HEALTHWAYS, INC
Form DEF 14A
December 31, 2007

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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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3841 Green Hills Village Drive
Nashville, Tennessee 37215

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 Loews Vanderbilt Hotel, 2100 West End Avenue, Nashville, Tennessee, 37203 at 9:00 a.m., local time, on Thursday, February 14, 2008 for the following purposes:

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

(2) To ratify the appointment of Ernst & Young LLP as the Company s independent registered public accounting firm for fiscal 2008;

(3) To consider and act upon a proposal to amend the Company s Restated Certificate of Incorporation, as amended, (the Certificate of Incorporation), to increase the number of authorized shares of the Company s common stock, par value $.001 per share (the Common Stock) from 75,000,000 to 120,000,000; and

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

The proxy statement and form of proxy accompanying this notice are being mailed to stockholders on or about December 31, 2007. Only stockholders of record at the close of business on December 17, 2007 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 enclosed proxy and return it promptly in the enclosed addressed envelope, which requires no postage if mailed in the United States, or to vote by toll-free telephone or internet as described in the enclosed proxy card.

By Order of the Board of Directors,

Thomas G. Cigarran
Chairman

December 31, 2007

Healthways, Inc.
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HEALTHWAYS, INC.
3841 Green Hills Village Drive
Nashville, Tennessee 37215

PROXY STATEMENT FOR ANNUAL MEETING OF STOCKHOLDERS

Thursday, February 14, 2008

The enclosed 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 Thursday, February 14, 2008, at 9:00 a.m., local time, at the Loews Vanderbilt Hotel, 2100 West End Avenue, Nashville, Tennessee, 37203, and at all adjournments or postponements thereof, for the purposes set forth in the foregoing Notice of Annual Meeting of Stockholders. Our Annual Report containing our audited financial statements for the fiscal year ended August 31, 2007 is being mailed together with this Proxy Statement to all stockholders entitled to vote. Copies of the proxy, this proxy statement and the attached notice are being sent to stockholders on or about December 31, 2007.

In addition to solicitations by mail, 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 mailing this proxy statement.

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 ratification of the selection of Ernst & Young LLP and the amendment to the Company s Certificate of Incorporation, 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 ratification of Ernst & Young LLP as the independent registered public accounting firm for fiscal 2008 set forth under Proposal No. 2, and FOR the amendment to the Certificate of Incorporation set forth under Proposal No. 3. The Board of Directors does not know of any other matters which will be presented for action at the meeting, but the persons named in the proxy intend to vote or act with respect to any other proposal which may be properly presented for action according to their best judgment in light of the conditions then prevailing.

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 our transfer agent. In the election for directors, the three persons receiving the highest number of FOR votes will be elected. The proposal to ratify the selection of the auditors requires the affirmative FOR vote of a majority of those shares present and entitled to vote. The proposal to amend the Certificate of Incorporation to increase the authorized shares of Common Stock requires the affirmative FOR vote of a majority of the outstanding shares entitled to be cast on such matter. If you are a beneficial owner and do not provide the stockholder of record with voting instructions, your shares may constitute broker non-votes.

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

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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, 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. For proposals requiring the affirmative vote of those shares present and entitled to vote, such as Proposal No. 2, broker non-votes will not affect the outcome of the vote. With respect to Proposal No. 3, a broker non-vote will have the same effect as a vote against such matter.

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.

Each share of our common stock, $.001 par value (the Common Stock), issued and outstanding on the record date, December 17, 2007, will be entitled to one vote on all matters to come before the meeting. Cumulative voting is not permitted. As of December 17, 2007, there were outstanding 35,927,925 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 December 17, 2007. 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)
William Blair & Company LLC 222 W. Adams Chicago, IL 60606	4,508,336(2)	12.55%
FMR Corp. 82 Devonshire Street Boston, MA 02109	3,514,586(2)	9.78%
Wasatch Advisors, Inc. 150 Social Hall Avenue Salt Lake City, UT 84111	3,431,588(2)	9.55%
Earnest Partners LLC 1180 Peachtree Street NE, Suite 2300 Atlanta, GA 30309	2,580,173(2)	7.18%
Waddell & Reed Financial, Inc. 6300 Lamar Avenue Overland Park, KS 66202	2,278,214(2)	6.34%
T. Rowe Price Associates, Inc. 100 East Pratt Street Baltimore, MD 21202	2,128,741(2)	5.93%
Bamco, Inc. 767 Fifth Avenue New York, NY 10153	1,823,700(2)	5.08%
Ben R. Leedle, Jr.****	753,289(3)	2.05%
Thomas G. Cigarran**	625,469(4)	1.73%
Henry D. Herr**	330,858(5)	*
Robert E. Stone***	311,689(6)	*
William C. O Neil, Jr.**	259,272(7)	*
Mary A. Chaput***	238,447(8)	*
L. Ben Lytle**	121,544(9)	*
James E. Pope, M.D.***	100,483(10)	*
C. Warren Neel, Ph. D.**	72,230(7)	*

Donald B. Taylor***	70,880(11)	*
John W. Ballantine**	50,000(12)	*
Jay C. Bisgard, M.D.**	45,000(13)	*
Mary Jane England, M.D.**	20,000(14)	*

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Name and Address of Beneficial Owner	Amount and Nature of Beneficial Ownership(1)	Percent of Class(1)
Alison Taunton-Rigby, Ph. D.**	15,000(15)	*
John A. Wickens**	600(16)	*
All directors and executive officers as a group (19 persons)	3,080,431(17)	8.16%

* 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 Form 13F, dated September 30, 2007 filed with the Commission.

(3) Includes 751,063 shares issuable upon the exercise of outstanding options.

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

(5) Includes 18,491 shares held in trust and 4,606 shares held in trust by Mr. Herr s wife.

(6) Includes 157,502 shares issuable upon the exercise of outstanding options.

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

(8) Includes 230,000 shares issuable upon the exercise of outstanding options.

