HEALTHCARE TRUST OF AMERICA, INC.
Form 424B3
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**Registration No. 333-158418**

**HEALTHCARE TRUST OF AMERICA, INC.**
**SUPPLEMENT NO. 14 DATED APRIL 27, 2011**
**TO THE PROSPECTUS DATED MARCH 19, 2010**

This document supplements, and should be read in conjunction with our prospectus dated March 19, 2010, relating to our offering of up to $2,200,000,000 of shares of common stock. This Supplement No. 14 supersedes and replaces Supplement No. 1 dated March 19, 2010, Supplement No. 2 dated March 19, 2010, Supplement No. 3 dated June 17, 2010, Supplement No. 4 dated August 16, 2010, Supplement No. 5 dated August 20, 2010, Supplement No. 6 dated October 15, 2010, Supplement No. 7 dated October 19, 2010, Supplement No. 8 dated November 3, 2010, Supplement No. 9 dated November 24, 2010, Supplement No. 10 dated December 8, 2010, Supplement No. 11 dated December 22, 2010, Supplement No. 12 dated January 21, 2011, Supplement No. 13 dated March 9, 2011, and the Supplement dated April 21, 2011. The purpose of this Supplement No. 14 is to disclose:

the status of our offerings;

an update to the Suitability Standards section of our prospectus;

a description of our current portfolio;

recent acquisitions;

selected financial data;

our performance funds from operations and modified funds from operations;

information regarding our distributions;

our request for a closing agreement with the Internal Revenue Service;

our property performance net operating income;

unaudited pro forma consolidated statements of operations for the year ended December 31, 2010;

an update to our risk factors;

the amendment and restatement of our 2006 Incentive Plan;

information regarding our share repurchase plan;

our entry into amended indemnification agreements with our directors and certain officers;

an update to the Estimated Use of Proceeds section of our prospectus;

our engagement of J.P. Morgan Securities, Inc. as our lead strategic advisor;

an update to the Investment Objectives, Strategy and Criteria section of our prospectus;

an update regarding our sources of credit;

our entry into a redemption, termination and release agreement with our former advisor and its affiliates;

certain amendments to our charter approved by our stockholders at our 2010 annual meeting of stockholders;

an update to the Experts section of our prospectus; and

an update to the Incorporation of Certain Information by Reference section of our prospectus.

**Status of Our Offerings**

As of March 19, 2010, we had received and accepted subscriptions in our initial public offering, or our initial offering, for 147,562,354 shares of our common stock, or $1,474,062,000, excluding shares issued pursuant to our distribution reinvestment plan. On March 19, 2010, we stopped offering shares of our common stock in our initial offering.

We commenced our follow-on public offering of shares of our common stock, or our follow-on offering, on March 19, 2010. As of February 28, 2011, the date at which we stopped offering shares in our primary offering, as discussed further below, we had received and accepted subscriptions in our follow-on offering for 66,582,725 shares of our common stock, or $664,992,000, excluding shares of our common stock issued under our distribution reinvestment plan. As of March 25, 2011, 133,417,275 shares remained available for sale to the public pursuant to our follow-on offering, excluding shares available pursuant to our distribution reinvestment plan.

On December 6, 2010, our board of directors approved the closing of our primary offering effective February 28, 2011. For noncustodial accounts, subscription agreements signed on or before February 28, 2011 with all documents and funds received by end of business March 15, 2011 were accepted. For custodial accounts, subscription agreements signed on or before February 28, 2011 with all documents and funds received by end of business March 31, 2011 will be accepted. As of March 25, 2011, we had received and accepted subscriptions in our follow-on offering for 71,906,969 shares, or $718,060,000, excluding shares of our common stock issued under our distribution plan. We are continuing to offer and sell shares pursuant to the distribution reinvestment plan. However, we may determine to terminate the distribution reinvestment plan at any time.

**Suitability Standards**

*The following information should be read in conjunction with the disclosure contained in the Suitability Standards section beginning on page i of the prospectus:*

**Ohio** An investor s investment in us and our affiliates may not exceed 10.0% of that investor s liquid net worth.

*In addition, in connection with the registration of our follow-on public offering of common stock, we have been asked by the Alabama Securities Commission to revise the Suitability Standards disclosure. Accordingly, the following replaces the last paragraph on page i of the prospectus:*

These suitability standards are intended to help ensure that, given the long-term nature of an investment in our shares, our investment objectives and the relative illiquidity of our shares, our shares are an appropriate investment for those of you who become stockholders. We and each person selling shares on our behalf, including participating broker-dealers, must make every reasonable effort to determine that the purchase of shares is a suitable and appropriate investment for each stockholder based on information provided by the stockholder.

**Our Current Portfolio**

We provide stockholders the potential for income and growth through investment in a diversified portfolio of real estate assets, focusing primarily on medical office buildings and healthcare-related facilities. We also invest to a limited extent in other healthcare-related assets. We focus primarily on investments that produce recurring income. During the year ended December 31, 2010, we completed 24 new portfolio acquisitions, expanded six of our existing portfolios through the purchase of additional medical office buildings within each, and purchased the remaining 20% interest we previously did not own in HTA-Duke Chesterfield Rehab, LLC, which owns the Chesterfield Rehabilitation Center. The aggregate purchase price of these acquisitions was approximately $806,048,000, and these acquisitions were completed at capitalization rates ranging between 7.58% and 13.39%, with a weighted average capitalization rate of 8.25%. The capitalization rates are calculated by dividing the property s estimated annualized first year net operating income, existing at the date of acquisition, by the contract purchase price of the property, excluding closing costs and acquisition expenses. Estimated first year net operating income on our real estate investments represents total estimated gross income (rental income, tenant reimbursements, and other property-related income) derived from the terms of in-place leases at the time we acquire the property, less property and related expenses (including property operating and maintenance expenses, real estate taxes, property insurance, and management fees) based on the operating history of the property. Estimated first year net operating income on new acquisitions excludes other non-property income and expenses, interest expense from financings, depreciation and amortization, and our company-level general and administrative expenses. Historical operating income for these properties is not necessarily indicative of future operating results.

As of December 31, 2010, including both our operating properties and the four buildings within one of our portfolios classified as held for sale, we had made 77 geographically diverse acquisitions, 63 of which are medical office building portfolios, 12 of which are portfolios of other healthcare-related facilities (including four quality office properties), and two of which are other real estate-related assets, comprising 238 buildings with approximately 10,919,000 square feet of gross leasable area, or GLA, for an aggregate purchase price of approximately $2,266,359,000, in 24 states. We have completed three acquisitions since December 31, 2010, by expanding an existing property portfolio with the addition of the final building within a portfolio of three medical office buildings, by expanding a second existing property portfolio with the addition of the final building within a portfolio of nine medical office buildings, and by acquiring a new property portfolio consisting of two medical office buildings. Each of our properties is 100% owned by our operating partnership, except for the 7900 Fannin medical office building in which we own an approximately 84% interest through our operating partnership. The tables below provide summary information regarding our properties as of December 31, 2010.

