

TWEETER HOME ENTERTAINMENT GROUP INC

Form DEF 14A

December 17, 2003

Table of Contents

SCHEDULE 14A INFORMATION

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

Exchange Act of 1934

Filed by the Registrant x

Filed by a Party other than the Registrant o

Check the appropriate box:

- o Preliminary Proxy Statement
- o Confidential, for Use of the Commission Only (as permitted by Rule 14a-6(e)(2))
- x Definitive Proxy Statement
- o Definitive Additional Materials
- o Soliciting Material Pursuant to §240.14a-11(c) or §240.14a-12

Tweeter Home Entertainment Group, Inc.

(Name of Registrant as Specified In Its Charter)

Tweeter Home Entertainment Group, Inc.

(Name of Person(s) Filing Proxy Statement)

Payment of Filing Fee (Check the appropriate box):

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

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TABLE OF CONTENTS

NOTICE OF ANNUAL MEETING OF STOCKHOLDERS

PROXY STATEMENT

VOTING SECURITIES

Proposal 1: Election of Directors

GENERAL INFORMATION RELATING TO THE BOARD OF DIRECTORS

Security Ownership of Certain Beneficial Owners and Management

Summary Compensation Table

PERFORMANCE GRAPH

Table of Contents

TWEETER HOME ENTERTAINMENT GROUP, INC.

**40 Pequot Way
Canton, MA 02021**

Dear Stockholder:

You are cordially invited to attend Tweeter Home Entertainment Group, Inc.'s (Tweeter) annual meeting of stockholders on January 15, 2004. The meeting will begin promptly at 10:30 AM at the offices of Goulston & Storrs, P.C., 400 Atlantic Avenue, Boston, Massachusetts.

The official Notice of Meeting, proxy statement and form of proxy are included with this letter. The matters listed in the Notice of Meeting are described in detail in the proxy statement. This year we are asking stockholders to elect two Directors, to approve the adoption of Tweeter's 2004 Long-Term Incentive Plan, to approve the issuance of warrants, and the underlying shares of Tweeter common stock, to RetailMasters, LLC in partial payment for consulting services rendered to Tweeter, and to approve the selection of Tweeter's accountants.

The vote of every stockholder is important. Whether or not you expect to attend the meeting in person, you are urged to submit your proxy as soon as possible. You may submit your proxy (1) over the Internet, (2) by telephone, or (3) by signing, dating, and returning the enclosed proxy card and mailing it in the postage-prepaid envelope provided. The Board of Directors and management look forward to greeting those stockholders who are able to attend.

Sincerely,

Jeffrey Stone
President and Chief Executive Officer

Table of Contents

TWEETER HOME ENTERTAINMENT GROUP, INC.

**40 Pequot Way
Canton, MA 02021**

December 19, 2003

NOTICE OF ANNUAL MEETING OF STOCKHOLDERS

The annual meeting of stockholders (the Annual Meeting) of Tweeter Home Entertainment Group, Inc. will be held at the offices of Goulston & Storrs, P.C., 400 Atlantic Avenue, Boston, Massachusetts, on January 15, 2004, at 10:30 AM, for the following purposes:

1. To elect two Directors, each to serve for a three-year term or until the election and qualification of their respective successors.
2. To approve the adoption of Tweeter's 2004 Long-Term Incentive Plan.
3. To approve the issuance of warrants, and the underlying shares of Tweeter common stock, to RetailMasters, LLC in partial payment for consulting services rendered to Tweeter.
4. To act upon the approval of the designation of Deloitte & Touche LLP to audit the books, records and accounts of Tweeter for fiscal year 2004.
5. To consider and act upon all other matters which may properly come before the Annual Meeting or any adjournment or adjournments thereof.

The Board of Directors has set the close of business on Wednesday, December 17, 2003, as the record date for the purpose of determining the stockholders entitled to notice of, and to vote at, the Annual Meeting or any adjournment thereof, and only stockholders of record on that date will be entitled to notice of and to vote at said meeting.

Whether or not you plan to attend the meeting, please fill in, date, sign and return the enclosed proxy promptly in the return envelope provided. Alternatively, if you have shares registered directly with Tweeter's transfer agent, EquiServe, you may choose to vote those shares via the Internet at EquiServe's voting Web site (<http://www.eproxyvote.com/twtr>), or you may vote telephonically, within the U.S. and Canada only, by calling EquiServe at 1-877-779-8683 (toll free). If you hold Tweeter shares with a broker or bank, you may also be eligible to vote via the Internet or to vote telephonically if your broker or bank participates in the proxy voting program provided by ADP Investor Communication Services. If your Tweeter shares are held in an account with a broker or bank participating in the ADP Investor Communication Services program, you may be able to vote those shares via the Internet at ADP Investor Communication Services' voting Web site (www.proxyvote.com) or telephonically by calling the telephone number shown on your voting form. See "Voting Via the Internet or By Telephone" in the proxy statement for further details. You are cordially invited to attend the meeting.

