

HealthSpring, Inc.  
Form DEF 14A  
April 30, 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

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 Pursuant to §240.14a-12

**HEALTHSPRING, INC.**

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(Name of Registrant as Specified In Its Charter)

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(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)(4) and 0-11.

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

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

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(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):

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## Edgar Filing: HealthSpring, Inc. - Form DEF 14A

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(1) Amount Previously Paid:

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

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(3) Filing Party:

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(4) Date Filed:

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**HEALTHSPRING, INC.  
44 Vantage Way, Suite 300  
Nashville, Tennessee 37228  
(615) 291-7000**

**NOTICE OF ANNUAL MEETING OF STOCKHOLDERS  
To Be Held June 6, 2007**

Dear Stockholder:

On Wednesday, June 6, 2007, HealthSpring, Inc. will hold its annual meeting of stockholders at its corporate headquarters located at 44 Vantage Way, Suite 300, Nashville, Tennessee. The meeting will begin at 10:00 a.m., local time.

Only stockholders that owned our common stock at the close of business on April 10, 2007 are entitled to notice of and may vote at this meeting. A list of our stockholders will be available at our corporate headquarters at 44 Vantage Way, Suite 300, Nashville, Tennessee, during ordinary business hours for ten days prior to the annual meeting. At the meeting, we will consider the following proposals described in detail in the accompanying proxy statement:

1. To elect two Class II directors to serve three year terms or 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.

References to HealthSpring, the Company, we, us, or our in this notice and the accompanying proxy statement refer to HealthSpring, Inc. and its affiliates unless otherwise indicated.

**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 OR, IF APPLICABLE, VOTE BY TELEPHONE OR ELECTRONICALLY PURSUANT TO THE INSTRUCTIONS PROVIDED BY YOUR BROKER OR OTHER NOMINEE.**

By Order of the Board of Directors,

J. Gentry Barden

*Senior Vice President, Corporate General Counsel, and Secretary*

Nashville, Tennessee

May 2, 2007

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**HEALTHSPRING, INC.  
44 Vantage Way, Suite 300  
Nashville, Tennessee 37228**

**Proxy Statement for Annual Meeting of Stockholders  
to be held on June 6, 2007**

**QUESTIONS AND ANSWERS**

**1. Q: WHEN WAS THIS PROXY STATEMENT MAILED TO STOCKHOLDERS?**

A: This proxy statement was first mailed to stockholders on or about May 2, 2007. Our annual report to stockholders is being mailed with this proxy statement. The annual report is not part of the proxy solicitation materials.

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

A: At the annual meeting, stockholders will act upon the sole matter outlined in the notice of meeting on the cover page of this proxy statement, the election of two Class II directors. In addition, following the formal business of the meeting, our management will provide a business overview and be available to respond to questions from our stockholders.

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

A: Stockholders of record as of the close of business on April 10, 2007, or their duly appointed proxies, may attend the meeting. Street name holders (those whose shares are held through a broker or other nominee) should bring a copy of a brokerage statement reflecting their ownership of our common stock as of the record date. Space limitations may make it necessary to limit attendance to stockholders and valid picture identification may be required. Cameras, recording devices, and other electronic devices are not permitted at the meeting. Registration will begin at 9:30 a.m. local time.

**4. Q: WHO IS ENTITLED TO VOTE AT THE ANNUAL MEETING?**

A: Only stockholders of record as of the close of business on April 10, 2007 are entitled to receive notice of and participate in the annual meeting. As of the record date, there were 57,327,632 shares of our common stock outstanding, held by approximately 225 holders of record. Every stockholder is entitled to one vote for each share held as of the record date. Cumulative voting is not permitted with respect to the election of directors or any other matter to be considered at the annual meeting.

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

A: This proxy solicitation is being made and paid for by HealthSpring. Proxies may be solicited in person or by telephone, facsimile, electronic mail, or other electronic medium by certain of our directors, officers, and regular employees, without additional compensation. We will also request that brokerage houses and other custodians, nominees, and fiduciaries forward solicitation materials to the beneficial owners of shares of the Company's common stock held of record by such persons. We will reimburse such brokers and other fiduciaries for their reasonable out-of-pocket expenses incurred when the solicitation materials are forwarded.

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

A: You may vote on the election of two Class II directors to serve three year terms on our board of directors.

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

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

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

A: We are not aware of any business to be considered at the 2007 annual meeting other than the matter described in this proxy statement. If any other business is presented at the annual meeting, your signed proxy card gives authority to Kevin M. McNamara, our Executive Vice President, Chief Financial Officer, and Treasurer, and J. Gentry Barden, our Senior Vice President, Corporate General Counsel, and Secretary, to vote on such matters at their discretion.

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

A: If you are a registered stockholder, you may vote by signing and dating each 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 election of each Class II nominee named under Proposal 1 Election of Directors. You have the right to revoke your proxy at any time before the meeting by:

notifying our Secretary in writing, at 44 Vantage Way, Suite 300, Nashville, Tennessee 37228;

voting in person;

submitting a later-dated proxy card; or

if applicable, submitting new voting instructions to your broker or nominee.

If you have questions about how to vote or revoke your proxy, you should contact our Secretary at 44 Vantage Way, Suite 300, Nashville, Tennessee 37228. For shares held in street name, refer to question 11 below.

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

A: If you are a registered stockholder, you may not vote by telephone or electronically through the Internet. If your shares are held 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.

**11. 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 or other nominee, often referred to as held in street name, you will receive a form from your broker or nominee seeking instruction as to how your shares should be voted. You should contact your broker or other nominee with questions about how to provide or revoke your instructions.

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

A: Each of the Class II director nominees must receive affirmative votes from a plurality of the votes cast to be elected. This means that the two nominees receiving the greatest number of votes will be elected as Class II directors.

**13. Q: WHAT CONSTITUTES A QUORUM ?**

A: The presence at the meeting, in person or by proxy, of the holders of a majority of the aggregate voting power of the common stock outstanding on the record date will constitute a quorum. There must be a quorum for business to be conducted at the meeting. Proxies received but marked as abstentions and broker nonvotes will be included in the calculation of the number of shares considered to be present at the meeting.

**14. 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 regarding the election of Class II directors, you will still be counted for purposes of determining whether a quorum exists. If you abstain from voting on this proposal, your abstention will have no effect on the outcome.

