

HEALTHSTREAM INC  
Form DEF 14A  
April 30, 2003

**Table of Contents**

**SCHEDULE 14A INFORMATION  
PROXY STATEMENT PURSUANT TO SECTION 14(a)  
OF THE SECURITIES EXCHANGE ACT OF 1934 (AMENDMENT NO. )**

Filed by the Registrant

Filed by a Party other than the Registrant

Check the appropriate box:

- Preliminary Proxy Statement
- Confidential, for Use of the Commission Only (as permitted by Rule 14a-6(e)(2))
- Definitive Proxy Statement
- Definitive Additional Materials
- Soliciting Material under Rule 14a-12

**HEALTHSTREAM, 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):

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

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

---

2) Aggregate number of securities to which transaction applies:

---

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

---

4) Proposed maximum aggregate value of transaction:

---

5) Total fee paid:

---

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

---

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

---

(3) Filing Party:

---

(4) Date Filed:

---

---

**TABLE OF CONTENTS**

QUESTIONS AND ANSWERS

STOCK OWNERSHIP

ITEM ONE ELECTION OF DIRECTORS

EXECUTIVE COMPENSATION

COMPENSATION COMMITTEE REPORT ON EXECUTIVE COMPENSATION FOR 2002

AUDIT COMMITTEE REPORT FOR 2002

INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

GENERAL INFORMATION

APPENDIX A RESTATED CHARTER OF THE AUDIT COMMITTEE

OF THE BOARD OF DIRECTORS

OF HEALTHSTREAM, INC.

---

**Table of Contents**

**HEALTHSTREAM, INC.**

**209 10<sup>TH</sup> Avenue, Suite 450  
Nashville, Tennessee 37203  
(615) 301-3100**

---

**NOTICE OF ANNUAL MEETING OF SHAREHOLDERS  
To Be Held May 30, 2003**

---

Dear Shareholder:

On Friday, May 30, 2003, HealthStream, Inc. will hold its 2003 annual meeting of shareholders at 209 10th Avenue, Suite 450, Nashville, Tennessee 37203. The meeting will begin at 2:00 p.m., Central Daylight Time.

Only shareholders that own our common stock at the close of business on April 8, 2003 may vote at this meeting. A list of our shareholders will be available at our principal executive offices at 209 10th Avenue, Suite 450, Nashville, Tennessee, during ordinary business hours beginning two days after this notice of the annual meeting is first sent to shareholders. At the meeting, we will consider the following proposals:

1. to elect three (3) Class III directors to hold office for a term of three (3) years and until their respective successors have been duly elected and qualified; and
2. to transact such other business as may properly come before the meeting or any postponement or adjournment of the meeting.

Our 2002 Annual Report to Shareholders is being mailed to shareholders with this proxy statement. The annual report is not part of the proxy solicitation materials.

Cameras and recording devices are not permitted at the meeting. Street name holders will need to bring a copy of a brokerage statement reflecting stock ownership as of the record date.

WHETHER OR NOT YOU PLAN TO ATTEND THE MEETING, PLEASE COMPLETE, DATE, SIGN AND RETURN AS PROMPTLY AS POSSIBLE THE ENCLOSED PROXY IN THE ACCOMPANYING REPLY ENVELOPE. SHAREHOLDERS WHO ATTEND THE MEETING MAY REVOKE THEIR PROXIES AND VOTE IN PERSON.