By Order of the Board of Directors,

Joseph McGuire
Chief Financial Officer

Table of Contents

TWEETER HOME ENTERTAINMENT GROUP, INC.

PROXY STATEMENT

This proxy statement is furnished in connection with the solicitation of proxies on behalf of the Board of Directors of Tweeter Home Entertainment Group, Inc. (Nasdaq: TWTR) for the annual meeting of stockholders to be held on January 15, 2004. Only stockholders of record at the close of business on December 17, 2003 are entitled to notice of and to vote at the meeting. On or about December 19, 2003, the proxy statement and form of proxy will be sent to all stockholders of record.

Returning your completed proxy will not prevent you from voting in person at the meeting should you be present and wish to do so.

Unless contrary instructions are indicated on the proxy, all valid proxies received pursuant to this solicitation (and not revoked before they are voted) will be voted FOR the election of the nominees for Director named herein, FOR the adoption of the 2004 Long-Term Incentive Plan, FOR the approval of the issuance of warrants, and the underlying shares of Tweeter common stock, to RetailMasters, LLC in partial payment for consulting services rendered to Tweeter and FOR the approval of the designation of Deloitte & Touche LLP to audit Tweeter's books, records and accounts for fiscal year 2004. If a stockholder specifies a different choice on the proxy, such stockholder's shares of common stock will be voted in accordance with such specifications.

Any person giving a proxy in the form accompanying this proxy statement has the power to revoke it at any time before its exercise. A proxy may be revoked by filing with Tweeter's Secretary an instrument revoking it, by presenting an executed proxy bearing a later date at the Annual Meeting, or by attending the Annual Meeting and voting in person.

The cost of soliciting proxies will be borne by Tweeter. Solicitations may be made by mail, personal interview, telephone and/or telegram by Tweeter's Directors, officers and employees, without additional compensation for such solicitation activities. Tweeter will make arrangements with its transfer agent, EquiServe, to forward solicitation material to the beneficial owners of Tweeter's common stock held of record. Tweeter will reimburse banks, brokerage firms, other custodians, nominees and fiduciaries for reasonable expenses incurred in sending proxy material to beneficial owners of common stock held in their respective names.

Tweeter has retained the services of a proxy solicitation firm, The Altman Group, Inc., for a fee of \$4,500 plus reasonable out of pocket expenses.

Copies of Tweeter's 2003 Annual Report are being mailed to stockholders together with this proxy statement. The Annual Report contains Tweeter's financial statements for the fiscal years ended September 30, 2003, September 30, 2002 and September 30, 2001.

VOTING SECURITIES

Holders of record of Tweeter's common stock at the close of business on Wednesday, December 17, 2003 (the Record Date) have the right to receive notice of and to vote at the Annual Meeting and any adjournments of the meeting. At the Record Date, there were 24,057,355 shares of common stock issued and outstanding. Each share of common stock entitles the holder of that share to one vote on each matter submitted to a vote at the Annual Meeting.

Under Tweeter's bylaws, the presence, in person or by proxy, of stockholders holding a majority in interest of the issued and outstanding shares of common stock entitled to vote at the Annual Meeting is necessary to constitute a quorum. Abstentions and broker non-votes are each included for purposes of determining the presence or absence of a sufficient number of shares to constitute a quorum for the transaction of business. With respect to the approval of any particular proposal, abstentions and broker non-votes are not counted in determining the number of votes cast. Other than the election of Directors, which requires a plurality of the votes cast in person or by proxy, each matter to be submitted to the stockholders requires the affirmative vote of a majority of the votes cast in person or by proxy at the meeting.

Table of Contents**Proposal 1: Election of Directors****Nominees for Director, Directors Continuing in Office and Executive Officers**

Tweeter's bylaws provide for a Board of Directors consisting of such number of Directors as may be fixed from time to time by the Board. The Board is divided into three classes, with each class holding office for a term of three years and the term of office of one class expiring each year. The Board has fixed the number of Directors to constitute the full Board for the ensuing year at six, two of whom are to be elected at the Annual Meeting for a term expiring at the 2007 annual meeting of stockholders, two whose terms expire at the 2005 annual meeting of stockholders, and two whose terms expire at the 2006 annual meeting of stockholders. Jeffrey Stone, a Director since 1990, Jeffrey Bloomberg, a Director since 1989, and Peter Beshouri, a director since 2001, are in the class of Directors whose term expires at the Annual Meeting. The Board has nominated Mr. Stone and Mr. Bloomberg for election to the class of Directors whose term will expire in 2007. Mr. Beshouri will not stand for re-election to the Board at the Annual Meeting.

