

MENTOR CORP /MN/
Form PREM14A
July 29, 2005

SCHEDULE 14A INFORMATION
Proxy Statement Pursuant to Section 14(a) of the Securities
Exchange Act of 1934 (Amendment No. _____)

- ☒ Filed by the Registrant ☐ Filed by a Party other than the Registrant

Check the appropriate box:

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

MENTOR CORPORATION

(Name of Registrant as Specified In Its Charter)

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:

2. Aggregate number of securities to which transaction applies:

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

4. Proposed maximum aggregate value of transaction:

5. Total fee paid:

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

1. Amount Previously Paid:

2. Form, Schedule or Registration Statement No.:

3. Filing Party:

4. Date Filed:

MENTOR CORPORATION

**201 Mentor Drive
Santa Barbara, California 93111
Telephone: (805) 879-6000**

**NOTICE OF ANNUAL MEETING OF SHAREHOLDERS
To Be Held September 14, 2005**

NOTICE IS HEREBY GIVEN that the Annual Meeting of Shareholders of Mentor Corporation, a Minnesota corporation (the "Company"), will be held Wednesday, September 14, 2005 at 10:00 a.m. local time at the Hotel Andalucia, 31 West Carrillo Street, Santa Barbara, California 93101 (the "Annual Meeting"), to consider and take action upon the following matters, as more fully described in the proxy statement accompanying this notice:

1. To approve a decrease in the authorized number of members of the Board of Directors from eleven to nine;
2. To elect a Board of nine directors to serve until the next Annual Meeting, or until their successors are duly elected and qualified;
3. To approve an amended and restated Long-Term Incentive Plan;
4. To approve an Employee Stock Purchase Plan;
5. To approve the amendment of the Company's Bylaws regarding the determination of the number of directors;
6. To ratify the appointment of Ernst & Young LLP as the independent auditors of the Company for the fiscal year ending March 31, 2006; and
7. To transact such other business as may properly come before the Annual Meeting or any adjournments or postponements thereof.

The Board of Directors has fixed the close of business on July 18, 2005 as the record date for the determination of the shareholders entitled to vote at the meeting or any adjournments or postponements thereof. Only shareholders of record at the close of business on that date will be entitled to notice of, and to vote at, the Annual Meeting.

BY ORDER OF THE BOARD OF DIRECTORS

/s/A. CHRISTOPHER FAWZY
A. Christopher Fawzy

Secretary

Dated: July 29, 2005

YOU ARE CORDIALLY INVITED TO ATTEND THE MEETING. HOWEVER, WHETHER OR NOT YOU PLAN TO BE PERSONALLY PRESENT AT THE MEETING, PLEASE MARK, DATE AND SIGN THE ENCLOSED PROXY AND RETURN IT PROMPTLY IN THE ENCLOSED ENVELOPE. YOU MAY REVOKE YOUR PROXY AT ANY TIME PRIOR TO THE ANNUAL MEETING. IF YOU ATTEND THE ANNUAL MEETING AND VOTE BY BALLOT, YOUR PROXY WILL BE REVOKED AUTOMATICALLY AND ONLY YOUR VOTE AT THE ANNUAL MEETING WILL BE COUNTED.

MENTOR CORPORATION
201 Mentor Drive
Santa Barbara, California 93111

ANNUAL MEETING OF SHAREHOLDERS
To Be Held September 14, 2005

PROXY STATEMENT

General

The enclosed proxy is solicited by the Board of Directors of Mentor Corporation (the "Company") for use at the Company's Annual Meeting of Shareholders to be held at the Hotel Andalucia, located at 31 West Carrillo Street, Santa Barbara, California, on Wednesday, September 14, 2005, at 10:00 a.m. local time (the "Annual Meeting"), and any and all adjournments or postponements thereof. This Proxy Statement and form of proxy, along with the Annual Report of the Company for the fiscal year ended March 31, 2005, are being mailed to the Company's shareholders on or about August 6, 2005.

Voting; Quorum; Abstentions and Broker Non-Votes

The specific proposals to be considered and acted upon at the Annual Meeting are summarized in the accompanying notice and are described in more detail in this Proxy Statement. Only holders of record of the 42,335,458 shares of the Company's common stock outstanding at the close of business on July 18, 2005 will be entitled to notice of and to vote at the meeting or any adjournments or postponements thereof. On each matter to be considered at the Annual Meeting, shareholders will be entitled to cast one vote for each share held of record on July 18, 2005. Holders of common stock do not have cumulative voting rights.

The Bylaws of the Company provide that the holders of a majority of the shares of stock of the Company outstanding and entitled to vote at the Annual Meeting, present in person or represented by proxy, shall constitute a quorum and that, except as otherwise provided by statute or the Articles of Incorporation of the Company, all other matters coming before the Annual Meeting shall be decided by the vote of the holders of a majority of the stock present in person or represented by proxy at the Annual Meeting and entitled to vote thereat. Votes cast at the Annual Meeting will be tabulated by the persons appointed by the Company to act as inspectors of election for the Annual Meeting. The inspectors of election will treat shares of common stock represented by a properly signed and returned proxy as present at the Annual Meeting for purposes of determining a quorum, without regard to whether the proxy is marked as casting a vote or abstaining. Likewise, the inspectors of election will treat shares of common stock represented by "broker non-votes" (i.e., shares of common stock held in record name by brokers or nominees as to which (i) instructions have not been received from the beneficial owners or persons entitled to vote; (ii) the broker or nominee does not have discretionary voting power under applicable rules or the instrument under which it serves in such capacity; or (iii) the recordholder has indicated on the proxy card or has executed a proxy and otherwise notified the Company that it does not have authority to vote such shares on that matter) as present for purposes of determining a quorum.