(9) Includes 76,585 held in trust and 46,720 held in escrow.

(10) Includes 100,000 shares issuable upon the exercise of outstanding options.

(11)

Includes 7,080 shares owned by Mr. Taylor s wife, 920 shares held in trust, and 62,500 shares issuable upon the exercise of outstanding options.

(12) Includes 10,000 shares held in trust and 40,000 shares issuable upon the exercise of outstanding options.

(13) Includes 5,000 shares held in trust and 40,000 shares issuable upon the exercise of outstanding options.

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

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

(16) Includes 600 shares held jointly by Mr. Wickens and his wife.

(17) Includes 1,826,461 shares issuable upon the exercise of outstanding options.

CORPORATE GOVERNANCE

Board of Directors Information

Our Board of Directors held nine meetings during fiscal 2007. All of the members of the Board of Directors, except Messrs. Cigarran, Herr, Leedle, and Lytle are independent, as defined by applicable law and the NASDAQ Stock Market (NASDAQ) listing standards, including Frank Ehmann, who retired from the Board of Directors on February 2, 2007. The Board of Directors has a Nominating and Corporate Governance Committee, an Audit Committee and a Compensation Committee.

Each of our incumbent directors attended at least 75% of the aggregate of the total number of meetings held during fiscal 2007 by the Board of Directors and each committee of which such director was a member for the entire fiscal year.

Committees of the Board of Directors

Compensation Committee

During fiscal 2007, the Compensation Committee consisted of Mr. Ballantine and Drs. Bisgard, England, Neel and Taunton-Rigby 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 seven meetings during fiscal 2007.

Nominating and Corporate Governance Committee

During fiscal 2007, the Nominating and Corporate Governance Committee consisted of Messrs. O Neil and Wickens and Drs. England and Taunton-Rigby and was chaired by Dr. England. Mr. Wickens was appointed to the committee in February 2007 in connection with his appointment to the Board of Directors. 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 five meetings during fiscal 2007.

Audit Committee

During fiscal 2007, the Audit Committee consisted of Messrs. O Neil and Ballantine 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 each member of the Audit Committee qualifies as an audit committee financial expert, as defined by the regulations of the Commission. The Audit Committee held eleven meetings during fiscal 2007. 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., 3841 Green Hills Village Drive, Nashville, Tennessee 37215. To be timely, director nominations for the 2008 Annual Meeting of Stockholders must be submitted within the time limits for stockholder proposals as set forth on page 51 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. The members should have sufficient time to carry out their duties 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 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 2007 Annual Meeting of Stockholders held on February 2, 2007.

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., 3841 Green Hills Village Drive, Nashville, Tennessee 37215. 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., 3841 Green Hills Village Drive, Nashville, Tennessee 37215. Stockholder communications may be submitted confidentially or anonymously.

Stock Retention Guidelines

To further align officers interests with stockholders interests, in August 2005, our 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 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

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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.

In addition, in August 2005, the Board of Directors adopted stock ownership guidelines that require directors to retain at least 75% of the net number of shares acquired (after payment of exercise price, if any, and taxes) upon exercise of stock options and vesting of restricted stock awards granted in and after August 2005 until the required minimum ownership is achieved.

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 Board of Directors, committee, and individual director evaluations, 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.

Ed Cooper, son-in-law of William C. O Neil Jr., an Outside Director (as defined herein), was a non-management partner in a partnership that owns the building in which our primary corporate office is located. We made rental payments of approximately $1,830,000 to the partnership in fiscal 2007. We have entered into a lease agreement for a new corporate headquarters which we expect to occupy beginning in March 2008 and do not expect to make payments to this partnership after that time.

Christopher Cigarran, son of Chairman Thomas G. Cigarran, worked for the Company as Senior Vice President of Human Resources and Organizational Development, receiving aggregate cash compensation of approximately $292,000 during fiscal 2007 and equity awards commensurate with our other senior vice presidents.

Robert L. Chaput, our Chief Information Officer and Executive Vice President, is the spouse of Mary A. Chaput, our Chief Financial Officer and Executive Vice President. Mr. Chaput and Ms. Chaput received aggregate cash compensation of approximately $514,000 and $616,000 during fiscal 2007, respectively. Mr. Chaput and Ms. Chaput also receive equity awards commensurate with our other executive vice presidents.

Hugh Lytle, son of Director L. Ben Lytle, began working as a Senior Vice President for the Company on December 1, 2006 but was no longer employed by the Company as of August 31, 2007. During fiscal 2007, Hugh Lytle received aggregate cash compensation of approximately $389,000. Prior to Healthways, Hugh Lytle served as President of Axia Health Management, LLC (Axia), which we acquired on December 1, 2006.

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.

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.

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 2008 Annual Meeting of Stockholders will serve until the Annual Meeting of Stockholders in 2011 (the Class II directors). Four directors currently serving on the Board of Directors will continue to serve until the Annual Meeting of Stockholders in 2009 (the Class III directors), and four directors currently serving on the Board of Directors will continue to serve until the Annual Meeting of Stockholders in 2010 (the Class I 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 II 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. **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
Thomas G. Cigarran	II; 2011	Mr. Cigarran, 66, 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.
C. Warren Neel, Ph. D.	II; 2011	Dr. Neel, 69, 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. 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.

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Name of Director	Class of Director; Annual Meeting at Which Term Will Expire	Background Information
John W. Ballantine	II; 2011	Mr. Ballantine, 61, has been a director of the Company since June 2003. Mr. Ballantine served as Executive Vice President and Chief Risk Management Officer of First Chicago NBD Corporation from 1996 until 1998. Mr. Ballantine currently serves as a member of the Executive Network advisory board of Glencoe Capital, a private equity firm, and a member of the Board of Trustees of Window to the World Communications, Inc, a non-profit corporation. He also serves as a director of DWS-Scudder Funds, and Portland General Electric, where he serves on the Compensation Committee and is Chairman of the Finance Committee. He is also on the Board of Stockwell Capital Investments PLC, where he serves as chair of the Audit Committee.

