

DERMA SCIENCES, INC.
Form DEF 14A
April 17, 2012

SCHEDULE 14A INFORMATION

Proxy Statement Pursuant to Section 14(a) of the Securities Exchange Act of 1934

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-11(c) or 240.14a-12

DERMA SCIENCES, INC.

(Name of Registrant as Specified In Its Charter)

(Name of Person(s) Filing Proxy Statement if other than the Registrant)

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- No fee required
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214 Carnegie Center
Suite 300
Princeton, New Jersey 08540

NOTICE OF ANNUAL MEETING OF SHAREHOLDERS TO BE HELD MAY 30, 2012

To the Shareholders of Derma Sciences, Inc.:

The Annual Meeting of Shareholders (the Meeting) of Derma Sciences, Inc., a Pennsylvania corporation (the Company), will be held on May 30, 2012, at 3:00 p.m., at the offices of the Company, 214 Carnegie Center, Suite 300, Princeton, New Jersey, for the following purposes:

1. To elect nine directors for the year following the Meeting or until their successors are elected;
2. To consider and vote upon the proposal to amend the Company s Articles of Incorporation to increase the number of authorized shares of common stock of the Company from 18,750,000 to 25,000,000;
3. To consider and vote upon the adoption of the Derma Sciences, Inc. 2012 Equity Incentive Plan;
4. To consider and vote upon the proposal to change the Company s state of incorporation from Pennsylvania to Delaware;
5. To consider and vote upon ratification of the appointment of KPMG LLP as our independent registered public accounting firm for the fiscal year ending December 31, 2012; and
6. To transact such other business as may properly come before the Meeting or any adjournments or postponements thereof.

Only shareholders of record at the close of business on April 10, 2012, are entitled to notice of and to vote at the Meeting and at any adjournments or postponements of the Meeting.

All shareholders are cordially invited to attend the Meeting in person. Whether or not you plan to attend the Meeting, your vote is important. In an effort to facilitate the voting process, we are pleased to avail ourselves of Securities and Exchange Commission rules that allow proxy materials to be furnished to shareholders on the Internet. You can vote by proxy over the Internet by following the instructions provided in the Notice of Internet Availability of Proxy Materials that was mailed to you on or about April 17, 2012, or, if you request printed copies of the proxy materials by mail, you can also vote by mail or by telephone. Your promptness in voting by proxy will assist in its expeditious and orderly processing and will assure that you are represented at the Meeting. If you vote by proxy, you may nevertheless attend the Meeting and vote your shares in person.

**TO ENSURE YOUR REPRESENTATION AT THE MEETING, YOU
ARE URGED TO READ THIS PROXY STATEMENT AND SUBMIT
YOUR PROXY OR VOTING INSTRUCTIONS AS SOON AS
POSSIBLE BY FOLLOWING THE INSTRUCTIONS IN THE
NOTICE OF INTERNET AVAILABILITY OF PROXY MATERIALS,**

**WHICH WAS MAILED TO YOU ON OR ABOUT APRIL 17, 2012,
OR, IF YOU REQUEST PRINTED COPIES OF THE PROXY
MATERIALS BY MAIL, YOU CAN ALSO VOTE BY MAIL OR BY
TELEPHONE.**

By Order of the Board of Directors,

DERMA SCIENCES, INC.