Proposals 1, 3, 4, 5 and 6 each require the approval of a majority of the voting power of all outstanding shares present, in person or represented by proxy, at the Annual Meeting and entitled to vote on each such proposal. Therefore, abstentions as to Proposals 1, 3, 4, 5 or 6 will have the same effect as votes against such proposals. Broker non-votes as to Proposals 1, 3, 4, 5 or 6, however, will be deemed shares not entitled to vote on such proposals and will not be counted as votes for or against such proposals, and will not be included in calculating the number of votes necessary for approval of such proposals. Directors will be elected under Proposal 2 by a favorable vote of a plurality of the voting power of all outstanding shares present, in person or represented by proxy, at the Annual Meeting and entitled to vote on Proposal 2. Accordingly, abstentions or broker non-votes as to the election of directors will not affect the election of the candidates receiving the plurality of votes.

Proxies

All shares represented by each properly executed, unrevoked proxy received in time for the Annual Meeting will be voted in the manner specified therein. If the manner of voting is not specified in an executed proxy received by the Company, the proxy holders will vote:

1. **FOR** decreasing the authorized number of members of the Board of Directors from eleven to nine directors;
2. **FOR** the election of each of the nominees for election to the Board of Directors listed in the proxy;
3. **FOR** the approval of an amended and restated Long-Term Incentive Plan;
4. **FOR** the approval of an Employee Stock Purchase Plan;
5. **FOR** the approval of the amendment of the Company's Bylaws regarding the determination of the number of directors;
6. **FOR** ratification of the appointment of Ernst & Young LLP as independent auditors; and
7. As to any other business which may properly come before the meeting, in accordance with their best judgment.

Any stockholder has the power to revoke his or her proxy at any time before it is voted. A proxy may be revoked by delivering a written notice of revocation to the Secretary of the Company, by presenting at the meeting a later-dated proxy executed by the person who executed the prior proxy, or by attendance at the meeting and voting in person by the person who executed the prior proxy.

Solicitation

The cost of soliciting proxies will be borne by the Company. The solicitation will be primarily by mail. Expenses will include reimbursements paid to brokerage firms and others for their expenses incurred in forwarding solicitation material regarding the meeting to beneficial owners of the Company's common stock. Further solicitation of proxies may be made by telephone or oral communication with some shareholders by the Company's regular employees who will not receive additional compensation for the solicitation. The Company has no present plans to hire special employees or paid solicitors to assist in obtaining proxies, but reserves the option of doing so if it should appear that a quorum otherwise might not be obtained.

PROPOSAL 1

APPROVAL OF DECREASE IN AUTHORIZED NUMBER OF DIRECTORS

General

The Company's Bylaws generally provide that the Board of Directors must consist of not less than three directors, with the number to be determined by a resolution of the shareholders. At the 2004 Annual Meeting of Shareholders, the authorized number of members of the Company's Board of Directors was set at eleven, and eleven directors were elected by the shareholders. Two of these directors resigned subsequent to the 2004 Annual Meeting of Shareholders. The Company's shareholders are being asked to approve a decrease in the authorized number of members of the Board of Directors from eleven to nine directors.

The proposed decrease in the authorized number of directors will reduce the number of board positions to match the number of nominees, avoid vacant positions and permit the shareholders to elect nine individuals to the Board.

Proposal

At the Annual Meeting, shareholders will be asked to approve a decrease in the authorized number of members of the Board of Directors from eleven to nine directors. Approval of this Proposal requires the affirmative vote of a majority of the voting power of all outstanding shares of the Company's common stock present, in person or represented by proxy, at the Annual Meeting and entitled to be voted on this Proposal. **The Board of Directors recommends a vote FOR this Proposal.**

PROPOSAL 2

ELECTION OF DIRECTORS

General

Directors are elected at each Annual Meeting of Shareholders and hold office until the next Annual Meeting of Shareholders, or until their successors are duly elected and qualified. The number of directors currently authorized is eleven. If Proposal 1 is approved, the authorized number of directors will be decreased to nine.

The Board of Directors has proposed nine individuals as nominees to serve as directors of the Company. The nine individuals identified below, each of whom was elected to his present term of office by the shareholders at the 2004 Annual Meeting of Shareholders, will be presented as nominees for election to the Board.

Unless individual shareholders specify otherwise, the shares represented by each returned proxy will be voted **FOR** the election of the nine nominees named below. Although it is anticipated that each nominee will be able and willing to serve as a director, should any nominee become unable or unwilling to serve, the persons named as proxies may vote either (1) for a substitute nominee designated by the present Board to fill the vacancy or (2) for the balance of the nominees, leaving a vacancy, but may not vote for more than nine individuals.

The following sets forth certain information concerning nominees for directors of the Company:

Nominee	Age	Director Since	Positions and Offices Held with the Company
Joseph E. Whitters	47	2004	Chairman of the Board
Michael L. Emmons	64	2004	Director
Walter W. Faster	72	1980	Director
Eugene G. Glover	62	1969	Director
Joshua H. Levine	47	2004	President, Chief Executive Officer and Director
Michael Nakonechny	77	1980	Director
Ronald J. Rossi	65	1999	Director
Jeffrey W. Ubben	44	2003	Director
Dr. Richard W. Young	78	1990	Director

Joseph E. Whitters has held various financial, accounting and tax positions at First Health Group Corp., a managed health care company, from 1986 until January 2005, including being the CFO from 1988 until 2004. In January 2005, First Health Group Corp. was acquired. Prior to joining First Health Group Corp., Mr. Whitters was employed in various financial, accounting and tax positions by United HealthCare Corp., Overland Express and Peat Marwick. Mr. Whitters is a certified public accountant. He is also a director of Omnicell, Inc. and Luminent Mortgage Capital.

Michael L. Emmons retired from Accenture, a worldwide consulting firm (formerly known as Andersen Consulting), in August 2001 where he had developed and managed its worldwide tax function since 1995. Prior to joining Accenture, he had been a tax partner with Arthur Andersen & Co., where he was employed for over 28 years in various tax and management positions. Mr. Emmons is a certified public accountant and an attorney.

Walter W. Faster retired as Vice President, Corporate Growth and Development for General Mills, Inc., a manufacturer of packaged foods and other consumer goods, in 1997. Prior to his retirement, he served in various executive marketing and finance capacities with General Mills, Inc. from 1963 to 1997. Prior to that, he served as a management consultant with Booz, Allen and Hamilton, an international consulting firm.