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**15. Q: WILL MY SHARES BE VOTED IF I DO NOT SIGN AND RETURN MY PROXY CARD?**

A: If you are a registered stockholder and you do not sign and return your proxy card, your shares will not be voted at the annual meeting. If your shares are held in street name and you do not issue instructions to your broker, your broker may vote your shares at their discretion on routine matters, but may not vote your shares on nonroutine matters. Under the New York Stock Exchange, or NYSE, rules, the proposal relating to the election of directors is deemed to be a routine matter and brokers and nominees may exercise their voting discretion without receiving instructions from the beneficial owner of the shares.

**16. Q: WHAT IS A BROKER NONVOTE ?**

A: Under the NYSE rules, brokers and nominees may exercise their voting discretion without receiving instructions from the beneficial owner of the shares on proposals that are deemed to be routine matters. If a proposal is not a routine matter, the broker or nominee may not vote the shares on the proposal without receiving instructions from the beneficial owner of the shares. If a broker turns in a proxy card expressly stating that the broker is not voting on a nonroutine matter, such action is referred to as a broker nonvote. The election of directors is deemed to be a routine matter.

**17. Q: WHAT IS THE EFFECT OF A BROKER NONVOTE?**

A: Broker nonvotes will be counted for the purpose of determining the presence of a quorum, but will not be counted for determining the number of votes cast, as a broker nonvote is not considered entitled to vote on a matter. A broker nonvote will not affect the outcome of election of Class II directors.

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

A: One of our officers will count the votes and act as an inspector of election. Questions concerning stock certificates may be directed to American Stock Transfer & Trust Company at 59 Maiden Lane, New York, NY 10038, (718) 921-8208.

**19. Q: CAN I PARTICIPATE IF I AM UNABLE TO ATTEND?**

A: If you are unable to attend the meeting in person, we invite you to send in your proxy card, but we will not be broadcasting our annual meeting telephonically or over the Internet.

**20. Q: WHERE CAN I FIND THE VOTING RESULTS OF THE ANNUAL MEETING?**

A: We intend to announce preliminary voting results at the annual meeting and publish final results in our quarterly report on Form 10-Q for the second quarter ending June 30, 2007.

**21. Q: WHEN ARE STOCKHOLDER PROPOSALS DUE IN ORDER TO BE INCLUDED IN OUR PROXY STATEMENT FOR THE NEXT ANNUAL MEETING?**

A: Any stockholder proposal must be submitted in writing to J. Gentry Barden, Senior Vice President, Corporate General Counsel, and Secretary, HealthSpring, Inc., 44 Vantage Way, Suite 300, Nashville, Tennessee 37228, prior to the close of business on January 3, 2008 to be considered timely for inclusion in next year's proxy statement. Such proposal must also comply with Securities and Exchange Commission, or SEC, regulations under Rule 14a-8 regarding the inclusion of stockholder proposals in company-sponsored proxy materials.

**22. Q: WHEN ARE OTHER STOCKHOLDER PROPOSALS DUE?**

A: Our bylaws contain an advance notice provision that requires stockholders to deliver to us notice of a proposal to be brought before an annual meeting not less than one hundred twenty (120) nor more than one hundred fifty (150) days before the date of the anniversary of the previous year's annual meeting. Such proposals are also subject to informational and other requirements set forth in our bylaws, a copy of which is available under the Investor Relations Corporate Governance section of our website, [www.myhealthspring.com](http://www.myhealthspring.com).



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

A: **We will provide additional copies of this proxy statement or voting materials, and a copy of our 2006 Annual Report to stockholders, including our Annual Report on Form 10-K for the year ended December 31, 2006, without charge to any stockholder who makes a written request to our Secretary at HealthSpring, Inc., 44 Vantage Way, Suite 300, Nashville, Tennessee 37228.** Our Annual Report on Form 10-K and other SEC filings also may be accessed on the world wide web at [www.sec.gov](http://www.sec.gov) or on the Investor Relations section of the Company's website at [www.myhealthspring.com](http://www.myhealthspring.com). Our website address is provided as an inactive textual reference only. The information provided on our website is not part of this proxy statement and is not incorporated herein by this or any other reference to our website provided in this proxy statement.

**24. Q: HOW MANY COPIES SHOULD I RECEIVE IF I SHARE AN ADDRESS WITH ANOTHER STOCKHOLDER?**

A: The SEC has adopted rules that permit companies and intermediaries, such as brokers, to satisfy the delivery requirements for proxy statements and annual reports with respect to two or more stockholders sharing the same address by delivering a single proxy statement addressed to those stockholders. This process, commonly referred to as householding, potentially provides extra convenience for stockholders and cost savings for companies. The Company and some brokers may be householding our proxy materials by delivering a single proxy statement and annual report to multiple stockholders sharing an address unless contrary instructions have been received from the affected stockholders. Once you have received notice from your broker or us that they or we will be householding materials to your address, householding will continue until you are notified otherwise or until you revoke your consent. If at any time you no longer wish to participate in householding and would prefer to receive a separate proxy statement and annual report, or if you are receiving multiple copies of the proxy statement and annual report and wish to receive only one, please notify your broker if your shares are held in a brokerage account or us if you are a stockholder of record. You can notify us by sending a written request to our Secretary at HealthSpring, Inc., 44 Vantage Way, Suite 300, Nashville, Tennessee 37228, or by calling the Secretary at (615) 291-7000. In addition, we will promptly deliver, upon written or oral request to the address or telephone number above, a separate copy of the annual report and proxy statement to a stockholder at a shared address to which a single copy of the documents was delivered.

**CORPORATE GOVERNANCE**

We believe that effective corporate governance is critical to our long-term success and ability to create value for our stockholders. We have adopted and implemented charters, policies, procedures and controls that we believe promote and enhance corporate governance, accountability, and responsibility, and a culture of honesty and integrity. Our corporate governance guidelines, code of business conduct and ethics, and various other governance related policies and board committee charters are available on the Investor Relations section of our website at [www.myhealthspring.com](http://www.myhealthspring.com), and are available in print free of charge upon written request to the Company's Secretary at HealthSpring, Inc., 44 Vantage Way, Suite 300, Nashville, Tennessee 37228.