The following eight 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.

Name of Director	Class of Director; Annual Meeting at Which Term Will Expire	Background Information
Henry D. Herr	III; 2009	Mr. Herr, 61, has been a director of the Company since 1988. Mr. Herr served as Executive Vice President of Finance and Administration and Chief Financial Officer of the Company from September 1981 to October 2001. Mr. Herr is currently employed by the Company as an advisor on a part-time basis. Mr. Herr also is a director of AmSurg Corp, where he is a member of the Audit Committee.
Jay C. Bisgard, M.D.	III; 2009	Dr. Bisgard, 65, 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.

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Name of Director	Class of Director; Annual Meeting at Which Term Will Expire	Background Information
Mary Jane England, M.D.	III; 2009	Dr. England, 69, 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 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.
John A. Wickens	III; 2009	Mr. Wickens, 51, 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 The Wellness Community, U.S.A. Track & Field Foundation and UnitedHealthcare Children s Foundation.
William C. O Neil, Jr.	I; 2010	Mr. O Neil, 73, 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 Sigma Aldrich Corporation, where he serves as chair of the Compensation Committee, and 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.
Ben R. Leedle, Jr.	I; 2010	Mr. Leedle, 46, has served as director of the Company since August 2003, and as Chief Executive Officer of the Company since September 2003. Mr. Leedle has served as President of the Company since May 2002. 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.

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Name of Director	Class of Director; Annual Meeting at Which Term Will Expire	Background Information
Alison Taunton-Rigby, Ph. D.	I; 2010	Dr. Taunton-Rigby, 63, 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 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.
L. Ben Lytle	I; 2010	Mr. Lytle, 61, was the Chief Executive Officer and Chairman of Axia Health Management, LLC from November 2004 until the Company s acquisition of Axia in December 2006. Prior to Axia, Mr. Lytle was the Chief Executive Officer of Anthem (now Wellpoint, Inc.) from 1989 to 1999 and non-executive Chairman of the Board from 1999 to 2003. Mr. Lytle currently serves on the boards of directors of Duke Realty Corporation, where he serves as Lead Director and as Chair of the Governance Committee, and Monaco Coach Corporation, where he serves on the Compensation Committee and as Chair of the Governance Committee.

Executive Compensation

Compensation Discussion and Analysis

The Compensation Committee of our Board of Directors (the Committee) is comprised solely of 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. In addition to a determination of independence, the Nominating and Corporate Governance Committee of our Board recommends Committee membership based on such knowledge, experience and skills that it deems appropriate in order to adequately perform the responsibilities of the Committee. Drs. England, Taunton-Rigby, Bisgard and Neel and Mr. Ballantine have each served as members of the Committee since the date of our stockholders meeting on February 2, 2007, with Dr. Bisgard serving as the Committee s chair.

The Committee is responsible for 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 Committee undertakes these responsibilities pursuant to a written charter adopted by the Committee and the Board which is reviewed annually by the Committee. In the first quarter of fiscal 2007, the Board amended the Committee charter to reflect the Committee s responsibility for reviewing or issuing certain disclosures and reports for inclusion in the Company s Annual Report on Form 10-K or annual proxy statement, in accordance with applicable rules and regulations. The charter may be viewed in full on our website, www.healthways.com (under Corporate Governance on the Investors page). The five executive officers of the Company who are identified in the Summary Compensation Table on page 26 are referred to as our named executive officers.

Compensation Philosophy. The Committee reviews its compensation philosophy on an annual basis. The Committee s primary objectives in setting executive compensation policies are:

- To attract, retain and motivate talented executives by providing overall compensation that is performance-based, externally competitive and internally equitable;

- To provide appropriate incentives for executives to work toward the achievement of our annual financial performance and business goals based on our annual budget; and

- To closely align the interests of executives with those of stockholders and the long-term interests of the Company by providing a combination of long-term equity-based incentive compensation along with performance-based cash awards.

The Committee reviews annually our executive compensation policies in light of our financial performance, annual budget, position within the health care services industry, as well as the compensation policies of similar companies, including the peer groups discussed below. 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 periodically reviews executive compensation for other similar companies, including the peer group discussed below. The Committee believes that, while the Company competes generally with other health care service companies, the position of the Company as the leading provider of specialized, comprehensive health and care support services provides unique circumstances that differentiate the Company from other health care service companies and should be considered in evaluating executive compensation. These differences are important factors that the Committee considers in determining executive compensation and in analyzing financial performance.

The Committee believes that in addition to corporate performance, it is appropriate in setting and reviewing executive compensation to consider the level of experience and responsibilities of each executive as well as the personal contributions a particular individual may make toward the success of the corporate enterprise. Qualitative factors such as leadership skills, analytical skills, organization development, public affairs and civic involvement are deemed to be important qualitative factors to take into account in considering levels of compensation. No relative weight is assigned to these qualitative factors, which are applied subjectively by the Committee. 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. As discussed above, the Committee annually reviews executive compensation and our compensation policies to ensure that the Chief Executive Officer and the other named executive officers are rewarded appropriately for their contributions to the Company and that the overall compensation strategy supports the objectives and values of the Company and is aligned with stockholder interests. The Committee conducts this review and compensation determination through a comprehensive process involving a

series of meetings typically occurring in the last fiscal quarter of the preceding fiscal year and the first fiscal quarter of the current fiscal year.

With respect to annual salary and the various short-term and long-term incentive awards available to the named executive officers, the Committee considers both the external competitiveness and the internal equity of the compensation awarded. As part of the compensation process, the Committee reviews the Chief Executive Officer s compensation with that of other named executive officers to ensure that the compensation of the Chief Executive Officer is reasonable. These 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.