By Order of the Board of Directors,

Robert A. Frist, Jr.  
*Chief Executive Officer*

Nashville, Tennessee  
April 30, 2003

---

**Table of Contents**

**HEALTHSTREAM, INC.**

**209 10TH AVENUE, SUITE 450  
NASHVILLE, TENNESSEE 37203**

---

**PROXY STATEMENT**

**ANNUAL MEETING OF SHAREHOLDERS  
May 30, 2003**

---

**TABLE OF CONTENTS**

	<b>PAGE</b>
<b>QUESTIONS AND ANSWERS</b>	<b>1</b>
<b>STOCK OWNERSHIP</b>	<b>5</b>
<b>ITEM ONE ELECTION OF DIRECTORS</b>	<b>7</b>
<b>EXECUTIVE COMPENSATION</b>	<b>13</b>
<b>COMPENSATION COMMITTEE REPORT ON EXECUTIVE COMPENSATION FOR 2002</b>	<b>19</b>
<b>AUDIT COMMITTEE REPORT FOR 2002</b>	<b>21</b>
<b>INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS</b>	<b>22</b>
<b>GENERAL INFORMATION</b>	<b>22</b>
 <b>APPENDIX A: RESTATED CHARTER OF THE AUDIT COMMITTEE OF THE BOARD OF DIRECTORS OF HEALTHSTREAM, INC.</b>	

---

**Table of Contents**

**QUESTIONS AND ANSWERS**

**1. Q: WHAT IS THE PURPOSE OF THE ANNUAL MEETING?**

A: At HealthStream's annual meeting, shareholders will act upon the election of three Class III directors and any other matters that may properly come before the meeting. In addition, our management will respond to questions from shareholders.

**2. Q: WHEN WAS THIS PROXY STATEMENT MAILED TO SHAREHOLDERS?**

A: This proxy statement was first mailed to shareholders on or about April 30, 2003.

**3. Q: WHO IS SOLICITING MY VOTE?**

A: This proxy solicitation is being made and paid for by HealthStream. In addition, we have retained SunTrust Bank, Georgeson Shareholder and Corporate Elections to assist in the solicitation. We will pay these entities approximately \$1,700 plus out-of-pocket expenses for their assistance. Our directors, officers and other employees not specially employed for this purpose, may also solicit proxies by personal interview, mail, telephone or facsimile. They will not be paid additional remuneration for their efforts. We will also request brokers and other fiduciaries to forward proxy solicitation material to the beneficial owners of shares of the common stock that the brokers and fiduciaries hold of record. We will reimburse them for their reasonable out-of-pocket expenses.

**4. Q: WHAT MAY I VOTE ON?**

A: You may vote on the election of three (3) Class III directors to our board of directors.

**5. Q: HOW DOES THE BOARD RECOMMEND I VOTE ON THE PROPOSAL?**

A: The board recommends that you vote **FOR** each of the director nominees.

**6. Q: HOW WILL VOTING ON ANY OTHER BUSINESS BE CONDUCTED?**

A: We do not know of any business to be considered at the 2003 annual meeting other than the election of three (3) Class III directors to our board of directors. If any other business is presented at the annual meeting, your signed proxy card gives authority to Robert A. Frist, Jr., our Chief Executive Officer, and Robert H. Laird, Jr., our Vice President, Secretary and General Counsel, or either of them, to vote on such matters at their discretion.

---

**Table of Contents**

**7. Q: WHO IS ENTITLED TO VOTE?**

A: Only shareholders of record at the close of business on April 8, 2003 (the record date) may vote at this meeting. As of the record date, there were approximately 20,367,430 shares of our voting common stock outstanding. The shares were held by approximately 210 holders of record. Every shareholder is entitled to one vote for each share of common stock the shareholder held of record on the record date.

**8. Q: HOW DO I VOTE?**

A: You may vote by signing and dating the proxy card you receive and returning it in the enclosed prepaid envelope. If you return your signed proxy card but do not mark the boxes showing how you wish to vote, your shares will be voted **FOR** the proposal. You have the right to revoke your proxy at any time before the meeting by:

notifying our Secretary, Robert H. Laird, Jr., at 209 10th Avenue, Suite 450, Nashville, TN 37203;  
voting in person; or  
submitting a later-dated proxy card.

**9. Q: CAN I VOTE BY TELEPHONE OR ELECTRONICALLY?**

A: If you are a registered shareholder you may vote by telephone, or electronically through the Internet, by following the instructions included with your proxy card.