**Board Independence and Operations**

We currently have seven board members. Our board of directors consults with the Company's counsel to ensure that the board's independence determinations are consistent with all relevant securities and other laws and regulations regarding the definition of independent director, including but not limited to those set forth in the listing standards of the NYSE. To assist in the board's independence determinations, each director completed materials designed to identify any relationships that could affect the director's independence. The board has determined that each of Messrs. Bruce M. Fried, Robert Z. Hensley, Russell K. Mayerfeld, Joseph P. Nolan, Martin S. Rash, and Daniel L. Timm is an independent director consistent with the objective standards of applicable laws and regulations, and that such persons do not otherwise have any relationship (either directly or indirectly as a partner, shareholder or officer of an organization that has a material relationship with us) that, in the opinion of the board of directors, would impair their independence. The board has not established categorical standards or guidelines by which to analyze the subjective aspects of these determinations, but considers all relevant facts and circumstances known to the board. Mr. Timm has notified the board of directors that he will not be seeking re-election at the meeting. As described below, we are nominating Sharad Mansukani, M.D., to stand for election for the seat being vacated by Mr. Timm. Mr. Hensley serves on the audit committees of three other publicly registered companies in addition to HealthSpring.

The Board has determined that such simultaneous service does not impair Mr. Hensley's ability to serve on our audit committee.

As further described in our corporate governance guidelines, the board has created the position of presiding director whose primary responsibility is to preside over executive sessions of the non-management directors. The presiding director also performs such other duties as the board may from time to time delegate to him to assist the board in the fulfillment of its responsibilities. Currently, Mr. Mayerfeld, in his capacity as chair of the nominating and corporate governance committee, is the presiding director and

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he will continue serving in this position unless and until a successor presiding director has been appointed in compliance with our corporate governance guidelines.

The board of directors and its committees meet periodically during the year as deemed appropriate. The board of directors is generally responsible for establishing our corporate policies and reviewing and assessing our corporate objectives and strategies, and other major transactions and capital commitments. During 2006, the board of directors met eight times. No director attended fewer than 75% of all the 2006 meetings of the board of directors and its committees on which such director served.

**Board Committee Composition**

We have three standing committees of our board of directors: an audit committee, a compensation committee, and a nominating and corporate governance committee. The audit committee consists of four persons, none of whom is employed by us and each of whom is independent as defined under the heightened independence requirements of the NYSE and the SEC applicable to audit committee members. In addition, the board has determined that Mr. Hensley is an audit committee financial expert within the meaning of the applicable SEC regulations and that each member of the audit committee has the accounting and financial expertise required by the NYSE's listing standards. The compensation committee consists of three persons, none of whom is employed by us and each of whom is independent as defined under the rules of the NYSE. The nominating and corporate governance committee consists of four persons, none of whom is employed by us and each of whom is independent as defined under the rules of the NYSE. Each of our committees operates under a charter adopted by our board of directors. It is the policy of the board and each committee to periodically review its performance and the effectiveness of its charter and policies, as applicable.

The composition of our board committees as of the date of this proxy statement is set forth below:

<b>Name of Director</b>	<b>Audit</b>	<b>Compensation</b>	<b>Nominating and Corporate Governance</b>
Bruce M. Fried	Member		Member
Robert Z Hensley	<b>Chair</b>	Member	
Russell K. Mayerfeld	Member		<b>Chair</b>
Joseph P. Nolan		Member	Member
Martin S. Rash		<b>Chair</b>	Member
Daniel L. Timm	Member		

Our board intends to adjust certain committee assignments upon the election at the meeting in light of Mr. Timm's decision not to stand for re-election. Following the anticipated election of Dr. Mansukani at the annual meeting, the nominating and corporate governance committee, in conjunction with the full board, will evaluate the committees on which Dr. Mansukani could best serve the Company and its stockholders.

*Audit Committee.* The audit committee met eleven times in 2006. The audit committee is responsible for, among other matters:

selecting the Company's independent registered public accounting firm;

pre-approving all audit and permitted non-audit services to be performed by such firm;

approving the overall scope of the audit;

assisting the board of directors in monitoring the integrity of our financial statements, the independent registered public accounting firm's qualifications and independence, the performance of the independent registered public accounting firm and our internal audit function, and our compliance with legal and regulatory requirements;

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meeting to review and discuss the annual and quarterly financial statements and reports with management and the independent registered public accounting firm;

reviewing and discussing each earnings press release, as well as financial information and any earnings guidance provided to analysts and rating agencies;

discussing policies with respect to risk assessment and risk management;

meeting separately and periodically with management, internal auditors, and the independent registered public accounting firm;

reviewing with the independent registered public accounting firm any audit problems or difficulties and management's response; and

reviewing and approving related party transactions.

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*Compensation Committee.* The compensation committee met five times in 2006. The compensation committee is responsible for, among other matters:

reviewing employee compensation philosophies, policies, plans and programs;

reviewing and approving the actual compensation of each of our executive officers;

reviewing and approving employment contracts and other similar arrangements with our officers;

reviewing and overseeing the evaluation of executive officer performance and other related matters;

administration of equity incentive plans and other incentive compensation plans or arrangements; and

recommending the Compensation Discussion and Analysis to the board of directors for inclusion in the proxy statement and incorporation by reference in the Annual Report on Form 10-K.

Additional information regarding the process undertaken by the compensation committee in the determination of executive compensation and its other functions is included under Executive and Director Compensation Compensation Discussion and Analysis. The full board is responsible for approving non-employee director compensation.

*Nominating and Corporate Governance Committee.* The nominating and corporate governance committee met three times in 2006. The nominating and corporate governance committee is responsible for, among other matters:

evaluating the composition, size and governance of our board of directors and its committees;

making recommendations regarding future planning and the appointment of directors to our committees;

evaluating and recommending candidates for election to our board of directors, including those candidates properly presented by our stockholders;

overseeing the performance and self-evaluation process of our board of directors (and committees thereof);

reviewing and developing our corporate governance policies and providing recommendations to the board of directors regarding possible changes;

reviewing management succession plans; and

reviewing and monitoring compliance with our code of business conduct and ethics, corporate governance guidelines, and other governance policies.

## **Selection of Board Nominees and Director Qualifications**

The nominating and corporate governance committee may utilize a variety of methods for identifying nominees for director. Candidates may come to the attention of the nominating and corporate governance committee through current board members, professional search firms, stockholders, members of management, or other persons. A stockholder who desires for the nominating and governance committee to consider a nomination for director must comply with the notice, timing, and other requirements in the Company's bylaws. Each nomination submitted in this manner shall include the name and address of the nominee(s) and all other information with respect to the nominee as required to be disclosed in the proxy statement for the election of directors under applicable rules of the SEC, including the nominee's consent to being named as a nominee and to serving as a director, if elected. It is the policy of the Company that all nominees be evaluated in the same manner.