The following table lists the states in which our properties (both operating and those classified as held for sale) are located and provides certain information regarding our portfolio s geographic diversification/concentration as of December 31, 2010:

| State | Number of Buildings(1) | GLA (Square Feet) | % of GLA | 2010 Annualized Base Rent(2) | % of 2010 Annualized Base Rent |
|---|---|---|---|---|---|
| Arizona | 36(3) | 1,225,000 | 11.2% | $ 23,857,000 | 11.7% |
| California | 5 | 287,000 | 2.6 | 5,327,000 | 2.6 |
| Colorado | 3 | 145,000 | 1.3 | 3,233,000 | 1.6 |
| Florida | 20(3) | 940,000 | 8.6 | 17,844,000 | 8.8 |
| Georgia | 12 | 615,000 | 5.7 | 12,145,000 | 6.0 |
| Indiana | 44(3) | 1,220,000 | 11.2 | 17,235,000 | 8.5 |
| Kansas | 1 | 63,000 | 0.6 | 1,552,000 | 0.8 |
| Maryland | 2 | 164,000 | 1.5 | 3,433,000 | 1.7 |
| Minnesota | 2 | 155,000 | 1.4 | 1,829,000 | 0.9 |
| Missouri | 5 | 297,000 | 2.7 | 7,074,000 | 3.5 |
| North Carolina | 10 | 241,000 | 2.2 | 4,498,000 | 2.2 |
| New Hampshire | 1 | 70,000 | 0.6 | 1,186,000 | 0.6 |
| New Mexico | 2 | 54,000 | 0.5 | 1,236,000 | 0.6 |
| Nevada | 1 | 73,000 | 0.7 | 1,584,000 | 0.8 |
| New York | 8 | 909,000 | 8.3 | 14,140,000 | 7.0 |
| Ohio | 13 | 525,000 | 4.8 | 6,132,000 | 3.0 |
| Oklahoma | 2 | 186,000 | 1.7 | 3,596,000 | 1.8 |
| Pennsylvania | 4 | 530,000 | 4.9 | 11,604,000 | 5.7 |
| South Carolina | 22(3) | 1,104,000 | 10.1 | 19,681,000 | 9.7 |
| Tennessee | 9 | 321,000 | 2.9 | 5,669,000 | 2.8 |
| Texas | 26(3) | 1,304,000 | 12.0 | 30,969,000 | 15.3 |
| Utah | 1 | 112,000 | 1.0 | 2,023,000 | 1.0 |
| Virginia | 3 | 64,000 | 0.6 | 596,000 | 0.3 |
| Wisconsin | 6 | 315,000 | 2.9 | 6,306,000 | 3.1 |
| **Total** | 238 | 10,919,000 | 100% | $ 202,749,000 | 100% |

(1) Represents the number of buildings acquired within each particular state as of December 31, 2010.

(2) Annualized base rent is based on contractual base rent from leases in effect as of December 31, 2010. Annualized net effective base rent, which excludes tenant allowances and concessions, such as free rent, was $201,972,000 as of December 31, 2010.

(3) We had the greatest geographic concentration as of December 31, 2010 within the following states: Texas (16 consolidated properties consisting of 26 total buildings, including four buildings classified as held for sale), Arizona (seven consolidated properties consisting of 36 total buildings), South Carolina (five consolidated properties consisting of 22 total buildings), Florida (10 consolidated properties consisting of 20 total buildings), and Indiana (seven consolidated properties consisting of 44 total buildings).

Each of the above properties is a medical office building, a specialty inpatient facility (long term acute care hospital or rehabilitation hospital), a skilled nursing and assisted living facility, or an other healthcare-related office building, the principal tenants of which are healthcare providers or healthcare-related service providers.

As of December 31, 2010, we owned fee simple interests in 173 of the 238 buildings comprising our portfolio. These 173 buildings represent approximately 68.2% of our total portfolio s gross leasable square feet. We hold long-term leasehold interests in the remaining 65 buildings within our portfolio, which represent approximately 31.8% of our total gross leasable square feet. As of December 31, 2010, these leasehold interests had an average remaining term of approximately 72 years.

The following information generally applies to our properties:

- we believe all of our properties are adequately covered by insurance and are suitable for their intended purposes;

- our properties are located in markets where we are subject to competition in attracting new tenants and retaining current tenants; and

- depreciation is provided on a straight-line basis over the estimated useful lives of the buildings, 39 years, and over the shorter of the lease term or useful lives of the tenant improvements.

The table below depicts our total portfolio square footage by region as of December 31, 2010:

| **Region** | **Gross Leasable Area** |
|---|---|
| Southeast | 3,067,000 |
| Midwest | 2,219,000 |
| Southwest | 2,050,000 |
| Northeast | 1,735,000 |
| South | 1,848,000 |
| **Total** | 10,919,000 |

The following table provides an overview of our portfolio of medical office buildings, other healthcare-related facilities, and other real estate-related assets as of and for the year ended December 31, 2010:

| **Portfolio by Type** | **# of Buildings** | **Annualized Base Rent** | **% of Total Annualized Base Rent** | **Purchase Price** | **% of Aggregate Purchase Price** | **Number of States** |
|---|---|---|---|---|---|---|
| Medical office buildings | | | | | | |
| Single-tenant, net lease | 54 | $ 36,460,000 | 18.0% | $ 463,214,000 | 20.5% | 13 |
| Single-tenant, gross lease | 5 | $ 2,928,000 | 1.4% | $ 25,304,000 | 1.1% | 2 |
| Multi-tenant, net lease | 68 | $ 51,469,000 | 25.4% | $ 610,679,000 | 27.0% | 17 |
| Multi-tenant, gross lease | 87 | $ 72,008,000 | 35.5% | $ 671,807,000 | 29.6% | 16 |
| Other healthcare-related facilities | | | | | | |
| Hospitals, single-tenant, net lease | 10 | $ 20,333,000 | 10.0% | $ 241,720,000 | 10.7% | 4 |
| Seniors housing, single-tenant net lease | 9 | $ 8,045,000 | 4.0% | $ 91,600,000 | 4.0% | 3 |
| Healthcare-related offices, multi-tenant, gross lease | 5 | $ 11,506,000 | 5.7% | $ 109,900,000 | 4.8% | 3 |
| Other real estate-related assets | | | | | | |
| Mortgage notes receivable | 2 | N/A | N/A | $ 52,135,000 | 2.3% | 2 |
| **TOTALS** | | **$ 202,749,000** | **100.0%** | **$ 2,266,359,000** | **100.0%** | |

The table below describes the average effective annualized base rent per square foot and the occupancy rate for each of the last five years ended December 31, 2010 for which we owned properties:

| | **2006(1)** | **2007** | **2008** | **2009** | **2010** |
|---|---|---|---|---|---|
| Average Effective Annualized Base Rent per Square Foot | N/A | $ 16.26 | $ 16.79 | $ 16.88 | $ 18.50 |
| Occupancy | N/A | 88.6% | 91.3% | 90.6% | 91.0% |

(1) We were initially capitalized on April 28, 2006 and therefore we consider that our date of inception. We purchased our first property on January 22, 2007.