/s/ Edward J. Quilty

Chairman of the Board, President and Chief Executive
Officer

**DERMA SCIENCES, INC.
214 Carnegie Center
Suite 300
Princeton, New Jersey 08540**

**ANNUAL MEETING OF SHAREHOLDERS
TO BE HELD MAY 30, 2012**

PROXY STATEMENT

The Board of Directors (the Board or the Board of Directors) of Derma Sciences, Inc. (the Company, Derma Sciences, we, us or our) has made these materials available to you on the Internet, or, upon your request, has delivered printed versions of these materials to you by mail, in connection with the Board's solicitation of proxies for use at its Annual Meeting of Shareholders (the Meeting) to be held at 3:00 p.m. on Wednesday, May 30, 2012, at the offices of the Company, 214 Carnegie Center, Suite 300, Princeton, New Jersey, 08540, and at any adjournments thereof. The purpose of the Meeting and the matters to be acted upon are set forth under the headings *Proposal 1 Election of Directors, Proposal 2 Amendment of the Company's Articles of Incorporation to Increase the Authorized Shares of Common Stock, Proposal 3 Adoption of the Derma Sciences, Inc. 2012 Equity Incentive Plan, Proposal 4 Change of the Company's State of Incorporation from Pennsylvania to Delaware* and *Proposal 5 Ratification of Appointment of Independent Registered Public Accounting Firm* below and in the Notice of Annual Meeting of Shareholders. Shareholders are requested to promptly vote by proxy over the Internet by following the instructions provided in the Notice of Internet Availability of Proxy Materials, which was mailed to you on or about April 17, 2012. If you request printed copies of the proxy materials by mail, you can also vote by mail or by telephone.

The close of business on April 10, 2012, has been fixed as the record date (the Record Date) for the determination of shareholders entitled to notice of, and to vote at, the Meeting. On the Record Date, the Company had the following shares issued, outstanding and entitled to vote:

12,770,876 shares of the Common Stock;
18,598 shares of Series A Convertible Preferred Stock (the Series A Preferred Stock),
54,734 shares of Series B Convertible Preferred Stock (the Series B Preferred Stock, together with the Series A Preferred Stock, the Preferred Stock).

The foregoing shares of Common Stock and Preferred Stock are collectively referred to herein as the Shares. Holders of the Shares are entitled to one vote for each share held of record. Holders of the Shares may cumulate their votes for

the election of directors as described below. The Shares are the only voting securities of the Company.

The presence at the Meeting, in person or by proxy, of the holders of 6,422,105 Shares (a majority of the aggregate number of shares of Common Stock and Preferred Stock issued and outstanding and entitled to vote as of the Record Date) is necessary to constitute a quorum to transact business. Proxies marked **ABSTAIN** and Broker Non-Votes (as defined below), if any, will be counted in determining the presence of a quorum. Other than for election of directors (discussed below), each holder of Common Stock and Preferred Stock as of the Record Date is entitled to one vote per Share.

If the on-line or paper form of proxy is executed properly and submitted, Shares represented by it will be voted at the Meeting in accordance with the instructions on the proxy. However, if no instructions are specified, Shares will be voted **FOR** the election as directors of those nominees named in the proxy, **FOR** the amendment of the Company's Articles of Incorporation to increase the authorized shares of the Company's common stock, par value \$0.01 per share (the Common Stock) to 25,000,000, **FOR** the adoption of the Derma Sciences, Inc. 2012 Equity Incentive Plan, **FOR** the change of the Company's state of incorporation from Pennsylvania to Delaware and **FOR** ratification of the selection of KPMG LLP as independent registered public accounting firm for the year ending December 31, 2012.

The Board knows of no matters which are to be presented for consideration at the Meeting other than those specifically described herein and in the Notice of Annual Meeting of Shareholders, but if other matters are properly presented, it is the intention of the persons designated as proxies to vote on them in accordance with their judgment.

If your Shares are held in street name and you do not provide voting instructions to the bank, broker or other nominee that holds your Shares, the bank, broker or other nominee has the authority, even if it does not receive instructions from you, to vote your unvoted Shares for Proposal No. 5, the ratification of our independent public accountant, but does not have authority to vote your unvoted Shares for Proposal No. 1, the election of directors, Proposal No. 2, approval of the amendment of the Company's Articles of Incorporation to increase the authorized shares of Common Stock, Proposal No. 3, the adoption of the Derma Sciences, Inc. 2012 Equity Incentive Plan or Proposal No. 4, approval of the change of the Company's state of incorporation from Pennsylvania to Delaware. We encourage you to provide voting instructions. This ensures your Shares will be voted at the Meeting in the manner you desire. If your broker cannot vote your Shares on a particular matter because it has not received instructions from you and does not have discretionary voting authority on that matter or because your broker chooses not to vote on a matter for which it does have discretionary voting authority, this is referred to as a broker non-vote (Broker Non-Votes).

A proxy may be revoked at any time prior to the time it is voted by written notice to the Secretary of the Company at the above address or by submission of a proxy bearing a later date. Any shareholder may attend the Meeting and vote in person whether or not a proxy was previously submitted.

