HEALTHWAYS, INC
Form DEF 14A
April 15, 2010

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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

SCHEDULE 14A

Proxy Statement Pursuant to Section 14(a) of the Securities

Exchange Act of 1934 (Amendment No.)

Filed by the Registrant þ

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))**
þ Definitive Proxy Statement
o Definitive Additional Materials
o Soliciting Material Pursuant to §240.14a-12

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):

þ No fee required.

o Fee computed on table below per Exchange Act Rules 14a-6(i)(4) 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:

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701 Cool Springs Blvd
Franklin, Tennessee 37067

NOTICE OF ANNUAL MEETING OF STOCKHOLDERS

Stockholders of Healthways, Inc.:

The Annual Meeting of Stockholders of Healthways, Inc., a Delaware corporation (the Company), will be held at the Franklin Marriott Cool Springs, 700 Cool Springs Boulevard, Franklin, Tennessee, 37067 at 9:00 a.m., Central time, on Friday, May 28, 2010 for the following purposes:

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

(2) To consider and act upon a proposal to amend and restate the Company s 2007 Stock Incentive Plan to increase the number of shares of the Company s common stock available for issuance under the 2007 Stock Incentive Plan by 2,000,000 shares;

(3) To ratify the appointment of Ernst & Young LLP as the Company s independent registered public accounting firm for fiscal 2010;

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

In accordance with the Securities and Exchange Commission rules, we are mailing to many of our stockholders a Notice of Internet Availability instead of a paper copy of the Proxy Statement and our 2009 Annual Report. The Notice of Internet Availability contains instructions on how stockholders can access the proxy documents over the Internet as well as how stockholders can receive a paper copy of our proxy materials, including the Proxy Statement, the 2009 Annual Report and a form of proxy card. The proxy statement and form of proxy accompanying this notice are being furnished to stockholders on or about April 16, 2010. Only stockholders of record at the close of business on April 5, 2010 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 attend the meeting. If you do not plan to attend the meeting in person, you are requested to complete, sign and date the proxy card and return it promptly or to vote by toll-free telephone or internet as described in the proxy card.

By Order of the Board of Directors,

Thomas G. Cigarran
Chairman

April 16, 2010

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HEALTHWAYS, INC.
701 Cool Springs Boulevard
Franklin, Tennessee 37067
PROXY STATEMENT
FOR ANNUAL MEETING OF STOCKHOLDERS
Friday, May 28, 2010

The proxy is solicited by the Board of Directors on behalf of Healthways, Inc. for use at the Annual Meeting of Stockholders to be held on Friday, May 28, 2010, at 9:00 a.m., Central time, at the Franklin Marriott Cool Springs, 700 Cool Springs Boulevard, Franklin, Tennessee, 37067, and at all adjournments or postponements thereof, for the purposes set forth in the foregoing Notice of Annual Meeting of Stockholders. In accordance with the Securities and Exchange Commission rules, we are mailing to many of our stockholders a Notice of Internet Availability instead of a paper copy of the Proxy Statement and our 2009 Annual Report. The Notice of Internet Availability contains instructions on how stockholders can access the proxy documents over the Internet as well as how stockholders can receive a paper copy of our proxy materials, including the Proxy Statement, the 2009 Annual Report and a form of proxy card. Copies of the proxy, this proxy statement and the attached notice are being furnished to stockholders on or about April 16, 2010.

In addition to solicitations by mail or internet, certain of our directors, officers and employees, without additional remuneration, may solicit proxies by telephone, facsimile, email and personal interviews, but may reimburse brokerage firms and others for their reasonable expenses in forwarding solicitation material to beneficial owners. We will bear all costs of this solicitation, including expenses in connection with preparing, assembling and furnishing this proxy statement. In addition, the Company has retained Georgeson Shareholder Communications, Inc. to assist with the solicitation of proxies for a fee not to exceed $12,500, plus reimbursable expenses.

In the election of directors, you may vote FOR all of the nominees or your vote may be to WITHHOLD AUTHORITY with respect to one or more of the nominees. For the amendment and restatement of the 2007 Stock Incentive Plan and the ratification of the selection of Ernst & Young LLP, you may vote FOR, AGAINST or ABSTAIN. If you ABSTAIN, it has the same effect as a vote AGAINST. Shares represented by such proxies will be voted in accordance with the choices specified thereon. If you sign your proxy card without giving specific voting instructions, the shares represented by such proxies will be voted FOR the election of the director nominees set forth under Proposal No. 1, FOR the amendment and restatement of the 2007 Stock Incentive Plan set forth under Proposal No. 2, and FOR the ratification of Ernst & Young LLP as the independent registered public accounting firm for fiscal 2010 set forth under Proposal No. 3. We recently changed our fiscal year end to December 31 beginning in 2009. 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.

The quorum requirement for holding the Annual Meeting and transacting business is a majority of the outstanding shares entitled to be voted. The shares may be present in person or represented by proxy at the Annual Meeting. Both abstentions and broker non-votes are counted as present for the purpose of determining the presence of a quorum.

Votes are counted by an independent third party. In the election for directors, the three persons receiving the highest number of FOR votes will be elected. The proposals to amend and restate the 2007 Stock Incentive Plan and to ratify the selection of the auditors require the affirmative FOR vote of a majority of those shares present and entitled to vote.

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Generally, broker non-votes occur when shares held by a broker in street name for a beneficial owner are not voted with respect to a particular proposal because (1) the broker has not received voting instructions from the beneficial owner and (2) the broker lacks discretionary voting power to vote those shares. A broker is entitled to vote shares held for a beneficial owner on routine matters, such as the election of the Company s directors and the ratification of the appointment of Ernst & Young LLP as independent auditors, without instructions from the beneficial owner of those shares. On the other hand, a broker may not be entitled to vote shares held for a beneficial owner on certain non-routine items, such as the amendment and restatement of the 2007 Stock Incentive Plan, absent instructions from the beneficial owner of such shares. Broker non-votes count for purposes of determining whether a quorum exists but do not count as entitled to vote with respect to individual proposals.

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, by duly executing a proxy bearing a later date or by casting a new vote by toll-free telephone or the internet.

The preliminary voting results will be published on a Current Report on Form 8-K filed by the Company with the Securities and Exchange Commission within four business days of the 2010 Annual Meeting. The final voting results, if different than the preliminary voting results, will be published on an amended Current Report on Form 8-K within four business days of the date on which the final results are known.

Each share of our common stock, $.001 par value (the Common Stock), issued and outstanding on the record date, April 5, 2010, will be entitled to one vote on all matters to come before the meeting. Cumulative voting is not permitted. As of April 5, 2010, there were outstanding 34,101,905 shares of Common Stock.

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SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

The following table sets forth certain information with respect to those persons that we know 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 our Common Stock, our only voting security, and with respect to the beneficial ownership of our Common Stock by all directors and nominees, each of the executive officers named in the Summary Compensation Table and all of our executive officers and directors as a group. The information set forth below is based on ownership information we received as of April 5, 2010. 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 and Address of Beneficial Owner	Amount and Nature of Beneficial Ownership (1)	Percent of Class (1)
FMR LLC 82 Devonshire Street Boston, MA 02109	4,973,905(2)	14.59%
T. Rowe Price Associates, Inc. 100 East Pratt Street Baltimore, MD 21202	3,133,609(2)	9.19%
BlackRock, Inc. 40 East 52nd Street New York, NY 10022	3,020,303(2)	8.86%
Earnest Partners, LLC 1180 Peachtree Street NE, Suite 2300 Atlanta, GA 30309	2,600,490(2)	7.63%
Waddell & Reed Financial Inc. 6300 Lamar Avenue Overland Park, KS 66202	2,293,568(3)	6.73%
Ben R. Leedle, Jr.****	1,413,250(4)	3.98%
Thomas G. Cigarran**	625,465(5)	1.82%
Mary A. Chaput***	294,192(6)	*
William C. O Neil, Jr.**	264,272(7)	*
James E. Pope, M.D.***	141,729(8)	*
L. Ben Lytle**	97,544	*
C. Warren Neel, Ph. D.**	77,230(9)	*
John W. Ballantine**	65,000(10)	*

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	Amount and Nature of Beneficial Ownership (1)	Percent of Class (1)
Stefen F. Brueckner***	56,461(11)	*
Jay C. Bisgard, M.D.**	50,000(12)	*
Matthew E. Kelliher***	33,390(13)	*
Mary Jane England, M.D.**	25,000(14)	*
Alison Taunton-Rigby, Ph. D.**	20,000(15)	*
Anne M. Wilkins***	18,264(16)	*
John A. Wickens**	16,100(17)	*
William Novelli**	0	*
All directors and executive officers as a group (19 persons)	3,402,463(18)	9.31%

* Indicates ownership of less than one percent of our 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 our 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 or other securities 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 or other securities held by our other directors and executive officers 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 Schedule 13G, dated December 31, 2009 filed with the Commission.

(3) Information with respect to stock ownership is based upon a Schedule 13G, dated March 31, 2010 filed with the Commission.

(4) Includes 1,369,154 shares issuable upon the exercise of outstanding options.

(5) Includes 300,646 shares issuable upon the exercise of outstanding options.

(6) Includes 265,874 shares issuable upon the exercise of outstanding options and 13,088 shares held jointly by

Ms. Chaput and her husband.

(7) Includes 30,000 shares issuable upon the

exercise of outstanding options.

(8) Includes 135,555 shares issuable upon the exercise of outstanding options.

(9) Includes 30,000 shares issuable upon the exercise of outstanding options.

(10) Includes 45,000 shares issuable upon the exercise of outstanding options and 20,000 shares held in trust.

(11) Includes 56,250 shares issuable upon the exercise of outstanding options.

(12) Includes 45,000 shares issuable upon the exercise of outstanding options and 5,000 shares held in trust.

(13) Includes 32,876 shares issuable upon the exercise of outstanding options.

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(14) Includes 25,000 shares issuable upon the exercise of outstanding options.

(15) Includes 20,000 shares issuable upon the exercise of outstanding options.

(16) Includes 10,840 shares issuable upon the exercise of outstanding options.

(17) Includes 15,000 shares issuable upon the exercise of outstanding options and 1,100 shares held jointly by Mr. Wickens and his wife.

(18) Includes 2,426,366 shares issuable upon the exercise of outstanding options.

CORPORATE GOVERNANCE

Board of Directors Information

Our Board of Directors held ten meetings during fiscal 2009. All of the members of the Board of Directors except Messrs. Cigarran, Leedle, and Lytle are independent, as defined by applicable law and the NASDAQ Global Select Market (NASDAQ) listing standards. The Board of Directors has a Nominating and Corporate Governance Committee, an Audit Committee and a Compensation Committee.

Each of our incumbent directors, with the exception of Mr. Lytle, attended at least 75% of the aggregate of the total number of meetings held during fiscal 2009 by the Board of Directors and each committee of which such director was a member for the entire fiscal year.

Leadership Structure

We believe our board leadership structure is appropriate in light of the Company s business. Our Board of Directors Corporate Governance Guidelines provide that our Board size should consist of at least three and no more than twelve directors which provides for the optimal exchange of ideas without stifling cooperation. While our Board of Directors Corporate Governance Guidelines provide flexibility in who may serve as Chairman of the Board, we do not presently combine the roles of Chairman and CEO, and our current Chairman, Thomas Cigarran, has served in his capacity since 1988, and as a director since our founding, giving our Board consistent leadership. Our Board of Directors Corporate Governance Guidelines set forth in greater detail the responsibilities of our Board. Our Board of Directors Corporate Governance Guidelines are available under Corporate Governance accessible through the Investors link on the Company s website at www.healthways.com.

Risk Oversight

The Company is exposed to a number of risks, including economic, environmental, operational, and regulatory risks, among others. Management is responsible for the day-to-day management of the risks the Company faces, while the Board as a whole is responsible for the oversight of such risk. Our Audit, Compensation and Nominating and Corporate Governance Committees, however, each play a significant role in assisting the Board to fulfill its oversight responsibilities. Our Audit Committee, for example is responsible for overseeing the accounting, financial, legal, and regulatory risks the Company faces. The Audit Committee receives reports from management and outside auditors regarding any major issues concerning the adequacy of the Company s internal controls over financial reporting. The Audit Committee also has complete access to management in discharging its duties and provides regular reports to the Board. Our Compensation Committee assists the Board with risk oversight by annually reviewing the compensation philosophy of the Company and evaluating and providing recommendations on executive compensation as well as producing an annual report on executive compensation to be included in our annual meeting proxy statement. The Compensation Committee regularly reports its activities to the full Board. Our Nominating

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and Corporate Governance Committee assists with risk oversight by managing Board structure and organization, the criteria for selecting new members to the Board and any Board committees, determining compensation for directors, evaluating Board members, and annually reviewing the corporate governance principles of the Company and recommending changes when appropriate. The Nominating and Corporate Governance Committee regularly provides reports to the Board. The activities of each of our committees are set forth in greater detail in each of their respective charters and are available under Corporate Governance accessible through the Investors link on the Company s website at www.healthways.com.

