,250 shares issuable upon the exercise of outstanding options.
(13) Includes 686,504 shares issuable upon the exercise of outstanding options.

Table of Contents

PROPOSAL NO. 1

ELECTION OF DIRECTORS

The Company s Certificate of Incorporation provides for a staggered Board of Directors. Each director serves a three year term until his successor is elected and qualified. The three directors to be elected at the 2004 Annual Meeting will serve until the Annual Meeting of Stockholders in 2007 (the Class I directors), three directors currently serving on the Board will continue to serve until the Annual Meeting of Stockholders in 2005 (the Class II directors), and three directors currently serving on the Board will continue to serve until the Annual Meeting of Stockholders in 2006 (the Class III directors).

In June 2003, the Board of Directors increased the size of the Board of Directors from six to eight and appointed John W. Ballantine and J. Cris Bisgard, M.D. as Class II and Class III directors, respectively, to fill the vacancies created thereby. Also in August 2003, the Board of Directors increased the size of the Board of Directors from eight to nine and appointed Mr. Leedle as a Class I director to fill the vacancy created thereby in conjunction with his appointment as Chief Executive Officer on September 1, 2003.

Unless contrary instructions are received, shares of Common Stock of the Company represented by duly executed proxies will be voted in favor of the election of the nominees named below. If for any reason a nominee is unable to serve as a director, it is intended that the proxies solicited hereby will be voted for such substitute nominee as the Board of Directors of the Company may propose. The Board of Directors has no reason to expect that the nominees will be unable to serve, and therefore, at this time does not have any substitute nominees under consideration.

A nominee for election must receive a plurality of the votes cast to be elected as a director. Stockholders have no right to vote cumulatively for directors, but rather each stockholder shall have one vote for each share of Common Stock held by such stockholder for each director.

The following persons are the nominees for election to serve as Class I directors. All nominees are presently directors of the Company. Messrs. Ehmann and O Neil were previously elected by the stockholders, and Mr. Leedle was appointed to the Board of Directors on August 27, 2003 as discussed above. Certain information relating to the nominees, which has been furnished to the Company by the individuals named, is set forth below.

Name of Director	Class of Director; Annual Meeting at Which Term Will Expire	Background Information
Frank A. Ehmann	I; 2004	Mr. Ehmann, 69, has been a director of the Company since 1991. Mr. Ehmann was a partner of RCS Health Care Partners Ltd., an affiliate of Robertson Stephens Co., from 1990 to 1994. From 1987 to 1989, he was President and Chief Operating Officer of United Stationers, Inc. He served as Executive Vice President and Co-Chief Operating Officer of Baxter Travenol Laboratories, Inc. from 1986 to 1987, and as President and Chief Operating Officer of American Hospital Supply Corporation in 1985, when it merged with Baxter Travenol.

Table of Contents

Name of Director	Class of Director; Annual Meeting at Which Term Will Expire	Background Information
William C. O Neil, Jr.	I; 2004	Mr. O Neil, 69, has served as a director of the Company since 1985. From 1989 to 1999, Mr. O Neil was the Chairman, President and Chief Executive Officer of ClinTrials Research, Inc., a pharmaceutical research services company. Prior thereto, Mr. O Neil was Chairman, President and Chief Executive Officer of International Clinical Laboratories, Inc., a national laboratory testing company. Mr. O Neil is also a Director of Advocat, Inc., Sigma Aldrich Corporation and Central Parking Corporation.
Ben R. Leedle, Jr.	I; 2004	Mr. Leedle, 42, joined the Company in 1985 and has served as Chief Executive Officer of the Company since September 2003 and as a director since August 2003. Mr. Leedle has served as President of the Company from May 2002 to present. Mr. Leedle served as Chief Operating Officer of the Company from September 1999 to August 2003, Executive Vice President of the Company from September 1999 to May 2002, and as Senior Vice President of Operations from September 1997 to September 1999.

The following six persons currently are members of the Board of Directors and will continue in their present positions after the Annual Meeting. The following persons are not nominees, and stockholders are not being asked to vote for them. Certain information relating to the following persons has been furnished to the Company by the individuals named.