The following table presents the sensitivity of our annualized base rent due to lease expirations for the next ten years and thereafter at our properties (both operating and those classified as held for sale) by number, square feet, percentage of leased area, annualized base rent and percentage of annualized base rent as of December 31, 2010:

| Year Ending December 31 (2) | Number of Leases Expiring | Total Sq. Ft. of Expiring Leases | % of Leased Area Represented by Expiring Leases | Annualized Base Rent Under Expiring Leases | % of Total Annualized Base Rent Represented by Expiring Leases(1) |
|---|---|---|---|---|---|
| 2011 | 233 | 684,610 | 6.9% | $ 14,854,000 | 7.2% |
| 2012 | 255 | 803,245 | 8.1 | 15,815,000 | 7.7 |
| 2013 | 221 | 1,069,843 | 10.7 | 22,050,000 | 10.7 |
| 2014 | 153 | 846,730 | 8.5 | 14,952,000 | 7.2 |
| 2015 | 181 | 804,930 | 8.1 | 17,480,000 | 8.5 |
| 2016 | 102 | 827,561 | 8.3 | 15,424,000 | 7.5 |
| 2017 | 121 | 676,755 | 6.8 | 14,357,000 | 7.0 |
| 2018 | 77 | 580,918 | 5.8 | 10,974,000 | 5.3 |
| 2019 | 63 | 525,082 | 5.3 | 11,615,000 | 5.6 |
| 2020 | 77 | 368,204 | 3.7 | 7,740,000 | 3.7 |
| Thereafter | 130 | 2,769,032 | 27.8 | 60,978,000 | 29.6 |
| **Total** | 1,613 | 9,956,910 | 100% | $ 206,239,000 | 100% |

(1) The annualized base rent percentage is based on the total annual contractual base rent as of December 31, 2010.
(2) Leases scheduled to expire on December 31 of a given year are included within that year in the table.

As of December 31, 2010, no single tenant accounted for 10.0% or more of the GLA of our real estate properties.

As of December 31, 2010, we had interests in 16 consolidated properties located in Texas, which accounted for 15.3% of our total annualized rental income, interests in seven consolidated properties in Arizona, which accounted for 11.7% of our total annualized rental income, interests in five consolidated properties located in South Carolina, which accounted for 9.7% of our total annualized rental income, interests in 10 consolidated properties in Florida, which accounted for 8.8% of our total annualized rental income, and interests in seven consolidated properties in Indiana, which accounted for 8.5% of our total annualized rental income. This rental income is based on contractual base rent from leases in effect as of December 31, 2010. Accordingly, there is a geographic concentration of risk subject to fluctuations in each of these states economies.

**Recent Acquisitions**

From January 1, 2011 to the date of this Supplement, we purchased one new property portfolio and expanded two of our existing portfolios through the purchase of an additional building within each for an aggregate purchase price of $36,314,000. The capitalization rates associated with these acquisitions ranged from 7.59% to 8.69%, with a weighted average capitalization rate of 8.04%, and these purchases added a total of approximately 188,000 square feet to our portfolio. Details of our property acquisitions during the period from December 31, 2010 to the date of this Supplement are as follows:

| Property | Date Acquired | GLA (Sq Ft) | Purchase Price | Mortgage Debt | Occupancy | Annualized Base Rent per Leased Sq Ft |
|---|---|---|---|---|---|---|

| | Property Location | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| Phoenix Portfolio Paseo | Phoenix, AZ | 2/11/11 | 20,000 | $ 3,762,000 | $ 2,147,000 | 90% | $ | 24.83 |
| Columbia Portfolio N. Berkshire | North Adams, MA | 2/16/11 | 47,000 | 9,182,000 | 4,434,000 | 100 | | 14.91 |
| Holston Medical Portfolio | Bristol, TN | 3/24/11 | 121,000 | 23,370,000 | | 99(1) | | 20.38(1) |

(1) Occupancy and Annualized Base Rent per Leased Square Foot data for the Holston Medical Portfolio represent weighted average values based on the respective GLAs of the two buildings purchased, as well as reflect the impact of certain leases comprising an aggregate of approximately 77,000 square feet within the two buildings that are scheduled to commence on April 1, 2011.

**Selected Financial Data**

The following selected financial data should be read with Management s Discussion and Analysis of Financial Condition and Results of Operations and our consolidated financial statements and the notes thereto incorporated by reference into the prospectus and with Management s Discussion and Analysis of Financial Condition and Results of Operations and our consolidated financial statements and the notes thereto included in our annual report on Form 10-K which is incorporated by reference into this Supplement. Our historical results are not necessarily indicative of results for any future period.

The following tables present summarized consolidated financial information, including balance sheet data, statement of operations data, and statement of cash flows data in a format consistent with our consolidated financial statements.

| | December 31, | | | | |
|---|---|---|---|---|---|
| | **2010** | **2009** | **2008** | **2007** | **2006** |
| BALANCE SHEET DATA: | | | | | |
| Total assets | $ 2,271,795,000 | $ 1,673,535,000 | $ 1,113,923,000 | $ 431,612,000 | $ 385,000 |
| Mortgage loans payable, net | $ 699,526,000 | $ 540,028,000 | $ 460,762,000 | $ 185,801,000 | $ |
| Stockholders equity (deficit) | $ 1,487,246,000 | $ 1,071,317,000 | $ 599,320,000 | $ 175,590,000 | $ (189,000) |

| | Years Ended December 31, | | | | Period from April 28, 2006 (Date of Inception) through December 31, 2006 |
|---|---|---|---|---|---|
| | **2010** | **2009** | **2008** | **2007** | |
| STATEMENT OF OPERATIONS DATA: | | | | | |
| Total revenues (operating properties) | $ 199,879,000 | $ 126,286,000 | $ 78,010,000 | $ 17,626,000 | $ |
| Net loss | $ (7,919,000) | $ (24,773,000) | $ (28,409,000) | $ (7,674,000) | $ (242,000) |
| Net loss attributable to controlling interest | $ (7,903,000) | $ (25,077,000) | $ (28,448,000) | $ (7,666,000) | $ (242,000) |
| Loss per share basic and diluted(1): | | | | | |
| Net loss | $ (0.05) | $ (0.22) | $ (0.66) | $ (0.77) | $ (149.03) |
| Net loss attributable to controlling interest | $ (0.05) | $ (0.22) | $ (0.66) | $ (0.77) | $ (149.03) |
| STATEMENT OF CASH FLOWS DATA: | | | | | |
| Cash flows provided by operating activities | $ 58,503,000 | $ 21,628,000 | $ 20,677,000 | $ 7,005,000 | $ |
| Cash flows used in investing activities | $ 626,849,000 | $ 455,105,000 | $ 526,475,000 | $ 385,440,000 | $ |
| Cash flows provided by financing activities | $ 378,615,000 | $ 524,147,000 | $ 628,662,000 | $ 383,700,000 | $ 202,000 |
| OTHER DATA: | | | | | |
| Distributions declared | $ 120,507,000 | $ 82,221,000 | $ 31,180,000 | $ 7,250,000 | $ |
| Distributions declared per share | $ 0.73 | $ 0.73 | $ 0.73 | $ 0.70 | $ |
| Distributions paid in cash | $ 60,176,000 | $ 39,499,000 | $ 14,943,000 | $ 3,323,000 | $ |
| Distributions reinvested | $ 56,551,000 | $ 38,559,000 | $ 13,099,000 | $ 2,673,000 | $ |
| Funds from operations(2) | $ 69,449,000 | $ 28,314,000 | $ 8,745,000 | $ 2,124,000 | $ (242,000) |
| Modified funds from operations(2) | $ 89,166,000 | $ 48,029,000 | $ 8,757,000 | $ 2,124,000 | $ (242,000) |
| Net operating income(3) | $ 137,419,000 | $ 84,462,000 | $ 52,244,000 | $ 11,589,000 | $ |