Committees of the Board of Directors

Compensation Committee

During fiscal 2009, the Compensation Committee consisted of Drs. Bisgard, England, Neel and Taunton-Rigby and Mr. Novelli, who was appointed to the committee in August 2009 in connection with his appointment to the Board of Directors, and was chaired by Dr. Bisgard. As discussed in Compensation Discussion and Analysis, all of the directors on the Compensation Committee are non-employee directors as defined in Rule 16b-3 of the rules promulgated under the Securities Exchange Act of 1934, as amended, outside directors for purposes of regulations promulgated pursuant to Section 162(m) of the Internal Revenue Code of 1986, as amended, and independent directors as defined in the NASDAQ corporate governance listing standards, in each case as determined by our Board of Directors. The Compensation Committee is responsible for overseeing our overall compensation strategies and policies, evaluating the performance of our executive officers and recommending to the independent directors the compensation of each of our executive officers and administering our equity-based incentive plans, among other things. The Compensation Committee s Charter, which is reviewed annually by the Compensation Committee and is available on our website at www.healthways.com, provides a detailed description of its duties and responsibilities. The Compensation Committee held six meetings during fiscal 2009.

Nominating and Corporate Governance Committee

During fiscal 2009, the Nominating and Corporate Governance Committee consisted of Drs. England and Taunton-Rigby and Messrs. O Neil, Wickens, Ballantine, and Novelli, who was appointed to the committee in August 2009 in connection with his appointment to the Board of Directors, and was chaired by Dr. England. All of the directors on the Nominating and Corporate Governance Committee are independent directors as defined under applicable law and NASDAQ listing standards. The Nominating and Corporate Governance Committee s responsibilities include identifying individuals qualified to become members of the Board of Directors and recommending such individuals to the Board of Directors for election to the Board of Directors and developing and recommending to the Board of Directors corporate governance principles applicable to the Company. The Nominating and Corporate Governance Committee Charter, which is reviewed annually by the Nominating and Corporate Governance Committee and is available on the Company s website at www.healthways.com, provides a detailed description of the Nominating and Corporate Governance Committee s responsibilities and sets forth the director nomination process. The Nominating and Corporate Governance Committee held four meetings during fiscal 2009.

Audit Committee

During fiscal 2009, the Audit Committee consisted of Messrs. O Neil, Ballantine and Wickens and Drs. Bisgard and Neel, each of whom is independent as defined by applicable law and the NASDAQ listing standards, and was chaired by Mr. Ballantine. We have, 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 our independent registered public accounting firm and management to review our consolidated financial statements, the quality and integrity of our accounting, auditing and financial reporting process, and our systems of internal controls. The Board of Directors has determined that Messrs. O Neil and Ballantine and Drs. Bisgard and Neel each qualify as an audit committee financial expert, as defined by the regulations of the Commission. The Audit Committee held ten meetings during fiscal 2009. The Audit Committee has adopted a Charter that provides a detailed description of its responsibilities, which is reviewed annually by the Audit Committee, and is available on our website at www.healthways.com.

Corporate Governance Guidelines

The Board of Directors has adopted Corporate Governance Guidelines to assist the Board of Directors in the exercise of its duties and responsibilities and to serve the best interests of the Company and its stockholders. These Corporate Governance Guidelines, which are available on our website at www.healthways.com, provide a framework for the conduct of the business of the Board of Directors.

Code of Conduct

We have 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 promote: honest and ethical conduct; full, fair, accurate, timely and understandable disclosure in reports and documents we file with the Commission and other public communications we make; compliance with applicable governmental laws, rules and regulations; prompt internal reporting of violations of the code; and accountability for adherence to the code, and to deter wrongdoing. A copy of our code of conduct, as well as any amendments thereto, can be obtained from our website at www.healthways.com.

Stockholder Nominees

The policy of the Nominating and Corporate Governance Committee is to consider properly submitted stockholder nominations for director candidates as described below under Identifying and Evaluating Nominees for Directors. Any stockholder nominations proposed for consideration by the Nominating and Corporate Governance Committee should be addressed to: Secretary, Healthways, Inc., 701 Cool Springs Boulevard, Franklin, Tennessee 37067. To be timely, director nominations for the Annual Meeting of Stockholders to be held in 2010 must be submitted within the time limits for stockholder proposals as set forth on page 74 of this Proxy Statement.

Director Qualifications

Under our Board of Directors Corporate Governance Guidelines and the Nominating and Corporate Governance Committee Charter, the Nominating and Corporate Governance Committee is responsible for determining the criteria for membership on our Board of Directors. Under such criteria, at least a majority of the members of the Board of Directors should be independent, and all members should have the highest professional and personal ethics and values consistent with our values and standards. Other criteria that will be considered are prior experience as a director, knowledge of our business and industry and broad experience at the operational, financial or policy making level in business. Diversity, age and skills in the context of the needs of the Board of Directors are also a consideration. While the Company s Board of Directors Corporate Governance Guidelines do not explicitly define diversity, it is the Nominating and Corporate Governance Committee s practice to seek director candidates who will contribute to a diversity of perspectives. The Nominating and Corporate Governance Committee considers diversity in the context of the Board as a whole and takes into account a candidate s personal characteristics and industry experience, with the intent of maintaining a Board that represents a broad range of viewpoints. Board members should also have sufficient time to devote to the affairs of the Company and to provide insight and practical wisdom based on experience. As such, in order to be active participants and perform all director duties responsibly, directors service on other boards of public companies is limited to three public company boards (excluding the Company).

Identifying and Evaluating Nominees for Directors

The Nominating and Corporate Governance Committee utilizes a variety of methods for identifying and evaluating nominees for director. The Nominating and Corporate Governance Committee regularly assesses the appropriate size of the Board of Directors, and whether any vacancies on the Board of Directors are expected due to retirement or otherwise. In the event that vacancies are anticipated, or otherwise arise, the Nominating and Corporate Governance Committee considers various potential candidates for director. Candidates may come to the attention of the Nominating and Corporate Governance Committee through current Board of Directors members, professional search firms, stockholders or other persons. These candidates are evaluated at regular or special meetings of the Nominating and Corporate Governance Committee and may be considered at any point during the year. As described above, the Nominating and Corporate Governance Committee considers properly submitted stockholder nominations for candidates for the Board of Directors. In evaluating nominations, the Nominating and Corporate Governance Committee uses the same criteria for all nominees, and the Nominating and Corporate Governance Committee seeks to achieve a balance of knowledge, experience and expertise on the Board of Directors.

There are no nominees for election to the Board of Directors who have not previously been elected by the stockholders.

Directors Attendance at Annual Meetings of Stockholders

Although directors are invited and are always encouraged to attend the annual stockholder meetings, we do not require their attendance. All of the directors attended the 2009 Annual Meeting of Stockholders held on January 29, 2009, with the exception of one director who was not able to attend due to travel delays.

Communications With the Board of Directors

Stockholders may communicate with the Board of Directors by submitting a letter in writing addressed to: Chairman of the Board of Directors, Healthways, Inc., 701 Cool Springs Boulevard, Franklin, Tennessee 37067. If the communication relates to the Company s ethics or conduct, financial statements, accounting practices or internal controls, the communication may be submitted in writing addressed to: Audit Committee Chairman, Healthways, Inc., 701 Cool Springs Boulevard, Franklin, Tennessee 37067. Stockholder communications may be submitted confidentially or anonymously.

Stock Retention Guidelines

To further align officers interests with stockholders interests, in August 2005 the Board of Directors adopted stock retention guidelines for officers. As amended, the guidelines require officers to maintain a minimum ownership in the Company s stock based on a multiple of their base salary (at least 2.5 times base salary for Named Executive Officers and 4 times base salary for the Chief Executive Officer). Officers must retain 75% of the net number of shares acquired (after payment of exercise price, if any, and taxes) upon the exercise of stock options and vesting of restricted stock units granted on or after August 24, 2005 until they reach the required multiple of base salary. Officers who do not comply with the guidelines may not be eligible for future equity awards.

As a result of (i) the significant decline in the Company s stock price, (ii) the completion of the option tender offer discussed in Compensation Discussion and Analysis , (iii) the decrease in the percentage of equity issued as part of our long-term incentive awards due to the limitation in the availability of shares under our 2007 Stock Incentive Plan and (iv) the completion of the update to our broad-based compensation structure as well as significant changes in the titling structure of our officers, the Company is in the process of reviewing its stock retention guidelines to ensure that the established stock retention guidelines are appropriate and remains committed to retention guidelines.

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Evaluations of Board and Committee Performance

Each year the Nominating and Corporate Governance Committee of our Board of Directors conducts an evaluation process focusing on the effectiveness of the Board of Directors as a whole, the performance of each committee of the Board of Directors and the performance of each individual Board member. The manner of the evaluation is determined annually by the Nominating and Corporate Governance Committee in order to ensure the procurement of accurate and relevant information. The evaluation process is designed to facilitate ongoing, systematic examination of the Board of Directors, each committee s effectiveness and accountability, and each individual s performance, and to identify opportunities for improvement. The Nominating and Corporate Governance Committee designed and coordinated the evaluations for the Board of Directors, committees, and individual directors, and the Chair of the Nominating and Corporate Governance Committee reported the results to each committee, the full Board of Directors, and each individual director.

Certain Relationships and Related Transactions

Since the beginning of the last fiscal year, we are aware of the following related party transactions between us and our directors, executive officers, 5% stockholders or their family members which require disclosure under Item 404 of Regulation S-K under the Securities Exchange Act of 1934.

Christopher Cigarran, Vice President of Human Resources, is the son of Chairman Thomas G. Cigarran and received aggregate cash compensation of approximately $88,732 (consisting of salary and a run-out payment of an employee deferred cash award) during the four months ended December 31, 2008 and approximately $306,688 (consisting of salary, Capital Accumulation Plan distributions, and payment for stock options tendered as part of the Company s purchase of outstanding employee-granted stock options) during fiscal 2009. He also receives equity awards commensurate with our other vice presidents who are direct reports to the Chief Executive Officer consistent with his job grade.

Robert L. Chaput, who previously served as our Executive Vice President, Operations Services, but left the Company in December 2008, is the spouse of Mary A. Chaput, our Chief Financial Officer. Mr. Chaput and Ms. Chaput received aggregate cash compensation during the four months ended December 31, 2008 of approximately $128,287 and $129,990 (both consisting of salary), respectively, and aggregate cash compensation during fiscal 2009 of approximately $565,029 (consisting of salary, severance, Capital Accumulation Plan distributions, Performance Cash award, and payment for stock options tendered as part of the Company s purchase of outstanding employee-granted stock options) and $563,159 (consisting of salary, Capital Accumulation Plan distributions, Performance Cash award, and payment for stock options tendered as part of the Company s purchase of outstanding employee-granted stock options), respectively. Ms. Chaput receives equity awards commensurate with our other vice presidents who are direct reports to the Chief Executive Officer consistent with her job grade. Upon his separation from the Company, vesting was accelerated for Mr. Chaput s outstanding, unvested equity grants in accordance with his employment agreement.

Pursuant to its written charter, the Audit Committee reviews and either ratifies, approves or disapproves all Interested Transactions, which are generally defined to include any transaction, arrangement or relationship or series of similar transactions, arrangements or relationships (including any indebtedness or guarantee of indebtedness) in which:

the aggregate amount involved exceeded, or will or may be expected to exceed, $120,000 in any calendar year;

the Company was, is or will be a participant; and

any Related Party had, has or will have a direct or indirect interest.

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For purposes of the policy, a Related Party is any:

- person who is or was (since the beginning of the last fiscal year for which the Company has filed a Form 10-K and proxy statement, even if they do not presently serve in that role) an executive officer, director or nominee for election as a director;

- greater than 5% beneficial owner of the Company s common stock;

- immediate family member of any of the foregoing; or

- firm, corporation or other entity in which any of the foregoing persons is employed or is a general partner, managing member or principal or in a similar position or in which such person has a 10% or greater beneficial ownership interest.

In determining whether to approve or ratify an Interested Transaction under the policy, the Audit Committee considers the relevant information and facts available to it regarding the Interested Transaction and takes into account factors such as the Related Party s relationship to the Company and interest (direct or indirect) in the transaction, the terms of the transaction and the benefits to the Company of the transaction. No director participates in the approval of an Interested Transaction for which he or she is a Related Party or otherwise has a direct or indirect interest.