Name of Director	Class of Director; Annual Meeting at Which Term Will Expire	Background Information
Thomas G. Cigarran	II; 2005	Mr. Cigarran, 61, has served as Chairman of the Company since September 1988 and as a director since 1981. Mr. Cigarran served as Chief Executive Officer of the Company from September 1988 to August 2003. Mr. Cigarran served as President of the Company from September 1981 to June 2001. Mr. Cigarran also is Chairman and a director of AmSurg Corp.
Dr. C. Warren Neel	II; 2005	Dr. Neel, 65, has been a director of the Company since October 1991. Dr. Neel is currently Director of the Center for Corporate Governance at the University of Tennessee. He served as the Commissioner of Finance for the State of Tennessee from June 2000 until January 2003. He served as Dean of the College of Business Administration at The University of Tennessee in Knoxville from 1977 to 2000. Dr. Neel is also a director of Saks, Inc.

Table of Contents

Name of Director	Class of Director; Annual Meeting at Which Term Will Expire	Background Information
John W. Ballantine	II; 2005	Mr. Ballantine, 57, has been a director of the Company since June 2003. Mr. Ballantine served as Executive Vice President and Chief Risk Management Officer of First Chicago NBD Corporation from 1996 until 1998. Mr. Ballantine currently serves as Chairman of the financial services advisory group for Glencoe Capital, a private equity firm, and Vice Chairman of the Board of Trustees of Window to the World Communications, Inc. He also serves as a director of FNB Corporation, Scudder Funds, First Oak Brook Bancshares, the Oak Brook Bank (a wholly-owned subsidiary of First Oak Brook Bancshares), and Enron Corporation (post-bankruptcy).
Henry D. Herr	III; 2006	Mr. Herr, 57, has been a director of the Company since 1988. Mr. Herr served as Executive Vice President of Finance and Administration and Chief Financial Officer of the Company from February 1986 to October 2001. Mr. Herr is currently employed by the Company on a part-time basis. Mr. Herr also is a director of AmSurg Corp.
Martin J. Koldyke	III; 2006	Mr. Koldyke, 71, has been a director of the Company since 1981. Mr. Koldyke is the retired Chairman of Frontenac Company, a venture capital management partnership that he founded in 1971. Mr. Koldyke is the Founder and Chairman of the Academy for Urban School Leadership, Founder and Chairman Emeritus of The Golden Apple Foundation, Trustee of the Chicago Public Education Fund, Trustee of the Chicago Community Trust, Chairman of the Chicago School Finance Authority, past Chairman and current Trustee of Window to the World Communications, Inc., and a Life Trustee of Northwestern University.
Jay Cris Bisgard, M.D. M.P.H	III; 2006	Dr. Bisgard, 61, has been a director of the Company since June 2003. Dr. Bisgard served as Director of Health Services at Delta Air Lines, Inc. from January 1994 to April 2001. Prior to that, he served as the corporate medical director at Pacific Bell, GTE and ARCO. He retired from the U.S. Air Force in 1986 with the rank of colonel. He served as acting Deputy Assistant Secretary of Defense (Health Affairs) from 1981 to 1984. He is a fellow of the Aerospace Medical Association, the American College of Preventive Medicine, and the American College of Physician Executives.

Table of Contents

The Board of Directors of the Company held seven meetings during the fiscal year ended August 31, 2003. All of the members of the Board of Directors, except Messrs. Cigarran, Herr and Leedle, are independent, as defined by applicable law and the NASDAQ listing standards. The independent directors of the Board have executive sessions at regularly scheduled meetings at which only independent directors are present. The Board of Directors has a Nominating and Corporate Governance Committee, an Audit Committee and a Compensation Committee. The Audit Committee is comprised of Messrs. Ehmann, Koldyke, O Neil and Ballantine. Mr. Ballantine was appointed to the committee in June 2003, replacing Dr. Neel. The Company has, and will continue to have, at least one member of the Audit Committee who has past employment experience in finance or accounting and requisite professional certification in accounting or other comparable experience which results in the individual s financial sophistication. The Audit Committee meets with the Company s independent auditors and management to review the Company s consolidated financial statements. The Board of Directors has determined that the Audit Committee has three audit committee financial experts, as defined by the regulations of the Commission. These persons are Messrs. O Neil, Ehmann and Ballantine. The Audit Committee held eleven meetings during fiscal 2003.

The Compensation Committee is responsible for the periodic review of management s compensation and administration of the Company s compensation plans. The Compensation Committee consists of Messrs. Ehmann and Ballantine, Dr. Bisgard, and Dr. Neel. Mr. Ballantine and Dr. Bisgard were appointed to the committee in June 2003, replacing Mr. Koldyke. The Compensation Committee held three meetings during fiscal 2003.