(1) Net loss per share is based upon the weighted average number of shares of our common stock outstanding. Distributions by us of our current and accumulated earnings and profits for federal income tax purposes are taxable to stockholders as ordinary income. Distributions in excess of these earnings and profits generally are treated as a non-taxable reduction of the stockholder s basis in the shares of our common stock to the extent thereof (a return of capital for tax purposes) and, thereafter, as taxable gain. These distributions in excess of earnings and profits will have the effect of deferring taxation of the distributions until the sale of the stockholder s common stock.

(2) For additional information on FFO and MFFO, see Our Performance Funds From Operations and Modified Funds From Operations , which includes a reconciliation of our GAAP net loss to FFO and MFFO for the years ended December 31, 2010, 2009, and 2008. Neither FFO nor MFFO should be considered as alternatives to net loss or other measurements under GAAP as indicators of our operating performance, nor should they be considered as alternatives to cash flow from operating activities or other measurements under GAAP as indicators of our liquidity.

(3) For additional information on net operating income, see Our Property Performance Net Operating Income , which includes a reconciliation of our GAAP net income (loss) to net operating income for the years ended December 31, 2010 and 2009.

**Our Performance Funds From Operations and Modified Funds From Operations**

Due to certain unique operating characteristics of real estate companies, the National Association of Real Estate Investment Trusts, or NAREIT, an industry trade group, has promulgated a measure known as Funds from Operations, or FFO, which it believes more accurately reflects the operating performance of a REIT. FFO is not equivalent to our net income or loss as determined under generally accepted accounting principles in the United States, or GAAP.

We define FFO, a non-GAAP measure, as net income or loss computed in accordance with GAAP, excluding gains or losses from sales of property but including asset impairment write downs, plus depreciation and amortization, and after adjustments for unconsolidated partnerships and joint ventures. Adjustments for unconsolidated partnerships and joint ventures are calculated to reflect FFO. We present FFO because we consider it an important supplemental measure of our operating performance and believe it is frequently used by securities analysts, investors and other interested parties in the evaluation of REITs, many of which present FFO when reporting their results. FFO is intended to exclude GAAP historical cost depreciation and amortization of real estate and related assets, which assumes that the value of real estate diminishes ratably over time. Historically, however, real estate values have risen or fallen with market conditions. Because FFO excludes depreciation and amortization unique to real estate, gains and losses from property dispositions and extraordinary items, it provides a performance measure that, when compared year over year, reflects the impact to operations from trends in occupancy rates, rental rates, operating costs, development activities and interest costs, providing perspective not immediately apparent from net income.

We compute FFO in accordance with standards established by the Board of Governors of NAREIT in its March 1995 White Paper (as amended in November 1999 and April 2002), which may differ from the methodology for calculating FFO utilized by other equity REITs and, accordingly, may not be comparable to such other REITs. Further, FFO does not represent amounts available for management s discretionary use because of needed capital replacement or expansion, debt service obligations or other commitments and uncertainties. FFO should not be considered as an alternative to net income (loss) (computed in accordance with GAAP) as an indicator of our financial performance or to cash flow from operating activities (computed in accordance with GAAP) as an indicator of our liquidity, nor is it indicative of funds available to fund our cash needs, including our ability to pay distributions.

Presentation of this information is intended to assist the reader in comparing the operating performance of different REITs, although it should be noted that not all REITs calculate FFO the same way, so comparisons with other REITs may not be meaningful. Factors that impact FFO include non cash GAAP income and expenses, transition charges, timing of acquisitions, yields on cash held in accounts, income from portfolio properties and other portfolio assets, interest rates on acquisition financing and operating expenses. Furthermore, FFO is not necessarily indicative of cash flow available to fund cash needs and should not be considered as an alternative to net income, as an indication of our liquidity, nor is it indicative of funds available to fund our cash needs, including our ability to make distributions and should be reviewed in connection with other measurements as an indication of our performance. Our FFO reporting complies with NAREIT s policy described above.

Changes in the accounting and reporting rules under GAAP have prompted a significant increase in the amount of non-operating items included in FFO, as defined. Therefore, we use modified funds from operations, or MFFO, which excludes from FFO one-time charges, transition charges, and acquisition-related expenses, to further evaluate our operating performance. We believe that MFFO, with these adjustments, is helpful in evaluating how our portfolio might perform after our acquisition stage and our transition to self-management have been completed and, as a result, may provide an indication of the sustainability of our distributions in the future. MFFO should not be considered as an alternative to net income (loss) or to cash flows from operating activities and is not intended to be used as a liquidity measure indicative of cash flow available to fund our cash needs, including our ability to make distributions. MFFO should be reviewed in connection with other GAAP measurements.

Management considers the following items in the calculation of MFFO:

*Acquisition-related expenses:* Prior to 2009, acquisition-related expenses were capitalized and have historically been added back to FFO over time through depreciation; however, beginning in 2009, acquisition-related expenses related to business combinations are expensed. These acquisition-related expenses have been and will continue to be funded from the proceeds of our offerings and our debt and not from operations. We believe by excluding expensed acquisition-related expenses, MFFO provides useful supplemental information that is comparable for our real estate investments.

*Transition charges:* FFO includes certain charges related to the cost of our transition to self-management. These items include, but are not limited to, additional legal expenses and system conversion costs (including updates to certain estimate development procedures), non-recurring employment costs, and the majority of the one-time redemption and termination payment made to our former advisor, as further discussed in Note 12, Related Party Transactions, to our consolidated financial statements in our 2010 Annual Report on Form 10-K. Because MFFO excludes such costs, management believes MFFO provides useful supplemental information by focusing on the changes in our fundamental operations that will be comparable rather than on such transition charges. We do not believe such costs will recur now that our transition to a self-management infrastructure has been substantially completed.