The nominating and corporate governance committee reviews the qualifications of potential director candidates in accordance with the committee's charter and our corporate governance guidelines. The committee's consideration of a candidate as a director includes an assessment of the individual's understanding of the Company's business, the individual's professional and educational background, skills, and abilities and potential time commitment and whether

such characteristics are consistent with our corporate governance guidelines and other criteria established by the nominating and corporate governance committee from time to time. To make an effective contribution to the Company, a director must possess experience in one or more of the following:

business or management for complex and large consolidated companies or other complex and large institutions;

accounting or finance for complex and large consolidated companies or other complex and large institutions;

leadership, strategic planning, or crisis response for complex and large consolidated companies or other institutions;

the healthcare industry;

the managed care and/or Medicare industries; and/or

other significant and relevant areas deemed by the nominating and corporate governance committee to be valuable to the Company.

The nominating and corporate governance committee will consider a candidate's qualifications, background, skills and abilities, and whether such characteristics fulfill the needs of the Company and the board at that time. The committee will then confer and reach a collective assessment as to the qualifications and suitability of the candidate for board membership. If the nominating and corporate governance committee determines that the candidate is suitable and meets the criteria for board membership, the candidate will be invited to meet with the senior management of the Company and other members of the board of directors, both to allow the candidate to obtain further information about the Company and to give management and the other directors a basis for input to the

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nominating and corporate governance committee regarding the candidate. On the basis of its assessment, and taking into consideration input from other board members and senior management, the nominating and corporate governance committee will formally consider whether to recommend the candidate's nomination for election to the board of directors.

It is our policy that each director should take reasonable steps to keep informed on corporate governance best practices and their application in the managed care and Medicare environments. In addition, prior to accepting re-nomination, each director should evaluate himself or herself as to whether he or she satisfies the criteria described above. The board intends to monitor the mix of skills and experience of its directors in order to ensure that the board has the necessary tools to perform its oversight functions effectively. The nominating and corporate governance committee may also adopt such procedures and criteria not inconsistent with our corporate governance guidelines as it considers advisable for the assessment of director candidates.

### **Code of Business Conduct and Ethics**

The Company has a code of business conduct and ethics that complies with the NYSE listing standards and is applicable to all directors, officers and employees of the Company. The code of business conduct and ethics is available on the Investor Relations section of the Company's website at [www.myhealthspring.com](http://www.myhealthspring.com). The Company intends to post amendments to or waivers, if any, from its code of business conduct and ethics (to the extent applicable to the Company's directors or its chief executive officer, principal financial officer, or principal accounting officer) at this location on its website.

### **Corporate Governance Guidelines**

The Company has adopted corporate governance guidelines that we believe reflect the board's commitment to a system of governance that enhances corporate responsibility and accountability.

### **Policy Regarding Communications with the Board of Directors**

Stockholders and any other interested party may communicate with any of the Company's directors, including the chair of any of the committees of the board, the presiding director, or the non-management directors as a group by writing to them c/o HealthSpring, Inc., 44 Vantage Way, Suite 300, Nashville, Tennessee 37228. The Secretary or, if applicable, the Company's compliance officer will review all such communications and direct appropriate communications to the appropriate director(s).

### **Policy Regarding Director Attendance at Annual Meetings of Stockholders**

We have adopted a policy, that is included within our corporate governance guidelines, stating that directors are strongly encouraged to attend HealthSpring's annual meetings of stockholders and we currently expect all of our directors, and the director nominee, Dr. Mansukani, to be in attendance at the meeting on June 6, 2007. All of our directors attended the 2006 annual meeting of stockholders.

### **Executive Sessions**

We have adopted a policy, that is included within our corporate governance guidelines, that the directors periodically meet in executive session and that our independent directors meet at least once a year in an executive session including only independent directors. The sessions are typically scheduled and chaired by the presiding director.

### **Compensation Committee Interlocks and Insider Participation**

The compensation committee of the board of directors is currently composed of Martin S. Rash (Chair), Robert Z. Hensley, and Joseph P. Nolan. None of these persons has at any time been an officer or employee of HealthSpring or any of its subsidiaries. Mr. Nolan is an affiliate of the GTCR Golder Rauner II, L.L.C., or GTCR, investment funds which participated in our recapitalization transaction in March 2005. There are no relationships among HealthSpring's executive officers, members of the compensation committee or entities whose executives serve on the compensation committee that require disclosure under applicable SEC regulations.

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**AUDIT COMMITTEE REPORT**

The audit committee was formed in connection with the Company's initial public offering, or IPO, in February 2006. Prior to that time, the functions now delegated to the audit committee were performed by HealthSpring's board of directors. The audit committee is comprised of four independent, non-employee directors and operates under a written charter, adopted by the board of directors, which is posted on the Investor Relations section of the Company's website with certain of our other governance documents at [www.myhealthspring.com](http://www.myhealthspring.com).

The primary purposes of the audit committee are to assist the board of directors in fulfilling its responsibility to oversee (i) the integrity of the financial statements of HealthSpring; (ii) HealthSpring's compliance with legal and regulatory requirements; (iii) the independent registered public accountants' qualifications, independence, and performance; and (iv) the performance of HealthSpring's internal audit function. The audit committee is directly responsible for the appointment, compensation, and oversight of the work of the independent registered public accountants. The independent registered public accountants report directly to the audit committee.

Management has the primary responsibility for the preparation of the financial statements and the reporting process. The Company's management has represented to the audit committee that the financial statements are prepared in accordance with U.S. generally accepted accounting principles. The Company's independent registered public accounting firm is responsible for auditing these financial statements. In the performance of its oversight function, the audit committee reviewed and discussed the audited financial statements for 2006 with management and the independent registered public accountants. The audit committee discussed with HealthSpring's management the critical accounting policies applied by the Company in the preparation of its financial statements. The audit committee also discussed with the Company's management the process for certifications by the Chief Executive Officer and Chief Financial Officer. The audit committee discussed with the independent registered public accountants the matters required to be discussed by Statement on Auditing Standards No. 61, as amended (AICPA, Professional Standards Vol. 1, AU section 380).

In addition, the audit committee received from the independent registered public accountants the written disclosures required by Independence Standards Board Standard No. 1 (Independence Discussions with Audit Committees) and discussed with them their independence from HealthSpring and its management. The audit committee also evaluated whether the independent registered public accountants' provision of non-audit services to HealthSpring was compatible with the auditor's independence and determined it was compatible.

In reliance on the reviews and discussions referred to above, the audit committee recommended to the board of directors the inclusion of the audited financial statements in HealthSpring's Annual Report on Form 10-K for the year ended December 31, 2006 for filing with the SEC.