The Nominating and Corporate Governance Committee consists of Messrs. Koldyke and O Neil, Dr. Bisgard, and Dr. Neel. Dr. Bisgard was appointed to the committee in June 2003. The Nominating and Corporate Governance Committee recommends to the Board of Directors nominees for election to the Board. The Nominating and Corporate Governance Committee will consider nominees recommended by the Company s stockholders provided such proposed nominations are submitted to the Company in the manner and within the time limits for stockholder proposals as set forth on page 29 of this Proxy Statement. The Nominating and Corporate Governance Committee held one meeting during fiscal 2003.

Each of the incumbent directors of the Company attended at least 75% of the aggregate of the total number of meetings held during fiscal 2003 by the Board of Directors and each committee of which such director was a member.

The Company has a code of conduct that applies to all colleagues (including officers) and directors. The purpose of the code is to provide written standards that are reasonably designed to deter wrongdoing and to promote: honest and ethical conduct; full, fair, accurate, timely, and understandable disclosure in reports and documents filed with the Commission and other public communications by the Company; compliance with applicable governmental laws, rules and regulations; prompt internal reporting of violations of the code; and accountability for adherence to the code. A copy of the Company s code of conduct can be obtained from the Company s website at www.americanhealthways.com.

Table of Contents

EXECUTIVE COMPENSATION

The following table provides information as to annual, long term and other compensation during fiscal years 2003, 2002 and 2001 for the Company s Chief Executive Officer and each of the four most highly compensated executive officers other than the Chief Executive Officer who were serving as executive officers on August 31, 2003 (collectively, the Named Executive Officers). Option awards have been adjusted to reflect the three-for-two stock split effected in the form of a stock dividend on November 23, 2001.

Summary Compensation Table

		Annual Compensation		Awards	
Name and Principal Position	**Year**	**Salary($)**	**Bonus($)**	**Options(#)**	**All Other Compensation(3)**
Thomas G. Cigarran	2003	$435,000	$154,561	60,000	$94,637(4)
Chairman of the Board and	2002	400,000	461,500	130,000	73,291
Chief Executive Officer(1)	2001	360,000	175,500	37,500	58,817
Ben R. Leedle, Jr.	2003	$347,000	$122,945	150,000	$72,282(5)
President and	2002	330,000	298,238	175,000	48,655
Chief Operating Officer(1)	2001	225,000	159,687	30,000	36,970
Robert E. Stone	2003	$250,000	$ 88,521	20,000	$62,470(6)
Executive Vice President	2002	240,000	216,900	30,001	50,835
	2001	225,000	77,625	30,000	40,142
Donald B. Taylor	2003	$245,619	$ 86,624	25,000	$50,565(7)
Executive Vice President	2002	132,923	120,129	70,000	2,549
Business Development(2)	2001	0	0	0	0
Mary A. Chaput	2003	$240,277	$ 84,745	20,000	$47,713(8)
Executive Vice President and	2002	183,333	192,524	95,000	14,317
Chief Financial Officer	2001	0	0	0	0

(1) Effective September 1, 2003, Mr. Cigarran retired as Chief Executive Officer of the Company and was succeeded by Mr. Leedle. Mr. Cigarran still serves as Chairman of the Company s Board of Directors.
(2) On November 5, 2003, Mr. Taylor was named Chief Operating Officer of the Company effective December 1, 2003.
(3) Includes $3,600 per year automobile allowance for each Named Executive Officer other than Ms. Chaput, whose allowance was $3,300 in fiscal 2002.
(4) Includes $80,760 contributed by the Company to the Company s Corporate and Subsidiary Officer Capital Accumulation Plan (the Capital Accumulation Plan), $6,757 contributed by the Company to the Company s Retirement Savings Plan (the 401(k) Plan) and $3,520 of life insurance premiums paid by the Company on behalf of Mr. Cigarran.
(5) Includes $62,610 contributed by the Company to the Capital Accumulation Plan and $6,072 contributed by the Company to the 401(k) Plan on behalf of Mr. Leedle.
(6) Includes $46,168 contributed by the Company to the Capital Accumulation Plan, $6,767 contributed by the Company to the 401(k) Plan and $5,935 of life insurance premiums paid by the Company on behalf of Mr. Stone.
(7) Includes $41,890 contributed by the Company to the Capital Accumulation Plan and $5,075 contributed by the Company to the 401(k) Plan on behalf of Mr. Taylor.
(8) Includes $37,520 contributed by the Company to the Capital Accumulation Plan and $6,593 contributed by the Company to the 401(k) Plan on behalf of Ms. Chaput.