Our calculation of MFFO may have limitations as an analytical tool because it reflects the costs unique to our transition to a self-management model, which may be different from that of other healthcare REITs. Additionally, MFFO reflects features of our ownership interests in our medical office buildings and healthcare-related facilities that are unique to us. Companies that are considered to be in our industry may not have similar ownership structures; and therefore those companies may not calculate MFFO in the same manner that we do, or at all, limiting its usefulness as a comparative measure. We compensate for these limitations by relying primarily on our GAAP and FFO results and using our MFFO as a supplemental performance measure.

The following is the calculation of FFO and MFFO for the years ended December 31, 2010, 2009, and 2008:

| | **Years Ended December 31,** | | | | | |
|---|---|---|---|---|---|---|
| | **2010** | **2010 Per Share** | **2009** | **2009 Per Share** | **2008** | **2( F Sh** |
| oss | $ (7,919,000) | $ (0.05) | $ (24,773,000) | $ (0.22) | $ (28,409,000) | $ ( |
| eciation ization olidated rties | 78,561,000 | 0.47 | 53,595,000 | 0.47 | 37,398,000 | |
| me) loss utable to ontrolling st of ed ers | 16,000 | | (304,000) | | (39,000) | |
| eciation ization d to ontrolling sts | (1,209,000) | | (204,000) | | (205,000) | |

| | | | | | | |
|---|---|---|---|---|---|---|
| utable to olling st | $ 69,449,000 | | $ 28,314,000 | | $ 8,745,000 | |
| per share and d | $ 0.42 | $ 0.42 | $ 0.25 | $ 0.25 | $ 0.20 | $ |

The Company s employment agreement with Ms. Chaput, the Company s Executive Vice President and Chief Financial Officer, currently expires in September 2004, but contains a provision that automatically extends the term for one year on each successive anniversary date of the agreement (so that the term of the agreement will always be two years) unless canceled by the Company. The agreement provides that if Ms. Chaput is terminated without just cause (as defined in the agreement) or if the Company elects not to extend Ms. Chaput s employment she will receive her base salary plus certain benefits for the greater of one year or the remaining term of the agreement. If Ms. Chaput terminates the agreement for any reason within

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12 months following a change in control of the Company, she will receive her base salary plus certain benefits for the greater of two years or the remaining term of the agreement. The agreement contains restrictive provisions relating to the use of confidential information and competing against the Company during the period while any amounts are being paid to Ms. Chaput and for a period of one year thereafter. The agreement expires in all respects on the date Ms. Chaput becomes 65 years of age.

**Compensation Committee Interlocks and Insider Participation**

During fiscal 2003, the Compensation Committee of the Board of Directors was composed of Messrs. Ehmann and Ballantine, Dr. Bisgard, Dr. Neel and, for part of the year, Mr. Koldyke. Mr. Ballantine and Dr. Bisgard were appointed to the committee in June 2003, replacing Mr. Koldyke. None of these persons has at any time been an officer or employee of the Company or any of its subsidiaries. In addition, there are no relationships among the Company s executive officers, members of the Compensation Committee or entities whose executives serve on the Board of Directors or the Compensation Committee that require disclosure under applicable Commission regulations.

**Compensation Committee Report**

The Compensation Committee of the Company s Board of Directors makes decisions on compensation of the Company s executive officers. Each member of the Compensation Committee is independent as defined by applicable law and the NASDAQ listing standards. It is the responsibility of the Compensation Committee to determine whether in its judgment the executive compensation policies are reasonable and appropriate, meet their stated objectives and effectively serve the best interests of the Company and its stockholders.

*Compensation Philosophy and Policies for Executive Officers*

The Compensation Committee believes that the primary objectives of the Company s executive compensation policies should be:

to attract and retain talented executives by providing compensation that is, overall, highly competitive with the compensation provided to executives at companies of comparable position in the health care services industry, while maintaining compensation within levels that are consistent with the Company s annual budget, financial objectives and operating performance;

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

to more closely align the interests of executives with those of stockholders and the long-term interests of the Company by providing long-term incentive compensation in the form of non-qualified stock options or other equity based long term incentive compensation.

The Compensation Committee believes that the Company s executive compensation policies should be reviewed annually in light of the Company s financial performance, its annual budget and its position within the health care services industry, as well as the compensation policies of similar companies in the health care services industry. The compensation of individual executives should then be reviewed annually by the Compensation Committee in light of its executive compensation policies for that year.

In reviewing the comparability of the Company s executive compensation policies, the Compensation Committee periodically reviews executive compensation for other comparable companies. Some of the comparable companies the Compensation Committee reviews are included among the composite group used

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in the Performance Graph presented in this proxy statement, consisting of the Center for Research in Security Prices Index ( CRSP ) for NASDAQ Stock Market and the CRSP Index for NASDAQ Health Services Stocks. In light of factors that are unique to the Company, the Compensation Committee believes that, while the Company competes generally with such other health care service companies, the position of the Company as a leading provider of disease management and care enhancement services for health plans in the United States provides unique circumstances. These differences are important factors that the Compensation Committee expects to consider in determining executive compensation and in analyzing comparable financial performance.

The Compensation Committee believes that in addition to corporate performance, it is appropriate in setting and reviewing executive compensation to consider the level of experience and responsibilities of each executive as well as the personal contributions a particular individual may make to the success of the corporate enterprise. Qualitative factors such as leadership skills, analytical skills, organization development, public affairs and civic involvement are deemed to be important qualitative factors to take into account in considering levels of compensation. No relative weight is assigned to these qualitative factors, which are applied subjectively by the Compensation Committee.

*Compensation of Named Executive Officers*

The Compensation Committee believes that the compensation of executive officers should be comprised of base compensation, annual incentive compensation and intermediate and long-term compensation and has applied the policies described herein to fiscal 2003 compensation for executive officers as described below.

*Base Compensation.* In determining whether an increase in base compensation for the executive officers was appropriate for fiscal 2003, the Compensation Committee reviewed recommendations of management and consulted with the Chief Executive Officer. The Compensation Committee determined on the basis of discussions with the Chief Executive Officer, its experience in business generally and with the Company specifically what it viewed to be appropriate levels of base compensation after taking into consideration the contributions of each executive and the performance of the Company. The Compensation Committee did not assign any relative weight to the quantitative and qualitative factors it applied in reaching its base compensation decisions. The minimum increase mandated by employment agreements with the Company s executive officers is the annual CPI increase.

*Annual Incentive Compensation.* The Compensation Committee believes that compensation should primarily be linked to operating performance. To achieve this link with regard to short-term performance, the Compensation Committee for fiscal 2003 relied on cash bonuses awarded under the Annual Incentive Compensation Plan under which cash awards could be earned by the executive officers based upon a comparison of actual earnings per share of the Company and targeted earnings per share approved by the Compensation Committee for fiscal 2003 at the beginning of the fiscal year.