The persons named as proxies in the proxy card will vote the shares represented by your proxy for the election of Mr. Stone and Mr. Bloomberg as Directors unless your proxy card specifies otherwise. If either of the nominees for election to the Board should, for any reason not now anticipated, not be available to serve as a Director, the persons named as proxies will vote the shares for such other candidate as may be designated by the Board, unless the Board reduces the number of Directors constituting the full Board in order to eliminate the vacancy. The Board has no reason to believe that Mr. Stone and Mr. Bloomberg will be unable to serve if elected.

The table below sets forth certain information with respect to the nominees for election to the Board of Directors, those Directors whose terms of office will continue after the Annual Meeting and Tweeter's Executive Officers.

Name and Age	Principal Occupation, Business Experience and Other Business Affiliations	First Elected Director	Expiration of Current or Proposed Term of Office
Samuel Bloomberg, 52	Director and Chairman of the Board of Tweeter. Mr. Bloomberg has served as Chairman of the Board since 1986 and served as the Chief Executive Officer from 1983 until 2000. Mr. Bloomberg is a co-founder of Tweeter. Mr. Bloomberg and Jeffrey Bloomberg are brothers.	1972	2006
Jeffrey Stone, 46	Director, President and Chief Executive Officer of Tweeter. Mr. Stone has served as the President and Chief Executive Officer of Tweeter since January 2000 and served as Chief Operating Officer from 1990 to 2000. From 1987 to 1990 Mr. Stone served as the Executive Vice President of Bread & Circus, a specialty natural foods supermarket chain, and from 1983 to 1987 served as Vice President of Human Resources and Training for Scandinavian Design, a specialty furniture retailer. Mr. Stone is also a Director of PRO, the buying group of specialty consumer electronics retailers of which Tweeter is a member. Mr. Stone also serves as a Director of Abington Savings Bank.	1990	2007

Table of Contents

Name and Age	Principal Occupation, Business Experience and Other Business Affiliations	First Elected Director	Expiration of Current or Proposed Term of Office
Jeffrey Bloomberg, 56	Director of Tweeter. In 2001, Mr. Bloomberg joined Gordon Brothers Group LLC in the Office of the Chairman. Gordon Brothers assists retail and consumer goods companies in monetizing under-performing assets. From 1994 to 2001, Mr. Bloomberg served as the President of Bloomberg Associates, Inc., an investment banking company. From 1985 to 1993, Mr. Bloomberg served as a Senior Managing Director at Bear Stearns & Co., Inc., specializing in corporate finance and mergers and acquisitions. Mr. Bloomberg also serves as a Director of Nortek Holdings, Inc. Mr. Bloomberg and Samuel Bloomberg are brothers.	1989	2007
Matthew Bronfman, 44(1)(2)(3)(4)	Director of Tweeter. In 2001, Mr. Bronfman became a managing director at ACI Capital, a private equity firm. Mr. Bronfman founded, and from 1994 to 2001, served as Chairman and Chief Executive Officer, of Perfumes Isabel, a fragrance and gift company. In 1990, Mr. Bronfman served as Director, and from 1991 to 1994 Mr. Bronfman served as Chairman and Chief Executive Officer, of Sterling Cellular Holdings, LP, a privately held cellular telephone company. Mr. Bronfman also serves as a Director of Blue Square-Israel Ltd.	1989	2005
Michael Cronin, 50(1)(2)(3)(4)	Director of Tweeter. From 1991 to the present Mr. Cronin has served as Managing Partner of Weston Presidio, a management company for several venture capital limited liability partnerships. Mr. Cronin also serves as a Director of Tekni-plex, Inc. and Nebraska Books.	1995	2006

Table of Contents

Name and Age	Principal Occupation, Business Experience and Other Business Affiliations	First Elected Director	Expiration of Current or Proposed Term of Office
Steven Fischman, 61(1)(3)(4)	Director of Tweeter. Since 1992, Mr. Fischman has been the President of New England Development (NED), a regional mall developer based in New England. From 1996 to August 1999, Mr. Fischman also served as a Managing Director of the General Partner of Wells Park Group Limited Partnership, a mall management company formed by NED and an unrelated partner. Prior to joining NED, Mr. Fischman was a Director and shareholder in the Boston law firm of Goulston & Storrs, P.C., Tweeter's legal counsel. Mr. Fischman is also Chairman of the Board of Trustees of Newton-Wellesley Hospital.	1998	2005
Joseph McGuire, 43	Mr. McGuire has served as Tweeter's Senior Vice President since July 2001 and Chief Financial Officer since May 1996. From May 1996 to June 2001, Mr. McGuire also served in the capacities of Vice President and Chief Information Officer of Tweeter. Prior to joining Tweeter, Mr. McGuire was the Chief Financial Officer of Bryn Mawr Radio & Television Centre, Inc., from 1987 to 1996.		

(1) Member of the Audit Committee.

(2) Member of the Compensation Committee.

(3) Member of the Nominating Committee.

(4) The Board of Directors has determined that these directors are independent as such term is defined under Rule 4200(a)(15) of the Nasdaq Stock Market Marketplace Rules.