Role of External Consultants. During fiscal 2005, the Committee engaged Towers Perrin (Towers Perrin), an independent executive compensation consultant, and together with the Board, examined the Company s overall compensation and benefits program, and in particular, our long-term incentive compensation programs. At the Committee s request, Towers Perrin performed several analyses, including peer group and market comparisons, internal pay equity, updating of the executive salary structure and modeling of executive compensation levels at different levels of Company performance. 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 developments in corporate governance and compensation design. Historically, our long-term incentive compensation consisted almost entirely of stock option grants. The Committee requested input from both our senior management and Towers Perrin regarding a revised long-term incentive compensation structure. Following the Committee s examination of our long-term incentive 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 the long-term compensation program so that the named executive officers would be eligible to receive a combination of stock options, restricted stock units and performance-based cash awards, the aggregate amounts of which 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 targets, would result in total compensation levels that were internally equitable and externally competitive.

During fiscal 2007, the Committee again engaged Towers Perrin to perform an analysis of the overall effectiveness of our executive compensation program. As part of this analysis, Towers Perrin conducted a market analysis and examined and compared all elements of the compensation of our senior management to that of a peer group composed of the following companies:

AMN Healthcare Services, Inc.
Covance, Inc.
Digitas, Inc.
Emdeon Corp.
HealthExtras, Inc.
IMS Health, Inc.
inventive Health, Inc.
Jack Henry & Associates, Inc.
Pediatrix Medical Group, Inc.
Progress Software Corp.
Psychiatric Solutions, Inc.
ResMed, Inc.
SRA International, Inc.
CheckFree Corp.
G&K Services, Inc.
Gartner, Inc.
John Wiley & Sons
Meredith Corp.
MoneyGram International, Inc.
MSC Industrial Direct Company, Inc.
WellCare Health Plans, Inc.

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The Committee worked with Towers Perrin and management to select the appropriate peer group. As the industry leader in a relatively new market, the health and care support services industry, the Committee believed that an industry peer group would not necessarily create a satisfactory and meaningful comparison group due to the relatively small number of publicly-traded competitors in our industry and the relative size of such competitors. 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 ours. As a result, the companies above were selected as peers for compensation comparison purposes because of their similarity to the Company in terms of size (revenues, market capitalization, number of employees, and/or operating income), their industry classification, growth and financial performance and/or the existence of publicly available data. The market study reviewed the competitive pay practices of the peer companies, primarily using publicly available 2005 and 2006 proxy statement data. Although the Committee used the market data obtained from the peer group to measure the overall competitiveness of our executive compensation, the Committee did not target a particular level of compensation for our named executive officers within the peer group.

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 internal pay equity and positioning issues, as well as executive performance. Through a series of Committee meetings typically held at the end of the preceding fiscal year and the first quarter of the current year, 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 performance objectives for each of his direct reports that were previously approved by the Committee for that fiscal year. For fiscal 2007, the performance objectives for each of the named executive officers (other than our Chief Executive Officer) were generally structured to measure the impact of each named executive officer s role and responsibilities on our enterprise-wide goals. 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 and Committee discussion, the Committee meets to review the performance of each named executive officer and discuss 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.

The process is similar for determining any compensation adjustments for the Chief Executive Officer, 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 2007, these performance objectives were based on maintaining our company culture; recruiting and retaining highly qualified individuals necessary to support our growth; effective short, intermediate and long-term strategic planning; and maximizing stockholder value by producing strong revenue and earnings growth. 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 Programs for fiscal 2007. As discussed above, in fiscal 2005, the Committee engaged Towers Perrin to assist in a comprehensive review of our existing compensation strategies and plans and to conduct an executive compensation market analysis, with an emphasis on long-term compensation.

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Based on the market analysis performed by Towers Perrin, internal pay equity considerations and a consideration of our compensation objectives and philosophies, in particular an emphasis on performance and equity as key drivers for executive compensation, the Committee and the Board, in consultation with Towers Perrin, revised our compensation structure in fiscal 2005. The primary components of the revised compensation structure consisted of cash compensation, consisting of a mix of base salary and short-term incentive plan compensation, and long-term incentive compensation, consisting of a mix of stock options, restricted stock units, performance cash awards and awards under our Capital Accumulation Plan. Under the revised compensation structure, there was no pre-established policy or target for the allocation between fixed and variable, cash and non-cash or short-term and long-term compensation, allowing the Committee to incorporate flexibility into our compensation programs and adjust for our evolving business needs.

In recommending compensation for fiscal 2007, the Committee used the executive compensation structure established with the assistance of Towers Perrin in fiscal 2005 as a guideline, together with its subjective assessment of (i) the performance, responsibilities, expectations and experience of each named executive officer with the assistance of management as described above, (ii) the competitiveness of the Company s executive compensation and (iii) internal pay equity. The specific analysis regarding the components of total executive compensation for fiscal 2007 is described in detail below.

Base Salary. The Committee seeks to provide base salaries for our named executive officers that provide a secure level of guaranteed cash compensation in accordance with their experience, professional status and job responsibilities. 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) was appropriate for fiscal 2007, 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. The Committee did not assign any relative weight to the quantitative and qualitative factors it applied in reaching its base compensation decisions. Taking all of these factors into account, the Committee approved and recommended to the independent directors base salaries for our named executive officers in the following amounts:

Name	Fiscal 2007 Base Salary	Fiscal 2006 Base Salary	Percentage Increase
Ben R. Leedle, Jr.	$ 660,000	$ 600,000	10%
Mary A. Chaput	359,700	330,000	9%
James E. Pope, M.D.(1)	385,143	338,250	13.86%
Donald B. Taylor	380,625	375,000	1.5%
Robert E. Stone	346,500	330,000	5%

(1) Dr. Pope s increase in base salary was related to his promotion to Executive Vice President Chief Operating Officer, which was effective June 1, 2006.