*Intermediate and Long-Term Incentive Compensation.* Stock options, contributions under the Company s 401(k) Plan and contributions under the Company s Capital Accumulation Plan are the principal vehicles for payment of intermediate and long-term compensation. The 401(k) Plan, which is based on a calendar year, provides for a matching contribution by the Company of 52% of the participant s voluntary salary contributions with the Company s contribution limited to the lesser of 3.12% of the executive officer s salary and an annual maximum Company contribution of $12,000, based on a maximum voluntary salary contribution established by the U.S. Department of Labor. Approximately 29% of this matching contribution

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is in the form of Company Common Stock. All matching Company contributions to the 401(k) Plan vest immediately for each executive officer and are payable pursuant to the provisions of the 401(k) Plan.

Under the Company s Capital Accumulation Plan, which is based on a calendar year, the Company makes contributions to the Capital Accumulation Plan on behalf of the executive officers that for calendar 2003 are based on (a) the executive officer s voluntary salary deferrals into the Capital Accumulation Plan and (b) performance against targeted Company earnings per share for fiscal 2003 established prior to the start of the Capital Accumulation Plan year by the Compensation Committee. The portion of the Company s contribution that is based on the executive officer s voluntary salary deferrals provides that to the extent the executive officer cannot defer at least 6% of his/her base salary under the 401(k) Plan because of U.S. Department of Labor maximum contribution limits, then the executive officer can defer the difference between his/her actual deferral and 6% of his/her annual base salary into the Capital Accumulation Plan, and the Company will provide a matching contribution of 52% of the amount deferred. Each executive officer is also eligible to contribute up to an additional 4% of base salary into the Capital Accumulation Plan but no matching contribution will be made by the Company for this portion of the salary deferral.

With respect to the portion of the Capital Accumulation Plan contribution that is based on performance criteria for fiscal 2003 established by the Compensation Committee, executive officers were eligible to receive a Company contribution of between 3.5% and 18.5% of base salary for calendar 2003, provided that a minimum level of Company earnings per share for fiscal 2003 were attained. Awards are made as of December 31 of each year but are based on performance criteria for the fiscal year ended August 31 during that year. Therefore, the actual performance award under the Capital Accumulation Plan credited to executive officers during fiscal 2003 was an award of 18.5% of base salary earned during calendar 2002 based on performance during the fiscal year ended August 31, 2002. In addition, executive officers still employed by the Company as of December 31, 2003, will receive an award of 18.5% of base salary during that calendar year based on actual earnings per share achieved by the Company for fiscal 2003.

The Company s contributions to the Capital Accumulation Plan vest equally over four years, and vested amounts are paid out upon the earliest of (1) one year following an executive s termination of employment, (2) retirement or (3) upon a date selected at the beginning of each Capital Accumulation Plan year by the executive, but in no event will this selected date be earlier than four years from the beginning of the Capital Accumulation Plan year. Capital Accumulation Plan account balances earn interest at a rate equal to the prevailing prime rate of interest plus 1% as of November 1 of each year for the succeeding calendar year.

The Compensation Committee considers that an integral part of the Company s executive compensation program is an equity-based compensation plan which aligns executives long-range interests with those of the stockholders. This long-term incentive program is principally reflected in the 1991 Employee Stock Incentive Plan (the 1991 Plan ), the 1996 Plan and the 2001 Plan.

The Company has no set policy as to when stock options should be awarded, although historically the Company has awarded stock options to its executive officers annually. The Committee believes that the Company should continue to make it a part of its regular executive compensation policies to consider granting awards of non-qualified stock options to executive officers to provide long-term incentives as part of the compensation package that is reviewed annually for each executive officer. The Company s stock option agreements generally have provided that the exercise price of each stock option was the average of the closing bid price of the Company s Common Stock on the first five trading days of the month in which the options were granted; each grant was subject to vesting conditions established at the date of the grant; and stock options vested on an equal basis over a period of four years. Effective July 2003, the exercise price of each

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stock option granted to executive officers is equal to the closing bid price on the date of grant. The Committee s policy is that the material terms of stock options for executive officers should not be amended after grant.

The Committee believes that long-term stock-based incentive compensation should be structured so as to closely align the interests of the executive officers with the interests of the Company s stockholders and, in particular, to provide only limited value (if any) in the event that the Company s stock price fails to increase over time. The Committee determines the award of stock option grants to the executive officers and takes into account the recommendations of the Chief Executive Officer prior to approving annual awards of long-term stock-based incentive compensation to the other executive officers. These stock options are granted in part to reward the senior executives for their long-term strategic management of the Company and to motivate the executives to improve stockholder value by increasing this component of their compensation package, and reflect the Committee s objective to provide a greater portion of compensation for executives in the form of long-term equity-linked awards.

*Compensation of Chief Executive Officer*

The Committee believes that the compensation of the Chief Executive Officer is consistent with its general policies concerning executive compensation and is appropriate in light of the Company s financial objectives and performance. Awards of intermediate and long-term incentive compensation to the Chief Executive Officer are considered concurrently with awards to other executive officers and follow the same general policies as such other intermediate and long-term incentive awards.

In reviewing and approving Mr. Cigarran s fiscal 2003 compensation, the Compensation Committee subjectively took into account the Company s performance in fiscal 2002 as well as the Company s progress in developing its disease management and care enhancement business. In light of these factors, the Compensation Committee determined that Mr. Cigarran would receive an increase in his annual base compensation of 8.75%. Mr. Cigarran received an Annual Incentive Compensation plan award for fiscal 2003 of 35.5% of base salary based on achievement of the same actual earnings per share performance compared to targeted earnings per share for fiscal 2003 as for other executive officers. Mr. Cigarran also received a Company performance contribution pursuant to the Capital Accumulation Plan for calendar 2002 equal to 18.5% of his base salary during that period of time (in addition to the fixed matching contribution required thereunder) and will receive a Company performance award pursuant to the Capital Accumulation Plan equal to 18.5% of his base salary earned during calendar 2003 (this award will not be contributed to his account until December 31, 2003); a matching contribution of $6,757 to the Company s 401(k) Plan on his behalf for the period September 1, 2002 through August 31, 2003; and long-term stock-based incentives granted during February 2003 and August 2003, respectively, in the form of an option to purchase 30,000 shares and 30,000 shares, respectively, of the Company s Common Stock at an exercise price of $18.74 and $35.01 per share, respectively.

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*Compliance with Internal Revenue Code Section 162(m)*

Section 162(m) of the Internal Revenue Code of 1986, as amended (the Code ), enacted as part of the Omnibus Budget Reconciliation Act of 1993, generally disallows a tax deduction to public companies for compensation over $1,000,000 paid to the Chief Executive Officer and four other most highly compensated executive officers. Under IRS regulations, qualifying performance-based compensation will not be subject to the deduction limit if certain requirements are met. The Compensation Committee is unable to determine at this time whether any of the executive compensation arrangements for fiscal 2003 will result in the loss of a tax deduction pursuant to Section 162(m). The Committee will continue to monitor the application of Section 162(m) to executive compensation.