Election of the director nominees named in Proposal No. 1 requires the affirmative vote of a plurality of the total number of votes cast for the election of directors at the Meeting by the holders of Common Stock and Preferred Stock, voting together as a single class. Votes may be cast in favor of or withheld with respect to all of the director nominees, or any of them. Abstentions and Broker Non-Votes, if any, will not be counted as having been voted and will have no effect on the election of directors except to the extent the failure to vote for a nominee results in another nominee receiving a larger number of votes. Holders of the Shares may cumulate their votes in the election of directors. That is, holders of the Shares may multiply the number of Shares owned and entitled to vote at the Meeting by the number of directors (9) to be elected and cast the resulting number of votes for any one or more candidates. Cumulative voting cannot be accomplished online. Therefore, shareholders desiring to cumulate their votes for the election of directors have the option of requesting a paper proxy from the Company or voting in person at the Meeting.

Adoption of Proposals No. 2 and No. 4 requires the affirmative vote of a majority of the total number of outstanding shares of the Common Stock and Preferred Stock, voting together as a single class. In determining whether Proposals No. 2 and No. 4 have received the requisite number of affirmative votes, abstentions and Broker Non-Votes will be counted and will have the same effect as votes against the proposals. In the event Proposal No. 4 is approved by the shareholders, and we effect such reincorporation, the amendment to our current articles of incorporation contemplated by Proposal No. 2, if approved, will be effectuated prior to any such reincorporation. Additionally, in the event Proposal No. 4 is not approved by the shareholders, we would effectuate Proposal No. 2 as soon as practicable, if it is approved by the shareholders.

Adoption of Proposals No. 3 and No. 5 requires the affirmative vote of a majority of the total number of shares of the Common Stock and Preferred Stock represented and entitled to vote at the Meeting, voting together as a single class.

In determining whether Proposals No. 3 and No. 5 have received the requisite number of affirmative votes, abstentions will be counted and will have the same effect as votes against the proposals, and Broker Non-Votes, if any, will have no effect on the votes for the proposals.

The Notice of Annual Meeting, this proxy statement (this Proxy Statement), the accompanying proxy card and our Annual Report on Form 10-K are being made available on the Internet at <https://materials.proxyvote.com/249827> through the notice and access process and, upon request, mailed to our shareholders on or about April 17, 2012. The expense of solicitation will be borne by the Company. The solicitation of proxies will be largely by mail, but may include telephonic, telegraphic or oral communications by officers or other representatives of the Company. The Company will also reimburse brokers or other persons holding Shares in their names or in the names of their nominees for reasonable out-of-pocket expenses in connection with forwarding proxies and proxy materials to the beneficial owners of such Shares. In addition, we have retained Morrow & Co., LLC, a professional proxy soliciting firm, to assist in the solicitation of proxies and will pay such firm a fee, estimated to be approximately \$15,000, plus reimbursement of out-of-pocket expenses. Morrow & Co., LLC may solicit proxies by telephone, facsimile, other forms of electronic transmission and by mail.

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PROPOSAL 1 ELECTION OF DIRECTORS

A board of nine directors, constituting the entire Board of Directors, will be elected at the Meeting by the shareholders of the Company to hold office until their successors have been elected and qualified. It is intended that, unless authorization to do so is withheld, the proxies will be voted **FOR** the election of the director nominees named below. Each nominee has consented to be named in this Proxy Statement and to serve as a director if elected. However, if any nominee becomes unable to stand for election as a director at the Meeting, an event not now anticipated by the Board, the proxy will be voted for a substitute designated by the Board.

The nominees are listed below with brief statements of their principal occupation and other information:

Name of Nominee	Age	Director Since	Principal Occupation
Edward J. Quilty ⁽⁶⁾	61	March, 1996	Chairman of the Board, President and Chief Executive Officer of the Company
Srini Conjeevaram ⁽¹⁾	53	May, 1998	Director, Managing Director of SC Capital Management, LLC
Stephen T. Wills, CPA, MST ⁽²⁾⁽⁴⁾	55	May, 2000	Lead Director, Executive Vice President, Chief Financial Officer and Chief Operating Officer of Palatin Technologies, Inc.
James T. O'Brien ⁽³⁾⁽⁴⁾	73	May, 2001	Director, Consultant to the pharmaceutical industry
C. Richard Stafford, Esq. ⁽¹⁾⁽⁶⁾	76	May, 2002	Director, Consultant to the pharmaceutical industry
Robert G. Moussa ⁽⁵⁾⁽⁶⁾	65	May, 2005	Director, President and Chief Executive Officer of Dillon Technologies, Inc.
Bruce F. Wesson ⁽⁴⁾	69	May, 2006	Vice Lead Director, Managing Director of Galen Management
Brett D. Hewlett ⁽⁴⁾⁽⁶⁾	49	February, 2010	Director, Chief Executive Officer of Comvita Limited
Paul M. Gilbert ⁽⁶⁾	48	Upon Election	Chief Executive Officer of MedAvante, Inc.