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PROPOSAL NO. 1
ELECTION OF DIRECTORS

Our Certificate of Incorporation provides for a staggered Board of Directors. Each director serves a three-year term or until his/her successor is elected and qualified. The directors to be elected at the 2010 Annual Meeting of Stockholders will serve until the Annual Meeting of Stockholders in 2013 (the Class I directors). Three directors currently serving on the Board of Directors will continue to serve until the Annual Meeting of Stockholders in 2011 (the Class II directors), and four directors currently serving on the Board of Directors will continue to serve until the Annual Meeting of Stockholders in 2012 (the Class III directors).

Unless contrary instructions are received, shares of our Common Stock 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 our Board of Directors 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 and were previously elected by the stockholders. Certain information relating to the nominees, which the individuals named have furnished to us, is set forth below. Mr. Lytle will continue as a director until the date of the 2010 Annual Meeting of Stockholders but is not standing for re-election to the Board of Directors; however, we expect that he will continue serving as a consultant to the Company, as described on page 57. **The Board of Directors recommends a vote FOR each nominee.**

Name of Director	Class of Director; Annual Meeting at Which Term Will Expire	Background Information & Specific Skills, Experience and Qualifications
William C. O Neil, Jr.	I; 2013	Mr. O Neil, 75, 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 American HomePatient Inc., where he is a member of the Audit Committee, and Advocat, Inc., where he serves as Chair of the Audit Committee. Mr. O Neil is a member of the Compensation Committee on each of these boards of directors. Mr. O Neil s specific skills, experience, and qualifications to serve as a director of the Company include his nearly ten years of leadership experience at ClinTrials Research, Inc., a global provider of

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Name of Director	Class of Director; Annual Meeting at Which Term Will Expire	Background Information & Specific Skills, Experience and Qualifications
		preclinical and clinical research services to pharmaceutical, biotechnology and medical device clients. Additionally Mr. O Neil s service on a number of boards in the healthcare industry coupled with various other leadership roles he has held in the industry lends specific insight to our Board.
Ben R. Leedle, Jr.	I; 2013	Mr. Leedle, 49, has served as director of the Company since August 2003, and as Chief Executive Officer of the Company since September 2003. Mr. Leedle served as President of the Company from May 2002 through October 2008. 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. Mr. Leedle s specific skills, experience, and qualifications to serve as a director of the Company include his nearly thirteen years of senior leadership experience at the Company. During this time Mr. Leedle has effectively led the Company through significant growth as well as managed the Company in the current economic environment. Additionally, Mr. Leedle has overseen a talented group of senior executives. Given his extensive leadership experience and institutional knowledge of the Company we believe Mr. Leedle should serve as a director of the Company.
Alison Taunton-Rigby, Ph. D.	I; 2013	Dr. Taunton-Rigby, 65, has been a director of the Company since November 2005. Dr. Taunton-Rigby is the founder and Chief Executive Officer of RiboNovix, Inc., a private biotechnology company, since 2003. From 2001 to 2003, she served as the Chief Executive Officer of CMT, Inc., a private medical device company. From 1995 to 2000, Dr. Taunton-Rigby served as the Chief Executive Officer of Aquila Biopharmaceuticals, Inc., (Cambridge Biotech Corporation) a publicly-traded biotechnology company. She serves on the boards of directors of the RiverSource Funds, Abt Associates, where she serves as Chair of the Audit & Finance Committee, and Idera

Pharmaceuticals, Inc., where she is a member of both the Audit and Compensation Committees. Dr. Taunton-Rigby also serves on the board of The Children s Hospital, Boston.

Name of Director	Class of Director; Annual Meeting at Which Term Will Expire	Background Information & Specific Skills, Experience and Qualifications
		Dr. Taunton-Rigby s specific skills, experience, and qualifications to serve as a director of the Company include her over 25 years of senior executive experience in the biotechnology industry. As noted above, Dr. Taunton-Rigby is the founder and Chief Executive Officer of RiboNovix, Inc., which seeks to discover and develop new anti-infectives. Dr. Taunton-Rigby also has significant experience on the boards of a variety of companies in the healthcare industry. We believe Dr. Taunton-Rigby s entrepreneurial and leadership experience in the biotechnology industry coupled with her board experience at other healthcare companies allows her to provide insight to our Board on the perspectives of other areas within the healthcare industry.

The following seven 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 us by the individuals named, and we have also included the specific skills, qualifications, and experience of each of our directors.

Name of Director	Class of Director; Annual Meeting at Which Term Will Expire	Background Information
Thomas G. Cigarran	II; 2011	Mr. Cigarran, 67, has served as Chairman of the Company since August 1988 and as a director since 1981. Mr. Cigarran served as Chief Executive Officer of the Company from August 1988 to September 2003. Mr. Cigarran served as President of the Company from September 1981 to June 2001. Mr. Cigarran also serves as chairman of the Board of Directors of AmSurg Corp. Mr. Cigarran s specific skills, experience, and qualifications to serve as a director of the Company include his extensive historical knowledge of the Company as evidenced by his service on our Board since the Company s founding. Additionally, Mr. Cigarran has a number of years of extensive leadership experience at the Company, including having served as Chief Executive Officer for over 15 years. We

Name of Director	Class of Director; Annual Meeting at Which Term Will Expire	Background Information
		believe Mr. Cigarran s historical knowledge of the Company and strong leadership experience at the Company provides our Board with invaluable insight on the evolution of the Company while also highlighting opportunities for its growth.
C. Warren Neel, Ph. D.	II; 2011	Dr. Neel, 71, has been a director of the Company since October 1991. Dr. Neel is currently Executive Director of the Center for Corporate Governance at the University of Tennessee and the Interim President at Lincoln Memorial University. He served as the Commissioner of Finance and Administration for the State of Tennessee from July 2000 until February 2003. He served as Dean of the College of Business Administration at The University of Tennessee in Knoxville from 1977 to 2002. Dr. Neel is also a director of Saks, Inc. where he serves as Chair of the Audit Committee and as a member of the Governance Committee. Dr. Neel s specific skills, experience, and qualifications to serve as a director of the Company include his significant leadership experience in business. As Commissioner of Finance and Administration for the State of Tennessee, Dr. Neel served as the governor s Chief Financial Officer managing a budget of over $20 billion. In his current position, Dr. Neel helped establish the Center for Corporate Governance at The University of Tennessee. Additionally, Dr. Neel s academic research has been published in a variety of journals. Because of Dr. Neel s strong business acumen and leadership in a variety of roles, we believe he enhances our Board s understanding of complex financial data and management.
John W. Ballantine	II; 2011	Mr. Ballantine, 64, 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. He serves as a director of DWS Funds, where he is Chairman of the Equity Oversight Committee,, and Portland General Electric, where he serves on the Compensation Committee and is Chairman of the Finance Committee. Mr. Ballantine also currently serves as a member of the Executive Network advisory board of Glencoe Capital, a

private equity firm, and a member of the Board of Trustees of

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Name of Director	Class of Director; Annual Meeting at Which Term Will Expire	Background Information
		Window to the World Communications, Inc, a non-profit corporation. Mr. Ballantine s specific skills, experience, and qualifications to serve as a director of the Company include his leadership as Executive Vice President and Chief Risk Management Officer of First Chicago NBD Corporation, in addition to his board leadership roles at a number of companies including Glencoe Capital, a private equity firm and DWS Funds, an asset management firm. We believe Mr. Ballantine s experience at these firms enhances the Board s understanding of the perspective of institutional investors.
Jay C. Bisgard, M.D.	III; 2012	Dr. Bisgard, 67, 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. Dr. Bisgard s specific skills, experience, and qualifications to serve as a director of the Company include his over thirty years experience in the healthcare industry in both the private and public sectors, including serving as a director of a number of companies as well as serving as Deputy Assistant Secretary of Defense (Health Affairs). Dr. Bisgard is certified in aerospace medicine and his primary interests have been in health policy and resource management. We believe his extensive career in the healthcare industry as well as his interests in health policy and resource management provides critical insight to our Board on both the historical and current trends within the healthcare industry.
Mary Jane England, M.D.	III; 2012	Dr. England, 71, has been a director of the Company since September 2004. Dr. England has served as President of Regis College in Weston, Massachusetts

since July 2001. From 1990 to 2001, she served as President of the Washington Business Group on

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Name of Director	Class of Director; Annual Meeting at Which Term Will Expire	Background Information
		Health. Prior to 1990, she served as Vice President of Prudential Insurance Co., Associate Dean at the John F. Kennedy School of Government at Harvard, Commissioner of Social Services, and Associate Commissioner of Mental Health in Massachusetts. She serves on the board of directors of NSF International. Dr. England s specific skills, experience, and qualifications to serve as a director of the Company include her significant experience in the healthcare industry. For over ten years, Dr. England served as the President of the Washington Business Group on Health, which is a non-profit devoted to representing the interest of large employers on national health policy issues. Additionally, Dr. England serves on the board of NSF International, which is a non-profit involved in standards development, product certification, education and risk-management for public health and safety. We believe Dr. England s experience at the Washington Business Group on Health as well as in other positions provide our Board with unique insight on how the interests of companies within the healthcare industry are effectively represented.
John A. Wickens	III; 2012	Mr. Wickens, 53, has been a director of the Company since February 2007. He was National Health Plan President of UnitedHealth Group from January 2004 to February 2006 and South Division President from September 2001 to December 2003. Prior to that time, he served in various capacities at UnitedHealth Group beginning in 1995. Mr. Wickens currently serves on the boards of directors of Cancer Support Community, U.S.A. Track & Field Foundation, and UnitedHealthcare Children s Foundation. Mr. Wickens specific skills, experience, and qualifications to serve as a director of the Company include his varied leadership roles at UnitedHealth Group, a diversified health and well-being company. We believe Mr. Wickens recent experience at UnitedHealth Group gives our Board insight in how other companies within the healthcare industry both manage and respond to the numerous challenges faced in the current economic

and political climate.

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Name of Director	Class of Director; Annual Meeting at Which Term Will Expire	Background Information
William Novelli	III; 2012	Mr. Novelli, 68, has been a director of the Company since August 2009. He has served as a professor at the McDonough School of Business at Georgetown University since August 2009. From 2001-2009, he served as the Chief Executive Officer of AARP. Mr. Novelli currently serves on the board of directors of Campaign for Tobacco-Free Kids. Mr. Novelli s specific skills, experience, and qualifications to serve as a director of the Company are evidenced by his many years of executive leadership, most recently serving as the Chief Executive Officer of AARP, as mentioned above. Additionally, Mr. Novelli s current leadership as chairman of the board of directors of the Campaign for Tobacco-Free Kids, a leader in fighting to reduce tobacco use and its consequences in the world, enhances our Board s own understanding of how other organizations promote improved health and wellness, which is the core of the Company s business.

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Executive Compensation

Compensation Discussion and Analysis

This section explains the compensation of our Named Executive Officers for fiscal 2009, who are:

Name	Position
Ben R. Leedle, Jr.	Chief Executive Officer
Mary A. Chaput	Vice President, Chief Financial Officer
Matthew E. Kelliher	President International
Anne M. Wilkins	Vice President, Strategy & Marketing
Stefen F. Brueckner	President and Chief Operating Officer
James E. Pope, MD	Vice President, Science & Value

The Compensation Committee (the Committee) of our Board sets and administers the policies that govern compensation of our executive officers, including:

- Annually evaluating the performance of the CEO and other executive officers and recommending to the independent directors of the Board the compensation level for each such person based on this evaluation;
- Reviewing and recommending to the Board for approval any changes in executive officer incentive compensation plans and equity-based plans; and
- Reviewing and approving all equity-based compensation plans of the Company and granting equity-based awards pursuant to such plans.

The Committee seeks to assure that compensation paid to the executive officers is fair, reasonable and competitive, and is linked to increasing long-term stockholder value. Only independent directors serve on the Committee.

Compensation Philosophy. The Committee reviews its compensation philosophy periodically, and at least on an annual basis. The Committee has determined that the best course of action at this time is to align compensation with the unique talent and business needs of Healthways, without encouraging excessive or unnecessary risk-taking. We believe this is best accomplished through the following objectives:

- To attract, retain and motivate talented executives by providing overall compensation that is performance-based, fair to the executives and the stockholders, and takes into consideration both individual and corporate performance;
- To closely align the interests of executives with those of stockholders and the long-term interests of the Company through a significant share of total compensation based on long-term incentives, including both equity and operational performance-based cash plans; and
- To provide appropriate incentives for executives to work toward the achievement of our annual financial performance and business goals based on our annual budget in a quality and sustainable manner only if our publicly disclosed financial expectations are attained.

We use the following compensation vehicles to meet these objectives:

- Appropriate base salaries;
- Short-term incentives, based upon achieving EPS targets, where the plan is not funded until our publicly disclosed financial expectations are met; and

Long-term incentives where stock options and restricted stock are the equity vehicles used along with a performance cash plan based upon the achievement of our financial performance and/or business goals. In order to focus our executives on the long-term sustainable performance of the business, a significant share of our compensation plans are focused on long-term incentives.