Table of Contents

**GENERAL INFORMATION RELATING TO
THE BOARD OF DIRECTORS**

The Board of Directors

The Board of Directors held four meetings in the fiscal year ended September 30, 2003. No member of the Board of Directors attended less than 80% of the total number of meetings of the Board and committees thereof upon which he served during the fiscal year ended September 30, 2003.

Committees of the Board of Directors

The Board of Directors has an Audit Committee, consisting of Michael Cronin, Matthew Bronfman and Steven Fischman, whose purpose is to oversee the accounting and financial reporting processes of the company and the audits of the financial statements of the company. The Audit Committee held four meetings during the fiscal year ended September 30, 2003. The Audit Committee appointed Deloitte & Touche LLP to serve as Tweeter's auditors for the fiscal year ending September 30, 2004, subject to stockholder approval. The Board of Directors has determined that Michael Cronin is an Audit Committee financial expert, as that term is defined in Item 401 of Regulation S-K, serving on its Audit Committee. The full responsibilities of the Audit Committee are set forth in its charter, which is reviewed and updated annually and approved by the Board, and is attached hereto as Appendix A.

The Compensation Committee of the Board of Directors establishes and implements compensation policies and programs for Tweeter's executive officers and exercises all powers of the Board of Directors in connection with Tweeter's incentive compensation and benefit plans. The Compensation Committee of the Board consists of Matthew Bronfman and Michael Cronin. The Compensation Committee held three meetings during the fiscal year ended September 30, 2003.

On December 11, 2003, the Board of Directors established a Nominating Committee, consisting of Michael Cronin, Matthew Bronfman and Steven Fischman, whose purpose is to assist the Board in identifying individuals qualified to become directors under criteria approved by the Board, periodically review director compensation and benefits and recommend to the Board any improvements to Tweeter's corporate governance guidelines as it deems appropriate. Tweeter had no Nominating Committees of the Board of Directors or committees performing similar functions during the year ended September 30, 2003. The full responsibilities of the Nominating Committee are set forth in its charter, which will be reviewed and updated annually and approved by the Board, and is attached hereto as Appendix B.

Compensation of Directors

Tweeter currently pays each non-employee Director \$5,000 per quarter, provided such Director attends a meeting of the Directors scheduled for such quarter either in person or by telephone. The amount is not pro rated if a Director does not attend all meetings. All Directors are reimbursed for reasonable expenses incurred in attending meetings, but are not paid a per meeting fee. In addition to the quarterly payment, members of the Audit Committee are paid \$2,000 per meeting of the Audit Committee and members of the Compensation Committee are paid \$500 per meeting of the Compensation Committee. In fiscal 2003, each Director was given stock options in lieu of cash payments for any compensation due for the period from April 2003 through March 2004. Under current Director compensation arrangements, upon each subsequent election or re-election, each Director who is not also an employee or affiliate of Tweeter is granted options under Tweeter's 1998 Stock Option and Incentive Plan exercisable for the purchase of 5,000 shares of common stock, with an exercise price equal to the fair market value of the common stock at the date of grant. These options vest upon grant. A sitting Director will receive annual grants of 5,000 shares each year of his or her term, with an exercise price equal to the fair market value of the common stock on the date of the grant. These options vest upon grant.

Table of Contents**Board of Directors Recommendation**

THE BOARD OF DIRECTORS RECOMMENDS THAT YOU VOTE FOR THE ELECTION OF THE BOARD'S NOMINEES, JEFFREY STONE AND JEFFREY BLOOMBERG. A PLURALITY OF THE VOTES CAST IN PERSON OR BY PROXY AT THE ANNUAL MEETING IS REQUIRED TO ELECT EACH NOMINEE AS DIRECTOR.

Security Ownership of Certain Beneficial Owners and Management

The following table sets forth certain information regarding the beneficial ownership of Tweeter's common stock as of the Record Date by (i) each person (including any group as that term is used in Section 13(d)(3) of the Securities Exchange Act of 1934, as amended (the Exchange Act)) known by Tweeter to be the beneficial owner of more than 5% of Tweeter's common stock, (ii) each of Tweeter's Named Executives (as defined below) and Directors, and (iii) all of Tweeter's executive officers and Directors as a group. Except as otherwise indicated in the footnotes to this table, Tweeter believes that the persons named in this table have sole voting and investment power with respect to all of the shares of common stock indicated.