If your shares are held by your broker, often referred to as in street name, please check your proxy card or contact your broker or nominee to determine whether you will be able to vote by telephone or electronically.

**10. Q: WHAT IS THE VOTE REQUIRED TO APPROVE THE PROPOSAL?**

A: Each of the director nominees must receive affirmative votes from a plurality of the shares voting to be elected.

**11. Q: WHAT IS A QUORUM ?**

A: A quorum is a majority of the outstanding shares. They may be present at the meeting or represented by proxy. There must be a quorum for business to be conducted at the meeting. Proxies received but marked as abstentions and broker non-votes will be included in the calculation of the number of shares considered to be present at the meeting.



**Table of Contents**

**12. Q: WHAT IF I ABSTAIN FROM VOTING?**

A: If you attend the meeting or send in your signed proxy card but abstain from voting on the proposal, you will be counted for purposes of determining whether a quorum exists. If you abstain from voting on the election of directors, your abstention will have no effect on the outcome.

**13. Q: HOW DO I VOTE MY SHARES IF THEY ARE HELD IN THE NAME OF MY BROKER (STREET NAME)?**

A: If your shares are held by your broker, often referred to as in street name, you will receive a form from your broker seeking instruction as to how your shares should be voted. If you do not issue instructions to your broker, your broker will vote your shares at its discretion on your behalf. The Nasdaq National Market rules provide that brokers and nominees may not exercise their voting discretion on certain non-routine matters without receiving instructions from the beneficial owner of the shares. A broker non-vote occurs when a broker holding shares registered in street name is not permitted to vote without instructions on non-routine matters, and the broker returns a proxy card with no vote (the non-vote ) on the non-routine matter.

**14. Q: WHAT IS THE EFFECT OF A BROKER NON-VOTE?**

A: A broker non-vote will have no effect on the election of directors. Broker non-votes will be counted as present for purposes of determining whether there is a quorum.

**15. Q: WHO WILL COUNT THE VOTES?**

A: A representative of our transfer agent, SunTrust Bank, Atlanta, will count the votes and act as inspector of elections.

**16. Q: WHO MAY ATTEND THE ANNUAL MEETING?**

A: Shareholders of record on April 8, 2003 may attend the meeting. Street name holders will need to bring a copy of a brokerage statement reflecting their ownership of our common stock as of the record date. Cameras and recording devices are not permitted at the meeting.

**17. Q: WHEN ARE SHAREHOLDER PROPOSALS DUE IN ORDER TO BE INCLUDED IN OUR PROXY STATEMENT FOR THE 2004 ANNUAL MEETING?**

A: Any shareholder proposals to be considered for inclusion in next year's proxy statement must be submitted in writing to Secretary, HealthStream, Inc., 209 10th Avenue, Suite 450, Nashville, Tennessee 37203, prior to the close of business on December 31, 2003.

**Table of Contents**

**18. Q: WHEN ARE OTHER SHAREHOLDER PROPOSALS DUE?**

A: Our Bylaws contain an advance notice provision that requires that a shareholder's notice of a proposal to be brought before an annual meeting must be timely. In order to be timely, the notice must be addressed to our Secretary and delivered or mailed and received at our principal executive offices not less than 120 days prior to the first anniversary of the date this notice of annual meeting was provided to shareholders.

**19. Q: HOW CAN I OBTAIN ADDITIONAL INFORMATION ABOUT THE COMPANY?**

A: We will provide a copy of our Annual Report on Form 10-K for the year ended December 31, 2002, excluding certain of its exhibits, without charge to any shareholder who makes a written request to Investor Relations Department, HealthStream, Inc., 209 10th Avenue, Suite 450, Nashville, Tennessee 37203 or an oral request by calling (615) 301-3237. The Company's Annual Report on Form 10-K and various other filings also may be accessed on the World Wide Web at [www.healthstream.com](http://www.healthstream.com) or [www.sec.gov](http://www.sec.gov).