(1) Member Audit Committee.

(2) Chairman Audit Committee.

(3) Chairman Nominating and Corporate Governance Committee.

(4) Member Compensation Committee.

(5) Chairman Compensation Committee.

(6) Member Nominating and Corporate Governance Committee.

Information Relative to Directors and Nominees

Edward J. Quilty has served as our Chief Executive Officer since November, 1996, Chairman of the Board since May, 1996 and as a director since March, 1996. Mr. Quilty was the Chairman of the Board of Palatin Technologies, Inc., a publicly traded biopharmaceutical company specializing in peptide drug design for diagnostic and therapeutic agents, from November, 1995 until May, 2000. During the period November, 1996 through May, 2000, Mr. Quilty held the Chief Executive Officer positions at both Derma Sciences and Palatin Technologies, Inc. From July, 1994 through November, 1995, he was President and Chief Executive Officer of MedChem Products, Inc., a publicly traded developer and manufacturer of specialty medical products which was acquired by C. R. Bard in November, 1995. From March, 1992 through July, 1994, Mr. Quilty served as President and Chief Executive Officer of Life Medical Sciences, Inc., a publicly traded developer and manufacturer of specialty medical products including wound healing agents. The assets of Life Medical Sciences were purchased by MedChem Products, Inc. During the period January, 1987 through September, 1991 Mr. Quilty served as Vice President Sales and Marketing and later as Executive Vice President (in which capacity he shared the office of the President) with McGaw Laboratories, a pharmaceutical and medical device company. Previously, he served from 1974 in a variety of sales, marketing and management positions with Baxter/American Hospital Supply Corporation. Mr. Quilty has over 35 years of experience in the healthcare industry primarily in strategic planning, management and sales and marketing. He earned a Bachelor of Science degree from Missouri State University, Springfield, Missouri in 1973 and a Master of Business Administration degree from Ohio University, Athens, Ohio in 1987.

We believe that Mr. Quilty's qualifications to serve on our Board of Directors include his fifteen years of industry and management experience with our Company and his extensive expertise in the wound care and specialty medical products industry.

Srini Conjeevaram has served as a director of Derma Sciences since May, 1998. Mr. Conjeevaram is Managing Director of SC Capital Management, LLC pursuing growth equity opportunities in healthcare. Mr. Conjeevaram is also the general partner of growth equity funds with investments in several privately-held healthcare companies. From 1991 through March 2006, he was with Galen Associates, focusing on growth equity healthcare investments, becoming a General Partner in 1996. Prior to his affiliation with Galen Associates, he was an Associate in Corporate Finance at Smith Barney from 1989 to 1990 and a Senior Project Engineer for General Motors Corporation from 1982 to 1987. Mr. Conjeevaram earned a Bachelor of Science degree in Mechanical Engineering from Chennai University, Chennai, India, a Master of Science degree in Mechanical Engineering from Stanford University, Stanford, California, and a Master of Business Administration from Indiana University, Bloomington, Indiana.

We believe that Mr. Conjeevaram's qualifications to serve on our Board of Directors include his many years of experience with financing and growth planning for healthcare companies.

Stephen T. Wills, CPA, MST has served as lead director and a director of Derma Sciences since July, 2008 and May, 2000, respectively. He also served as our Chief Financial Officer from July, 1997 and Vice President from November, 1997 until his resignation from these positions in July, 2000. Mr. Wills currently serves as Executive Vice President, Chief Financial Officer and Chief Operating Officer of Palatin Technologies, Inc., a publicly traded biopharmaceutical company. Mr. Wills currently serves as a director and audit chairman for Miami International Holdings, LLC, a development stage option trading exchange company located in Princeton, New Jersey. Mr. Wills is a member of the American Institute of Certified Public Accountants, New Jersey Society of Certified Public Accountants and Pennsylvania Institute of Certified Public Accountants. He earned a Bachelor of Science degree in Accounting from West Chester University, West Chester, Pennsylvania in 1979 and a Master of Science in Taxation from Temple University, Philadelphia, Pennsylvania in 1994.