Name	Common Stock Beneficially Owned(1) As of December 17, 2003	Percent Of Class
Named Executive Officers		
Samuel Bloomberg *		
40 Pequot Way Canton, MA 02021	1,684,125(2)	6.8
Jeffrey Stone *		
40 Pequot Way Canton, MA 02021	614,620(3)	2.5
Joseph McGuire		
40 Pequot Way Canton, MA 02021	167,270(4)	**
Peter Beshouri *		
40 Pequot Way Canton, MA 02021	148,000(5)	**
Philo Pappas		
40 Pequot Way Canton, MA 02021	318,000(6)	1.3
Directors/ Director Nominees		
Michael Cronin		
200 Clarendon Street, 50th Floor Boston, MA 02116	1,952,064(7)	8.1
Jeffrey Bloomberg		
40 Broad Street, 11th Floor Boston, MA 02109	313,951(8)	1.3
Matthew Bronfman		
900 Third Avenue, 26th Floor New York, NY 10022	173,036(9)	**
Steven Fischman		
One Wells Avenue Newton, MA 02159	50,700(10)	**
Directors and Executive Officers as a Group (9 persons)	5,421,766(11)	21.2

Table of Contents

Name	Common Stock Beneficially Owned(1) As of December 17, 2003	Percent Of Class
Beneficial Owners of more than 5%		
Wellington Management Company, LLP 75 State Street Boston, Massachusetts 02109	3,320,540(12)	13.8
Weston Presidio Capital IV, L.P. Pier 1, Bay 2 San Francisco, CA 94111	1,872,600(12)	7.8
T. Rowe Price Associates, Inc. 100 E. Pratt Street Baltimore, MD 21202	1,350,700(12)	5.6

* Messrs. Bloomberg, Stone and Beshouri are also Directors of Tweeter.

** Represents less than 1% of class.

- (1) Includes the number of shares and percentage ownership represented by such shares determined to be beneficially owned by a person in accordance with the rules of the Securities and Exchange Commission. The number of shares beneficially owned by a person includes shares of common stock that are subject to options or warrants held by that person that are currently exercisable or exercisable within 60 days of the Record Date. Such shares are deemed outstanding for the purpose of computing the percentage of outstanding shares owned by such person. Such shares are not deemed outstanding, however, for the purposes of computing the percentage ownership of any other person.
- (2) Includes 67,025 shares held, in the aggregate by the Samuel Bloomberg Family Trusts for the benefit of Mr. Bloomberg's children and 14,454 shares held by Carolina Bloomberg, the wife of Mr. Bloomberg. Mr. Bloomberg expressly disclaims beneficial ownership of the shares held by the Samuel Bloomberg Family Trusts and Carolina Bloomberg. Also includes 533,927 shares subject to options granted by Tweeter to Mr. Bloomberg exercisable within 60 days of the Record Date.
- (3) Includes 327,200 shares subject to options granted by Tweeter to Mr. Stone exercisable within 60 days of the Record Date.
- (4) Includes 2,000 shares held, in the aggregate, by trusts for the benefit of Mr. McGuire's children. Mr. McGuire expressly disclaims beneficial ownership of these shares. Also includes 143,920 shares subject to options granted by Tweeter to Mr. McGuire exercisable within 60 days of the Record Date.
- (5) Includes 148,000 shares subject to options granted by Tweeter to Mr. Beshouri exercisable within 60 days of the Record Date.
- (6) Includes 48,000 shares subject to options granted by Tweeter to Mr. Pappas exercisable within 60 days of the Record Date. In addition, Mr. Pappas has entered into a pre-paid variable share forward agreement with CIBC World Markets Corp. with respect to 162,000 of his shares.
- (7) Includes 1,872,600 shares held by Weston Presidio Capital IV, L.P. and WPC Entrepreneur Fund II, L.P. (collectively, the Weston Funds). Mr. Cronin is the managing member or partner of the general partners of the Weston Funds. Mr. Cronin disclaims beneficial ownership of the shares held by the Weston Funds, except to the extent of his pecuniary interest therein. Also includes 49,650 shares subject to options granted by Tweeter to Mr. Cronin exercisable within 60 days of the Record Date.
- (8) Includes 22,896 shares held, in the aggregate, by trusts for the benefit of Mr. Bloomberg's children. Mr. Bloomberg expressly disclaims beneficial ownership of these shares. Also includes 44,850 shares subject to options granted by Tweeter to Mr. Bloomberg exercisable within 60 days of the Record Date.
- (9) Includes 139,818 shares subject to options granted by Tweeter to Mr. Bronfman exercisable within 60 days of the Record Date.

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- (10) Includes 50,700 shares subject to options granted by Tweeter to Mr. Fischman exercisable within 60 days of the Record Date.
- (11) Includes 1,486,065 shares in the aggregate subject to options granted by Tweeter to Tweeter's directors and executive officers exercisable within 60 days of the Record Date.
- (12) Information concerning beneficial ownership was obtained from Schedule 13D's and 13G's filed in February 2003.