**Table of Contents****STOCK OWNERSHIP**

The following table sets forth information regarding the beneficial ownership of our common stock as of March 31, 2003 (unless otherwise noted), for:

each person who is known by us to beneficially own more than 5% of the outstanding shares of our common stock;

each of our directors and nominees;

each of our executive officers named in the Summary Compensation Table; and

all of our directors and executive officers as a group.

The percentages of shares outstanding provided in the table are based on 20,322,690 shares outstanding as of March 31, 2003. Beneficial ownership is determined in accordance with the rules of the Securities and Exchange Commission and generally includes voting or investment power with respect to securities. Unless otherwise indicated, each person or entity named in the table has sole voting and investment power, or shares voting and investment power with his or her spouse, with respect to all shares of stock listed as owned by that person. The number of shares shown does not include the interest of certain persons in shares held by family members in their own right. Shares issuable upon exercise of options that are exercisable within 60 days of March 31, 2003 are considered outstanding for the purpose of calculating the percentage of outstanding shares of our common stock held by the individual, but not for the purpose of calculating the percentage of outstanding shares held by any other individual. The address of each of our directors and executive officers listed below is c/o HealthStream, Inc., 209 10th Avenue, Suite 450, Nashville, Tennessee 37203.

Name	Number of Shares	Percent
Robert A. Frist, Jr.	5,312,375(1)	26.1
T. Rowe Price Associates, Inc.	2,403,300(2)	11.8
Morgan Stanley & Co. Incorporated	1,173,940(3)	5.8
M. Fazle Husain	1,173,940(4)	5.8
Jeffrey L. McLaren	445,093(5)	2.2
Charles N. Martin, Jr.	410,902(6)	2.0
Michael T. Pote	221,592(7)	*
Frank Gordon	182,386(8)	*
Arthur E. Newman	156,738(9)	*
John H. Dayani	123,920(10)	*
Fred Perner	91,875(11)	*
Susan A. Brownie	85,241(12)	*
James F. Daniell	78,948(13)	*
Thompson S. Dent	67,894(14)	*
William W. Stead	38,500(15)	*
Linda Rebrovick	16,000(16)	*
All directors and executive officers as a group (15 persons)	8,499,346(17)	41.8

\* Less than one percent.

(1) Includes 110,350 shares issuable upon exercise of options.