Short-Term Incentive Plan Compensation. In addition to base salary, short-term incentive plan compensation provides our named executive officers with the potential for enhanced cash compensation based on the extent to which financial performance targets set in advance by the Committee are met as well as individual performance objectives approved by the Committee. However, for fiscal 2007, no short-term incentive plan compensation was awarded based on the Company not meeting its internal targets as discussed below. The Committee believes that compensation should primarily be linked to the Company s financial performance. To achieve this link with regard to short-term performance, the Committee for fiscal 2007 relied on cash bonuses awarded under an annual incentive compensation plan under which cash awards could be earned by the eligible colleagues, including the named executive officers, provided that our actual earnings per share (EPS) exceeded our targeted EPS, although the Committee retains the right to exercise discretion with respect to the payment of the short-term incentive awards based on such quantitative and qualitative factors as it determines. The short-term incentive plan is structured as a self-funded plan in that, upon achievement of the EPS target, 100% of all incremental earnings would fund the short-term incentive plan until the short-term incentive awards were fully funded at the target percentages of base salary for all eligible colleagues, provided that the short-term incentive awards are funded only to the extent that the Company s overall EPS (after taking into account the funding of the short-term incentive awards) remains at or above the EPS target. Thereafter, 40% of all incremental earnings would continue to fund the short-term incentive plan.

After consulting with our senior management regarding our expected financial performance for fiscal 2006, during the first quarter of fiscal 2007 the Committee established a minimum level of EPS for the Company to achieve in order for any short-term incentive plan compensation to be paid. The Committee and the independent directors chose EPS as the performance measure because they believe there is a strong correlation between EPS growth and growth in stockholder value.

For fiscal 2007, the EPS target was set at $1.61. For fiscal year 2007, all of our named executive officers (other than the Chief Executive Officer) were eligible to receive awards of up to 45% of their base salary, and the Chief Executive Officer was eligible to receive an award up to 60% of his base salary, provided that, as set forth above, the named executive officers could receive awards in excess of such amounts in the event the Company substantially exceeded its EPS target and the individual exceeded his or her performance goals. As discussed above, for fiscal 2007, based on our EPS for fiscal 2007 not meeting our targeted EPS, no short-term incentive plan compensation was awarded to our colleagues, including our named executive officers.

Long-Term Incentive Compensation. As described above, one of our key compensation philosophies is that long-term incentive compensation should strengthen and align the interests of our named executive officers with our stockholders. Based on the Towers Perrin market analysis discussed above and the Company s compensation philosophy and objectives, the Committee determined that a compensation strategy for our named executive officers utilizing a mix of stock options, restricted stock units and performance-based cash awards is in the best interest of stockholders. 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. That award is generally made during the first fiscal quarter after the Committee has had the opportunity to review the full year results for the prior year and consider the Company s anticipated results for the succeeding year. For example, equity awards for fiscal 2006 performance were granted on October 2, 2006. 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 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.

Equity Awards. Equity awards granted in fiscal 2007 for our named executive officers were consistent with the guidelines approved in fiscal 2005 in connection with the market-based compensation analysis prepared with the advice of Towers Perrin. On October 2, 2006, non-qualified options for the purchase of the Company s common stock and restricted stock units of the Company s common stock were granted to our named executive officers pursuant to our Amended and Restated 1996 Stock Incentive Plan (the 1996 Plan), which was replaced by the 2007 Stock Incentive Plan (the 2007 Plan) upon its approval by stockholders in February 2007. The aggregate grant date fair value of the option awards (valued in accordance with Statement of Financial Accounting Standards No. 123R (FAS 123R)) and restricted stock units (based on the aggregate fair market value of the Company s common stock on the date of grant) granted to the named executive officers was equal to 210% of fiscal 2006 base salary for Mr. Leedle and 120% of fiscal 2006 base salary for each of the other named executive officers. The amount of long-term incentive awards for each of the named executive officers, as a percentage of base salary, was consistent with the long-term incentive guidelines approved in fiscal 2005. Following are the equity awards granted to the named executive officers in fiscal 2007:

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.	39,599	$	42.69	9,838
Mary A. Chaput	12,445	$	42.69	3,092
James E. Pope, M.D.	12,757	$	42.69	3,169
Donald B. Taylor	14,142	$	42.69	3,514
Robert E. Stone	12,445	$	42.69	3,092

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

The nonqualified options are subject to the terms of the 1996 Plan and the individual award agreements. In order to encourage retention, each of the options vests 100% on the fourth anniversary of the grant date, subject to acceleration as contemplated by the 1996 Plan. Each of the options has a seven-year term and 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. The restricted stock units are subject to the terms of the 1996 Plan and the individual award agreements. Each of the restricted stock units vests 100% on the fourth anniversary of the grant date, subject to acceleration as contemplated by the 1996 Plan.

Upon the approval of the 2007 Plan by our stockholders on February 2, 2007, the 2007 Plan replaced all of our existing stock incentive plans, including the 1996 Plan, and no further grants or awards under the 1996 Plan have been or will be made. All equity grants or awards issued on or after February 2, 2007, including the equity awards issued to the named executive officers in October 2007, have been issued under the 2007 Plan. Both the 1996 Plan and 2007 Plan prohibit the repricing of stock options and require that the exercise price of stock options cannot be less than the fair market value of the common stock on the date of grant.

Stock Retention Guidelines. To further align officers interests with stockholders interests, in August 2005, our 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.

Performance Awards. To closely align the named executive officers compensation to the Company s financial goals, beginning in August 2005 the Committee implemented performance cash awards to its named executive officers based on the Company s EPS growth over a three-year period. Specifically, these performance cash awards are based on the Company s average EPS growth (excluding the impact of the long-term incentive awards) over a three-year period. In calculating the average three-year EPS growth, the Company excluded the impact of long-term incentive awards in order to account for the adoption of FAS 123R in September 2005 so as to make meaningful comparisons of EPS growth both before and after adoption of FAS 123R. For fiscal 2007, 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.