Eugene G. Glover is a founder of the Company and held the position of Vice President, Engineering from 1969 to 1986. In October 2000, he was appointed Senior Vice President, Advanced Development. He retired as an employee of the Company as of August 31, 2004.

Joshua H. Levine joined the Company in October 1996 as Vice President, Sales, Aesthetic Products. In September 1998, he was promoted to Domestic Vice President, Sales and Marketing, Aesthetic Products. In January 2000, Mr. Levine resigned to join a start-up practice management organization, The Plastic Surgery Company, where he was Chief Development Officer until his resignation in September 2000. More than a year after his resignation, in March 2002, The Plastic Surgery Company filed a voluntary petition in bankruptcy under Chapter 11 of the U.S. Bankruptcy Code. In September 2000, Mr. Levine rejoined the Company as Vice President, Domestic Sales and Marketing for Aesthetic Products, and in November 2001, he assumed global responsibilities for all of aesthetic sales and marketing activities. Mr. Levine was promoted to Senior Vice President, Global Sales and Marketing in June 2002. In December 2003, Mr. Levine was promoted to President and Chief Operating Officer, followed by his promotion to President and Chief Executive Officer in May 2004. Prior to joining the Company, from 1989 to 1996, Mr. Levine was with Kinetic Concepts, Inc., a specialty medical equipment manufacturer, in a variety of executive level sales and marketing positions, ultimately serving as Vice President and General Manager of KCI Home Health Care Division.

Michael Nakonechny has been President of NAK Associates Corp., a closely held engineering consulting company, since 1981. He also served as Chairman of the Board, President, Chief Executive Officer and Secretary of Transducer Systems, Inc., a manufacturer of electro-mechanical transducers, from November 1968 to January 1989.

Ronald J. Rossi was Chief Executive Officer of LoJack Corporation, a company which develops and markets stolen vehicle recovery technology, from November 2000 until February 1, 2005 and continues to serve as its Chairman of the Board, a position to which he was first elected in March 2001. Mr. Rossi has been a member of the Board of UST, Inc. a consumer products company, since June 2004. Mr. Rossi served as President of Oral-B Worldwide, a maker of oral personal care products and a subsidiary of The Gillette Company, from 1998 to 2000. He also served as President of Gillette North America Grooming Division from 1988 to 1998 and prior to that held various executive and sales and marketing positions at The Gillette Company.

Jeffrey W. Ubben is a founder and has been a Managing Member of VA Partners, L.L.C., an investment partnership, since 2000. From 1995 to 2000, Mr. Ubben was a Managing Partner of Blum Capital, an investment management firm. Prior to that, he was a portfolio manager for Fidelity Investments from 1987 to 1995. Mr. Ubben is a director of Per Se Technologies, Inc. and Gartner Inc.

Dr. Richard W. Young has been a private investor since April 1992. Prior to that, he was Chairman and Chief Executive Officer of Mentor O & O, Inc. from April 1985 until its purchase by the Company in 1990. Following its purchase by the Company, Dr. Young served as a consultant of the Company until 1992. Dr. Young was also President of Houghton Mifflin Company, a publishing firm, from 1982 to 1985 and Executive Vice President of Polaroid Corporation, an instant imaging company, from 1972 to 1982. Dr. Young is a director of Bay State Milling Company, a flour milling company.

Certain Litigation

On March 4, 2004, John H. Alico, et. al., d/b/a PTF Royalty Partnership ("PTF") filed a lawsuit against the Company in the Business Litigation Session of the Superior Court of Massachusetts, Suffolk County in which PTF alleges, among other things, breach of a merger agreement that involved the Company's acquisition of Mentor O&O, Inc. ("O&O"), an unrelated entity at that time, which was dated as of March 14, 1990 ("Merger Agreement") (prior to the merger, O&O had no affiliation with the Company). PTF alleges that the Company breached the terms of the Merger Agreement by failing to exert commercially reasonable and diligent efforts to obtain approval by the FDA for a product used for the treatment of urinary incontinence and by failing to accurately account for and pay royalties due thereunder. PTF seeks damages in excess of \$18 million, which is the maximum amount of royalties PTF could have received under the Merger Agreement. After almost ten years, in or about January 2001, the Company elected to discontinue pursuing FDA approval for the product, given the FDA's repeated and ongoing concerns regarding the product's use for urinary incontinence. The Company complied with all of its obligations under the Merger Agreement, which specifically provided that it was under no obligation to engage in efforts or expenditures in respect of the product which it in good faith deemed to be inadvisable based on various factors. Accordingly, the Company intends to vigorously defend the lawsuit. Dr. Richard Young, a member of the Company's Board of Directors since March 1990, was a partner of PTF and was formerly named as a plaintiff in the above action. Dr. Young was a shareholder and principal of O&O prior to the merger and was instrumental in facilitating the transition after the merger. Pursuant to Dr. Young's request, the PTF Partnership Agreement was recently amended to permit withdrawal of partners from the PTF Royalty Partnership upon notice. On June 3, 2005, Dr. Young submitted his notice of withdrawal to the Partnership, and a joint stipulation removing Dr. Young from the caption of the complaint and as a named party to the litigation was entered by the court in June 2005.

Corporate Governance

Pursuant to Minnesota law and the Company's Bylaws, the Company's business and affairs are managed by or under the direction of the Board of Directors. Members of the Board are kept informed of the Company's business through discussions with the Chief Executive Officer and other officers, by reviewing materials provided to them and by participating in meetings of the Board and its committees.

Copies of the written committee charters for the Audit, Compensation and Nominating and Governance Committees, as well as the Company's Corporate Governance Guidelines, its Code of Ethics for Senior Financial Officers and its Code of Business Conduct and Ethics are available on the Company's website, and can be found under the Investor Relations and Corporate Governance links. The Company's website is www.mentorcorp.com. Copies are also available in print, free of charge, by writing to Investor Relations, Mentor Corporation, 201 Mentor Drive, Santa Barbara, California 93111. The Company may post amendments to or waivers of the provisions of the Code of Ethics for Senior Financial Officers and its Code of Business Conduct and Ethics, if any, on the website. Please note, however, that the information contained on the website is not incorporated by reference in, or considered part of, this Proxy Statement.