**Table of Contents**

- (2) 100 E. Pratt Street Baltimore, Maryland 21202. Based upon information set forth in Schedule 13G filed with the SEC on February 14, 2003 jointly by T. Rowe Price Associates, Inc. ( Price Associates ) and T. Rowe Price New Horizons Fund, Inc. ( New Horizons ), these shares are held by various individual and institutional investors for which Price Associates and New Horizons serve as investment advisor with power to direct investments and/or sole power to vote the shares. Price Associates and New Horizons disclaim beneficial ownership of these shares except to the extent of their pecuniary interest in those shares.
- (3) 1585 Broadway, New York, New York 10036. Morgan Stanley Venture Partners III, L.P. owns 999,284 common shares. Morgan Stanley Venture Investors, L.P. owns 95,947 common shares. The Morgan Stanley Venture Partners Entrepreneur Fund, L.P. owns 43,709 common shares. Morgan Stanley Venture Partners III, L.L.C. (the General Partner ) owns options to purchase 34,800 common shares. The General Partner is the general partner of Morgan Stanley Venture Partners III, L.P., Morgan Stanley Venture Investors III, L.P. and The Morgan Stanley Venture Partners Entrepreneur Fund, L.P. (collectively, the Funds ), and, as such, has the power to vote or direct the vote and to dispose or direct the disposition of all of the shares held by the Funds. Morgan Stanley Venture Capital III, Inc. is the institutional managing member of the General Partner, and, as such, shares, together with the remaining managing members, the power to direct the actions of the General Partner. Morgan Stanley Dean Witter & Co., as the sole stockholder of Morgan Stanley Venture Capital III, Inc., controls the actions of Morgan Stanley Venture Capital III, Inc.
- (4) Includes 34,800 shares issuable upon exercise of options. Mr. Husain does not own any common shares directly. Mr. Husain is a managing member of Morgan Stanley Venture Partners III, L.L.C. and therefore may be deemed to beneficially own the shares owned by Morgan Stanley Venture Partners III, L.L.C., Morgan Stanley Venture Partners III, L.P., Morgan Stanley Venture Investors III, L.P. and The Morgan Stanley Venture Partners Entrepreneur Fund, L.P. Mr. Husain disclaims beneficial ownership of these shares except to the extent of his pecuniary interest in those shares.
- (5) Includes 94,538 shares issuable upon exercise of options.
- (6) Includes 34,800 shares issuable upon exercise of options.
- (7) 48,510 of these shares are owned by Borneo Partners. Mr. Pote disclaims beneficial ownership of these shares except to the extent of his pecuniary interest in those shares. Also includes 150,393 shares issuable upon exercise of options.
- (8) 136,000 of these shares are held by Crofton Capital. Mr. Gordon disclaims beneficial ownership of these shares except to the extent of his pecuniary interest in those shares. 11,386 of these shares are held by The Joel Company. Mr. Gordon disclaims beneficial ownership of these shares except to the extent of his pecuniary interest in those shares. Also includes 5,000 shares issuable upon exercise of options.
- (9) Includes 145,736 shares issuable upon exercise of options.
- (10) Includes 38,500 shares issuable upon exercise of options.
- (11) Includes 81,500 shares issuable upon exercise of options.
- (12) Includes 78,965 shares issuable upon exercise of options.
- (13) Includes 41,275 shares issuable upon exercise of options.
- (14) Includes 42,200 shares issuable upon exercise of options.
- (15) Includes 34,800 shares issuable upon exercise of options.
- (16) Includes 16,000 shares issuable upon exercise of options.
- (17) Includes 991,022 shares issuable upon exercise of options.

**Table of Contents**

**ITEM ONE ELECTION OF DIRECTORS**

The Board of Directors is divided into three classes (Class I, Class II and Class III). At each annual meeting of shareholders, directors constituting one class are elected for a three-year term. Directors who were elected to fill a vacancy in a class whose term expires in a later year are elected for a term equal to the remaining term for their respective class. The Fourth Amended and Restated Charter of the Company provides that each class shall consist, as nearly as may be possible, of one-third of the total number of directors constituting the entire Board of Directors. The current Board of Directors is comprised of ten members. Three members of the Board of Directors will be elected as Class III directors at the Annual Meeting.

The Board of Directors has nominated and recommends to the shareholders, Robert A Frist, Jr., M. Fazle Husain and Frank Gordon for election as Class III directors to serve until the annual meeting of shareholders in 2006 and until such time as their respective successors are duly elected and qualified. Messrs. Frist and Husain are currently Class III directors of the Company having been previously elected by the shareholders. Mr. Gordon is currently a Class II director of the Company having been previously elected by the shareholders. Charles N. Martin, Jr. is a current Class III director who is not standing for re-election. Mr. Gordon is being shifted to Class III from Class II to maintain the number of directors in each class as nearly equal as possible as required by the Company's Fourth Amended and Restated Charter.

If any of the nominees should become unable to accept election, the persons named in the proxy may vote for such other person or persons as may be designated by the Board of Directors. Management has no reason to believe that any of the nominees named above will be unable to serve. Certain information with respect to directors who are nominees for election at the Annual Meeting and with respect to directors who are not nominees for election at the Annual Meeting is set forth on the following pages.

**Table of Contents**

The directors shall be elected by a plurality of the votes cast in the election by the holders of the common stock represented and entitled to vote at the Annual Meeting.