The Committee reviews annually our executive compensation policies in light of our financial performance, annual budget, and the compensation policies of similar companies. The compensation of individual executives is then reviewed annually by the Committee in light of such executive s performance and the Committee s executive compensation policies for that year. The Committee believes that our compensation strategies have been effective in promoting retention and are aligned with the Committee s compensation philosophy and our company culture, which places a significant value on highly-performing individuals.

Overview of Compensation Process. The Committee annually reviews the compensation of the Chief Executive Officer, the other executive officers and the direct reports to the Chief Executive Officer to ensure they are rewarded appropriately for their contributions to the Company. The Committee conducts this review and compensation determination through a comprehensive process involving a series of meetings typically occurring in the last quarter of the preceding year and the first quarter of the current year.

Compensation Benchmarking Process. With respect to annual salary and the various short-term and long-term incentive awards available to the Named Executive Officers, the Committee considers the Company s overall performance and the executive s performance in determining the compensation awarded. In addition, as part of the executive compensation process, the Committee reviews the Named Executive Officers compensation against external references to ensure that the compensation is appropriate. These external comparisons only provide a point of reference as we do not use specific formulas to determine compensation levels reflecting the responsibilities of a particular officer position.

The external references include commercially available, broad-based, comparative market compensation survey reports developed by independent professional organizations (collectively, the Survey Reports) and a proxy analysis that examines and compares various elements of the compensation of our senior management to that of a group of publicly-traded peer group companies.

The Survey Reports cover a significant number of companies over a broad range of industries. For purposes of the Committee s review, management provides information that combines and reflects market data from the Survey Reports to balance data outliers. The Committee believes that the size of the business and scope of the executive officer s responsibility are the most important external factors for analyzing compensation for executive officers. In establishing appropriate compensation targets for our executives, the Committee correlates business revenue and compensation across various industries to compare executives with responsibilities of similar size and scope.

In addition to the Survey Reports, the Committee conducts a proxy analysis that consists of the following publicly-traded peer group:

Allscripts Healthcare Solutions Inc	Heartland Payment Systems Inc
Amedisys Inc	Inventiv Health Inc
AMN Healthcare Services Inc	LHC Group Inc
Amsurg Corp	Odyssey Healthcare Inc
Cerner Corp / MOI	Psychiatric Solutions Inc
Chemed Corp	Res Care Inc / KY
Corvel Corp	Sun Healthcare Group Inc
CSG Systems International Inc	Sykes Enterprises Inc
Eclipsys Corp	Syntel Inc
Euronet Worldwide Inc	Teletech Holdings Inc

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Fair Isaac Corp	Total System Services Inc
Gentiva Health Services Inc	WebMD Health Corp
Global Payments Inc	

As described more fully below, in October 2008, the Committee engaged Hewitt Associates (Hewitt), an independent executive compensation consulting firm, to assist with selecting the peer group. Due to the relatively small number of publicly-traded direct competitors in our industry and the relative size of such competitors, the Committee believed that a pure industry peer group would not necessarily create a meaningful comparison group. Absent an industry peer group, the Committee concluded that the most comparable companies with respect to executive pay are companies whose business size, growth and complexity are similar to the Company s. As a result, the companies above were selected to provide a reference point for compensation comparison purposes because of their similarity to the Company in terms of size (based on revenues, market capitalization, number of employees, and/or operating income), industry classification, growth and financial performance and/or the existence of publicly available data. The Committee reviewed and reconfirmed the above list in November 2009.

Role of External Consultants. In August 2008, the Committee initiated a request for proposal (RFP) process to engage an independent executive compensation consultant to review the Company s executive compensation program. Several executive compensation consulting firms submitted RFPs with the finalists making presentations to members of the Committee and management. After consulting with management, the Committee selected Hewitt to serve as the Committee s independent executive consultant.

In the fall of 2008, the Committee worked with Hewitt, and together with the independent directors, examined the Company s executive compensation program. At the Committee s request, Hewitt performed several analyses, including peer group and market comparisons, internal pay equity, and short- and long-term incentive structure modeling. These analyses assisted the Committee in determining if such compensation programs were advisable based on our current and expected financial position and strategic goals, as well as informing the Committee of developments in corporate governance and compensation design. Following the Committee s examination of our compensation structure, the Committee determined that, in order to maintain a competitive position in the healthcare services industry and continue to attract and retain qualified colleagues, it was appropriate to adjust our total compensation program to moderately increase the short-term incentive opportunity available to our Named Executive Officers and revise the mix of stock options and restricted stock units granted as part of our long-term incentive compensation program. The Committee also elected to replace the retrospective performance-based cash award with a new prospective performance-based cash award. The aggregate amounts of such awards would vary with Company and individual performance and with the level of responsibility. The intent was to deliver long-term incentive awards that, when combined with base salaries and annual short-term incentive awards, would result in total compensation levels that were externally competitive and appropriate based on both the Company s and the individual performance**.**

The fees incurred for the services Hewitt provided to the Committee during the period of September 1, 2008 through December 31, 2009 totaled approximately $289,000. In addition, Hewitt provided services to the Company related to an update of our broad-based compensation structure, revisions to our domestic sales incentive plan design, consulting support related to an acquisition, and miscellaneous ad-hoc market analysis/job pricing. These services were recommended by management and did not require approval by the Committee. Total fees for all services provided during the period of September 1, 2008 through December 31, 2009 not related to the services provided to the Committee were approximately $441,000. A requirement of the Committee and management, as confirmed through the RFP process that lead to the selection of Hewitt, was that the consulting individuals serving the Committee were independent of the consulting individuals serving management.

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Role of Management. As part of the compensation process, the Committee solicits the views and recommendations of our Chief Executive Officer when determining the compensation of each of our Named Executive Officers, given his insight into their key contributions and performance. The Chief Executive Officer summarizes his assessment of the performance during the previous year of each of his direct reports, including each of the Named Executive Officers, based on the established performance objectives that were previously approved by the Committee for that year. The Chief Executive Officer also provides his recommendations on any compensation adjustments for each of his direct reports, including each of the Named Executive Officers. Following the Chief Executive Officer s presentation, the Committee meets to review and discuss the performance of each Named Executive Officer, and recommend to the independent directors any compensation adjustments for each of the Named Executive Officers, based on such factors as the competitive compensation analysis, the Chief Executive Officer s and the Committee s assessment of individual performance, and the Company s performance.

CEO Compensation Determination. The process for determining any compensation adjustments for the Chief Executive Officer is similar to the process described above for our other Named Executive Officers, except that the Chief Executive Officer does not provide the Committee with a recommendation. The Chief Executive Officer presents a self-assessment of his performance during the year to the Committee based on the performance objectives previously approved by the Committee. For fiscal 2009, these performance objectives were based on maximizing stockholder value by meeting or exceeding revenue and earnings targets established by the Committee; maintaining our company culture; developing the Healthways brand; and planning effective short, intermediate and long-term strategies. During the first quarter of each fiscal year, the Committee meets in executive session to review the Chief Executive Officer s performance and discuss and recommend to the independent directors any compensation adjustment based on the competitive compensation analysis, its assessment of the Chief Executive Officer s performance in light of the pre-approved performance objectives, the Company s performance and the level of Chief Executive Officer compensation relative to our other Named Executive Officers.

Compensation Decisions for Fiscal 2009. In determining the compensation for the Named Executive Officers for fiscal 2009, the Committee utilized the executive compensation structure established with the assistance of Hewitt as a guideline, together with its own assessment of (i) the performance, responsibilities, expectations and contribution of each Named Executive Officer with the assistance of management as described above, (ii) the competitiveness of the Company s executive compensation and (iii) overall Company performance. The specific analysis regarding the components of total executive compensation for fiscal 2009 is described in detail below.

Base Salary. As discussed above, each year the Committee reviews and approves a revised annual salary plan for our Named Executive Officers, taking into account several factors, including prior year salary, responsibilities, performance against the individual objectives previously approved by the Committee, salaries paid by comparable companies for comparable positions, internal pay equity within the Company s overall pay scale, and the Company s recent financial performance. In determining whether an increase in base compensation for the Named Executive Officers (other than the Chief Executive Officer) was appropriate for fiscal 2009, the Committee reviewed recommendations of and consulted with the Chief Executive Officer. The Committee determined on the basis of discussions with the Chief Executive Officer and the experience of its members in business generally and with the Company specifically what it viewed to be appropriate levels of base compensation after taking into consideration the factors discussed above. Taking all of these factors into account, the Committee approved and recommended to the independent directors conservative base salary adjustments for our Named Executive Officers in the following amounts:

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Name	Fiscal 2009 Base Salary	Fiscal 2008 Base Salary	Percentage Increase/ Decrease
Ben R. Leedle, Jr.	$ 712,400	$ 685,000	4.0%
Mary A. Chaput	390,174	375,167	4.0%
Matthew Kelliher	366,950	348,381	5.3%
Anne M. Wilkins (1)	388,600	388,600	0.0%
Stefen F. Brueckner (2)	475,000	475,000	0.0%
James E. Pope, MD (3)	375,283	404,400	-7.2%

(1) Ms. Wilkins was hired on May 12, 2008 and was not provided with a pay increase for fiscal 2009.

(2) Mr. Brueckner was hired on October 31, 2008 and was not provided with a pay increase for fiscal 2009.

(3) Dr. Pope s reduction in base salary was related to his job change from Chief Operating Officer to Vice President, Science & Value.

Annual Cash Incentive Plan Compensation. Short-term incentive awards are offered to the Named Executive Officers to align their annual compensation with the Company s financial objectives for the current year. The change in our fiscal year start date from September 1 to January 1 (effective January 1, 2009), resulted in a partial transition year from September 1, 2008 to December 31, 2008. As a result, the fiscal 2009 short-term incentive plan was a 16-month plan covering the performance period of September 1, 2008 through December 31, 2009.

The 2009 short-term incentive plan was structured as a self-funded plan in that, upon achievement of a minimum level of earnings per share for our domestic business (Domestic EPS), a portion of incremental earnings go toward funding the short-term incentive pool. For fiscal 2009, our Named Executive Officers were eligible to earn cash bonuses provided that actual Domestic EPS exceeded our targeted Domestic EPS of $0.96. The Committee chose

Domestic EPS as the performance measure because it believes there is a strong correlation between Domestic EPS growth and growth in stockholder value. The Committee determined at the time it established the 2009 short-term incentive plan to exclude the impact of the Company s international operations on the short-term incentive targets for domestic employees as the international employees participate in a short-term incentive plan that is solely based upon performance of our international operations.

For fiscal 2009, our Chief Executive Officer was eligible to receive a target award of 70%, our President and Chief Operating Officer was eligible to receive a target award of 55%, and the remaining Named Executive Officers were eligible to receive a target award of 50% of their base salary for the performance period. In the event that the Company substantially exceeded its performance objectives, the Named Executive Officers could receive awards in excess of such amounts.

For fiscal 2009, short-term incentives paid to Named Executive Officers were as follows. This is the first short-term incentive payment to Named Executive Officers since fiscal 2006.

Name	Fiscal 2009 Short-Term Incentive Payment*
Ben Leedle, Jr.	$ 611,343
Mary A. Chaput	251,120
Matthew Kelliher	157,048
Anne M. Wilkins	240,790
Stefen F. Brueckner	287,498
James E. Pope, MD	237,590

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* For purposes of the short-term incentive, fiscal 2009 includes a 16-month performance period from September 1, 2008 through December 31, 2009 due to the fiscal year change.

Long-Term Incentive Compensation. As described above, one of our key compensation objectives is to provide long-term incentive compensation to strengthen and align the interests of our Named Executive Officers with the interests of our stockholders. To meet this objective, the Committee determined that long-term incentive compensation for fiscal 2009 for our Named Executive Officers should utilize the following combination of stock options, restricted stock units and performance-based cash awards:

Vehicle	Objective	Estimated Percentage of Long-Term Incentive Compensation
Stock options	Promote share price appreciation	25%
Restricted stock units	Minimize stockholder dilution, increase executive retention and promote share price appreciation	25%
Performance-based cash awards	Align executive awards with the Company s financial goals	50%

The Committee believes that our long-term incentive compensation program is a key component of our retention strategy and is integral to our ability to achieve our performance goals. The Committee also believes this mix of long-term compensation will reduce the dilutive impact of equity grants to management compared to equity grants consisting solely of stock options.