Director Independence

The Board has determined that all of the director nominees, other than Messrs. Glover and Levine, including those who serve on the Audit, Compensation and Nominating and Governance Committees, are "independent" under the listing standards of the New York Stock Exchange, as well as in the assessment of the Board and that the members of the Audit Committee are also "independent" for purposes of Section 10A(m)(3) of the Securities Exchange Act of 1934. The Board based this determination primarily on a review of the responses of the director nominees and executive officers to questions regarding employment and compensation history, affiliations and family and other relationships and on discussions with the directors.

Board Committees and Meetings

The Board of Directors held ten meetings during the fiscal year ended March 31, 2005. The Board of Directors has standing Compensation, Audit and Nominating and Governance Committees. Each incumbent director attended at least 80% of the total number of meetings of the Board of Directors and Board Committees on which that director served. Members of the Board and its committees also consulted informally with management from time to time and acted by written consent without a meeting.

Audit Committee. The Charter for the Audit Committee of the Board of Directors is available on the Company's website. Please note that the information on the Company's website is not incorporated by reference in this Proxy Statement. The Charter requires that the Audit Committee be comprised of at least three members, all of whom must be independent as defined in the listing standards of the New York Stock Exchange. The current members of the Audit Committee are Messers. Emmons, Faster, Nakonechny and Whitters. Although more than one member of the committee is believed to qualify as an audit committee financial expert, the Board has designated Mr. Emmons as that expert.

The Audit Committee assists the Board of Directors in discharging its responsibilities to oversee the integrity of the Company's financial statements, the Company's compliance with legal and regulatory requirements, the independent auditor's qualifications and independence, and the performance of the Company's internal auditors. It has direct responsibility for the appointment, compensation, retention and oversight of the work of any independent auditors employed by the Company for the purpose of preparing or issuing an audit report or performing other audit, review or attestation services. The committee is also responsible for producing an Audit Committee Report for inclusion in the Company's proxy statement. The Audit Committee held fifteen meetings during the fiscal year ended March 31, 2005.

Compensation Committee. The Charter for the Compensation Committee of the Board of Directors is available on the Company's website. The Charter requires that the Compensation Committee be comprised of at least two members, all of whom must be independent as defined in the listing standards of the New York Stock Exchange. The current members of the Compensation Committee are Messers. Ubben, Faster, Nakonechny, Rossi and Young.

The Compensation Committee assists the Board of Directors in discharging its responsibilities in respect of compensation of the Company's executive officers and directors, including, among other things, annual salaries and bonuses, stock options, and other incentive compensation arrangements. In addition, it administers the Company's stock option plan. The committee is also responsible for producing a Compensation Committee Report for inclusion in the Company's proxy statement. The Compensation Committee and the Stock Option Committee of the Board of Directors, which had the same committee members and was consolidated into the Compensation Committee in July 2004, held a total of seven meetings during the fiscal year ended March 31, 2005.

Nominating and Governance Committee. The Charter for the Nominating and Governance Committee of the Board of Directors is available on the Company's website. The Charter requires that the Nominating and Governance Committee be comprised of at least two members, all of whom must be independent as defined in the listing standards of the New York Stock Exchange. The current members of the Nominating and Governance Committee are Messers. Rossi, Faster, Nakonechny and Young.

The Nominating and Governance Committee is responsible for identifying individuals qualified to become Board members and recommending to the full Board of Directors nominees for election as directors. To fulfill this role, the committee reviews the composition of the full Board to determine the qualifications and areas of expertise needed to further enhance the composition of the Board and works with management in attracting candidates with those qualifications. In considering candidates for directors, the committee takes into account a number of factors, including the following: (i) independence under applicable listing standards; (ii) relevant business experience; (iii) judgment, skill, integrity and reputation; (iv) number of other boards on which the candidate serves; (v) other business and professional commitments; (vi) potential conflicts of interest with other pursuits; (vii) whether the candidate is a party to any action or arbitration adverse to the Company; (viii) financial and accounting background to enable the committee to determine whether the candidate would be suitable for possible Audit Committee membership or quality as an "audit committee financial expert;" (ix) executive compensation background, to enable the committee to determine whether a candidate would be suitable for Compensation Committee membership; (x) whether the candidate has agreed to be interviewed by the Committee if requested; (xi) the size and composition of the existing Board; and (x) diversity the candidate offers to the Board and the Company.

In addition, candidates must be willing and able to devote the required amount of time to Company business. In evaluating candidates, the committee seeks to achieve a balance of knowledge, experience and capability on the Board.

The Nominating and Governance Committee will consider qualified candidates for directors suggested by shareholders applying the criteria for candidates described above and considering the additional information referred to below. Shareholders wishing to suggest a candidate for director should write the Chairman of the Nominating and Governance Committee at the Company's principal executive offices and include: (i) the shareholders' name and contact information; (ii) a statement that the writer is a stockholder of record and is proposing a candidate for consideration by the committee; (iii) the name of and contact information for the candidate and a statement that the candidate is willing to be considered and serve as a director, if nominated and elected; (iv) a statement of the candidate's business and educational experience; (v) information regarding each of the factors listed above, other than that regarding Board size and composition, sufficient to enable the committee to evaluate the candidate; (vi) a statement of the value that the candidate would add to the Board; (vii) a statement detailing any relationship between the candidate and any customer, supplier or competitor of the Company; (viii) detailed information about any relationship or understanding between the proposing shareholder and candidate and (ix) all other information that would be required under SEC rules in a proxy statement soliciting proxies for the election of the candidate as a director. In order to give the committee sufficient time to evaluate a recommended candidate, the recommendation should be received by the Chairman of the Nominating and Governance Committee at the Company's principal executive offices not later than the 120th calendar day before the one year anniversary of the date of the Company's proxy statement released to shareholders in connection with the previous year's annual meeting of shareholders.