<u>Name</u>	<u>Age</u>	<u>Principal Occupation/Directorships</u>	<u>Director Since</u>
<b>Director Nominees</b>			
<i>Class III Directors (Term Expires 2006)</i>			
Robert A Frist, Jr.	36	Robert A. Frist, Jr., one of our co-founders, has served as our chief executive officer and chairman of the board of directors since 1990. Mr. Frist serves on the board of directors of Hearing Planet, Inc., an online hearing aid distribution company, and HealthLeaders, Inc., a healthcare publisher. He graduated with a Bachelor of Science in business with concentrations in finance, economics and marketing from Trinity University.	1990
M. Fazle Husain	39	Mr. Husain has been employed by Morgan Stanley & Co. Incorporated since 1991 and is currently a managing director. Mr. Husain is also a managing member of Morgan Stanley Venture Partners III, L.L.C and its affiliated funds. Mr. Husain focuses primarily on investments in the health care industry, including health care services, medical technology and health care information technology. He received a Bachelor of Science in chemical engineering from Brown University and a Masters of Business Administration from Harvard. Mr. Husain serves as a director and on the compensation committee of Allscripts Healthcare Solutions, Inc., a provider of point-of-care physician solutions, and The Medicines Company, a biopharmaceuticals company.	1999
Frank Gordon	40	Mr. Gordon is vice president of development and managed care of MediSphere Health Partners, Inc., a health care services company. Mr. Gordon served as director of provider relations of HealthWise of America, a health care services company, from 1993 to 1996. Mr. Gordon also serves as managing partner of Crofton Capital LLP, a venture capital fund. Mr. Gordon earned a Bachelor of Science from the University of Texas in Austin and a Masters in Business Administration from Georgia State University.	2002

**Table of Contents**

<b>Name</b>	<b>Age</b>	<b>Principal Occupation/Directorships</b>	<b>Director Since</b>
<b>Continuing Directors</b>			
<i>Class I Directors (Term Expires 2004)</i>			
Thompson S. Dent	53	Mr. Dent is a member of Health Intersect, LLC. Mr. Dent is a founder of PhyCor, Inc., a physician practice management company. Mr. Dent served as its chairman of the board from January 2002 to July 2002, its chief executive officer and president from June 2000 to January 2002 and served as its president and chief operating officer from October 1997 to October 1998. Mr. Dent served as executive vice president, corporate services, from the inception of PhyCor until October 1997 and served as secretary of PhyCor from 1991 to October 1998. Mr. Dent holds a Masters in Healthcare Administration from George Washington University. On January 31, 2002, PhyCor and certain of its subsidiaries filed a voluntary petition for reorganization relief under Chapter 11 of the Bankruptcy Code. The Chapter 11 reorganization plan, captioned In re PhyCor, Inc., et. al., Case No. 02-40278 (PcB) in the U.S. Bankruptcy Court for the Southern District of New York, was confirmed on July 31, 2002.	1995
James F. Daniell	59	Dr. Daniell has maintained a private medical practice at Centennial Medical Center in Nashville since 1984. A founding member of the Society for Reproductive Surgeons, he served as past president of the International Society of Gynecologic Endoscopy and the Nashville OB/GYN Society. He holds a Bachelor of Science from David Lipscomb University and an M.D. from the University of Tennessee.	1995
William W. Stead	54	Dr. Stead has served as associate vice chancellor for health affairs of Vanderbilt University Medical Center since 1991. Dr. Stead is also the chief technology officer of EBMsolutions, a healthcare information company, and director of NetSilica, a healthcare information technology company. He is the editor-in-chief of the Journal of American Medical Informatics Association, a founding fellow of the American College of Medical Informatics and the American Institute for Engineering in Biology and Medicine and a member of the Institute of Medicine of the National Academy of Sciences and of the Board of Regents of the National Library of Medicine. He is past president of the American Association for Medical Systems and Informatics, and of the American College of Medical Informatics. Dr. Stead earned a Bachelor of Arts in chemistry and an M.D. from Duke University.	1998