Table of Contents

Option Grants Table

The following table provides information as to options granted to the Named Executive Officers during fiscal 2003. No separate stock appreciation rights (SARs) were granted during fiscal 2003.

Option/ SAR Grants in Last Fiscal Year

Name	Options Granted(1) (#)	% of Total Options Granted to Employees in Fiscal Year	Exercise or Base Price ($/Sh)	Expiration Date	Potential Realizable Value at Assumed Annual Rates of Stock Price Appreciation for Option Term 5%($)	10%($)
Thomas C. Cigarran	30,000	3.92%	$18.74	2/12/2013	$ 353,565	$ 896,002
	30,000	3.92	35.01	8/27/2013	660,528	1,673,908
Ben R. Leedle, Jr.	150,000	19.58	35.01	8/27/2013	3,302,640	8,369,539
Robert E. Stone	20,000	2.61	35.01	8/27/2013	440,352	1,115,938
Donald B. Taylor	25,000	3.26	35.01	8/27/2013	550,440	1,394,923
Mary A. Chaput	20,000	2.61	35.01	8/27/2013	440,352	1,115,938

(1) All options granted to the Named Executive Officers vest at the rate of 25% per year over a four year period beginning on the date of the grant. If there is a change in control or a potential change in control (as defined in the 1996 Plan or the Amended and Restated 2001 Stock Option Plan (the 2001 Plan)), any stock options which are not then exercisable, in the discretion of the Board, may become fully exercisable and vested, and stock options will, unless otherwise determined by the Compensation Committee in its sole discretion, be cashed out on the basis of the change in control price, as defined in the 1996 Plan or 2001 Plan, as applicable.

Option Exercises and Year End Value Table

The following table provides information as to options exercised by the Named Executive Officers during fiscal 2003. None of the Named Executive Officers has held or exercised separate SARs. In addition, this table includes the number of shares covered by both exercisable and unexercisable stock options as of the record date. Also reported are the values for in the money options, which represent the positive spread between the exercise price of existing stock options and the fiscal year end price of the Company s Common Stock.

Name	Number of Shares Acquired on Exercise(#)	Value Realized($)	Number of Unexercised Options at Fiscal Year End		Value of Unexercised In-the-Money Options at Fiscal Year End($)(1)	
			Exercisable	Unexercisable	Exercisable	Unexercisable
Thomas G. Cigarran	90,000	$2,733,902	220,000	195,000	$6,414,875	$3,343,050
Ben R. Leedle, Jr.	0	0	77,313	305,625	1,769,909	2,989,031
Robert E. Stone	0	0	108,120	66,501	3,362,640	1,150,217
Donald B. Taylor	0	0	17,500	77,500	446,500	902,750
Mary A. Chaput	0	0	23,750	91,250	391,713	1,176,538

(1) Based upon the 4:00 p.m. closing bid price of the Company s Common Stock on The Nasdaq Stock Market on August 29, 2003 of $35.08 per share.

9

Table of Contents

Directors Compensation

Directors who are officers or employees of the Company receive no compensation, as such, for serving as members of the Board.

During fiscal 2003, directors who were not officers or employees of the Company (Outside Directors) each received (i) a $20,000 annual cash retainer; and (ii) pursuant to the 1996 Plan, a restricted stock award of Common Stock with a fair market value (as defined in the 1996 Plan) of $11,792, which was awarded on the date of the 2003 Annual Meeting of Stockholders.

The dollar value of the annual restricted stock award to Outside Directors under the 1996 Plan is adjusted annually by the percentage change from the previous year in the Consumer Price Index, Urban Wage Earners and Clerical Workers (1982-1984=100), All Cities Average (the Consumer Price Index); provided, however, the annual increase shall in no event be more than 6%.

Beginning in fiscal 2003, in addition to the cash retainer and restricted stock discussed above, committee chairmen will receive $4,500 for each Audit Committee meeting attended and $4,000 for each Compensation Committee or Nominating and Corporate Governance Committee meeting attended. Other Outside Directors will receive $2,500 for each Audit Committee meeting attended and $2,000 for each Compensation Committee or Nominating and Corporate Governance Committee meeting attended.