We believe that Mr. Wills' qualifications to serve on our Board of Directors include his extensive and varied financial and management experience, his substantial experience with our Company and his strong technological background within the biopharmaceutical industry.

James T. O'Brien has served as a director of Derma Sciences since May, 2001. He currently serves as a consultant to the pharmaceutical and healthcare industries. Most recently, he served as President of O'Brien Marketing & Communications. Previously, Mr. O'Brien served from 1989 to 1991 as President and Chief Operating Officer for Elan Corporation, a publicly listed multi-national medical products and pharmaceutical company (NYSE: ELN). In 1986,

Mr. O'Brien founded O'Brien Pharmaceuticals and served as its President and Chief Executive Officer until the acquisition of this company by Elan Corporation. During the period 1980 to 1986, Mr. O'Brien held several division presidencies with the Revlon Health Care Group. Prior to his association with Revlon Health Care Group, he served for seventeen years with Sandoz Pharmaceuticals, Inc., most recently as Vice President of U.S. Marketing and Sales.

Mr. O'Brien serves as Chairman of the Board of Directors of Benedictine College. Mr. O'Brien also serves as a member of the Board of Directors of Cognovant, Inc., a consumer health company specializing in mobile, personal health record technology. He earned a Bachelor of Science in Business Administration from Benedictine College, Atchison, Kansas, in 1960 and attended the Harvard University Advanced Management Program in 1974.

We believe that Mr. O'Brien's qualifications to serve on our Board of Directors include his many years of management experience at the senior executive level in several leading public pharmaceutical and healthcare concerns.

C. Richard Stafford, Esq. has served as a director of Derma Sciences since May, 2002. Mr. Stafford is a consultant to the pharmaceutical industry. Previously, he was Vice President for Corporate Development and a member of the operating committee of Carter-Wallace, Inc., a multinational manufacturer of pharmaceutical, toiletry and diagnostic products. Prior to joining Carter-Wallace, Inc. in 1977, Mr. Stafford was President of Caithness Corporation, a natural resources development firm, and an adjunct professor of law at New York University Law School. Mr. Stafford earned his Bachelor of Arts, *cum laude*, from Harvard College, his Bachelor of Laws from Harvard Law School and his Master of Laws from New York University Law School.

We believe that Mr. Stafford's qualifications to serve on our Board of Directors include his managerial expertise and his many years of high level legal experience in the representation of leading pharmaceutical concerns.

Robert G. Moussa has served as a director of Derma Sciences since May, 2005. Mr. Moussa is the Chairman, President and Chief Executive Officer of Dilon Technologies, Inc., makers of a gamma imaging system for early breast cancer detection, a position he has held since February, 2008. Before joining Dilon Technologies, Inc., Mr. Moussa served as President and Chief Executive Officer of Robert Moussa & Associates, a consulting firm serving the pharmaceutical, biotechnology and healthcare industries. Prior to founding this firm, he served in a variety of executive positions with Mallinckrodt, Inc., St. Louis, Missouri, a \$2.4 billion healthcare and chemical company. Mr. Moussa's most recent assignment at Mallinckrodt, Inc. was President International, a position he held from 1995 through 1997. Previously he served from 1992 to 1996 as President and Chief Executive Officer of Mallinckrodt Medical, Inc., Mallinckrodt, Inc.'s largest business unit with over \$1 billion dollars in revenues. Before joining Mallinckrodt Medical, Inc., Mr. Moussa served during the period 1978 through 1992 as Mallinckrodt, Inc.'s Group Vice President International Medical Products, Vice President and General Manager Medical Products Europe, General Manager Critical Care, Director of Business Operations and General Sales Manager. Prior to joining Mallinckrodt, Inc., Mr. Moussa held a number of positions during the period from 1969 through 1976 with Sherwood Medical, United Kingdom, most recently as Director of Marketing. Mr. Moussa received his Baccalaureate from the Collège du Sacre-Cœur, Beirut, Lebanon, in 1966 and his Bachelor of Science in Business Administration from Ealing University, London, England, in 1969. He has also completed executive seminars at the University of California at Berkeley, the Aspen Institute, the Wharton Executive School and the Center for Creative Leadership.