In granting the performance awards in October 2007 for fiscal 2005, 2006 and 2007 performance, upon the recommendation of the Chief Executive Officer, the Compensation Committee and the independent directors determined that the performance awards earned for fiscal 2007 not be paid in cash but rather replaced with equity awards having equivalent value. The Chief Executive Officer s recommendation was based on the fact that because no short-term incentive awards were paid to any of our colleagues, the performance cash awards for named executive officers should be replaced with equity awards having equivalent value. The performance awards were granted so that 50% of the total value was paid in non-qualified stock options and 50% of the value in restricted stock units, based on the FAS 123R valuation discussed above. Each of the equity awards was granted under the 2007 Plan and vests 100% on the fourth anniversary of the grant date. The non-qualified stock options have a seven-year term and an exercise price equal to the fair market value of the common stock on the date of grant. See Compensation Decisions for fiscal 2008 for the equity awards that represent the performance cash component of the long-term incentive programs that was awarded as equity rather than cash.

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 2006 and 2007, as established by the Internal Revenue Service, were $15,000 and $15,500, respectively. 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 our Capital Accumulation Plan, which is based on a calendar year, we make contributions to the Capital Accumulation Plan on behalf of all of our officers, including the named executive officers, that for calendar 2007 are based on (a) the officer s voluntary salary deferrals into the Capital Accumulation Plan and (b) performance against targeted Company EPS for fiscal 2007 established prior to the start of the Capital Accumulation Plan year by the Committee. For fiscal 2007, 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 will be 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 2007 established by the Committee, officers were eligible to receive a Company contribution of between 3.5% and 18.5% of base salary for calendar 2007, based on our actual EPS as compared to the EPS target. For fiscal 2007, the EPS target at which contributions begin was set at $1.61. Awards are made as of December 31 of each year but are based on performance criteria for the fiscal year ended August 31 during that year. Therefore, the actual performance award under the Capital Accumulation Plan credited to officers during fiscal 2007 was an award of 9.3% of base salary earned during calendar 2006 which was based on performance during the fiscal year ended August 31, 2006. For the reasons discussed above, the Committee determined that EPS represented the appropriate performance measure. Based on the Company s EPS for fiscal 2007 not meeting our EPS target, no performance awards under the Capital Accumulation Plan will be made to our officers on December 31, 2007, including our named executive officers, for fiscal 2007 financial performance.

The Company s contributions to the Capital Accumulation Plan vest equally over four years, and vested amounts are paid out upon the earliest of (1) one year following an officer s termination of employment, (2) normal or early retirement, (3) 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 2007.

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 will provide an executive security that will likely reduce the reluctance of an executive to pursue a change in control transaction that could be in the best interests of our stockholders. 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. The Committee generally assesses these payouts only in light of their reasonableness during negotiations with a newly hired executive. 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, see Potential Payments Upon Termination or Change in Control of the Company, beginning on page 32 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 Nashville, Tennessee 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. No such relocation and tax gross up payments were made to the named executive officers during fiscal 2007. 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,

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including health insurance, disability insurance, dental insurance, and life insurance. All officers of the Company, including the named executive officers, receive a car allowance of $300 per month. In addition, pursuant to Mr. Stone s employment agreement, the Company paid life insurance premiums on behalf of Mr. Stone in fiscal 2007 in an amount equal to $11,035.

Compensation Decisions for fiscal 2008. In the first quarter of fiscal 2008, the Compensation Committee and the independent directors established base salaries and the short-term incentive award targets (as a percentage of fiscal 2008 base salary) for the named executive officers. During October 2007, the Committee also made awards of stock options and restricted stock units to eligible colleagues, including the named executive officers.

The table below summarizes the fiscal 2008 base salary levels, short-term incentive awards, fiscal 2008 equity incentive awards and fiscal 2008 short-term incentive targets for the named executive officers.

Name	Fiscal 2008 Base Salary	Fiscal 2008 Non-Qualified Stock Options(1)	Fiscal 2008 Restricted Stock Units	Fiscal 2008 STI Award Target
Ben R. Leedle, Jr.(2)	$ 685,000	42,721	11,377	60%
Mary A. Chaput(3)	375,167	13,085	3,442	45%
James E. Pope, M.D.(4)	404,400	13,971	3,667	45%
Donald B. Taylor(5)	380,625	13,943	3,687	45%
Robert E. Stone(6)	353,430	12,657	3,340	45%

(1) The exercise price per share is equal to the fair market value of the common stock on the date of grant, October 8, 2007.

(2) Of the fiscal 2008 equity awards granted to Mr. Leedle, 6,435 non-qualified options and 2,979 restricted stock units represent the performance cash component of the long-term incentive program that was awarded as equity rather than cash.

(3) Of the fiscal 2008 equity awards granted to Ms. Chaput, 1,784 non-qualified options and 826 restricted stock units represent the performance cash component of the long-term incentive program that was awarded as equity rather than cash.

(4) Of the fiscal 2008 equity awards granted to Dr. Pope, 1,871 non-qualified options and 866 restricted stock units represent the performance cash component of the long-term incentive program that was awarded as equity rather than cash.

(5) Of the fiscal 2008 equity awards granted to Mr. Taylor, 1,985 non-qualified options and 919 restricted stock units represent the performance cash component of the long-term incentive program that was awarded as equity rather than cash. Mr. Taylor is resigning from the Company effective December 31, 2007.

(6) Of the fiscal 2008 equity awards granted to Mr. Stone, 1,771 non-qualified options and 820 restricted stock units represent the performance cash component of the long-term incentive program that was awarded as equity rather than cash.

Similar to fiscal 2007, the base salaries for the named executive officers for fiscal 2008 were determined based on the factors discussed under Overview of Compensation Process , including the performance of each named executive officer against pre-approved performance objectives as well as our fiscal 2007 financial performance. Likewise, the long-term incentive awards granted in October 2008 (excluding the equity awards related to the fiscal 2007 performance awards which were paid in equity rather than cash) were consistent with the structure approved by the Committee in fiscal 2005. Similar to fiscal 2007, under the fiscal 2008 short-term incentive plan, cash awards could be earned by our named executive officers, provided that we achieve our targeted EPS. For fiscal 2008, our

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targeted EPS will be based on our domestic EPS. Domestic EPS is determined by calculating our EPS in accordance with generally accepted accounting principles, excluding the impact of our international operations.