Long-term incentive awards are generally granted to eligible employees, including our Named Executive Officers, on an annual basis. These awards are generally made during the first fiscal quarter after the Committee has had the opportunity to review the full year results for the prior fiscal year and review the anticipated performance for the current fiscal year. Due to the recent change in the Company s fiscal year, the annual long-term incentive award was made on February 12, 2009. Awards are granted on the date of the Committee approval, and the exercise price is equal to the fair market value of the Company s common stock on the date of the grant. The Committee may also approve additional equity-based awards in certain special circumstances, such as upon an officer s initial employment with the Company, the promotion of an officer to a new position or in recognition of special contributions made by an officer.

The aggregate grant date fair value of the long-term incentive awards, which includes option awards, restricted stock units (based on the aggregate fair market value of the Company s common stock on the date of grant) and performance cash awards, granted to the Named Executive Officers was equal to 390% of fiscal 2009 base salary for Mr. Leedle and 220% of fiscal 2009 base salary for each of the other Named Executive Officers. The long-term incentive awards targets for each of the Named Executive Officers as a percentage of base salary were consistent with the long-term incentive guidelines approved in fiscal 2007.

Equity Awards. On February 12, 2009, non-qualified options for the purchase of the Company s common stock and restricted stock units of the Company s common stock were approved by the Committee and granted to our Named Executive Officers pursuant to our 2007 Stock Incentive Plan. In addition to the equity awards granted in accordance with the guidelines indicated above, there was a one-time discretionary grant of between 3,333 and 10,000 non-qualified stock options and between 1,667 and 5,000 restricted stock units provided to certain officers of the Company, including the Named Executive Officers (with the exception of the Chief Executive Officer and the Company s President and Chief Operating Officer), to maintain appropriate retention incentives in light of the recently completed purchase of outstanding

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employee-granted stock options that occurred in January 2009, as referenced below. Following are the equity awards granted to the Named Executive Officers in fiscal 2009:

Name	Number of Non-Qualified Stock Options Subject to Time-Based Vesting	Exercise Price[1]	Number of Restricted Stock Units Subject To Time-Based Vesting
Ben R. Leedle, Jr.	108,424	$ 11.57	53,724
Mary A. Chaput	43,498	$ 11.57	21,598
Matthew Kelliher	31,504	$ 11.57	15,610
Anne M. Wilkins	43,363	$ 11.57	21,531
Stefen F. Brueckner (2)	0		0
James E. Pope, MD	42,220	$ 11.57	20,965

(1) The exercise price per share is equal to the fair market value of the common stock on the date of the grant.

(2) Mr. Brueckner joined the Company on October 31, 2008. Per the terms of his employment agreement, he was awarded 225,000 non-qualified stock options with an exercise price of $10.10. As such, he did not receive an equity grant during the February 2009 annual grant, but did receive a

performance cash grant as referenced below.

The nonqualified stock options and restricted stock units are subject to the terms of the 2007 Stock Incentive Plan and the individual award agreements. The Committee believes equity grants should be reflective of the long-term strategy of the Company and be reflective of contemporary market practices. To achieve this objective, a four-year graded vesting schedule was put in place for each equity award. Specifically, each option vests 25% per year on each anniversary of the grant date, has a ten-year term, and has an exercise price equal to the fair market value of our common stock at the time of the grant, as determined by the closing price of our common stock on the NASDAQ on the grant date. Each restricted stock unit vests 25% per year on each anniversary of the grant date. Generally, all equity awards granted to Named Executive Officers fully vest in the event of a Change in Control, death, disability or in the event of early or normal retirement (as defined in the 2007 Plan). In addition, as provided in the employment agreements of our Named Executive Officers (other than Mr. Kelliher), in the event of a termination without cause or resignation by the executive for good reason, the equity awards would accelerate and fully vest. For a detailed discussion of potential severance and change of control benefits, see Potential Payments Upon Termination or Change in Control of the Company, beginning on page 42 of this Proxy Statement.

Prospective Performance Cash Awards. To further align Named Executive Officers compensation with long-term stockholder interests while working within the limitations of our current equity pool, the Committee replaced the retrospective performance cash award (described below), which is being phased out over a two-year period, with a prospective performance cash award. The prospective performance cash award is a cash-based grant with three, forward-looking one-year performance periods and is granted pursuant to our 2007 Plan.

Each one-year period provides the recipient with the opportunity to earn up to one-third of the total amount granted for that plan year, provided that certain Company performance metrics pre-approved by the Committee are achieved. In the event that the Company exceeds its performance metrics, the Named Executive Officers could receive awards in excess of such amounts. Based on achievement of the performance metrics, the award earned by the grantee vests on the third anniversary of the grant date. As part of the Company s retention strategy, actual payment of each plan year s award is not made until the end of the three-year period based on the cumulative achievement of each one-year period.

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For the fiscal 2009 grant, the performance metric required for 100% funding was earnings per share of $0.90 (excluding a legal settlement and related costs in March 2009). Based on actual EPS achievement of $1.04, 100% of the first year cash award was credited to participants. Based on plan provisions and Company achievement, the following awards were granted and earned for year one of the fiscal 2009 grant:

Name	Fiscal 2009 Prospective Performance Cash Grant	Fiscal 2009 Year One Prospective Performance Cash Award Earned
Ben R. Leedle, Jr.	$ 1,432,194	$ 477,398
Mary A. Chaput	442,482	147,494
Matthew Kelliher	416,146	138,715
Anne M. Wilkins	440,697	146,899
Stefen F. Brueckner	522,500	174,167
James E. Pope, MD	384,027	128,009

Retrospective Performance Cash Awards. Following the work completed by Hewitt, the Committee determined that a prospective performance cash award (as discussed above), would better align the interests of our Named Executive Officers with those of our stockholders based on the achievement of objectives set forth at the beginning of each plan year. As such, the Committee elected to replace the retrospective performance cash award, which was established in 2005 to supplement long-term equity incentive awards and was based on the Company s EPS growth (excluding the impact of the long-term incentive awards) over a three-year lookback period, with the prospective performance cash award. A two-year sunset period was established to recognize the period of time that must transpire before the prospective plan reflects three years of performance. As such, the fiscal 2009 retrospective performance cash award (for fiscal 2007, 2008 and 2009 performance) paid in 2010 was calculated based on the formula below and factored by two-thirds, with the total payout indicated below. The award to be paid in 2011 (for fiscal 2008, 2009, and 2010 performance) will be factored by one-third and will be the last award paid under this plan. For fiscal 2009, the performance awards for the Named Executive Officers were based on the following formula:

Performance Award [(1)] = (average base salary for such executive over the most recent three fiscal years) times (the Company s average EPS growth (excluding the impact of the long-term incentive awards) over the most recent three fiscal years).

(1) Our Chief Executive Officer is paid an amount equal to 2 times the performance cash award (calculated above). The additional amount of performance award that may be paid to our Chief Executive Officer is intended to make his total compensation

externally competitive while maintaining a significant percentage of his total compensation in performance-based compensation.

Based on the above formula, the following retrospective performance cash awards for performance in fiscal 2007, 2008 and 2009 were awarded to our Named Executive Officers in 2010:

Name	**Retrospective Performance Cash Award**
Ben R. Leedle, Jr.	$ 25,754
Mary A. Chaput	7,041
Matthew Kelliher	6,615
Anne M. Wilkins (1)	4,866
Stefen F. Brueckner (2)	0
James E. Pope, MD	7,290

(1) Ms. Wilkins is eligible for two-thirds of the award as she was employed for only two of the three years in the lookback period.

(2) Mr. Brueckner is ineligible for this plan due to his hire date of October 31, 2008.

Long-Term Performance Award for Mr. Kelliher. The Committee believes Healthways international business represents a substantial growth opportunity for the Company. In order to properly align and incentivize Mr. Kelliher to develop the Company s international business operations in a profitable manner, on September 29, 2006, the Committee granted a long-term performance award to Mr. Kelliher under the Company s 1996 Stock Incentive Plan, as amended (the 1996 Plan). This award provides Mr. Kelliher a cash-based incentive to develop the Company s international business by entering into signed contracts with respect to foreign countries (Signed Contracts) during the four-year period beginning on September 1, 2006 and ending on August 31, 2010. The amount that Mr. Kelliher may earn under this award while employed as head of the Company s international operations will depend on (1) Signed Contracts entered into with respect to new foreign countries, (2) the Company s net revenue derived from Signed Contracts, (3) the achievement of adjusted operating margins in excess of targeted levels derived from Signed Contracts, and (4) the expansion of the Company s international commercial relationships. The maximum amount that Mr. Kelliher may earn under this long-term performance award during any fiscal year within the four-year performance period is $1,000,000. This is in addition to long-term incentives he receives for being an executive officer. For fiscal 2009 and the four-month transition period ended December 31, 2008, Mr. Kelliher was granted long-term performance awards of $366,555 and $200,338, respectively, based upon achieving certain targets discussed above with respect to the Company s international business operations.

Earned amounts generally vest on August 31, 2010 based on continued eligible employment during the performance period and are eligible to be paid to Mr. Kelliher after vesting. Accelerated vesting will result if (1) Mr. Kelliher terminates employment due to disability, death, or an event that entitles him to severance benefits under his employment agreement, or (2) Mr. Kelliher remains an eligible employee on a Change in Control (as defined under the 1996 Plan) or a sale of the Company s international business operations. Except as described below, earned and vested amounts will be paid as soon as practicable following the performance period or, if earlier, an event described in (2) above.

As consideration for this award, Mr. Kelliher extended his non-competition and non-solicitation obligations to the Company from one to two years after termination from employment with the Company. Mr. Kelliher also agreed that otherwise earned and vested amounts under this award will not be payable if Mr. Kelliher materially breaches any of these obligations.

Purchase of Outstanding Employee-Granted Stock Options. Not unlike many other companies, the significant decline in the Company s stock price leading up to the end of calendar year 2008 had resulted in most of the Company s outstanding stock options being significantly out of the money as a result of the exercise price of these options being significantly in excess of the trading prices of the Company s stock at that time. As a result, the Committee did not believe these outstanding options provided the retentive and incentive value that was the basis for their grant, yet we continued to incur the ongoing compensation cost related to these options as measured at their grant dates. In addition, we did not have a sufficient number of shares available under the Company s 2007 Stock Incentive Plan to include equity-based awards as a component of the Company s long-term incentive compensation strategy consistent with the Company s compensation philosophy. After considering this situation with management and the Committee s independent compensation consultant, the Committee and the Board of Directors determined that it was in the best interests of the Company s stockholders to offer to purchase from our employees (other than our Chief Executive Officer and Board of Directors) options granted under the Company s stock incentive plans between September 1, 2004 and August 15, 2008. These options had exercise prices ranging from $25.31 to $66.97 per share. The per option cash amount we offered to pay for each eligible option that was tendered to us ranged from $0.29 to $2.10, with an average price of $0.66. At the commencement of the offer, there were options to purchase 1,321,502 shares of the Company s common stock that were outstanding and subject to the offer. Ultimately, there were 1,110,228 shares tendered for a total cash payment of $736,049.

Shares underlying the options purchased pursuant to the offer increased the shares available for grant under the 2007 Stock Incentive Plan.

Stock Retention Guidelines. To further align officers interests with stockholders interests, in August 2005 the Board of Directors adopted stock retention guidelines for officers. As amended, the guidelines require officers to maintain a minimum ownership in the Company s stock based on a multiple of their base salary (at least 2.5 times base salary for Named Executive Officers and 4 times base salary for the Chief Executive Officer). Officers must retain 75% of the net number of shares acquired (after payment of exercise price, if any, and taxes) upon the exercise of stock options and vesting of restricted stock units granted on or after August 24, 2005 until they reach the required multiple of base salary. Officers who do not comply with the guidelines may not be eligible for future equity awards.

As a result of (i) the significant decline in the Company s stock price, (ii) the completion of the option tender offer discussed above, (iii) the decrease in the percentage of equity issued as part of our long-term incentive awards due to the limitation in the availability of shares under our 2007 Stock Incentive Plan and (iv) the completion of the update to our broad-based compensation structure as well as significant changes in the titling structure of our officers, the Company is in the process of reviewing its stock retention guidelines to ensure that the established stock retention guidelines are appropriate and remains committed to retention guidelines.

Retirement Plans. The Committee believes that an important aspect of attracting and retaining qualified individuals to serve as Named Executive Officers involves providing methods for those individuals to save for retirement. As part of the 401(k) Plan, which is based on a calendar year, we have provided a matching contribution of 52 cents for each dollar of the participant s voluntary salary contributions up to 6% of base salary. The annual maximum participant voluntary salary contributions for calendar 2008 and 2009, as established by the Internal Revenue Service, was $15,500 and $16,500, respectively, plus a $5,000 catch-up contribution limit (only for those over 50 years old). Approximately 29% of the Company matching contribution is in the form of Company Common Stock. All matching Company contributions to the 401(k) Plan vest after five years of service with the Company and are payable pursuant to the provisions of the 401(k) Plan.