If the amendments to the 1996 Plan as set forth in Proposal No. 2 are approved by the stockholders at the Annual Meeting, beginning in fiscal 2003, Outside Directors will no longer receive an annual grant of restricted stock and will instead receive an option to purchase up to 15,000 shares of Common Stock upon their initial election or appointment to the Board of Directors and an option to purchase up to 5,000 shares of Common Stock annually thereafter. Mr. Ballantine and Dr. Bisgard were each appointed to the Board of Directors in June 2003 and were each granted an option to purchase 15,000 shares of Common Stock, subject to stockholder approval of the amendments to the 1996 Plan set forth in Proposal No. 2. In addition, the Outside Directors, other than Mr. Ballantine and Dr. Bisgard, will each receive on the date of the Annual Meeting an option to purchase 5,000 shares of Common Stock at an exercise price equal to the closing price of the Common Stock on September 2, 2003, subject to stockholder approval of the amendments to the 1996 Plan set forth in Proposal No. 2.

Prior to fiscal 2002, Henry Herr was an executive officer and director of the Company and served as chief financial officer. During fiscal 2003, Mr. Herr served as a part-time employee of the Company, providing it with advisory services with respect to ongoing business issues and special projects, and was paid $108,333 pursuant to an Employment Agreement dated November 20, 2001, between Mr. Herr and the Company.

Employment Agreements

The Company has employment agreements with all of its executive officers. The employment agreements, as amended and restated, with Mr. Cigarran, the Company s Chairman and Chief Executive Officer for fiscal 2003, and Mr. Stone, the Company s Executive Vice President, currently expire in August 2005, but contain a provision that automatically extends the term for one year on each successive anniversary date of the agreements (so that the term on such anniversary date will always be three years) unless canceled by the Company. In addition, the agreements are renewable for an additional five years at each executive s option upon the acquisition (as defined in the agreements) of the Company by an unrelated third party and provide that upon such an acquisition the executive may resign and receive up to 30 months of his base salary in a lump sum payment. The agreements provide that if the Company elects not to extend the executive s employment or to otherwise terminate the executive without just cause as defined in the agreements, the executive will receive his base salary, reduced by any salary earned by the executive from another employer, plus certain benefits for a period of the greater of two years or the remaining term of the respective agreement. The agreements also provide for certain payments upon the disability of the executive and require the Company to purchase a term life insurance policy on each executive s life in a minimum amount of $500,000 which is payable to the executive s estate or beneficiaries upon his death. The agreements contain restrictive provisions relating to the use of confidential information and competing against the Company within one year after termination of the executive s employment. The agreements expire in all respects on the date the executive becomes 65 years of age. Effective September 1, 2003, Mr. Cigarran retired as Chief Executive Officer of the Company but continues to be employed by the Company as Chairman.

The Company s employment agreement with Mr. Leedle, the Company s President and Chief Operating Officer for fiscal 2003, currently expires in August 2005, but contains a provision that automatically extends the term for one year on each successive anniversary date of the agreement (so that the term of the agreement will always be three years) unless canceled by the Company. The agreement provides that if the Company terminates the employment of Mr. Leedle without just cause (as defined in the agreement), or if Mr. Leedle terminates the agreement for good reason (as defined in the agreement) within 12 months following a change in control of the Company, he will receive his base salary, reduced by any salary earned from another employer, plus certain benefits for the greater of two years or the remaining term of the agreement. In addition, the agreement provides that if Mr. Leedle terminates the agreement for any reason within 12 months following a change in control of the Company, he will receive his base salary, reduced by any salary earned from another employer, for one year. The agreement also provides for certain payments upon the disability of the executive. The agreement contains restrictive provisions relating to the use of confidential information and competing against the Company during the period while any amounts are being paid to executive and for a period of one year thereafter. The agreement expires in all respects on the date the executive becomes 65 years of age.

The Company s employment agreement with Mr. Taylor, the Company s Executive Vice President of Business Development for fiscal 2003, expires in February 2004 but contains a provision that automatically extends the term for one year on each successive anniversary date of the agreement (so that the term of the agreement will always be one year) unless canceled by the Company. The agreement provides that if Mr. Taylor is terminated without just cause (as defined in the agreement) or if the Company elects not to extend Mr. Taylor s employment, he will receive his base salary plus certain benefits for the greater of one year or the remaining term of the agreement. If Mr. Taylor terminates the agreement for any reason within 12 months following a change in control of the Company, he will receive his base salary plus certain benefits for the greater of one year or the remaining term of the agreement. The agreement contains restrictive prov