**Table of Contents**

<b>Name</b>	<b>Age</b>	<b>Principal Occupation/Directorships</b>	<b>Director Since</b>
<b>Continuing Directors</b>			
<i>Class II Directors (Term Expires 2005)</i>			
Linda Rebrovick	47	Ms. Rebrovick is executive vice president and chief marketing officer of BearingPoint, Inc., formerly KPMG Consulting, Inc. Ms. Rebrovick was an executive vice president of its Health Care Consulting division from February 2000 to January 2001. Ms. Rebrovick was a national managing partner of KPMG LLP's Health Care Consulting division and served on its board of directors and was the chair of its board process and evaluation committee from 1997 to 2000. Ms. Rebrovick serves on the board of directors of Pinnacle Financial Partners, a financial institution. Prior to joining KPMG LLP, Ms. Rebrovick spent 16 years in various sales, management and executive positions at IBM Corporation. Ms. Rebrovick received a Bachelor of Arts in marketing from Auburn University.	2001
Jeffrey L. McLaren	36	Jeffrey L. McLaren, one of our co-founders, served as our president and as one of our directors from 1990 through November 2000 and as our chief product officer from 1999 through November 2000. Mr. McLaren currently serves as our vice chairman. He graduated from Trinity University with a Bachelor of Arts in both business and philosophy.	1990
John H. Dayani	56	Dr. Dayani is president and chief executive officer of Cardiovascular Services of America, a health care company. Dr. Dayani served as president and chief executive officer of Network Health Services, Inc., a health care services company, from 1996 to 1999. He served as its executive chairman from 1999 to May 2000. Dr. Dayani was the founder, president and chief executive officer of Medifax, Inc., a health care services company, from 1993 to 1995 and served as its consultant from 1995 to 1998. He also founded American Nursing Resources, Inc., American Nursing Resources Home Health Agency, Inc., American Nursing Resources Home Infusion, Inc., Nurse America and Quality Managed Care. Dr. Dayani earned a Bachelor of Science and Ph.D. in engineering from Vanderbilt University.	1998



**Table of Contents**

**Corporate Governance**

Our business is managed under the direction of our Board of Directors. The Board of Directors delegates the conduct of the business to our senior management team. Directors have regular access to senior management. They may also seek independent, outside advice. The Board of Directors considers all major decisions. The Board of Directors holds regular quarterly meetings and meets on other occasions when required by special circumstances. Some of the directors also devote their time and attention to the Board of Directors' principal standing committees. The Board of Directors has established three standing committees so that certain areas can be addressed in more depth than may be possible at a full board meeting. The committees, their primary functions and memberships are as follows:

**Audit Committee.** The audit committee's primary duties and responsibilities are to oversee the integrity of the Company's financial reporting process and systems of internal controls regarding finance, accounting and legal compliance; approve the selection, evaluation and compensation of the Company's independent auditors, oversee the independence and performance of the Company's independent auditors and internal auditing functions; and provide an avenue of communication among the independent auditors, management and the Board of Directors. The audit committee operates pursuant to the terms of a Restated Audit Committee Charter, a copy of which is attached to this proxy statement as Appendix A. Members of the audit committee are M. Fazle Husain, John H. Dayani and James Daniell. See Audit Committee Report.

**Compensation Committee.** The compensation committee has the responsibility for reviewing and approving the salaries, bonuses and other compensation and benefits of executive officers, reviewing and advising management regarding benefits and other terms and conditions of compensation of management and administering the Company's 2000 Stock Incentive Plan (the 2000 Stock Plan). Members of the compensation committee are Thompson Dent, John H. Dayani and Frank Gordon. See Compensation Committee Report on Executive Compensation.

**Nominating and Corporate Governance Committee.** The nominating and corporate governance committee provides assistance to the Board of Directors in identifying and recommending individuals qualified to serve as directors of the Company, reviews the composition of the Board of Directors, reviews and recommends corporate governance policies for the Company and periodically evaluates the performance of the Board of Directors. Members of the nominating and corporate governance committee are Linda Rebrovick, James Daniell and William Stead.