Respectfully submitted,

Frank A. Ehmann, Chairman
John W. Ballantine
Jay Cris Bisgard, M.D.
C. Warren Neel

**Audit Committee Report**

The Audit Committee of the Board of Directors is composed of four directors who are independent directors as defined under the applicable law and NASDAQ listing standards. In accordance with its written charter adopted by the Board of Directors, the Audit Committee of the Board of Directors assists the Board of Directors in fulfilling its responsibility for oversight of the quality and integrity of the accounting, auditing and financial reporting practices of the Company. During fiscal 2003, the Audit Committee met eleven times. The Audit Committee discussed the interim financial information contained in each quarterly earnings announcement with the Chief Financial Officer of the Company and the Company s independent auditors prior to public release of that information.

In discharging its oversight responsibility as to the audit process, the Audit Committee obtained from the independent auditors a formal written statement describing all relationships between the auditors and the Company that might bear on the auditors independence consistent with Independence Standards Board Standard No. 1, Independence Discussions with Audit Committees, discussed with the auditors any relationships that may impact their objectivity and independence and satisfied itself as to the auditors independence. The Audit Committee also discussed with management and the independent auditors the quality and adequacy of the Company s internal controls and disclosure controls. The Audit Committee reviewed with the independent auditors their audit plans, audit scope, and identification of audit risks.

The Audit Committee discussed and reviewed with the independent auditors all communications required by generally accepted auditing standards, including those described in Statement on Auditing Standards No. 61, as amended, Communications with Audit Committees and discussed and reviewed the results of the independent auditors examination of the financial statements.

The Audit Committee reviewed and discussed the audited financial statements of the Company as of and for the fiscal year ended August 31, 2003 with management and the independent auditors. Management has

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the responsibility for the preparation of the Company s financial statements and the independent auditors have the responsibility for the audit examination of those statements.

Based on the above-mentioned review and discussions with management and the independent auditors, the Audit Committee recommended to the Board that the Company s audited financial statements be included in its Annual Report on Form 10-K for the fiscal year ended August 31, 2003, for filing with the Commission.

The Board of Directors has adopted a Restated Charter of the Audit Committee. The Audit Committee reviews and reassesses the adequacy of the Restated Charter annually.

Respectfully submitted,

William C. O Neil, Chairman
Frank A. Ehmann
Martin J. Koldyke
John W. Ballantine

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**Performance Graph**

The following graph compares the total stockholder return of $100 invested on August 31, 1998 in (a) the Company, (b) the CRSP Index for NASDAQ Stock Market (U.S. Companies) ( NASDAQ U.S. Stocks ) and (c) the CRSP Index for NASDAQ Health Services Stocks ( NASDAQ Health Services ), assuming the reinvestment of all dividends.

| | 8/31/98 | **8/31/1999** | **8/31/2000** | **8/31/2001** | **8/30/2002** | **8/29/2003** |
|---|---|---|---|---|---|---|
| AMHC | 100.0 | 89.2 | 80.0 | 420.0 | 341.4 | 701.6 |
| NASDAQ U.S. Stocks | 100.0 | 109.6 | 116.1 | 155.7 | 134.7 | 175.2 |
| NASDAQ Health Services | 100.0 | 185.5 | 284.0 | 121.5 | 89.2 | 122.9 |

Notes:

A. The lines represent annual index levels derived from compounded daily returns that include all dividends.

B. The indexes are reweighted daily, using the market capitalization on the previous trading day.
C. If the monthly interval, based on the fiscal year end, is not a trading day, the preceding trading day is used.
D. The index level for all series was set to $100.00 on August 31, 1998.

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## PROPOSAL NO. 2

## AMENDMENTS TO THE 1996 STOCK INCENTIVE PLAN

The Board of Directors has approved and recommends that its stockholders approve amendments to the 1996 Plan to (i) increase the number of shares of Common Stock available for issuance under the 1996 Plan by 500,000 shares, for a total of 3,870,000 shares subject to option thereunder and (ii) provide that future awards to Outside Directors be in the form of non-qualified stock options instead of restricted stock.

The status of the options outstanding and available for grant under the Company s various stock option plans as of December 1, 2003 is as follows:

| Plan | Shares Subject to Outstanding Options | Shares Available for Option Grants |
|---|---|---|
| 1991 Plan | 167,733 | 0 |
| 1996 Plan | 2,330,646 | 93,357 |
| 2001 Plan | 882,189 | 6,449 |
| Outside Directors Plan | 12,946 | 0 |

Stock options have been granted pursuant to the 1991 Plan, the 1996 Plan, the 2001 Plan and the 1991 Stock Option Plan for Outside Directors (the Outside Directors Plan ) to the Company s key employees and directors to provide them with additional incentive to contribute to the best interests of the Company by aligning their interests with the interests of the Company s stockholders. Of all the options granted under the 1996 Plan, approximately 62% of the options granted were granted to key employees other than executive officers. Approximately 320 employees currently own stock options.

The Board of Directors and management of the Company believe that it is important to grant stock options annually to its key employees and also to grant options to newly hired key employees. The Company believes that its competitive advantage is primarily the result of the knowledge, experience and commitment of its key employees, many of whom have been employed by the Company for several years. The Board of Directors has reviewed the Company s stock incentive program and has concluded that the level of stock incentive program grants is appropriate for and consistent with the Company s current growth strategy. This growth strategy will necessitate additions to the Company s management as well as promotions of existing management. Stock incentives are an essential and common element in the management market in which the Company must compete to hire and retain the quality of leadership needed to support the Company s long-term objectives. Over the past several years the Company s stock incentives have been distributed to a broad spectrum of its management, with approximately 62% of all awards under the 1996 Plan going to key employees other than executive officers of the Company.

In performing its review of the Company s historical use of stock incentives, the Board of Directors found that its option grants per year as a percentage of outstanding stock was well within the range of comparable companies. In addition, while the Company s level of outstanding options plus reserved options may appear somewhat high under some broad comparative measures, it is not inconsistent with comparable companies with a high concentration of their capital invested in human assets as opposed to physical assets. The Board of Directors analysis of its stock incentive programs compared to other companies also reflected that its current level of outstanding options resulted from a relatively low rate of option exercises by employees as well as a relatively low turnover rate for key employees. In addition, the relatively low turnover rate has meant that fewer options have been cancelled and returned to the pool of available options. The Board of Directors

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believes that the low rate of option exercises and low turnover rate reflect the confidence held by the Company s key employees in the future success of the Company s strategy.

As a result of its analysis, the Board of Directors believes that the Company must increase the number of shares available for issuance under the Company s 1996 Plan on an aggregate basis.

Accordingly, on November 17, 2003, the Company s Board of Directors adopted a resolution amending the 1996 Plan, subject to stockholder approval, to increase the number of shares authorized for issuance thereunder by 500,000. The proposed 500,000-share increase will assure that a sufficient reserve of Common Stock will be available under the 1996 Plan to attract and retain the services of employees essential to the Company s long-term growth and financial success. If the amendment as proposed is approved, there will be 3,870,000 shares available for issuance under the 1996 Plan, of which 51,208 shares of restricted stock and options for 2,279,438 shares will be outstanding; options for 945,997 shares authorized under this Plan have been exercised since adoption of the 1996 Plan.