Robert Z. Hensley (Chair)

Bruce M. Fried

Russell K. Mayerfeld

Daniel L. Timm

*The foregoing report of the audit committee does not constitute soliciting material and shall not be deemed incorporated by reference by any general statement incorporating by reference the proxy statement into any filing by HealthSpring under the Securities Act of 1933 or the Securities Exchange Act of 1934, except to the extent that we specifically incorporate this information by reference, and shall not otherwise be deemed to be filed under such acts.*



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The current board of directors of HealthSpring consists of seven directors. Our board of directors is divided into three classes, Class I, Class II, and Class III, with each class serving staggered three-year terms. The terms of the Class II directors expire in 2007 and, accordingly, two Class II directors will be elected at the annual meeting. Upon the recommendation of our nominating and corporate governance committee, the board of directors recommends that the nominees listed below be elected as Class II members of the board of directors at the annual meeting. Messrs. Rash and Timm are currently serving as a Class II directors. Mr. Timm will not be standing for re-election at the annual meeting. The board, based on the recommendation of the nominating and corporate governance committee, has designated Dr. Mansukani to stand for election in the Class II director position being vacated by Mr. Timm at the meeting. The consideration of Dr. Mansukani as a potential nominee was initially proposed to our nominating and corporate governance committee by our CEO, Herbert A. Fritch.

Each of the nominees, if elected, will serve a three year term as a Class II director until the annual meeting of stockholders in 2010 or until his respective successor is duly elected and qualified. If a nominee becomes unable or unwilling to accept nomination or election, the person or persons voting the proxy will vote for such other person or persons as may be designated by the board of directors, unless the board of directors chooses to reduce the number of directors serving on the board. The board of directors has no reason to believe that either of the nominees will be unable or unwilling to serve as a Class II director if elected.

**Information Concerning Director Nominees and Continuing Directors**

Information concerning the nominees proposed by the board of directors for election, and our directors whose terms do not expire at the meeting, is set forth below.

**Class II Director Nominees (Standing for Election at the Annual Meeting)****Sharad Mansukani, M.D., Age 37****Director Nominee**

Dr. Sharad Mansukani serves as a senior advisor of Texas Pacific Group, a private equity investment firm, and serves on the faculty at both the University of Pennsylvania and Temple University Schools of Medicine. Dr. Mansukani is also chief strategic officer for NationsHealth, Inc., a supplier of prescription drugs. Dr. Mansukani previously served as senior advisor to the Administrator of the Centers for Medicare and Medicaid Services, or CMS, from 2003 to 2005, and as senior vice president and chief medical officer of Health Partners, a non-profit Medicaid and Medicare health plan owned at the time by Philadelphia-area hospitals. Dr. Mansukani completed a residency and fellowship in ophthalmology at the University of Pennsylvania School of Medicine and a fellowship in quality management and managed care at the Wharton School of Business. Dr. Mansukani serves as a director of IASIS Healthcare, LLC, an owner and operator of acute care hospitals, Matrix Laboratories Limited, a pharmaceutical manufacturer, and Aerie Pharmaceuticals, Inc., an ophthalmologic pharmaceutical company.

**Martin S. Rash, Age 52****Director Since 2005**

Martin S. Rash has served as one of the Company's directors since March 2005. From December 1996 until its acquisition by LifePoint Hospitals, Inc. in 2005, Mr. Rash served as chief executive officer and a director of Province Healthcare Company, an operator of non-urban acute care hospitals. Mr. Rash also served as chairman of the board of directors of Province from May 1998 until its acquisition and had served as a director since February 1996. He served as chief executive officer and director of its predecessor, Principal Hospital Company, from February 1996 to December 1996 and as chief operating officer of Community Health Systems from 1994 to 1996. Mr. Rash holds an M.B.A. and a B.S. in Accounting from Middle Tennessee State University.

**THE BOARD OF DIRECTORS RECOMMENDS THAT YOU VOTE FOR EACH OF THE CLASS II NOMINEES.****Class III Directors (Terms Expire in 2008)****Robert Z. Hensley, Age 49****Director Since 2006**

Robert Z. Hensley has served as one of the Company's directors since February 2006. From July 2002 to September 2003, Mr. Hensley was an audit partner at Ernst & Young LLP in Nashville, Tennessee. He served as an

audit partner at Arthur Andersen LLP in Nashville, Tennessee from 1990 to 2002, and he was the office managing partner of the Nashville, Tennessee office of Arthur Andersen LLP from 1997 to July 2002. Mr. Hensley is currently the founder and an owner of a private publishing company and the

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principal owner of two real estate and rental property development companies, each of which is located in Destin, Florida. He also serves as a director of Advocat, Inc., a provider of long-term care services to nursing home patients and residents of assisted living facilities, COMSYS IT Partners, Inc., an information technology services company, and Spheris, Inc., a provider of medical transcription technology and services. Mr. Hensley holds a Master of Accountancy degree and a B.S. in Accounting from the University of Tennessee. Mr. Hensley is a certified public accountant.

**Russell K. Mayerfeld, Age 53****Director Since 2006**

Russell K. Mayerfeld has served as one of the Company's directors since February 2006. Mr. Mayerfeld has served as the managing member of Excelsus LLC, an advisory services firm, since 2004, and previously provided advisory services and was a private investor from April 2003 to March 2004. Mr. Mayerfeld was managing director, investment banking, of UBS LLC and its predecessors from May 1997 to April 2003, and managing director, investment banking, of Dean Witter Reynolds Inc. from 1988 to 1997. Mr. Mayerfeld also serves as a director of Fremont General Corporation, or FGC, a financial services holding company engaged in commercial and real estate lending, and Fremont Investment and Loan, a regulated subsidiary of FGC. Mr. Mayerfeld holds an M.B.A. from Harvard University and a B.S. in Accountancy from the University of Illinois.

**Class I Directors (Terms Expire in 2009)****Bruce M. Fried, Age 57****Director Since 2006**

Bruce M. Fried has served as one of the company's directors since June 2006. Mr. Fried has been a partner at the law firm of Sonnenschein Nath & Rosenthal LLP in their Washington, D.C. office since January 2003. From 1998 to January 2003, Mr. Fried was a partner at the law firm of Shaw Pittman LLP. Prior to returning to private law practice, Mr. Fried served in various capacities for the federal agency formerly known as the Health Care Finance Administration, or HCFA, now known as CMS, including as Director of HCFA's Office of Managed Care. Mr. Fried counsels and represents health plans, physician organizations, hospital groups, and other healthcare organizations with regard to Medicare, Medicaid, HIPAA and other federal healthcare programs and policies. He also serves as a director of other civic and charitable organizations. Mr. Fried holds a J.D. from the University of Florida College of Law and a B.A. from the University of Florida.