Tax Deductibility of Compensation. Section 162(m) of the Internal Revenue Code of 1986 limits the deductibility on our tax return of compensation over $1.0 million to the Chief Executive Officer or any of the other four 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 our stockholders. The Committee s actions with respect to Section 162(m) in fiscal 2007 were to make reasonable efforts to ensure that compensation was deductible to the extent permitted while simultaneously providing appropriate rewards for performance. 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. In accordance with that objective, the fiscal 2008 cash incentive plan compensation payable to named executive officers who may be subject to Section 162(m) based on achievement of fiscal 2008 criteria will be made pursuant to our 2007 Plan, which has been approved by our stockholders. 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 can be given that compensation intended to satisfy the requirements for deductibility under Section 162(m) will in fact do so.

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
John W. Ballantine
Alison Taunton-Rigby, Ph.D.
C. Warren Neel, Ph.D.
Mary Jane England, M.D.

Compensation Committee Interlocks and Insider Participation

During fiscal 2007, the Compensation Committee of the Board of Directors was composed of Mr. Ballantine and Drs. Bisgard, Neel, England, and Taunton-Rigby. None of these persons has at any time been an officer or employee of the Company or any of our subsidiaries. In addition, there are no relationships among our 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 to our Chief Executive Officer, Chief Financial Officer, and three other most highly compensated executive officers (the Named Executive Officers) during fiscal 2007.

The Named Executive Officers were not entitled to receive payments that would be characterized as Bonus payments for fiscal 2007. As described under Compensation Discussion and Analysis, no payments that would be characterized as Non-Equity Incentive Plan Compensation were made to the Named Executive Officers pursuant to the terms of the 2007 Short-Term Incentive Plan.

Based on the dollar amounts recognized for financial statement reporting purposes for equity incentives for fiscal 2007 and the base salary of the Named Executive Officers, Salary accounted for approximately 24% of the total compensation of the Named Executive Officers, equity-based incentive compensation accounted for 74% of total compensation and other compensation accounted for 2% of total compensation.

ame 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($)
en R. Leedle, Jr. resident and Chief Executive fficer	2007	$ 660,000	$ 185,096	$ 3,991,863(6)	$	$ 17,021	$ 21,504(7)	$ 4,875,484
ary A. Chaput xecutive Vice President and hief Financial Officer	2007	$ 359,700	$ 59,301	$ 338,344	$	$ 8,659	$ 14,538	$ 780,542
mes E. Pope, M.D. xecutive Vice President and hief Operating Officer	2007	$ 385,143	$ 61,483	$ 827,630(8)	$	$ 8,207	$ 13,520	$ 1,295,983
onald B. Taylor xecutive Vice President, Sales d Marketing	2007	$ 380,625	$ 67,900	$ 719,996	$	$ 15,514	$ 13,166	$ 1,197,201
obert E. Stone xecutive Vice President and hief Strategy Officer	2007	$ 346,500	$ 59,909	$ 339,568	$	$ 42,554	$ 21,796(9)	$ 810,327

(1) Reflects the dollar amount recognized for stock awards for financial statement reporting purposes, disregarding the estimate of forfeitures, for the fiscal year ended August 31, 2007 in accordance with Statement of Financial

Accounting Standards (SFAS) No. 123(R), Share-Based Payment . This column includes amounts from awards granted in and prior to fiscal 2007.

(2) Reflects the dollar amount recognized for option awards for financial statement reporting purposes, disregarding the estimate of forfeitures, for the fiscal year ended August 31, 2007 in accordance with SFAS No. 123(R) and includes amounts from awards granted in and prior to fiscal 2007. Assumptions used in the calculation of these amounts are included in footnote 12 to our audited financial statements for the fiscal year ended August 31, 2007, included in our Annual Report on Form 10-K filed with the Securities and Exchange Commission on October 29, 2007, and in footnote 1 to our audited financial statements for the fiscal

year ended August 31, 2005, included in our Annual Report on Form 10-K filed with the Securities and Exchange Commission on November 14, 2005.

(3) Based on EPS for fiscal 2007, the Named Executive Officers did not earn any awards under the 2007 Short-Term Incentive Plan. Cash awards under the 2007 Short-Term Incentive Plan were based upon a comparison of our actual EPS and targeted earnings per share as approved by the Compensation Committee for fiscal 2007 at the beginning of the fiscal year, as well as meeting certain individual qualitative goals and objectives. For fiscal 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 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). 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 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 the Company contribution to our Retirement Savings Plan (the 401(k) Plan) on behalf of the Named Executive Officer as well as insurance premiums we paid with respect to life insurance for the benefit of the Named Executive Officer. It also includes Company matching contributions earned by the Named Executive Officer during fiscal 2007 on his/her deferrals to the CAP during that time. It does not include performance awards made 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); Mr. Taylor ($35,049); and Mr. Stone ($31,202). No performance awards under the Capital Accumulation Plan will be 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. The table also does not include medical benefits coverage and disability insurance that are offered through programs available to substantially all of our salaried employees.

(6) Includes $3.6 million related to promotional equity grants committed to Mr. Leedle in 2003 in connection with his appointment as Chief Executive Officer. These grants were awarded in August 2003, 2004, and 2005.

(7) Includes a Company matching contribution of $13,208 earned by Mr. Leedle during fiscal 2007 on his deferrals to the CAP during that time.

(8) Includes $0.3 million related to a new hire grant awarded to Dr. Pope in 2003 and $0.3 million related to a promotional equity grant awarded to Dr. Pope in 2006 in connection with his appointment as Chief Operating Officer.