During 2002, our Board of Directors held six meetings, the audit committee held four meetings, the compensation committee held four meetings and the nominating and corporate governance committee held two meetings. Except for Charles N. Martin who attended sixty-seven percent of the meetings, all incumbent directors attended at least seventy-five percent of the board meetings, and all incumbent directors attended all of the meetings of the committees of the board on which the director served. Our Chairman proposes the agenda for the board meetings and presents the agenda to the nominating and corporate governance committee, which reviews the agenda with our Chairman and may raise other matters to be included in the agenda or at the meetings. All directors receive the agenda and supporting information in advance of the meetings. Directors may raise other matters to be included in the agenda or at the meetings. Our Chief Executive Officer and other members of senior management make presentations to the board at the meetings and a substantial portion of the meeting time is devoted to the Board of Directors' discussion of these presentations.

**Table of Contents**

The Board of Directors will consider nominees for the Board of Directors recommended by certain shareholders, if such shareholders comply with the advance notice provisions contained in our bylaws. Directors are selected based on their demonstrated knowledge, experience and ability in their chosen endeavors and, most importantly, based on their ability to represent the interests of all the shareholders. Shareholder recommendations for nominees must include certain biographical and other information and the proposed nominee's written consent to nomination. The recommendations must be addressed to our Secretary and delivered or mailed and received at our principal executive offices not less than 120 days prior to the first anniversary of the date this notice of annual meeting was provided to shareholders.

**Section 16(a) Beneficial Ownership Reporting Compliance**

We believe that during the 2002 fiscal year, all SEC filings of directors, officers and greater than ten-percent shareholders complied with the requirements of Section 16(a) of the Securities Exchange Act of 1934, as amended, except for Mr. McLaren who failed to timely file a Form 5 reporting a grant of stock options. This belief is based on our review of forms filed or written representations that no forms were required.

**THE BOARD OF DIRECTORS RECOMMENDS THAT YOU VOTE FOR EACH OF THE DIRECTOR NOMINEES.**

**Table of Contents****EXECUTIVE COMPENSATION****Summary Compensation Table**

The following table sets forth information for fiscal years 2000, 2001 and 2002, regarding the compensation earned by the Chief Executive Officer and the other four most highly compensated executive officers based on salary and bonus earned during 2002 (named executive officers).

Name and Principal Position	Fiscal Year	Annual Compensation			Long-Term Compensation Award
		Salary (\$)	Bonus (\$)	Other Annual Compensa- tion \$(1)	Securities Underlying Options (#)
Robert A Frist, Jr., CEO	2002	85,000			
	2001	85,000	10,000		
	2000	85,000	10,000		
Arthur E. Newman, Senior Vice President and CFO	2002	156,875	20,000	28,200	
	2001	138,349	14,000	16,884	100,000
	2000	125,827	10,000	40,056	157,500
Michael T. Pote, Senior Vice President	2002	156,875	20,000		
	2001	141,875	14,000		100,000
	2000	121,667	10,000		28,000
Fred Perner, Senior Vice President	2002	148,750	20,000		
	2001	131,250	14,000		100,000
	2000	55,833			58,000
Susan A. Brownie, Vice President of Finance and Controller	2002	103,606	15,000		35,000
	2001	110,625	11,500		
	2000	88,750	10,500		76,610

(1) Includes reimbursed travel and living expenses that are not deductible for income tax purposes.

**Table of Contents**

**Options Granted During 2002**

The following table provides information related to options granted to the named executive officers during the 2002 fiscal year and the potential realizable value of each grant of options assuming that the market price of the underlying security appreciates in value from the date of the grant to the end of the option term. We have not issued stock appreciation rights to our executive officers.

<b>Individual Grants</b>		
<b>Number of</b>	<b>Percent of Total Options</b>	<b>Potential Realizable Value at Assumed</b>