**Herbert A. Fritch, Age 56****Director Since 2005**

Herbert A. Fritch has served as the Chairman of the Board of Directors, President, and Chief Executive Officer of the Company and its predecessor, NewQuest, LLC, since the commencement of operations in September 2000. Beginning his career in 1973 as an actuary, Mr. Fritch has over 30 years of experience in the managed healthcare business. Prior to founding NewQuest, LLC, Mr. Fritch founded and served as president of North American Medical Management, Inc., or NAMM, an independent physician association management company, from 1991 to 1999. NAMM was acquired by PhyCor, Inc., a physician practice management company, in 1995. Mr. Fritch served as vice president of managed care for PhyCor following PhyCor's acquisition of NAMM. Prior to founding NAMM, Mr. Fritch served as a regional vice president for Partners National Healthplans from 1988 to 1991, where he was responsible for the oversight of seven HMOs in the southern region. Mr. Fritch holds a B.A. in Mathematics from Carleton College. Mr. Fritch is a fellow of the Society of Actuaries and a member of the Academy of Actuaries.

**Joseph P. Nolan, Age 42****Director Since 2005**

Joseph P. Nolan has served as one of the Company's directors since March 2005. Mr. Nolan joined GTCR, which was the majority investor in our 2005 recapitalization transaction, in 1994 and became a principal in 1996. Mr. Nolan is currently the Head of the Healthcare Services Group of GTCR and a member of the firm's administrative and investment committees. Mr. Nolan was previously a vice president in mergers and acquisitions with Dean Witter Reynolds Inc. Mr. Nolan was previously on the board of Province Healthcare Company and currently serves as a director of several private companies. Mr. Nolan holds an M.B.A. from the University of Chicago and a B.S. in Accountancy from the University of Illinois.



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**OTHER MATTERS**

We are not aware of any matters other than those discussed in the foregoing materials contemplated for action at the annual meeting. The persons named in the proxies will vote in accordance with the recommendation of the board of directors on any other matters incidental to the conduct of, or otherwise properly brought before, the annual meeting. The proxy contains discretionary authority for them to do so.

**INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM**

The audit committee has appointed KPMG LLP, who conducted our audit for 2006, as our independent registered public accounting firm for 2007. Representatives of KPMG LLP will attend our annual meeting, will have the opportunity to make a statement at the meeting if they desire to do so, and will be available to respond to your questions.

**FEES BILLED TO THE COMPANY BY KPMG LLP DURING 2006 AND 2005**

*Audit Fees.* The aggregate audit fees and out-of-pocket expenses billed by KPMG LLP relating to the 2006 audit and quarterly reviews totaled \$716,500 and for 2005 totaled \$523,297. Audit fees include fees related to professional services rendered by KPMG LLP in connection with the audit of our annual consolidated financial statements and the review of our interim quarterly audited financial statements and fees for audit services provided by KPMG LLP in connection with statutory and regulatory filings of our HMO subsidiaries.

*Audit-Related Fees.* The aggregate fees billed by KPMG LLP for products or services in 2006 related to our audit and other than those described above totaled \$90,000, which was for services rendered by KPMG LLP in connection a secondary public offering of common stock in October 2006. The aggregate fees billed by KPMG LLP for products or services in 2005 related to our audit and other than those described above totaled \$900,000, which related to our IPO.

*Tax Fees.* There were no fees billed by KPMG LLP for professional services rendered for tax compliance, tax advice, or tax planning for 2006. We paid KPMG LLP \$81,663 for such tax-related services in 2005.

*All Other Fees.* The aggregate fees paid by us to KPMG LLP for other products or services totaled \$15,000 for 2006, which related to due diligence assistance by KPMG LLP of financial statements of a potential acquisition candidate. There were no other fees billed to us by KPMG LLP for products or services in 2005.

The board of directors has adopted a written charter for the audit committee that, among other things, requires the audit committee to pre-approve all audit and non-audit services (subject to permitted de minimis exceptions) to be performed for the Company by its independent registered public accounting firm, including the fees and terms thereof. If a request for these services is made between audit committee meetings, the audit committee has delegated the authority to the Chairman of the audit committee to approve such services and, in his absence or unavailability, to such other available audit committee member. Any decisions between meetings to pre-approve any services will be confirmed by the audit committee at its next scheduled meeting. All services performed for the Company by KPMG LLP in 2006 were pre-approved by the audit committee.

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**EXECUTIVE AND DIRECTOR COMPENSATION**

**Compensation Discussion and Analysis**

***Overview of Executive Compensation Program***

*Compensation Philosophy*

Our compensation program is designed generally to align executives' actions with our business objectives, the goal of which is to improve financial and operating results and increase stockholder value while fairly and appropriately compensating our executives. Accordingly, it is the compensation committee's philosophy to make a substantial portion of each executive officer's compensation, both short- and long-term, contingent upon the Company's performance. Our compensation philosophy for an executive officer also emphasizes flexibility in fully assessing the executive's individual performance for the prior year, his or her projected role and responsibilities for the coming year, and his or her actual and potential impact on the successful execution of Company strategy. The compensation committee may also consider, among other factors, recommendations from our chief executive officer and any compensation consultants the compensation committee may engage, an officer's prior compensation, experience, and professional status, negotiations relating to an executive's initial hiring, total cash compensation, current equity holdings (including the fact that certain of our officers, including our chief executive officer, are significant stockholders), employment market conditions and compensation practices within our peer group (particularly our peers based in Nashville, Tennessee, the city where our named executive officers reside), and the vulnerability to recruitment by other companies and the difficulty and costs associated with replacing executive talent. In summary, the compensation committee strives to align executive and stockholder interests by making Company-wide and individual compensation decisions that reward performance and also appropriately reflect the unique contributions of each executive.

*Compensation Objectives*

The most significant components of our compensation program will be equity- and performance-based in order to align executive and stockholder interests. We must also, however, compensate executives on a competitive basis in order to attract and retain them.

Each element of our executive compensation program is designed to simultaneously fulfill one or more of these retention, performance, and alignment compensation objectives. Our current executive compensation program consists primarily of three elements:

Base salary;

Annual, primarily cash-based, performance bonuses; and

Equity awards, typically stock options, subject to vesting over a period of several years.