Section 16(a) Beneficial Ownership Reporting Compliance

Section 16(a) of the Securities Exchange Act of 1934, as amended (the Exchange Act), requires Directors, officers and persons who are beneficial owners of more than ten percent of Tweeter's common stock to file with the Securities and Exchange Commission reports of their ownership of Tweeter's securities and changes in that ownership. To Tweeter's knowledge, based upon a review of copies of reports so filed, all persons required to file such reports regarding ownership and transactions during the fiscal year ended September 30, 2003 did so by no later than the date the reports were due, except for the following: a Form 4 was filed late for an aggregate of three transactions effected by Jeffrey Bloomberg in December 2001 and July

Table of Contents

2002; a Form 4 was filed late for an aggregate of two transactions effected by Matthew Bronfman in July 2002 and August 2002; and a Form 4 was filed late for a transaction effected by Samuel Bloomberg in January 2002.

Executive Compensation

The following table sets forth the compensation earned by Tweeter's Chairman and each of the other executive officers of Tweeter (the Named Executives) for services rendered in all capacities to Tweeter during fiscal 2001, 2002 and 2003:

Summary Compensation Table

Name And Principal Position	Annual Compensation(1)		Bonus(2)	Long-Term Compensation	
	Year	Salary		Restricted Stock Award	Securities Underlying Options
Samuel Bloomberg Chairman of the Board	2003(3)	\$284,423	\$ 0	\$ 0	480,000
	2002	\$409,327	\$ 18,750	\$ 0	80,000
	2001	\$375,000	\$ 86,400	\$ 0	42,000
Jeffrey Stone President and Chief Executive Officer	2003(3)	\$518,269	\$ 0	\$ 0	180,000
	2002	\$498,558	\$ 21,250	\$ 0	140,000
	2001	\$425,000	\$129,600	\$ 0	58,000
Joseph McGuire Senior Vice President and Chief Financial Officer	2003(3)	\$327,692	\$ 0	\$ 0	60,000
	2002	\$285,251	\$ 13,000	\$ 0	80,000
	2001	\$259,038	\$ 51,700	\$ 0	25,000
Peter Beshouri Sr. Vice President	2003	\$400,000	\$ 0	\$ 0	0
	2002	\$391,539	\$ 0	\$ 0	35,000
	2001(4)	\$ 66,667	\$ 0	\$ 0	30,000
Philo Pappas Senior Vice President and Chief Merchandising Officer	2003(5)	\$145,962	\$100,000	\$1,514,700(6)	120,000

- (1) The compensation described in this table does not include medical or other benefits received by the Named Executives that are generally available to all salaried employees of Tweeter.
- (2) Bonus payments paid relate to the previous fiscal year results.
- (3) Mr. Bloomberg exchanged \$400,000 of salary for options to purchase 480,000 shares of Tweeter common stock; Mr. Stone exchanged \$150,000 of salary for options to purchase 180,000 shares of Tweeter common stock; Mr. McGuire exchanged \$50,000 of salary for options to purchase 60,000 shares of Tweeter common stock. The reductions in salary were or will be effected approximately 50% in fiscal year 2003 and approximately 50% in fiscal year 2004.
- (4) Represents compensation paid to Mr. Beshouri from August 1, 2001 through September 30, 2001.
- (5) Represents compensation paid to Mr. Pappas from April 21, 2003 through September 30, 2003.
- (6) Represents 270,000 shares of restricted stock granted to Mr. Pappas on April 21, 2003 multiplied by the closing price of \$5.62 as of the grant date, less the purchase price paid by Mr. Pappas (\$.01 per share). 162,000 of the shares were vested as of the grant date. Subject to certain acceleration events, 54,000 shares vest on February 1, 2004 and 54,000 shares vest on February 1, 2005, so long as Mr. Pappas is still employed with Tweeter at that time. As of September 30, 2003, the value of the restricted shares held by Mr. Pappas was \$828,360, which represents 108,000 shares of restricted stock multiplied by the closing price of \$7.68 as of September 30, 2003, less the purchase

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price paid for the 108,000 shares (\$.01 per share). Dividends will be paid on the shares of restricted stock to the extent that dividends are paid on any of Tweeter's other common stock. Tweeter does not expect any dividends to be paid in the future.

8

Table of Contents

The following table sets forth information relating to grants of stock options made during fiscal 2003 to each of the Named Executive Officers under Tweeter's 1998 Stock Option and Incentive Plan:

Option Grants in Fiscal 2003

Name	Number of Securities Underlying Options Granted	Percent of Total Options Granted to Employees in Fiscal Year	Exercise Price Per Share	Expiration Date	Potential Realizable Value at Assumed Annual Rates of Stock Price Appreciation for Option Term	
					5%	10%
Samuel Bloomberg	480,000(1)	38.3%	\$ 5.64	4/25/2013	\$ 1,702,504	\$ 4,314,580
Jeffrey Stone	180,000(1)	14.4%	\$ 5.64	4/25/2013	\$ 638,454	\$ 1,617,967
Joseph McGuire	60,000(1)	4.8%	\$ 5.64	4/25/2013	\$ 212,818	\$ 539,322
Philo Pappas	120,000(1)	9.6%	\$ 4.70	4/21/2008	\$ 155,823	\$ 344,328

The price of one share of Tweeter common stock acquired at \$5.64 if compounded over 10 years at 5% and 10% would equal approximately \$9.19 and \$14.63, respectively. The price of one share of Tweeter common stock acquired at \$4.70 if compounded over 5 years at 5% and 10% would equal approximately \$6.00 and \$7.57, respectively.