Before nominating a sitting director for reelection at an annual meeting, the committee will consider the director's performance on the Board and whether the director's reelection will be consistent with the Company's Corporate Governance Guidelines.

When seeking candidates for director, the Nominating and Governance Committee may solicit suggestions from incumbent directors, management or others. After conducting an initial evaluation of the candidate, the committee will interview the candidate if it believes the candidate might be suitable for a director. The committee may also ask the candidate to meet with management. If the committee believes the candidate would be a valuable addition to the Board, it will recommend to the full Board that candidate's election. The Committee has recommended the nomination of the individuals named in this Proposal 2 for election to the Board of Directors at this Annual Meeting.

In addition to the above, the Nominating and Governance Committee is responsible for developing and recommending to the Board a set of corporate governance principals applicable to the Company and overseeing the evaluation of the Board of Directors and management. The Nominating and Governance Committee held three meetings during the fiscal year ended March 31, 2005.

Executive Sessions. Non-management directors meet regularly in executive session without management. Non-management directors are all those who are not Company officers and include directors, if any, who are not "independent" by virtue of the existence of a material relationship with the Company. Executive sessions are led by the Chairman of the Board. An executive session is held in conjunction with each regularly scheduled quarterly Board meeting and other sessions may be called by the Chairman or at the request of other directors.

Compensation of Directors

Board members who are employees of the Company receive no additional compensation for their services as directors. Each non-employee member of the Board of Directors of the Company receives a quarterly base fee of \$12,500, or a total annual base fee of \$50,000. The Chairman of the Board, who is a non-employee Director, receives an additional quarterly fee of \$25,000. The Chairperson of the Audit Committee, who is also a non-employee Director, receives an additional \$1,250 quarterly. The quarterly fee for Mr. Ubben's service as a director is paid directly to VA Partners, LLC, the investment partnership he founded and for which he is the Managing Member.

Following shareholder approval of the Company's 2000 Long-Term Incentive Plan in October 2000, each non-employee director was granted an option to purchase what is now equivalent to 60,000 shares of common stock at an exercise price equal to the fair market value per share of the common stock on the date of such grant. These options have a term of ten years and become exercisable in four equal annual installments over the optionee's period of Board service, beginning one year after the grant date. In 2003, Mr. Ubben was named a non-employee director, but due to the large share holdings of VA Partners, LLC, the investment partnership he founded and manages, he was not granted any options to purchase shares of common stock. On September 14, 2004, Messrs. Emmons and Whitters were named directors and each was granted an option to purchase 20,000 shares of common stock at an exercise price equal to the fair market value per share of the common stock on the date of such grant. On February 19, 2005, Mr. Whitters was named Chairman of the Board of Directors and granted an option to purchase an additional 20,000 shares of common stock at an exercise price equal to the fair market value per share of the common stock on the date of such grant. Although additional grants of options may be made in the future, it is contemplated that, if Proposal 3 is approved by the shareholders, each non-employee director will receive an award of 10,000 shares of restricted stock in lieu of option grants. It is contemplated that current directors receiving these awards would not receive any additional grants for a period of three years. These restricted stock awards would be conditioned on the award recipient's agreement to achieve and maintain levels of ownership of the Company's common stock in the amount of at least three times the directors' annual base fees of \$50,000.

Director Attendance at Annual Meetings

The Company typically schedules a Board meeting in conjunction with its annual meeting of shareholders and expects that the Company's directors will attend, absent a valid reason. Last year ten directors attended the Company's annual meeting of shareholders.

Proposal

At the Annual Meeting, shareholders will be asked to elect nine directors to serve on the Company's Board of Directors until the next annual meeting of shareholders or until their respective successors have been elected and qualified. The nominees receiving the highest number of affirmative votes of the voting power of all outstanding shares present, in person or represented by proxy, at the Annual Meeting and entitled to vote on this Proposal shall be elected. **The Board of Directors recommends a vote FOR the election of each of the nominees listed above.**

PROPOSAL 3

APPROVAL OF AMENDED AND RESTATED LONG-TERM INCENTIVE PLAN

General

At the Annual Meeting, shareholders will be asked to approve an amended and restated version of the Company's Amended 2000 Long-Term Incentive Plan referred to as the 2005 Long-Term Incentive Plan (the "2005 Plan"). The 2005 Plan was adopted, subject to shareholder approval, by the Board of Directors on July 25, 2005. The 2005 Plan reflects, among other things, the following amendments:

Types of Awards. The 2005 Plan provides the Company with flexibility to grant awards other than stock options, including but not limited to stock bonuses, restricted stock, stock units and dividend equivalents.

Performance-Based Awards. Section 162(m) of the U.S. Internal Revenue Code generally provides that the Company may not be permitted to take a federal income tax deduction for certain compensation in excess of \$1,000,000 paid to any one of its executive officers named in the "Summary of Cash and Certain Other Compensation" table in any one year. Certain performance-based compensation, however, is exempt from the Section 162(m) limit. That is, Section 162(m) does not preclude the Company from taking a federal income tax deduction for certain qualifying performance-based compensation paid to a named executive officer in a year even if that compensation exceeds \$1,000,000. The 2005 Plan allows the Company to grant awards intended to qualify as performance-based compensation within the meaning of Section 162(m) in addition to other awards such as stock options which may also qualify as performance-based compensation within the meaning of Section 162(m). (See "Summary Description of the 2005 Plan - Performance-Based Awards" below.)

Extension of Plan Term. The 2005 Plan extends the term of the plan until July 24, 2015.

Shareholders are not being asked to increase the number of shares of the Company's common stock available for award grants under the plan. The 2005 Plan retains the existing share limit of 6,000,000 shares. As of July 15, 2005, 3,373,458 shares were subject to outstanding awards under the plan, and 1,650,799 shares remained available for award grant purposes under the plan. As of July 15, 2005, 4,641,263 shares were subject to all outstanding options granted by the Company under its equity compensation plans (including the shares then subject to outstanding options under the 2005 Plan), the weighted-average exercise price of these options was \$22.11 per share, and the weighted-average contractual life of these options was 7.34 years. No new awards may be granted under any equity compensation plan maintained by the Company other than the 2000 Plan, which, if Proposal 3 is approved, would be amended and restated as the 2005 Plan.