We believe that Mr. Moussa's qualifications to serve on our Board of Directors include his many years of experience as senior and chief executive with leading companies in the pharmaceutical and healthcare industries.

Bruce F. Wesson has served as vice lead director and a director of Derma Sciences since July, 2008 and May, 2006, respectively. He is a founder and a General Partner of Galen Partners, L.P., a health care venture capital firm, and presently serves as its Senior Advisor. Prior to founding Galen Partners, L.P., Mr. Wesson served for over twenty three years with the Corporate Finance Division of Smith Barney, Harris Upham & Co. Inc., most recently as Senior Vice President and Managing Director. While at Smith Barney, Mr. Wesson headed the Major Account Group which was responsible for many of the firm's largest accounts. He also chaired Smith Barney's Valuation and Opinion Committee in which capacity he maintained responsibility for the firm's valuations and fairness opinions. Mr. Wesson currently serves as a director and is a member of the Compensation Committee and the Audit Committee of Acura Pharmaceuticals, Inc., a specialty pharmaceutical company. He also serves as Vice Chairman, director and Chairman of the Audit Committee of MedAssets, Inc., a provider of technology-enabled products and services to the healthcare industry, and serves as a director of several of Galen Partners, L.P.'s private portfolio companies. Mr. Wesson earned a Bachelor of Arts degree from Colgate University, Hamilton, New York, in 1964 and a Master of Business Administration degree from Columbia University, New York, New York, in 1967.

We believe that Mr. Wesson's qualifications to serve on our Board of Directors include his expertise and years of experience with financing and growth planning for healthcare companies.

Brett D. Hewlett has served as a director of Derma Sciences since February, 2010. Mr. Hewlett has served since 2005 as the Chief Executive Officer of Comvita Limited (Comvita), a publicly listed natural products and life sciences company headquartered in New Zealand (NZSX:CVT). Prior to his affiliation with Comvita, Mr. Hewlett served for fifteen years with Tetra Pak, a world-leading food packaging company, in the capacities of Managing Director for Eastern Mediterranean markets and Commercial Director for Saudi Arabia. He has organized and managed his own consulting company and has been an active angel investor supporting start-up companies in New Zealand. Mr. Hewlett earned a Bachelor of Food Technology degree from Massey University, New Zealand, in 1987 and a Masters of Business Administration degree from International Institute for Management Development, Switzerland, in 1993.

We believe that Mr. Hewlett's qualifications to serve on our Board of Directors include his extensive wound care expertise, his many years of global management experience and his strong technological background in the natural healthcare industry.

Comvita is a major shareholder of Derma Sciences and we conduct significant business with Comvita. For further details of our dealings with Comvita, please refer to the discussion under the heading *Certain Relationships and Related Transactions*. Mr. Hewlett was initially appointed to the Board of Directors, and has been nominated for his third full one-year term, pursuant to that certain nominating agreement dated February 18, 2010 between our Company and Comvita New Zealand Limited, an affiliate of Comvita. For further details concerning the nominating agreement, please refer to our Current Report on Form 8-K filed with the Securities and Exchange Commission (the SEC) on February 24, 2010.

Paul M. Gilbert has served as the Chief Executive Officer of MedAvante, Inc., a technology-enabled global healthcare services organization, since 2003. As a co-founder (2002) and executive officer of MedAvante, Mr. Gilbert has been responsible for placing talent, capital and resources behind a methodological innovation to address the high rate of failed Central Nervous System clinical trials. From 2001 to 2002, Mr. Gilbert served as Vice President of Marketing and Strategy for Princeton eCom Corporation, a provider of electronic bill presentment and payment services, which was awarded the New Jersey Technology Council's 2001 Technology Company of the Year. While at Princeton eCom Corporation, he oversaw the development and execution of all marketing and strategic initiatives. Prior to Princeton eCom Corporation, Mr. Gilbert served in various general management, strategic, marketing and/or sales capacities at best-practice organizations, including Johnson & Johnson, Arm & Hammer, Booz Allen and Gillette.