- (1) Number of shares issuable upon the exercise of options granted on April 25, 2003 under the Tweeter Home Entertainment Group, Inc. 1998 Stock Option and Incentive Plan. 50% of the options issued to Messrs. Bloomberg, Stone and McGuire vested immediately, 25% will vest on April 25, 2004 and 25% will vest on April 25, 2005. 40% of the options issued to Mr. Pappas vested immediately, 30% will vest on April 21, 2004 and 30% will vest on April 21, 2005.

Aggregated Option Exercises in Fiscal 2003 and Fiscal Year-End Option Values

Name	Shares Acquired on Exercise	Value Realized	Number of Securities Underlying Options at Fiscal Year End		Value of Unexercised In-the-Money Options at Fiscal Year End	
			Exercisable/Unexercisable	Exercisable/Unexercisable	Exercisable/Unexercisable	Exercisable/Unexercisable
Samuel Bloomberg		\$	533,927/283,200		\$1,006,886/\$500,424	
Jeffrey Stone		\$	327,200/159,400		\$ 222,058/\$202,542	
Joseph McGuire		\$	145,800/ 66,400		\$ 83,176/\$ 72,024	
Peter Beshouri		\$	148,000/ 12,000		\$ 121,100/\$	
Philo Pappas		\$	48,000/ 72,000		\$ 143,040/\$214,560	

Employment/ Severance Agreements

The summaries of the various employment/severance agreements set forth below are qualified in their entirety by reference to the full text of such agreements, which are exhibits to Amendment No. 1 to Tweeter's Registration Statement on Form S-1 filed with the Securities and Exchange Commission on June 8, 1998 or Tweeter's Annual Reports on Form 10-K for the fiscal years ended September 30, 2002 and September 30, 2003.

Bloomberg Agreement

Upon completion of Tweeter's initial public offering in July 1998, Tweeter entered into a five-year employment agreement with Samuel Bloomberg. On June 1, 2003, Tweeter renewed the agreement with Mr. Bloomberg for an additional three years. The agreement provides that Mr. Bloomberg is to receive a base salary of \$445,000 per year through September 30, 2003 and thereafter at the annual rate of at least \$445,000, plus such increases as may be determined by the Board of Directors. Mr. Bloomberg has the opportunity to earn incentive bonuses based upon certain performance criteria, to be determined by the Compensation Committee, and the opportunity to receive stock options and

other incentive awards under Tweeter s 1998 Stock Option and Incentive Plan.

Table of Contents

The employment agreement provides for continued employment until termination by either party. Tweeter, however, may terminate the employment agreement with or without cause at any time. If Mr. Bloomberg's employment is terminated by Tweeter without cause, Tweeter is obligated to pay him an amount equal to his unvested accrued benefits under any stock option plan, incentive plan or retirement plan plus severance pay equal to two years of Mr. Bloomberg's annual salary at the rate in effect as of the termination of his employment. The employment agreement also provides that if Tweeter and Mr. Bloomberg do not renew the employment agreement upon expiration, Tweeter may elect to pay Mr. Bloomberg two years severance in exchange for a two-year non-competition arrangement.

Stone Agreement

Upon completion of Tweeter's initial public offering in July 1998, Tweeter entered into a five-year employment agreement with Jeffrey Stone. On June 1, 2003, Tweeter renewed the agreement with Mr. Stone for an additional three years. The agreement provides that Mr. Stone is to receive a base salary of \$585,000 per year through September 30, 2003 and thereafter at the annual rate of at least \$585,000, plus such increases as may be determined by the Board of Directors. Mr. Stone has the opportunity to earn incentive bonuses based upon certain performance criteria, to be determined by the Compensation Committee, and the opportunity to receive stock options and other incentive awards under Tweeter's 1998 Stock Option and Incentive Plan.

The employment agreement provides for continued employment until termination by either party. Tweeter, however, may terminate the employment agreement with or without cause at any time. If Mr. Stone's employment is terminated by Tweeter without cause, Tweeter is obligated to pay him an amount equal to his unvested accrued benefits under any stock option plan, incentive plan or retirement plan plus severance pay equal to two years of Mr. Stone's annual salary at the rate in effect as of the termination of his employment. The employment agreement also provides that if Tweeter and Mr. Stone do not renew the employment agreement upon expiration, Tweeter may elect to pay Mr. Stone two years severance in exchange for a two-year non-competition arrangement.