The Board of Directors approved the 2005 Plan to give the Company increased flexibility in structuring equity and cash bonus awards to its employees and directors. The Company believes that incentives and stock-based awards focus employees on the objective of creating shareholder value and promoting the success of the Company, and that incentive compensation plans like the 2005 Plan are an important attraction, retention and motivation tool for participants in the plan.

Summary Description of the 2005 Plan

The principal terms of the 2005 Plan are summarized below. The following summary is qualified in its entirety by the full text of the 2005 Plan, which appears as Exhibit A to this Proxy Statement.

Purpose. The purpose of the 2005 Plan is to promote the success of the Company and the interests of its shareholders by providing an additional means for the Company to attract, motivate, retain and reward directors, officers, employees and other eligible persons through the grant of awards and incentives for high levels of individual performance and improved financial performance of the Company. Equity-based awards are also intended to further align the interests of award recipients and the Company's shareholders.

Administration. The Board of Directors or one or more committees appointed by the Board of Directors administers the 2005 Plan. The Board of Directors has delegated general administrative authority for the 2005 Plan to the Compensation Committee. A committee may delegate some or all of its authority with respect to the 2005 Plan to another committee of directors, and certain limited authority to grant awards to employees may be delegated to one or more officers of the Company if permitted by applicable law. (The appropriate acting body, be it the Board of Directors, a committee within its delegated authority, or an officer within his or her delegated authority, is referred to in this proposal as the "Administrator").

Subject to the other provisions of the 2005 Plan, the Administrator has broad authority with respect to award grants including, without limitation, the authority:

- to select participants and determine the type(s) of award(s) that they are to receive;

- to determine the number of shares that are to be subject to awards and the terms and conditions of awards, including the price (if any) to be paid for the shares or the award;

- to cancel, modify, or waive the Company's rights with respect to, or modify, discontinue, suspend, or terminate any or all outstanding awards, subject to any required consents;

- to accelerate or extend the vesting or exercisability or extend the term of any or all outstanding awards;

- to make certain adjustments to an outstanding award and to authorize the conversion, succession or substitution of an award; and

- to allow the purchase price of an award or shares of the Company's common stock to be paid in the form of cash, check, or electronic funds transfer, by the delivery of already-owned shares of the Company's common stock or by a reduction of the number of shares deliverable pursuant to the award, by services rendered by the recipient of the award, by notice and third party payment or cashless exercise on such terms as the Administrator may authorize, or any other form permitted by law.

No Repricing. In no case (except due to an adjustment to reflect a stock split or similar event or any repricing that may be approved by shareholders) will any adjustment be made to a stock option award under the 2005 Plan (by amendment, cancellation and regrant, exchange or other means) that would constitute a repricing of the per share exercise or base price of the award.

Eligibility. Persons eligible to receive awards under the 2005 Plan include officers or employees of the Company or any of its subsidiaries, directors of the Company, and certain consultants and advisors to the Company or any of its subsidiaries. Currently, approximately 2,000 officers and employees of the Company and its subsidiaries (including all of the Company's named executive officers), and each of the Company's eight non-employee directors are considered eligible under the 2005 Plan at the present time.

Authorized Shares; Limits on Awards. The maximum number of shares of the Company's common stock that may be issued or transferred pursuant to awards under the 2005 Plan is 6,000,000 shares.

The following other limits are also contained in the 2005 Plan:

The maximum number of shares that may be delivered pursuant to options qualified as incentive stock options granted under the plan is 6,000,000 shares.

The maximum number of shares subject to those options that are granted during any fiscal year to any individual under the plan is 500,000 shares.

The maximum number of shares subject to all awards that are granted during any fiscal year to any individual under the plan is 500,000 shares. This limit does not apply, however, to shares delivered in respect of compensation earned but deferred.

"Performance-Based Awards" under Section 5.2 of the 2005 Plan payable only in cash and not related to shares and granted to a participant in any one fiscal year will not provide for payment of more than \$1,000,000.

To the extent that an award is settled in cash or a form other than shares, the shares that would have been delivered had there been no such cash or other settlement will not be counted against the shares available for issuance under the 2005 Plan. In the event that shares are delivered in respect of a dividend equivalent right, only the actual number of shares delivered with respect to the award shall be counted against the share limits of the 2005 Plan. To the extent that shares are delivered pursuant to the exercise of a stock option, the number of underlying shares as to which the exercise related shall be counted against the applicable share limits, as opposed to only counting the shares actually issued. Shares that are subject to or underlie awards which expire or for any reason are cancelled or terminated, are forfeited, fail to vest, or for any other reason are not paid or delivered under the 2005 Plan will again be available for subsequent awards under the 2005 Plan. In addition, the 2005 Plan generally provides that shares issued in connection with awards that are granted by or become obligations of the Company through the assumption of awards (or in substitution for awards) in connection with an acquisition of another company will not count against the shares available for issuance under the 2005 Plan.

Types of Awards. The 2005 Plan authorizes stock options, restricted stock, stock bonuses and other forms of awards granted or denominated in the Company's common stock or units of the Company's common stock, as well as cash bonus awards pursuant to Section 5.2 of the 2005 Plan. The 2005 Plan retains flexibility to offer competitive incentives and to tailor benefits to specific needs and circumstances. Any award may be paid or settled in cash.

A stock option is the right to purchase shares of the Company's common stock at a future date at a specified price per share (the "exercise price"). The per share exercise price of an option generally may not be less than the fair market value of a share of the Company's common stock on the date of grant, except with respect to awards granted retroactively in tandem with or as a substitution for another award. The maximum term of an option is ten years from the date of grant. An option may either be an incentive stock option or a nonqualified stock option. Incentive stock option benefits are taxed differently from nonqualified stock options, as described under "Federal Income Tax Consequences of Awards Under the 2005 Plan" below. Incentive stock options are also subject to more restrictive terms and are limited in amount by the U.S. Internal Revenue Code and the 2005 Plan. Incentive stock options may only be granted to employees of the Company or a subsidiary.