We believe Mr. Gilbert is qualified to serve on our Board of Directors because of his significant operational, management, finance and marketing experience in various industries, including technology-enabled healthcare services. Mr. Gilbert has been nominated as a director in connection with discussions and agreements reached between the Company and one of its shareholders, Raging Capital QP, LP, previously disclosed in our Current Report on Form 8-K filed with the SEC on March 16, 2012, and his appointment will commence upon his election by the shareholders immediately following the Annual Meeting.

Compensation of Directors

Compensation Program

Upon election or appointment, outside directors receive options to purchase 15,000 shares of Common Stock at a price per share equal to the closing price of the Common Stock on the trading date immediately preceding the option grant. For each year of service, outside directors, except for the lead director, receive (i) options to purchase 5,000 shares of Common Stock at a price per share equal to the fair market value of the Common Stock on the trading date immediately preceding the option grant and (ii) 2,500 restricted stock units. For each year of service, the lead director receives (i) options to purchase 7,500 shares of Common Stock at a price per share equal to the fair market value of the Common Stock on the trading date immediately preceding the option grant and (ii) 3,500 restricted stock units. For each year of service, each outside director also receives a \$30,000 cash payment, payable quarterly, except for the lead director, who receives a \$50,000 cash payment, payable quarterly. In addition, the chairman of the Audit Committee, the chairman of the Compensation Committee and the chairman of the Nominating and Corporate Governance Committee receive additional annual compensation of \$10,000, \$9,000 and \$4,000, respectively, and each member of the Audit Committee, the Compensation Committee and the Nominating and Corporate Governance Committee receive additional annual compensation of \$4,000, \$3,000 and \$2,000, respectively, payable quarterly. All directors are reimbursed for expenses incurred in connection with each Board of Directors and committee meetings attended. Inside directors receive no compensation for their services as directors.

Director Compensation Table

The following table sets forth information regarding all forms of compensation received by our directors during the year ended December 31, 2011:

Name	Fees Earned or Paid in Cash	Option Awards ⁽¹⁾	Restricted Stock Unit Awards ⁽¹⁾	Total Compensation
Edward J. Quilty				
Stephen T. Wills, CPA, MST	\$ 59,500	\$ 53,475 ⁽²⁾	\$ 35,910 ⁽⁸⁾	\$ 148,885
Srini Conjeevaram	\$ 31,000	\$ 35,650 ⁽³⁾	\$ 25,650 ⁽⁹⁾	\$ 92,300
James T. O'Brien	\$ 33,625	\$ 35,650 ⁽³⁾	\$ 25,650 ⁽⁹⁾	\$ 94,925
Richard J. Keim ⁽¹⁰⁾	\$ 31,000	\$ 35,650 ⁽⁴⁾	\$ 25,650 ⁽⁹⁾	\$ 92,300
C. Richard Stafford, Esq.	\$ 31,500	\$ 35,650 ⁽⁴⁾	\$ 25,650 ⁽⁹⁾	\$ 92,800
Robert G. Moussa	\$ 36,500	\$ 35,650 ⁽⁵⁾	\$ 25,650 ⁽⁹⁾	\$ 97,800
Bruce F. Wesson	\$ 30,750	\$ 35,650 ⁽⁶⁾	\$ 25,650 ⁽⁹⁾	\$ 92,050
Brett D. Hewlett	\$ 31,250	\$ 35,650 ⁽⁷⁾	\$ 25,650 ⁽⁹⁾	\$ 92,550

(1) This column indicates the aggregate grant date fair value, as determined in accordance with Financial Accounting Standards Board Accounting Standards Codification Topic 718, Compensation - Stock Compensation (FASB ASC

Topic 718), of stock option and restricted stock unit awards. See Note 11 of the Notes to Consolidated Financial Statements contained in our 2011 Annual Report on Form 10-K for an explanation of the assumptions made in valuing these awards.

(2) Reflects option awards to purchase 7,500 shares of Common Stock. At December 31, 2011, Mr. Wills had 75,625 outstanding option awards of which 8,593 were unvested.

(3) Reflects an option award to purchase 5,000 shares of Common Stock. At December 31, 2011, Mr. Conjeevaram and Mr. O'Brien each had 62,500 outstanding option awards of which 6,093 were unvested.

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