Under the Company s Capital Accumulation Plan, which is based on a calendar year, contributions are made to the Capital Accumulation Plan on behalf of all of the Company s officers, including the Named Executive Officers, that for calendar 2009 were based on (a) a percentage of the officer s voluntary salary deferrals into the Capital Accumulation Plan and (b) performance against targeted Company Domestic EPS for fiscal 2009 established by the Committee. For fiscal 2009, the portion of the Company s contribution that was based on the officer s voluntary salary deferrals provided that to the extent the officer could not defer at least 6% of his/her base salary under the 401(k) Plan because of Internal Revenue Service maximum contribution limits, then the officer could defer the difference between his/her actual deferral and 6% of his/her annual base salary into the Capital Accumulation Plan, and the Company would provide a matching contribution of up to 52% of the amount deferred. Each officer was also eligible to contribute up to an additional 4% of base salary into the Capital Accumulation Plan, but no matching contribution was made by the Company for this portion of the salary deferral.

With respect to the portion of the Capital Accumulation Plan contribution that is based on performance criteria for fiscal 2009 established by the Committee, officers were eligible to receive a Company contribution of between 0% and 13.5% of base salary for calendar 2009, based on the Company s actual Domestic EPS as compared to the Domestic EPS target. In recent years, the high end of the contribution was established at 18.5%, but was reduced to 13.5% in fiscal 2009, which is believed to be an appropriately competitive level for fiscal 2009. For fiscal 2009, the Domestic EPS target at which contributions began was set at $1.00. Awards were made as of December 31 based on performance criteria for the fiscal year ending December 31. The actual performance award under the Capital Accumulation Plan credited to participants, including the Company s Named Executive Officers, during fiscal 2009 was an award of 13.5% of base salary earned during calendar 2009.

The Company s contributions to the Capital Accumulation Plan vest equally over four years from the beginning of the plan year, and vested amounts are paid out upon the earliest of (1) one year following an officer s termination of employment, (2) one year following normal or early retirement, (3) 90 days following death or disability, or (4) a date selected prior to the beginning of each Capital Accumulation Plan year by the officer, but in no event will this selected date be earlier than four years from the beginning of the Capital Accumulation Plan year. In certain instances, payments upon termination of service may be delayed six months pursuant to Section 409A of the Internal Revenue Code of 1986, as amended (the Code). Capital Accumulation Plan account balances earn interest at a rate equal to the prevailing prime rate of interest plus 1% as of November 1 of each year for the succeeding calendar year. The Capital Accumulation Plan is not funded and is carried as an unsecured obligation of the Company. Each of the Named Executive Officers participated in the Company s Capital Accumulation Plan during fiscal 2009.

Severance and Change of Control Benefits. The Committee believes that reasonable severance and change in control benefits are necessary in order to recruit and retain effective senior managers. These severance benefits reflect the fact that it may be difficult for such executives to find comparable employment within a short period of time, and are a product of a generally competitive recruiting environment within our industry. The Committee also believes that a change in control arrangement provides an appropriate level of security to an executive that will likely reduce the reluctance of that executive to pursue a change in control transaction that could be in the best interests of our stockholders. Although the Committee independently reviewed the potential severance and change in control payments in light of their reasonableness as part of negotiating the employment agreements with our Named Executive Officers, the Committee typically does not consider the value of potential severance and change in control payments when assessing annual compensation as these payouts are contingent and have primary purposes unrelated to ordinary compensation matters. In connection with the amended and restated employment agreements entered into with the Named Executive Officers in February 2006, the Committee assessed the reasonableness of the potential severance and change in control payments. For a detailed discussion of potential severance and change of control benefits as well as an estimate of the amounts that would have been payable had they been triggered as of the end of fiscal 2009, see Potential Payments Upon Termination or Change in Control of the Company, beginning on page 42 of this Proxy Statement.

Perquisites and Other Benefits. The Company has previously paid relocation expenses, either in the form of reimbursement or a lump sum payment, to the Named Executive Officers who have relocated to the Nashville, Tennessee area in order to assume their positions with the Company, and has made tax gross up payments to such officers to cover income tax associated with such payments. The Named Executive Officers are also eligible for benefits generally available to and on the same terms as the Company s employees who are exempt for purposes of the Fair Labor Standards Act, including health insurance, disability insurance, dental insurance, and life insurance.

Tax Deductibility of Compensation. Section 162(m) of the Internal Revenue Code of 1986 limits the deductibility on the Company s tax return of compensation over $1.0 million to the Chief Executive Officer, Chief Financial Officer, or any of the other three most highly compensated Named Executive Officers serving at the end of the fiscal year unless, in general, the compensation is paid pursuant to a plan which is performance-related, non-discretionary, and has been approved by the Company s stockholders. The Committee considered the impact of Section 162(m) in setting compensation for fiscal 2009 with the goal of providing for compensation that was deductible to the extent permitted while simultaneously providing compensation consistent with the Company s philosophy. The Committee intends to structure performance-based compensation awarded in the future to Named Executive Officers who may be subject to Section 162(m) in a manner that satisfies the relevant requirements. The Committee, however, reserves the authority to award non-deductible compensation as deemed appropriate. Further, because of ambiguities and uncertainties as to the application and interpretation of Section 162(m) and related regulations, no assurance

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can be given that compensation intended to satisfy the requirements for deductibility under Section 162(m) will in fact do so.

Compensation Decisions for fiscal 2010. In evaluating how best to implement the Company s compensation philosophy for fiscal 2010, the Committee reviewed with management the Company s overall compensation strategy. Pursuant to the work completed by Hewitt, the Committee believes the Company s overall compensation levels are competitive, but require a slight shift in the mix of pay components. As a result, the Committee has not provided base salary increases to any Named Executive Officers, or changed short-term incentive target opportunities from the levels established in fiscal 2009, and the Committee has slightly reduced long-term incentive target opportunities for the Company s Named Executive Officers (with the exception of our President and Chief Operating Officer, whose target opportunity will remain the same). The Committee determined that a long-term incentive compensation strategy utilizing a mix of stock options, restricted stock units and performance-based cash compensation as part of the Company s overall compensation strategy continues to be a key component of the Company s ability to attract, retain and motivate the management team. However, due to the current limitations of available shares in the 2007 Stock Incentive Plan, the Committee was required to adjust the mix of stock options, restricted stock units and long-term performance-based cash incentives awarded during fiscal 2010 to accommodate share availability. As a result, the relative mix of long-term incentive components provided during our February 2010 annual grant was approximately 57% performance cash, 8% restricted stock units and 35% stock options. As previously discussed, we are submitting for stockholder approval an amendment and restatement to increase the share reserve under the 2007 Stock Incentive Plan to ensure continued ability to attract, retain and reward key employees throughout the Company.

Compensation Committee Report

The following Report of the Compensation Committee does not constitute soliciting material and should not be deemed filed or incorporated by reference into any other Company filing under the Securities Act of 1933 or the Securities Exchange Act of 1934, except to the extent the Company specifically incorporates this Report by reference therein.

The Compensation Committee has reviewed and discussed the Compensation Discussion and Analysis with management and, based on such review and discussions, recommended to the Board of Directors that the Compensation Discussion and Analysis be included in this proxy statement.

Respectfully submitted,
Jay C. Bisgard, M.D., Chairman
Alison Taunton-Rigby, Ph.D.
C. Warren Neel, Ph.D.
Mary Jane England, M.D.
William Novelli

Compensation Committee Interlocks and Insider Participation

During fiscal 2009, the Compensation Committee of the Board of Directors was composed of Drs. Bisgard, Neel, England, and Taunton-Rigby and Mr. Novelli, who was appointed to the committee in August 2009 in connection with his appointment to the Board of Directors. None of these persons has at any time been an officer or employee of the Company or any of the Company s subsidiaries. In addition, there are no relationships among the Company s executive officers, members of the Compensation Committee or entities whose executives serve on the Board of Directors or the Compensation Committee that require disclosure under applicable Commission regulations.

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Summary Compensation Table

The following table provides information regarding the compensation during fiscal 2009, the four-month transition period ended December 31, 2008 (the Transition Period or 2008T), fiscal 2008 and 2007 to the Chief Executive Officer, Chief Financial Officer, and three other most highly compensated executive officers, as well as one additional highly compensated individual who was not serving as an executive officer of the Company as of December 31, 2009 (the Named Executive Officers).

The Named Executive Officers were not entitled to receive payments that would be characterized as Bonus payments for fiscal 2009, the Transition Period, fiscal 2008 or fiscal 2007. As described under Compensation Discussion and Analysis, there was an award payment that would be characterized as Non-Equity Incentive Plan Compensation made to the Named Executive Officers pursuant to the terms of the 2009 Annual Incentive Award Plan. There were no such payments made to the Named Executive Officers pursuant to the terms of the 2008 Annual Incentive Award Plan or the 2007 Short-Term Incentive Plan.

Based on the dollar amounts recognized for financial statement reporting purposes for equity incentives and the base salary of the Named Executive Officers, Salary accounted for approximately 28%, 31%, 29% and 40% of the total compensation of the Named Executive Officers in fiscal 2009, 2008T, 2008 and 2007, respectively; equity-based incentive compensation accounted for 34%, 43%, 53% and 58% of total compensation in fiscal 2009, 2008T, 2008 and 2007, respectively; and other compensation accounted for 38%, 26%, 18%, and 2% of total compensation in fiscal 2009, 2008T, 2008 and 2007; respectively.

Name and Principal Position	Year	Salary ($)	Stock Awards ($) (1)	Option Awards ($) (2)	Non-Equity Incentive Plan Compensation ($) (3)	Change in Pension Value and Nonqualified Deferred Compensation Earnings ($) (4)	All Other Compensation ($) (5)	Total ($)
Ben R. Leedle, Jr.	2009	$712,400	$621,587	$ 724,579	$961,694	$	$119,670(6)	$3,139,930
Chief Executive Officer	2008T	$237,240	$	$	$152,802	$ 4,516	$ 8,169(6)	$ 402,727
	2008	$685,000	$625,849	$1,087,853	$318,167	$15,244	$ 75,672(6)	$2,807,785
	2007	$660,000	$419,984	$ 840,000	$	$17,021	$ 21,504	$1,958,509
Mary A. Chaput	2009	$390,174	$249,889	$ 290,690	$342,889	$	$ 84,696	$1,358,338
Vice President and Chief	2008T	$129,990	$	$	$ 62,766	$ 2,147	$ 5,047	$ 199,950
Financial Officer	2008	$375,167	$189,344	$ 333,198	$ 87,097	$ 7,220	$ 45,102	$1,037,128
	2007	$359,700	$131,997	$ 263,992	$	$ 8,659	$ 14,538	$ 778,886
Matthew E. Kelliher	2009	$366,950	$180,608	$ 210,536	$630,042(7)	$	$ 99,498(8)	$1,487,634
President, International	2008T	$120,593	$	$	$239,229(7)	$ 1,641	$ 4,147	$ 365,610
	2008	$348,381	$182,798	$ 319,397	$391,625(7)	$ 6,841	$ 35,772	$1,284,814

Anne M. Wilkins Vice President, Strategy & Marketing	2009	$388,600	$249,114	$ 289,788	$330,638	$	$129,328	$1,387,468
	2008T	$134,640	$	$	$ 61,917	$ 76	$ 19,135(9)	$ 215,768

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Name and Principal Position	Year	Salary ($)	Stock Awards ($) (1)	Option Awards ($) (2)	Non-Equity Incentive Plan Compensation ($) (3)	Change in Pension Value and Nonqualified Deferred Compensation Earnings ($) (4)	All Other Compensation ($) (5)	Total ($)
Stefen F. Brueckner	2009	$475,000	$	$	$426,699	$	$ 83,039	$ 984,738
President and Chief Operating Officer	2008T	$ 65,783	$	$1,126,024	$ 34,966	$	$211,798(10)	$1,438,571
James E. Pope, MD	2009	$375,283	$242,565	$ 282,149	$308,454	$	$ 94,818	$1,303,269
Vice President, Science &	2008T	$140,109	$	$	$ 64,435	$2,240	$ 6,198	$ 212,982
Value	2008	$404,400	$201,722	$ 355,759	$ 92,243	$7,791	$ 46,862	$1,108,777
	2007	$385,143	$135,285	$ 270,610	$	$8,207	$ 13,520	$ 812,765

(1) Reflects the aggregate grant date fair value of stock awards granted during the respective period.

(2) Reflects the aggregate grant date fair value of option awards granted during the respective period. Assumptions used in the calculation of these fair value amounts are included in footnote 13 to our audited

financial statements for the fiscal year ended December 31, 2009, included in our Annual Report on Form 10-K filed with the Securities and Exchange Commission on March 16, 2010.

(3) Non-equity incentive plan compensation includes a prospective and retrospective performance cash plan, an annual incentive award plan, and a long-term performance award for Mr. Kelliher (see footnote 7).