Base salary is designed to be reasonable and competitive within an appropriate peer group. The cash-based performance awards are structured to deliver value to our executives for achieving or exceeding annual financial targets that the Company believes drive stockholder value and stock price appreciation in particular. Equity awards are designed to deliver value to our executives with long-term stock price appreciation.

*Compensation Design and Mix*

Executive compensation decisions prior to 2007 were based primarily on the terms of written employment agreements and the board's collective, but primarily subjective, assessment of executive compensation at other healthcare services companies of similar size. Our general pay positioning policy going forward is as follows:

We target base salary to be competitive with median (50<sup>th</sup> percentile) salary levels in an appropriate peer group; and

As we desire to reward above-average performance with above-average compensation, we target total compensation opportunities between the 50<sup>th</sup> percentile and the 75<sup>th</sup> percentile of our peer group.

The process by which our compensation committee determined our peer group for 2007 is described below under 2007 Named Executive Officer Compensation. The compensation committee will continue to examine and refine our peer group and collect peer group compensation data, based to the extent possible upon positions of comparable scope

and complexity, in order to ensure our executive compensation is generally consistent with these benchmarks. In keeping with our flexible compensation

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philosophy, however, we do not support rigid adherence to compensatory formulas, and these benchmarks and the results of peer group compensation studies will be used by the compensation committee primarily as a reference. Accordingly, certain executives may be compensated below or above these benchmarks based on other factors as articulated above under Compensation Philosophy.

For similar reasons, with respect to compensation mix, we do not intend to adhere strictly to pre-set formulas for allocation between the three primary components of executive compensation. We generally believe approximately 25% to 75% of an executive's compensation, typically increasing with levels of responsibility, should be performance- and equity-based, with the equity component comprising a substantial amount of the total direct compensation opportunities at the highest levels, including our chief executive, operating, and financial officers. We believe our emphasis on equity focuses our executives on long-term performance and is consistent with practices at our peer group companies. We also believe approximately 20% to 25% of total direct compensation opportunities of an executive's compensation should be allocated to short-term cash performance bonus opportunities, reflecting our desire to reward and encourage the achievement of short-term business objectives and performance, which should also inure to the benefit of our stockholders.

The following provides additional detail regarding the Company's plans for performance-based compensation elements:

*Annual Performance Bonus Opportunities.* The compensation committee awards cash bonuses to named executive officers that are targeted as a percentage of base salary based on specific Company financial performance goals determined near the beginning of each year. To the extent deemed appropriate by the compensation committee, we will attempt in good faith to structure these awards to qualify as performance-based compensation that is not subject to the \$1 million limitation under Section 162(m) of the Internal Revenue Code of 1986, as amended (the Code). To date, the impact of the Section 162(m) limitation has not been a material factor in decisions regarding executive compensation. The bonus opportunities are generally as set forth in the executive's employment agreement or offer letter as a percentage of base salary and are subject to increase at the compensation committee's discretion. The Company's performance goals have historically been based primarily on earnings before interest, taxes, depreciation, and amortization (measured on a Company-wide basis), generally determined with reference to our budget and financial goals communicated to our investors. With respect to 2007, the executive officers' targets are based primarily on earnings per share goals. We do not intend to publicly disclose the specific performance targets as they reflect competitive, sensitive information. We intend to approve target performance goals that are both attainable and practical based on a realistic estimate of our financial performance for the coming year, with maximum payouts tied to superior performance goals and no payouts for performance below a minimum threshold level. In our view, this will provide a bonus incentive for our named executive officers firmly aligned with stockholder interests. It is also our general goal to maintain consistency from year to year in the level of difficulty in achieving the financial performance goals under our bonus plan. As the many variables that ultimately determine our performance outcomes are subject to numerous risks and uncertainties, however, our actual performance, and corresponding payouts under our bonus plans, may be subject to a wide range of outcomes.

*Long-Term Equity Incentives.* Although we continue to evaluate the use of restricted shares, we currently expect that stock options will be the primary vehicle for long-term compensation to our executive officers over the next several years. These stock-based awards are awarded primarily to motivate the executives to improve stockholder value over an extended time horizon. Stock options also contribute to the competitiveness of our compensation packages and serve an important retention function. The compensation committee believes that long-term stock-based incentive compensation should provide only limited value in the event that our stock price fails to increase over time. We believe the utilization of stock options as our primary equity compensation vehicle fulfills this objective. The compensation committee determines the stock-based awards to the executive officers on a discretionary basis and takes into account, among other factors, the recommendations of the chief executive officer and any compensation consultants the compensation committee may engage, together with our targeted range for long-term stock based compensation as a percentage of total compensation and related survey benchmarks, prior equity grants and current equity holdings (including the fact that our chief executive officer is a significant stockholder), and relative equity ownership. To further the desired alignment of interests with our stockholders, we recently adopted stock ownership



guidelines applicable to our named executive and other officers that are described below.

Options that are currently outstanding are generally subject to time vesting over four years in equal annual increments on the anniversary date of such grants. It is the Company's current policy that the annual executive officer equity awards be approved at the first regularly scheduled compensation committee meeting of the year, which is typically scheduled months in advance, to the extent practicable. We generally intend to make these awards effective as of the third trading day immediately following the date of the public release of earnings for the Company for the prior fiscal year. With respect to new hires, promotions, or other ad hoc awards, the policy is for equity awards to be effective as of the third trading day immediately following the date of the public release of earnings for the Company for the prior fiscal year or quarter end, as applicable, next following the compensation committee meeting approving the award. This policy applies to awards to all employees, not just our executive officers. Notwithstanding the foregoing,

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the compensation committee may make an exception to the general policies above when it determines an exception is in the best interest of the Company based on the recommendation of our chief executive officer. In the event of an exception to these policies, the compensation committee will seek to avoid making grants when senior management is in possession of favorable material non-public information, to the extent practicable, and will, in any event, consider the potential impact of such non-public information on our share price when determining the amount of the grant. For non-employee director grants, the effective date of the grant of the annual awards will be the date of the annual stockholders meeting. For non-employee directors appointed other than at the annual meeting, the effective date of grant will be the third trading day immediately following the date of the public release of earnings for the Company for the prior fiscal year or quarter end, as applicable, next following the date on which the director was appointed to the board. It is our policy and a requirement of our 2006 equity incentive plan, or the 2006 Plan, that option awards be granted with an exercise price equal to the closing price of our common stock on the date of grant.