McGuire Employment Agreement

Upon completion of Tweeter's initial public offering in July 1998, Tweeter entered into an employment agreement with Joseph McGuire. Tweeter renewed this agreement on July 21, 2001. Under the terms of this three-year agreement, Mr. McGuire earns a base annual salary of \$260,000 plus such increases as may be determined by the President, and has the opportunity to earn yearly incentive bonuses based on performance criteria (determined by the Compensation Committee). Mr. McGuire is also entitled to receive stock options and other incentive awards under Tweeter's stock option and incentive plans. Tweeter may elect, upon the expiration and non-renewal of the agreement, to pay Mr. McGuire two years of severance pay in exchange for a two-year non-competition agreement from Mr. McGuire. If Tweeter terminates Mr. McGuire's employment without cause, Tweeter is obligated to pay Mr. McGuire an amount equal to one year of his base salary in effect as of the termination of his employment, and his options and incentives will continue to vest for one year following termination.

Beshouri Employment Agreement

Upon the acquisition of Sound Advice, Tweeter entered into an employment agreement with Peter Beshouri. Under the terms of this two-year agreement, Mr. Beshouri earned a base annual salary of \$400,000. For entering into the agreement, Mr. Beshouri also received a signing bonus of \$100,000, stock options for 30,000 shares of Tweeter common stock and, as additional consideration for entering into Tweeter's Non-competition, Nondisclosure and Non-solicitation agreement, he received an additional \$1,900,000. Mr. Beshouri was also entitled to receive stock options and was eligible to receive annual bonuses, in the sole discretion of Tweeter. The employment agreement provided that if Mr. Beshouri's employment was terminated by Tweeter without cause or Mr. Beshouri terminated his employment for good reason, Tweeter was obligated to pay Mr. Beshouri an amount equal to his salary through the second anniversary of his employment agreement. As of September 30, 2003, the agreement expired and Mr. Beshouri is no longer an

Table of Contents

employee of Tweeter. No severance is due to Mr. Beshouri as a result of the termination of his employment. Mr. Beshouri will remain a Director until the 2004 annual stockholders meeting on January 15, 2004.

Pappas Severance Agreement

On April 21, 2003, Tweeter entered into a severance agreement with Philo Pappas, Senior Vice President and Chief Merchandising Officer. Under the terms of the agreement, Mr. Pappas is entitled to a base salary of \$345,000, a \$100,000 commencement bonus, 270,000 shares of restricted Tweeter common stock (at a purchase price of \$.01 per share) and options for 120,000 shares of Tweeter common stock. In addition, Mr. Pappas is or will be entitled to receive an annual bonus for the period ending September 30, 2003 of \$100,000 and an annual bonus for the period ending September 30, 2004 of no more than his then-current salary. Mr. Pappas is also entitled to receive options for no fewer than 20,000 shares of Tweeter common stock in each of 2004 and 2005. If Tweeter terminates the agreement without cause or Mr. Pappas terminates the agreement for good reason, Mr. Pappas will be entitled to receive one year's annual salary and, if such termination is on or prior to the second anniversary of the commencement of Mr. Pappas's employment, such termination will cause accelerated vesting of one-year's worth of his options and restricted stock.

Compensation Committee Report Regarding Executive Compensation

The Compensation Committee of the Board of Directors makes decisions regarding cash compensation paid and stock options and other forms of equity-based compensation awarded to Tweeter's executive officers. The Compensation Committee is comprised of two Directors, Michael Cronin and Matthew Bronfman, neither of which have relationships with any executive officers of Tweeter. The Compensation Committee has submitted the following report concerning executive compensation:

Compensation Philosophy

The Compensation Committee (the Committee), which is composed entirely of outside independent Directors, reviews, evaluates and approves the amount, design and implementation of Tweeter's compensation system for executive officers. Tweeter believes that corporate performance and in turn, stockholder value will be best enhanced by a compensation system that supports and reinforces Tweeter's key operating and strategic goals while aligning the financial interests of Tweeter's executive officers with those of the stockholders. Tweeter utilizes both short-term and long-term incentive compensation programs to achieve these objectives. Executive officer incentive compensation programs are tied to company-wide achievement of annual financial and operational goals and the market value of Tweeter's stock. The Committee believes that the use of company-wide performance in setting goals promotes a unified vision for senior management and creates common motivation among the executives. For other salaried employees, the incentive compensation program is also tied to divisional, departmental or store business goals and, in some cases, individual performance.

For Tweeter's 2003 fiscal year, the Committee made its compensation decisions based on a review of Tweeter's 2002 fiscal year performance, on Tweeter's budget and other projections for the 2003 fiscal year, and on Tweeter's performance in comparison to certain competitors. The Committee also used information from an Executive Compensation Survey provided by an independent consulting firm.

Components of the Executive Compensation Program

Tweeter's compensation program for executive officers consists generally of three components: base salary, an annual performance-based cash bonus and long-term stock incentives. In making compensation decisions, the Committee generally compares the compensation of Tweeter's ex