The other types of awards that may be granted under the 2005 Plan include, without limitation, stock bonuses, restricted stock, performance stock, stock units, dividend equivalents, or similar rights to purchase or acquire shares, and cash awards granted consistent with Section 5.2 of the 2005 Plan as described below.

Performance-Based Awards. The Administrator may grant awards that are intended to be performance-based awards within the meaning of Section 162(m) of the U.S. Internal Revenue Code ("Performance-Based Awards"). Performance-Based Awards are in addition to any of the other types of awards that may be granted under the 2005 Plan (including options which may also qualify as performance-based awards for Section 162(m) purposes). Performance-Based Awards may be in the form of restricted stock, performance stock, stock units, other rights, or cash bonus opportunities.

The vesting or payment of Performance-Based Awards (other than options) will depend on the absolute or relative performance of the Company on a consolidated, subsidiary, segment, division, or business unit basis. The Administrator will establish the criterion or criteria and target(s) on which performance will be measured. The Administrator must establish criteria and targets in advance of applicable deadlines under the U.S. Internal Revenue Code and while the attainment of the performance targets remains substantially uncertain. The criteria that the Administrator may use for this purpose will include one or more of the following: earnings per share, cash flow (which means cash and cash equivalents derived from either net cash flow from operations or net cash flow from operations, financing and investing activities), total shareholder return, gross revenue, revenue growth, operating income (before or after taxes), net earnings (before or after interest, taxes, depreciation and/or amortization), return on equity or on assets or on net investment, cost containment or reduction, or any combination thereof. The performance measurement period with respect to an award may range from three months to ten years. Performance targets will be adjusted to mitigate the unbudgeted impact of material, unusual or nonrecurring gains and losses, accounting changes or other extraordinary events not foreseen at the time the targets were set unless the Administrator provides otherwise at the time of establishing the targets.

Performance-Based Awards may be paid in stock or in cash (in either case, subject to the limits described under the heading "Authorized Shares; Limits on Awards" above). Before any Performance-Based Award (other than an option) is paid, the Administrator must certify that the performance target or targets have been satisfied. The Administrator has discretion to determine the performance target or targets and any other restrictions or other limitations of Performance-Based Awards and may reserve discretion to reduce payments below maximum award limits.

Deferrals. The Administrator may provide for the deferred payment of awards, and may determine the other terms applicable to deferrals. The Administrator may provide that deferred settlements include the payment or crediting of interest or other earnings on the deferred amounts, or the payment or crediting of dividend equivalents where the deferred amounts are denominated in shares.

Acceleration of Awards; Possible Early Termination of Awards. Generally, and subject to limited exceptions set forth in the 2005 Plan, if any person acquires more than 20% of the outstanding common stock or combined voting power of the Company, if certain changes in a majority of our Board of Directors occur over a period of not longer than two years, if shareholders prior to a transaction do not continue to own more than 60% of the voting securities of the Company (or a successor or a parent) following a reorganization, merger, statutory share exchange or consolidation or similar corporate transaction involving the Company or any of its subsidiaries, a sale or other disposition of all or substantially all of the Company's assets or the acquisition of assets or stock of another entity by the Company or any of its subsidiaries, or if the Company is dissolved or liquidated, then awards then-outstanding under the 2005 Plan may become fully vested or paid, as applicable, and may terminate or be terminated in such circumstances. The Administrator also has the discretion to establish other change in control provisions with respect to awards granted under the 2005 Plan. For example, the Administrator could provide for the acceleration of vesting or payment of an award in connection with a change in control event that is not described above and provide that any such acceleration shall be automatic upon the occurrence of any such event.

Transfer Restrictions. Subject to certain exceptions contained in Section 5.7 of the 2005 Plan, awards under the 2005 Plan generally are not transferable by the recipient other than by will or the laws of descent and distribution and are generally exercisable, during the recipient's lifetime, only by the recipient. Any amounts payable or shares issuable pursuant to an award generally will be paid only to the recipient or the recipient's beneficiary or representative. The Administrator has discretion, however, to establish written conditions and procedures for the transfer of awards to other persons or entities, provided that such transfers comply with applicable federal and state securities laws and, with limited exceptions set forth in the 2005 Plan, are not made for value.

Adjustments. As is customary in incentive plans of this nature, each share limit and the number and kind of shares available under the 2005 Plan and any outstanding awards, as well as the exercise or purchase prices of awards, and performance targets under certain types of performance-based awards, are subject to adjustment in the event of certain reorganizations, mergers, combinations, recapitalizations, stock splits, stock dividends, or other similar events that change the number or kind of shares outstanding, and extraordinary dividends or distributions of property to the shareholders.

No Limit on Other Authority. The 2005 Plan does not limit the authority of the Board of Directors or any committee to grant awards or authorize any other compensation, with or without reference to the Company's common stock, under any other plan or authority.

Termination of or Changes to the 2005 Plan. The Board of Directors may amend or terminate the 2005 Plan at any time and in any manner. Shareholder approval for an amendment will be required only to the extent then required by applicable law or any applicable listing agency or required under Sections 162, 422 or 424 of the U.S. Internal Revenue Code to preserve the intended tax consequences of the plan. For example, shareholder approval will be required for any amendment that proposes to increase the maximum number of shares that may be delivered with respect to awards granted under the 2005 Plan. (Adjustments as a result of stock splits or similar events will not, however, be considered an amendment requiring shareholder approval.) Unless terminated earlier by the Board of Directors, the authority to grant new awards under the 2005 Plan will terminate on July 24, 2015. Outstanding awards, as well as the Administrator's authority with respect thereto, generally will continue following the expiration or termination of the plan. Generally speaking, outstanding awards may be amended by the Administrator (except for a repricing), but the consent of the award holder is required if the amendment (or any plan amendment) materially and adversely affects the holder.