We have generally not, as a public company, imposed performance-based vesting restrictions with respect to equity awards to our named executive officers. The value of stock options, by their nature, are contingent upon the performance of the Company's stock price. Although we have considered the merits of additional performance measures for vesting, we currently believe time-based stock option awards align the interests of our executives with those of our stockholders. Time-based vesting provides economic benefit only to the extent the employee maintains a business relationship with the Company and the four year vesting of these awards requires both long-term performance and stock price appreciation in order to realize significant value from these awards.

In the event of a change in control, options under the 2006 Plan, other than options granted at the IPO (no automatic acceleration) and to Mr. Schub at the time of his hiring (automatic acceleration), are subject to so-called double trigger accelerated vesting (in other words, vesting that is contingent on the actual or constructive termination of the employee within twelve months following a change in control). In determining to provide double trigger vesting going forward, we considered that automatic acceleration provisions may serve as a deterrent to potential acquirers in light of the additional equity compensation likely required in order to retain management. On the other hand, the absence of any accelerated vesting provision could put us at a competitive disadvantage in our recruiting and retention efforts, as employees often consider equity upside opportunities in a change of control transaction a critical element of compensation. Additionally, the absence of an accelerated vesting provision provides no security that equity related consideration will be earned in the event the Company is sold or the subject of a hostile takeover and could impact an employee's willingness to work through a merger transaction which could be beneficial to our stockholders.

*Compensation Process and Administration*

Prior to our IPO in February 2006, the functions now delegated to the compensation committee were performed by our board of directors. Named executive officer compensation for 2006, including contractual bonus opportunities, was, except with respect to Mr. Schub (who was hired after our IPO), generally determined prior to our IPO, in most cases pursuant to the terms of employment agreements executed in connection with the negotiations surrounding the recapitalization transaction that occurred in March 2005. For this reason, the compensation committee determined in 2006 to defer a comprehensive review of its compensation philosophies and programs to 2007. Our named executive officers for 2006 included Herbert A. Fritch, Jeffrey L. Rothenberger, Kevin M. McNamara, Craig S. Schub, and J. Gentry Barden. The specific compensation of our named executive officers for 2006 is provided below under the Summary Compensation Table.

The compensation committee reviews on an annual basis the Company's compensation policies to ensure that our named executive officers are rewarded appropriately for their contributions to the Company and that the overall compensation strategy supports the objectives of our organization, as well as stockholder interests. The compensation committee conducts this annual review as early as practicable each year. The Committee reviews tally sheets quantifying every aspect, current or contingent, of executive compensation as part of its annual compensation review. The compensation committee may also utilize the services of a compensation consultant when it deems appropriate. Input from senior managers may also be requested to assist the compensation consultants in understanding our business objectives and challenges, as well as customizing the peer compensation analysis to confirm our compensation benchmarks. In addition, the views and recommendations of the chief executive officer are solicited by the compensation committee with respect to named executive officer compensation (other than with respect to the

chief executive officer) generally as part of the annual review process. These recommendations are considered by the compensation committee as an additional, but not determinative, factor in the final compensation decisions. The compensation committee intends to make all final decisions regarding executive compensation in meetings without the interested named executive officer present. Moreover, the compensation committee retains exclusive authority over the hiring of its compensation consultants and executive officer compensation decisions, and the compensation committee does not delegate the authority to make equity awards to any executive or other officer or employee.

**Table of Contents*****2006 Named Executive Officer Compensation***

Base salaries for our named executive officers were generally established by the terms of employment agreements between the Company and the executives, other than for Mr. Barden who is not subject to an employment agreement. The employment agreements were negotiated prior to our IPO, except with respect to Mr. Schub whose agreement was negotiated and approved in connection with his hiring in April 2006. Mr. Barden's salary was negotiated on an arms-length basis with the Company in connection with his hiring in 2005.

The objective of cash bonus opportunities for 2006 was primarily to reward short-term performance and provide incentives for exceeding budgetary objectives. Bonus opportunities were targeted as a percentage of base salary, generally as set forth in the executive's employment agreement. For 2006, these percentages were 100% for Mr. Fritch, 75% for Mr. Rothenberger, 75% for Mr. McNamara, 50% for Mr. Schub, and 50% for Mr. Barden. The specific financial performance goal was Company-wide earnings before interest, taxes, depreciation, and amortization or EBITDA, as set forth in the Company's budget approved by the full board of directors at the beginning of the calendar year. In addition, the named executive officers were eligible for discretionary bonuses at the compensation committee's election.

For 2006, our named executive officers received bonuses pursuant to our annual bonus plan (reflected in the Summary Compensation Table under the column titled "Non-Equity Incentive Compensation") and a discretionary bonus approved by the compensation committee (reflected in the Summary Compensation Table under the column titled "Bonus"). In determining to pay a discretionary bonus to our named executive officers for 2006, the compensation committee considered that the Company exceeded EBITDA targets established at the beginning of the year by 23%, as well as presentations and recommendations of our chief executive officer with respect to personal and strategic contributions and achievements of individual named executive officers and the Company. In reviewing and approving Mr. Fritch's bonus compensation relating to 2006, the compensation committee also took into account the Company's strategic achievements during the year, and the fact that the compensation committee believed Mr. Fritch's salary, bonus, and total compensation were substantially below the median for CEOs of our peer group (based on the initial peer compensation analysis performed by the Hay Group, an independent consultant selected by the Compensation Committee), and awarded Mr. Fritch a bonus of approximately 125% of his targeted amount. Messrs. Rothenberger, McNamara, and Barden were paid 2006 bonuses equaling 133%, 133% and 128%, respectively, of their initial target bonus amounts, or 100%, 100%, and 64%, respectively, of their base salaries, primarily as a result of the Company exceeding its EBITDA target. Although Mr. Schub was employed for a portion of the year, he was paid 100% of his annualized target bonus, or 62% of his base salary since his start date, primarily as a result of the Company's financial performance and his individual contributions to the Company in 2006. A portion of the 2006 bonus for our named executive officers (other than Mr. Fritch) was also in recognition of the Company's intention to generally maintain management's base salaries for 2007 at substantially the same level as 2006.

For 2006, we also considered that our named executive officers, other than Mr. Schub, were already significant stockholders with a firm alignment of interests with our stockholders with respect to long-term value creation. As compensation for their efforts in connection with the successful IPO transaction, Messrs. Fritch, Rothenberger, and McNamara were each awarded options to purchase