For fiscal 2009, the amounts in the table represent the prospective performance cash award, the retrospective performance cash award, and the annual incentive award.

The prospective performance cash plan began in fiscal 2009 and consists of a cash-based grant with three, forward-looking one-year performance periods, as described more fully in Compensation Discussion and Analysis . The amounts in the table for fiscal 2009 represent the Named Executive Officers earnings for year one of the award, which were based on achievement of fiscal 2009 EPS in excess of targets, and will be paid in 2012.

The retrospective performance cash award in 2009 was earned for fiscal 2007, 2008 and 2009 performance and was paid in 2010.

The annual incentive award attributable to fiscal 2009 was paid in 2010. For fiscal 2009 and the Transition Period, the Chief Executive Officer was eligible to receive an award up to 70% of his base salary, the Company s President and

Chief Operating Officer was eligible to receive an award up to 55% of his base salary and the other Named Executive Officers were eligible to receive awards up to 50% of their base salary. Cash awards under these plans were based upon a comparison of our actual EPS and targeted earnings per share as approved by the Compensation Committee at the beginning of the fiscal year, as well as meeting certain individual qualitative goals and objectives. Had our performance materially exceeded our targeted earnings per share and the Named Executive Officer met his or her individual goals and objectives, awards to Named Executive Officers could have exceeded the percentages set forth in the preceding sentence.

For the Transition Period (2008T), the amounts in the table represent the annual incentive awards only attributable to the transition period, which were paid in 2010.

For fiscal 2008, the amounts in the table represent the retrospective performance cash awards only as there were no annual incentive awards to executive officers for fiscal 2008 for the reasons described in the following paragraph. The retrospective performance awards were awarded in October 2008 for fiscal 2006, 2007 and 2008 performance. The retrospective performance awards that were awarded in October 2007 for fiscal 2005, 2006 and 2007 performance were not paid in cash but rather replaced with equity awards having equivalent value. Therefore, they were excluded from the Summary Compensation table above but were included in the Grants of Plan-Based Awards in Fiscal 2007 table in the fiscal 2007 proxy statement.

Based on Domestic EPS for fiscal 2008 and total EPS for 2007, the Named Executive Officers did not earn any awards under the 2008 Annual Incentive Award Plan or the 2007 Short-Term Incentive Plan, respectively. For fiscal 2008 and 2007, the Chief Executive Officer was eligible to receive an award up to 60% of his base salary, and the other Named Executive Officers were eligible to receive awards up to 45% of their base salary. Had our performance materially exceeded our targeted earnings per share and the Named Executive Officer met his or her

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individual goals and objectives, awards to Named Executive Officers could have exceeded the percentages set forth in the preceding sentence.

(4) The amounts in this column represent the above-market portion of the Named Executive Officer s earnings in our Capital Accumulation Plan. CAP account balances earn interest at a rate equal to the prevailing prime rate of interest plus 1% as of November 1 of each year for the succeeding calendar year.

Based on a prime rate of interest of 4.0% at November 1, 2008, interest on the CAP account balances during fiscal 2009 did not exceed 120% of the applicable federal long-term rate. Therefore, there was no above-market portion of earnings during fiscal 2009.

Based on a prime rate of interest of 7.5% at November 1, 2007, interest on the CAP account balances during the Transition Period exceeded 120% of the applicable federal long-term rate. The above-market portion of earnings was calculated as the excess of the actual earnings during the Transition Period over what the earnings would have been using the applicable Federal long-term rate at November 1, 2007.

Based on a prime rate of interest of 8.25% and 7.5% at November 1, 2006 and 2007, respectively, interest on the CAP account balances during fiscal 2008 exceeded 120% of the applicable federal long-term rate. The above-market portion of earnings was calculated as the excess of the actual earnings during fiscal 2008 over what the earnings would have been using a weighted average of the applicable Federal long-term rate at November 1, 2006 and 2007.

Based on a prime rate of interest of 7% and 8.25% at November 1, 2005 and 2006, respectively, interest on the CAP account balances during fiscal 2007 exceeded 120% of the applicable federal long-term rate. The above-market portion of earnings was calculated as the excess of the actual earnings during fiscal 2007 over what the earnings would have been using a weighted average of the applicable Federal long-term rate at November 1, 2005 and 2006.

(5) The amount in this column reflects Company contributions to our Retirement Savings Plan (the 401(k) Plan) and CAP, reimbursement for spousal travel (see

footnote 8 below), relocation benefits, signing bonus on behalf of the Named Executive Officer, and insurance premiums we paid with respect to life insurance for the benefit of the Named Executive Officer. With regard to the CAP, it includes Company matching contributions earned by the Named Executive Officer during the fiscal year on his/her deferrals to the CAP during that time as well as performance awards made to the CAP by the Company on behalf of the Named Executive Officer on December 31 for the previous fiscal year s financial performance. The table does not include medical benefits coverage and disability insurance that are offered through programs available to substantially all of our salaried employees.

For fiscal 2009, the table includes performance awards made to the CAP by the Company on behalf of the Named Executive Officers on December 31, 2009 based on the Company s 2009 Domestic EPS as compared to EPS targets set forth in the CAP. The amounts are as follows: Mr. Leedle ($96,060); Ms. Chaput ($52,611); Mr. Kelliher ($49,461); Ms. Wilkins ($52,461); Mr. Brueckner ($64,125); and Dr. Pope ($50,784).

As described under Compensation Discussion and Analysis, fiscal 2009 amounts also include payments for stock option shares tendered during the Company s purchase of outstanding employee-granted stock options for all our Named Executive Officers with the exception of Mr. Leedle and Mr. Brueckner. The cash payments for shares tendered were as follows: Ms. Chaput ($16,165); Mr. Kelliher ($16,292), Ms. Wilkins ($65,200); and Dr. Pope ($28,536).

For fiscal 2008, the table includes performance awards made to the CAP by the Company on behalf of the Named Executive Officers on December 31, 2008 based on the Company s fiscal 2008 Domestic EPS as compared to EPS targets set forth for the CAP. The amounts were as follows: Mr. Leedle ($53,430); Ms. Chaput ($29,263); Dr. Pope ($31,543); Mr. Stone ($27,568); and Mr. Kelliher ($27,174).

No performance awards under the Capital Accumulation Plan were made to our officers on December 31, 2007, including our Named Executive Officers, for fiscal 2007 financial performance based on the Company s EPS for fiscal 2007 not meeting our EPS target.

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The table above does not include performance awards made in fiscal 2007 to the CAP by the Company on behalf of the Named Executive Officers on December 31, 2006. These awards were based on the Company s fiscal 2006 performance and were reported as compensation in the 2006 Summary Compensation Table. The amounts were as follows: Mr. Leedle ($57,660); Ms. Chaput ($31,611); Dr. Pope ($33,167); and Mr. Stone ($31,202).

(6) Includes Company matching contributions of $14,557, $4,568, and $14,075 earned by Mr. Leedle during fiscal 2009, 2008T and fiscal 2008, respectively, on his deferrals to

the CAP during that time.

(7) Includes a long-term performance award earned by Mr. Kelliher of $366,555, $200,338 and $308,204 during fiscal 2009, 2008T and fiscal 2008, respectively, based upon achieving certain targets with respect to the Company s international business operations during this period. Mr. Kelliher may earn a bonus with respect to each fiscal year within the four-year period from September 1, 2006 through August 31, 2010. Earned amounts generally vest on August 31, 2010 based on continued eligible employment during the four-year performance period. For a more detailed discussion of this award, see

the Employment Agreements section of this Proxy Statement.

(8) Includes reimbursement to Mr. Kelliher in the amount of $24,321 (of which $4,457 was gross-up for the payment of taxes), during fiscal 2009 for expenses incurred by his spouse during business travel.

(9) Includes reimbursement to Ms. Wilkins in the amount of $15,978 during 2008T for relocation expenses.

(10) Includes a sign-on bonus to Mr. Brueckner in the amount of $211,617 during 2008T pursuant to his employment offer.

Grants of Plan-Based Awards in Fiscal 2009 and the Transition Period

The following table sets forth the plan-based awards granted to the Company s Named Executive Officers during fiscal 2009 and the Transition Period.

		Estimated Possible Payouts Under Non-Equity Incentive Plan Awards (1)			All Other Stock Awards: Number of Shares of Stock or Units	All Other Option Awards: Number of Securities Underlying Options	Exercise or Base Price of Option	Grant Date Fair Value of Stock and Option
	Grant	Threshold	Target	Maximum	(#)	(#)	Awards	Awards

Name	Date	($)	($)	($)	(8)	(8)	($/Sh)	($)
Ben R. Leedle, Jr.		$	$ 664,748(2)	(2)				
Ben R. Leedle, Jr.		$	$ 25,754(3)	(4)				
Ben R. Leedle, Jr.		$	$1,432,194(5)	(6)				
Ben R. Leedle, Jr.	2/12/09				53,724			$621,587
Ben R. Leedle, Jr.	2/12/09					108,424	$11.57	$724,579
Mary A. Chaput		$	$ 260,082(2)	(2)				
Mary A. Chaput		$	$ 7,041(3)	(4)				
Mary A. Chaput		$	$ 442,482(5)	(6)				

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Name	Grant Date	Estimated Possible Payouts Under Non-Equity Incentive Plan Awards (1) Threshold ($)	Target ($)	Maximum ($)	All Other Stock Awards: Number of Shares of Stock or Units (#) (8)	All Other Option Awards: Number of Securities Underlying Options (#) (8)	Exercise or Base Price of Option Awards ($/Sh)	Grant Date Fair Value of Stock and Option Awards ($)
Mary A. Chaput	2/12/09				21,598			$ 249,889
Mary A. Chaput	2/12/09					43,498	$11.57	$ 290,690
Matthew E. Kelliher		$	$243,772(2)	(2)				
Matthew E. Kelliher		$	$ 6,615(3)	(4)				
Matthew E. Kelliher		$	$416,146(5)	(6)				
Matthew E. Kelliher		$	$566,893(7)	(7)				
Matthew E. Kelliher	2/12/09				15,610			$ 180,608
Matthew E. Kelliher	2/12/09					31,504	$11.57	$ 210,536
Anne M. Wilkins		$	$261,620(2)	(2)				
Anne M. Wilkins		$	$ 4,866(3)	(4)				
Anne M. Wilkins		$	$440,697(5)	(6)				
Anne M. Wilkins	2/12/09				21,531			$ 249,114
Anne M. Wilkins	2/12/09					43,363	$11.57	$ 289,788
Stefen F. Brueckner		$	$297,431(2)	(2)				
Stefen F. Brueckner		$	$522,500(5)	(6)				
Stefen F. Brueckner	10/31/08					225,000	$10.10	$1,126,024
James E. Pope, M.D.		$	$257,696(2)	(2)				
James E. Pope, M.D.		$	$ 7,290(3)	(4)				

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Name	Grant Date	Estimated Possible Payouts Under Non-Equity Incentive Plan Awards (1) Threshold ($)	Target ($)	Maximum ($)	All Other Stock Awards: Number of Shares of Stock or Units (#) (8)	All Other Option Awards: Number of Securities Underlying Options (#) (8)	Exercise or Base Price of Option Awards ($/Sh)	Grant Date Fair Value of Stock and Option Awards ($)
James E. Pope, M.D.		$	$384,027(5)	(6)				
James E. Pope, M.D.	2/12/09				20,965			$242,565
James E. Pope, M.D.	2/12/09					42,220	$11.57	$282,149

(1) Non-equity incentive plan awards include performance cash awards, annual incentive awards, and a long-term performance award (Mr. Kelliher only).

(2) Under the 2009 Annual Incentive Award Plan, the Chief Executive Officer was eligible to receive an award up to 70% of his base salary for the Transition Period and fiscal 2009, the President/Chief Operating Officer was eligible to receive an award up to 55% of his base salary for the Transition Period and fiscal 2009, and the other Named Executive Officers were eligible to receive

awards up to 50% of their base salary for the Transition Period and fiscal 2009. Had our performance materially exceeded our targeted earnings per share for our domestic business and the Named Executive Officer met his or her individual goals and objectives, awards to Named Executive Officers could have exceeded the percentages set forth in the preceding sentence. Therefore, there is no maximum on the possible payout that could be earned for the Transition Period and fiscal 2009. The portion of the amount shown in the Target column above that was earned by the Named Executive Officer is included as compensation in the Summary Compensation Table.

(3) Under our retrospective performance cash plan for fiscal 2009, the Named Executive Officers were eligible to receive cash awards based on our

average EPS growth (excluding long-term incentive compensation) over the last three fiscal years, including fiscal 2009, times the executive s average salary over that same period (our Chief Executive Officer is paid an amount equal to 2 times the performance cash award). The amounts in the table represent the actual awards made to the Named Executive Officers resulting from this formula and are included as compensation in the Summary Compensation Table.