Federal Income Tax Consequences of Awards under the 2005 Plan

The U.S. federal income tax consequences of the 2005 Plan under current federal law, which is subject to change, are summarized in the following discussion of the general tax principles applicable to the 2005 Plan. This summary is not intended to be exhaustive and, among other considerations, does not describe state, local, or international tax consequences.

With respect to nonqualified stock options, the Company is generally entitled to deduct and the participant recognizes taxable income in an amount equal to the difference between the option exercise price and the fair market value of the shares at the time of exercise. With respect to incentive stock options, the Company is generally not entitled to a deduction nor does the participant recognize income at the time of exercise, although the participant may be subject to the U.S. federal alternative minimum tax. However, the Company may be entitled to a deduction and the participant may be required to recognize income if there is a sale or other disposition of the shares acquired on exercise of an incentive stock option prior to the expiration of the applicable required holding periods.

The current federal income tax consequences of other awards authorized under the 2005 Plan generally follow certain basic patterns: nontransferable restricted stock subject to a substantial risk of forfeiture results in income recognition equal to the excess of the fair market value over the price paid (if any) only at the time the restrictions lapse (unless the recipient elects to accelerate recognition as of the date of grant); bonuses, cash and stock-based performance awards, dividend equivalents, stock units, and other types of awards are generally subject to tax at the time of payment; and compensation otherwise effectively deferred is taxed when paid. In each of the foregoing cases, the Company will generally have a corresponding deduction at the time the participant recognizes income.

If an award is accelerated under the 2005 Plan in connection with a "change in control" (as this term is used under the U.S. Internal Revenue Code), the Company may not be permitted to deduct the portion of the compensation attributable to the acceleration ("parachute payments") if it exceeds certain threshold limits under the U.S. Internal Revenue Code (and certain related excise taxes may be triggered). Furthermore, the aggregate compensation in excess of \$1,000,000 attributable to awards that are not "performance-based" within the meaning of Section 162(m) of the U.S. Internal Revenue Code may not be permitted to be deducted by the Company in certain circumstances.

Specific Benefits under the 2005 Plan

Subject to shareholder approval of the 2005 Plan, the Company expects to grant restricted stock awards to certain employees, executive officers and directors of the Company. It is contemplated that, with respect to its executive officers and directors, these restricted stock awards would be conditioned on the award recipient's agreement to achieve and maintain specified levels of ownership of the Company's common stock throughout the period of his or her employment or service with the Company. The Board of Directors believes that the investment community values stock ownership by the Company's executive officers and directors and that, by holding an equity position in the Company, executive officers and directors demonstrate their commitment to and belief in the long-term profitability of the Company.

The contemplated restricted stock grants would be made to each of the Company's directors and executive officers, provided that the award recipient agrees to maintain a specified level of ownership of the Company's common stock based on the recipient's base salary or annual retainer, as applicable, and the fair market value of the stock on the date the award is granted. It is anticipated that the target ownership level for directors and the CEO would be three times the award recipient's base salary or annual retainer, and the target ownership level for other executive officers would be two times the award recipient's base salary. The Company's other employees would not be subject to the stock ownership guidelines.

If shareholders approve the 2005 Plan, it is contemplated that each non-employee director of the Company would be awarded 10,000 shares of restricted stock, for a total award of 80,000 shares to all current non-employee directors as a group. Although it is anticipated that the Company's executive officers would also receive restricted stock awards, the number of shares that would be awarded has not yet been determined. Except for the contemplated restricted stock grants described above, the Company has not approved and is not currently considering any other specific awards that are conditioned upon shareholder approval of the 2005 Plan. Other than awards to the non-employee directors noted above, if the amendments reflected in the 2005 Plan had been in effect in fiscal 2005, the Company believes that its award grants for fiscal 2005 may have included restricted stock grants or other awards that were not available under the terms of the Amended 2000 Long-Term Incentive Plan, although the Company believes the awards levels under the proposed 2005 Plan would not have been substantially different from the awards actually granted. For information regarding stock-based awards granted to the Company's named executive officers during fiscal 2005, see the material under the heading "Executive Compensation" below.

The closing market price for a share of the Company's common stock as of July 15, 2005 was \$41.85 per share.

Aggregate Past Grants Under the Amended 2000 Long-Term Incentive Plan

As of July 15, 2005, options covering 4,591,275 shares of the Company's common stock had been granted under the Amended 2000 Long-Term Incentive Plan. Of these options, the following number of shares have been granted subject to options to the persons and groups identified below:

Name and Position	Number of Shares Subject to Past Option Grants	Number of Shares Acquired On Exercise	Number of Shares Underlying Options as of July 15, 2005	
			Exercisable	Unexercisable
Joshua H. Levine President and Chief Executive Officer	377,000	-	86,500	290,500
Christopher J. Conway Chairman and Chief Executive Officer	220,000	220,000	-	-
Bobby K. Purkait Senior Vice President, Science & Technology	93,500	40,500	33,598	-
Adel Michael Vice Chairman, Chief Financial Officer and Treasurer	266,000	266,000	-	-
Kathleen M. Beauchamp Vice President, Sales and Marketing	127,200	-	30,100	97,100
David J. Adornetto Vice President, Operations	124,000	-	33,000	91,000
Loren L. McFarland Vice President, Chief Financial Officer and Treasurer	79,000	-	26,750	52,250
Cathy S. Ullery Vice President, Human Resources	88,000	-	37,250	50,750
All current executive officers as a group (7 persons)	909,200	11,250	244,100	653,850

On December 13, 2002 the Board of Directors authorized a two-for-one stock split in the form of a 100% stock dividend. All references to the number of shares and per share amounts have been adjusted to reflect the stock split.

Name and Position	Number of Shares Subject to Past Option Grants	Number of Shares Acquired On Exercise	Number of Shares Underlying <u>Options</u> <u>as of July 15, 2005</u>	
			Exercisable	Unexercisable
Joseph E. Whitters Director and Nominee	40,000	-	-	40,000
Michael L. Emmons Director and Nominee	20,000			