(9) Includes $11,035 of insurance premiums we paid with respect to life insurance for the benefit of Mr. Stone.

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Grants of Plan-Based Awards in Fiscal 2007

The following table sets forth the equity awards granted to our Named Executive Officers during fiscal 2007.

		Estimated Possible Payouts Under Non-Equity Incentive Plan Awards(1)			Estimated Future Payouts Under Equity Incentive Plan Awards(3)			All Other Stock Awards: Number of Shares of Stock or	All Other Option Awards: Number of Securities Underlying	Exercise or Base Price of	Grant Date Fair Value of Stock and
Name	**Grant Date**	**Threshold($)**	**Target($) (2)**	**Maximum($) (2)**	**Threshold(#)**	**Target(#)**	**Maximum(#) (4)**	**Units(#) (5)**	**Options(#) (5)**	**Option Awards ($/Sh)**	**Option Awards**
Ben R. Leedle, Jr.		$	$ 396,000								
Ben R. Leedle, Jr.	10/2/06							9,838			$ 419,984
Ben R. Leedle, Jr.	10/2/06								39,599	$ 42.69	$ 840,000
Ben R. Leedle, Jr.	10/8/07					6,435(6)					
Ben R. Leedle, Jr.	10/8/07					2,979(7)					
Mary A. Chaput		$	$ 161,865								
Mary A. Chaput	10/2/06							3,092			$ 131,997
Mary A. Chaput	10/2/06								12,445	$ 42.69	$ 263,992
Mary A. Chaput	10/8/07					1,784(6)					

Mary A. Chaput	10/8/07			826(7)				
James E. Pope, M.D.		$	$ 173,314					
James E. Pope, M.D.	10/2/06				3,169			$ 135,285
James E. Pope, M.D.	10/2/06					12,757	$ 42.69	$ 270,610
James E. Pope, M.D	10/8/07			1,871(6)				
James E. Pope, M.D	10/8/07			866(7)				
Donald B. Taylor		$	$ 171,281					
Donald B. Taylor	10/2/06				3,514			$ 150,013
Donald B. Taylor	10/2/06					14,142	$ 42.69	$ 299,989
Donald B. Taylor	10/8/07			1,985(6)				
Donald B. Taylor	10/8/07			919(7)				
Robert E. Stone		$	$ 155,925					
Robert E. Stone	10/2/06				3,092			$ 131,997
Robert E. Stone	10/2/06					12,445	$ 42.69	$ 263,992
Robert E. Stone	10/8/07			1,771(6)				
Robert E. Stone	10/8/07			820(7)				

(1) Cash awards under the 2007 Short-Term Incentive Plan were based upon a comparison of our actual EPS and targeted EPS as approved by the Compensation Committee for fiscal 2007 at the beginning of the fiscal year, as

well as meeting certain individual qualitative goals and objectives. Based on EPS for fiscal 2007, the Named Executive Officers did not earn any awards under the 2007 Short-Term Incentive Plan; therefore, no amounts are shown as compensation in the Summary Compensation Table.

(2) For fiscal 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 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 fiscal 2007.

(3) Under our performance-based cash incentive plan for fiscal 2007, 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 2007, times the executive s average salary over that same period. For the reasons discussed in the Compensation Discussion and Analysis, for fiscal 2007, the performance-based cash earned by each of the Named Executive Officers was awarded in the form of equity, which was granted in October 2007, in lieu of cash.

(4) There is no maximum amount that could be paid for fiscal 2007 since these performance-based awards are calculated based on our average EPS growth (excluding long-term incentive compensation) over the last three fiscal years.

(5) Awards were granted under the 1996 Stock Incentive Plan, as amended.

(6) Represents the stock options awarded based on average actual EPS growth (excluding long-term incentive compensation) during fiscal 2005 through 2007. For the reasons discussed under Compensation Discussion and Analysis, for fiscal 2007, the performance-based cash earned by each of the Named Executive Officers was awarded in the form of equity, which was granted in October 2007, in lieu of cash.

(7) Represents the restricted stock units awarded based on average actual EPS growth (excluding long-term incentive compensation) during fiscal 2005 through 2007. For the reasons discussed under Compensation Discussion and Analysis, for fiscal 2007, the performance-based cash earned by each of the Named Executive Officers was awarded in the form of equity, which was granted in October 2007, in lieu of cash.

Employment Agreements

We have employment agreements with each of our named executive officers that began on September 1, 2005 and have a continuous term of two years thereafter. The agreements may be terminated at any time by the mutual written agreement of the Company and the named executive officer. 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, beginning on page 32 of this Proxy Statement.

Compensation Programs for Fiscal 2007

As reflected in the above Summary Compensation Table and Grants of Plan-Based Awards Table, the primary components of our fiscal 2007 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.

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Outstanding Equity Awards at Fiscal 2007 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 August 31, 2007.

		OPTION AWARDS			
Name	Option Grant Date	Number of Securities Underlying Unexercised Options (#) Exercisable	Number of Securities Underlying Unexercised Options (#) Unexercisable	Option Exercise Price($)	Option Expiration Date
Ben R. Leedle, Jr.	3/19/98	5,625		$ 2.78	3/19/08
	9/29/98	9,188		2.48	9/29/08
	11/12/99	30,000		2.07	11/12/09
	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(1)	26.33	8/24/14
	8/24/05		335,798(1)	43.44	8/24/12
	10/2/06		39,599(1)	42.69	10/2/13
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(1)	26.33	8/24/14
	8/24/05		11,701(1)	43.44	8/24/12
	10/2/06		12,445(1)	42.69	10/2/13
James E. Pope, M.D.	10/29/03	75,000	25,000(2)	$ 21.67	10/29/13
	8/24/04		25,000(1)	26.33	8/24/14
	8/24/05		12,274(1)	43.44	8/24/12
	6/1/06		40,000(1)	54.55	6/1/13
	10/2/06		12,757(1)	42.69	10/2/13
Donald B. Taylor	8/27/03	12,50			