(4) There is no maximum amount that could be paid for fiscal 2009 since these retrospective performance-based awards are calculated based on our average EPS growth (excluding long-term incentive compensation) over the last three fiscal years.

(5) As more fully explained in Compensation Discussion and Analysis , the prospective

performance cash plan is a cash-based grant with three, forward-looking one-year performance periods. Each one-year period provides the recipient with the opportunity to earn up to one-third of the total amount granted for that plan year, provided that pre-established performance metrics are achieved. In the event that the Company exceeds its performance metrics, the Named Executive Officers could receive awards in excess of such amounts. For the fiscal 2009 grant, funding began upon achievement of low end of target performance metrics until 100% funding was achieved. Upon achieving the high end of target performance metrics, additional funding would occur. The amounts shown in the Target column above represent the full grants for fiscal 2009 to potentially be earned during three one-year performance periods (fiscal

2009, 2010, and 2011). One-third of the grant amount was earned by the Named Executive Officers during fiscal 2009 and is included as compensation in the Summary Compensation Table.

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(6) There is no maximum amount that could be earned for fiscal 2009 since additional funding of the awards would occur upon achieving the high end of target performance.

(7) Under the terms of the long-term performance award granted to Mr. Kelliher, more fully described in the Employment Agreements section below, Mr. Kelliher may earn a bonus with respect to each fiscal year within the four-year period from September 1, 2006 through August 31, 2010 based upon achieving certain targets with respect to the Company s international business operations. The maximum amount that Mr. Kelliher may earn during any fiscal year

within the four-year performance period is $1,000,000. The target amount shown in the table above represents the actual amount earned by Mr. Kelliher during the Transition Period and fiscal 2009 and is reflected in the Summary Compensation Table. Earned amounts generally vest on August 31, 2010 based on continued eligible employment during the four-year performance period.

(8) Awards were granted under the 2007 Stock Incentive Plan.

Compensation Programs for Fiscal 2009

As reflected in the above Summary Compensation Table and Grants of Plan-Based Awards Table, the primary components of our fiscal 2009 compensation programs were base salary, short-term incentive plan compensation, equity awards, performance cash awards and awards under retirement plans. For a detailed discussion of each of these components, see the Compensation Discussion and Analysis section of this Proxy Statement.

Outstanding Equity Awards at Fiscal 2009 Year-End

The following tables provide information with respect to outstanding stock options and restricted stock units held by the Named Executive Officers as of December 31, 2009.

	OPTION AWARDS		
	Number of Securities Underlying Unexercised	Number of Securities Underlying Unexercised	Option

Name	Option Grant Date	Options (#) Exercisable	Options (#) Unexercisable	Exercise Price ($)	Option Expiration Date
Ben R. Leedle, Jr.	6/23/00	11,250		$ 1.36	6/23/10
	9/29/00	45,000		1.89	9/29/10
	10/8/01	150,000		11.58	10/8/11
	8/27/02	200,000		7.24	8/27/12
	8/27/03	300,000		17.51	8/27/13
	8/24/04	300,000		26.33	8/24/14
	8/24/05	335,798		43.44	8/24/12
	10/2/06		39,599(1)	42.69	10/2/13
	10/8/07		42,721(1)	55.01	10/8/14
	2/12/09		108,424(2)	11.57	2/12/19
Mary A. Chaput	10/1/01	90,000		$11.58	10/1/11
	8/27/02	100,000		7.24	8/27/12
	8/27/03	40,000		17.51	8/27/13
	8/24/04	25,000		26.33	8/24/14
	2/12/09		43,498(2)	11.57	2/12/19
Matthew E. Kelliher	8/24/04	25,000		$26.33	8/24/14
	2/12/09		31,504(2)	11.57	2/12/19

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Name	Option Grant Date	OPTION AWARDS Number of Securities Underlying Unexercised Options (#) Exercisable	Number of Securities Underlying Unexercised Options (#) Unexercisable	Option Exercise Price ($)	Option Expiration Date
Anne M. Wilkins	2/12/09		43,363(2)	$11.57	2/12/19
Stefen F. Brueckner	10/31/08	56,250	168,750(2)	$10.10	10/31/15
James E. Pope, M.D.	10/29/03	100,000		$21.67	10/29/13
	8/24/04	25,000		26.33	8/24/14
	2/12/09		42,220(2)	11.57	2/12/19

(1) Award vests on the fourth anniversary of the date of grant.

(2) Award vests 25% per year beginning one year after the date of grant.

Name	Stock Award Grant Date	STOCK AWARDS Number of Shares or Units of Stock That Have Not Vested (#)	Market Value of Shares or Units of Stock That Have Not Vested ($) (5)
Ben R. Leedle, Jr.	10/2/06	9,838(3)	$180,429
	10/8/07	11,377(3)	208,654
	2/12/09	53,724(4)	985,298
Mary A. Chaput	10/2/06	3,092(3)	$ 56,707
	10/8/07	3,442(3)	63,126
	2/12/09	21,598(4)	396,107
Matthew E. Kelliher	10/2/06	3,092(3)	$ 56,707
	10/8/07	3,323(3)	60,944
	2/12/09	15,610(4)	286,287
Anne M. Wilkins	5/12/08	20,000(3)	$366,800
	2/12/09	21,531(4)	394,879

Stefen F. Brueckner			
James E. Pope, M.D.	10/2/06	3,169(3)	$ 58,119
	10/8/07	3,667(3)	67,253
	2/12/09	20,965(4)	384,498

(3) Award vests on the fourth anniversary of the date of grant.

(4) Award vests 25% per year beginning one year after the date of grant.

(5) Market value was calculated by multiplying the number of restricted stock units in the previous column that have not vested as of December 31, 2009 times the closing bid price of our Common Stock on The NASDAQ Global Select Market on December 31, 2009.

Option Exercises and Stock Vested in Fiscal 2009 and the Transition Period

The following table provides information on stock option exercises and restricted stock units that vested on behalf of our Named Executive Officers during fiscal 2009 and the Transition Period.

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	Option Awards		Stock Awards	
Name	Number of Shares Acquired on Exercise (#)	Value Realized on Exercise ($) (1)	Number of Shares Acquired on Vesting (#)	Value Realized on Vesting ($)
Ben R. Leedle, Jr.	39,188	$ 552,714	8,235	$ 115,537
Mary A. Chaput			2,692	37,769
Matthew E. Kelliher			3,012	42,258
Anne M. Wilkins				
Stefen F. Brueckner				
James E. Pope, M.D			2,824	39,621

(1) Value realized on exercise was calculated by multiplying the number of options exercised by the difference between the market price at exercise and the exercise price of the options.

Nonqualified Deferred Compensation in Fiscal 2009 and the Transition Period

Our Capital Accumulation Plan, which is based on a calendar year, is a nonqualified deferred compensation plan that allows highly compensated employees, including the Named Executive Officers, to defer up to 10% of their base salary. For a further discussion of the CAP, please see the Compensation Discussion and Analysis section beginning on page 20.

The following table shows the activity in the CAP for each Named Executive Officer for the Transition Period and fiscal 2009 as well as the ending balance as of December 31, 2009.

Name	Executive Contributions in Transition Period ($) (1)	Executive Contributions in Last Fiscal Year ($) (1)	Registrant Contri-butions in Transition Period ($) (2)	Registrant Contri-butions in Last Fiscal Year ($) (2)	Aggregate Earnings in Transition Period Year ($) (3)	Aggregate Earnings in Last Fiscal Year ($) (3)	Aggregate With-drawals/ Distri-butions in Transition Period	Aggregate With-drawals/ Distri-butions in Last Fiscal Year ($)	Aggregate Balance at Last Fiscal Year-End

									($)
Ben R. Leedle, Jr.	$23,712	$ 68,500	$65,900	$110,617	$11,497	$18,960	$	$ 169,871	$ 545,750
Mary A. Chaput	$12,986	$ 37,517	$33,792	$ 57,126	$ 5,468	$ 9,098	$	$ 84,785	$ 268,427
Matthew E. Kelliher	$	$	$27,174	$ 49,461	$ 4,169	$ 4,555	$	$ 95,328	$ 145,116

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Name	Executive Contributions in Transition Period ($) (1)	Executive Contributions in Last Fiscal Year ($) (1)	Registrant Contri-butions in Transition Period ($) (2)	Registrant Contri-butions in Last Fiscal Year ($) (2)	Aggregate Earnings in Transition Period Year ($) (3)	Aggregate Earnings in Last Fiscal Year ($) (3)	Aggregate With-drawals/ Distri-butions in Transition Period	Aggregate With-drawals/ Distri-butions in Last Fiscal Year ($)	Aggregate Balance at Last Fiscal Year-End ($)
Anne M. Wilkins	$ 13,451	$ 38,860	$ 26,114	$ 62,254	$ 234	$ 3,034	$	$	$ 146,937
Stefen F. Brueckner	$ 3,654	$ 47,500	$ 7,030	$ 71,301	$	$ 1,627	$	$	$ 131,112
James E. Pope, MD	$	$ 40,440	$ 36,984	$ 54,877	$ 5,669	$ 9,909	$	$ 73,491	$ 284,781

(1) These amounts are included in the Summary Compensation table in the Salary column.

(2) These amounts are included in the Summary Compensation table in the All Other Compensation column. The Company s contributions to the CAP vest equally over four years.

(3) Amounts represent the Named Executive Officer s earnings during the period on

balances in the CAP. The earnings during fiscal 2009 were not above market, and therefore, no portion of the earnings in this column is included in the Summary Compensation table. The above-market portion of earnings during the Transition Period is included in the Summary Compensation table under Change in Pension and Nonqualified Deferred Compensation Earnings .

Employment Agreements

We have amended and restated employment agreements with Mr. Leedle, Ms. Chaput, Dr. Pope, and Ms. Wilkins that each began on December 19, 2008, and an employment agreement with Mr. Brueckner that began on October 11, 2008, all of which have a continuous term of two years thereafter. The agreements provide for an annual base salary as well as participation in all benefit plans maintained by the Company for officers. Base salary payable under each employment agreement is subject to annual review and may be increased by the Board of Directors, or a committee thereof, as it may deem advisable. Under the agreements, short-term incentive plan awards, if any, and long-term incentive awards will be determined by the Board of Directors, or a committee thereof comprised solely of independent directors. The agreements also provide for potential severance and change of control benefits, which are discussed in detail under Potential Payments Upon Termination or Change in Control of the Company of this Proxy Statement.

We have an amended and restated employment agreement with Mr. Kelliher that began on December 10, 2008 with an automatic renewal on an annual basis unless terminated earlier as provided by the agreement. The agreement provides for an annual base salary as well as participation in all benefit plans maintained by the Company for officers. Base salary payable under the agreement is subject to annual review and may be increased by the Board of Directors or the Chief Executive Officer in its/his discretion. The agreement also provides for potential severance and change of control benefits, which are discussed in detail under Potential Payments Upon Termination or Change in Control of the Company of this Proxy Statement.

On September 29, 2006, the Company granted a long-term performance award to Mr. Kelliher under the Company s 1996 Stock Incentive Plan, as amended (the 1996 Plan). This award provides Mr. Kelliher a cash-based incentive to develop the Company s international business operations by entering into signed contracts with respect to foreign countries (Signed Contracts) during the four-year period beginning on September 1, 2006 and ending on

August 31, 2010. The amount that Mr. Kelliher may earn under this award

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while employed as head of the Company s international operations will depend on (1) Signed Contracts entered into with respect to new foreign countries, (2) the Company s net revenue derived from Signed Contracts, (3) the achievement of adjusted operating margins in excess of targeted levels derived from Signed Contracts, and (4) the expansion of the Company s international commercial relationships. Mr. Kelliher may earn a bonus with respect to each fiscal year within the four-year period. The maximum amount that Mr. Kelliher may earn during any fiscal year within the four-year performance period is $1,000,000.

Earned amounts generally vest on August 31, 2010 based on continued eligible employment during the performance period and are eligible to be paid to Mr. Kelliher upon vesting. Accelerated vesting will result if (1) Mr. Kelliher terminates employment due to disability, death, or an event that entitles him to severance benefits under his employment agreement, or (2) Mr. Kelliher remains an eligible employee on a Change in Control (as defined under the 1996 Plan) or a sale of the Company s international business operations. Except as described below, earned and vested amounts will be paid as soon as practicable following the performance period or, if earlier, an event described in (2) above.

As consideration for this award, Mr. Kelliher extended his non-competition and non-solicitation obligations to the Company from one to two years after terminating employment with the Company. Mr. Kelliher also agreed that otherwise earned and vested amounts under this award will not be payable if Mr. Kelliher materially breaches any of these obligations.

Potential Payments Upon Termination or Change in Control of the Company