On November 17, 2003, the Board of Directors also amended the 1996 Plan, subject to stockholder approval, to provide that future awards to Outside Directors as part of their annual compensation for serving as directors of the Company be in the form of non-qualified stock options instead of restricted stock. The Board of Directors believes that granting options to Outside Directors will better link their compensation to the long-term interests of the Company and its stockholders.

A copy of the proposed amendments to the 1996 Plan is attached as Exhibit A to this Proxy Statement.

The amendments to the 1996 Plan require the affirmative vote of the holders of a majority of the outstanding shares of Common Stock present and entitled to be cast at the meeting, assuming a quorum is present. The Board recommends that stockholders vote FOR this proposal. Unless contrary instructions are received, shares of Common Stock of the Company represented by duly executed proxies will be voted in favor of approval of the amendment to the 1996 Plan.

**Summary of Material Provisions of the 1996 Plan**

The following is a summary of the material provisions of the 1996 Plan, as proposed to be amended:

*Shares.* The 1996 Plan authorizes the issuance of up to 3,870,000 shares of the Company s Common Stock. Shares awarded under the 1996 Plan may consist, in whole or in part, of any combination of authorized and unissued shares of Common Stock or treasury shares. If shares subject to an option under the 1996 Plan cease to be subject to such option, or if shares awarded under the 1996 Plan are forfeited, or otherwise terminate without a payment being made to the participant in the form of Common Stock and without the payment of any dividends thereon, such shares will again be available for future distribution under the 1996 Plan.

*Participation.* Awards may be made to key employees, including officers, and consultants of the Company, its subsidiaries and affiliates, but (except for grants of options to Outside Directors as described below) may not be granted to any director who is a member of the Committee administering the 1996 Plan or to any other director unless the director is also a regular employee of the Company, its subsidiaries or affiliates. No employee is eligible for awards relative to shares of Common Stock which exceed 225,000 shares in any year. The number of officers and other key employees currently eligible for awards pursuant to the 1996 Plan is approximately 380.

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Subject to stockholder approval, beginning in fiscal year 2003, as part of their compensation for serving as directors of the Company, Outside Directors receive an option to purchase up to 15,000 shares of Common Stock upon their initial election or appointment to the Board of Directors and an option to purchase up to 5,000 shares of Common Stock annually after the initial year. There are currently six Outside Directors eligible to participate in the 1996 Plan.

*Administration.* The 1996 Plan is administered by a Committee of no less than two disinterested individuals appointed by the Board of Directors, which Committee is currently the Compensation Committee; provided, however, that awards to Outside Directors will be administered by the Board of Directors.

*Awards Under the Plan.* The Compensation Committee has the authority to grant the following types of awards to officers and key employees under the 1996 Plan: (1) Stock Options, (2) SARs, (3) Restricted Stock, and (4) Other Stock-Based Awards.

1. Stock Options. Incentive stock options ( ISO ) and non-qualified stock options may be granted for such number of shares of Common Stock as the Compensation Committee will determine and may be granted alone, in conjunction with, or in tandem with, other awards under the 1996 Plan, but subject to the per person limitation on awards.

A stock option will be exercisable at such times and subject to such terms and conditions as the Compensation Committee will determine and over a term to be determined by the Compensation Committee, which term will be no more than ten years after the date of grant. The option price for any ISO will not be less than 100% (110% in the case of certain 10% stockholders) of the fair market value of the Common Stock as of the date of grant and for any non-qualified stock option will be not less than 100% of the fair market value of the Common Stock as of the date of grant.

2. Stock Appreciation Rights. SARs may be granted in conjunction with all or part of a stock option and will be exercisable only when the underlying stock option is exercisable. Once a SAR has been exercised, the related portion of the stock option underlying the SAR will terminate.

Upon the exercise of a SAR, the Company will pay to the employee in cash, Common Stock, or a combination thereof (the method of payment to be at the discretion of the Compensation Committee), an amount of money equal to the excess between the fair market value of the stock on the exercise date and the option exercise price, multiplied by the number of SARs being exercised.

In addition to the foregoing SARs, the Compensation Committee may grant limited SARs which will be exercisable only in the event of a change in control or potential change in control of the Company, as defined in the 1996 Plan. In awarding SARs or limited SARs, the Compensation Committee may provide that in the event of a change in control or potential change in control, SARs or limited SARs may be cashed out on the basis of the change in control price, as defined in the 1996 Plan.

3. Restricted Stock. Restricted stock may be granted alone, in conjunction with, or in tandem with, other awards under the 1996 Plan and may be conditioned upon the attainment of specific performance goals or such other factors as the Compensation Committee may determine. The provisions attendant to a grant of restricted stock may vary from participant to participant.

In making an award of restricted stock, the Compensation Committee will determine the periods during which the stock is subject to forfeiture, which restriction period shall not be less than

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three (3) years, and may grant such stock at a purchase price equal to or less than the par value of the Common Stock.

During the restriction period, the recipient may not sell, transfer, pledge or assign the restricted stock. The certificate evidencing the restricted stock will remain in the possession of the Company until the restrictions have lapsed.

4. Other Stock-Based Awards. The Compensation Committee may also grant other types of awards that are valued, in whole or in part, by reference to or otherwise based on the Common Stock. These awards may be granted alone, in addition to, or in tandem with, stock options, SARs and restricted stock. Such awards will be made upon terms and conditions as the Compensation Committee may in its discretion provide, provided that, with the exception of awards not exceeding ten percent (10%) of the total number of shares of Common Stock authorized under the 1996 Plan which may be granted for any reason whatsoever, the Compensation Committee may not grant Other Stock-Based Awards to officers and directors of the Company unless such awards are granted expressly in lieu of salary and cash bonuses otherwise payable to the officers and/or directors.

*Annual Grants of Stock Options to Outside Directors.* If the amendment to the 1996 Plan is approved by stockholders, as part of the compensation to Outside Directors for serving as directors of the Company, the 1996 Plan provides that upon their initial election or appointment to the Board of Directors, the Outside Directors will receive an option to purchase up to 15,000 shares of Common Stock, the amount of shares to be determined by the Board of Directors. After the initial year and for each year thereafter for so long as such Outside Director is serving on the Board of Directors, such Outside Director will receive an option to purchase up to 5,000 shares of Common Stock, the amount of shares to be determined by the Board of Directors. The options granted to the Outside Directors vest as follows: One-third ( 1/3) of the options will vest on the date of grant, one-third ( 1/3) will vest on the first anniversary of the date of grant and one-third ( 1/3) will vest on the second anniversary of the date of grant. Outside Directors are not otherwise eligible to receive awards under the 1996 Plan.

*Change in Control Provisions.* If there is a change in control or a potential change in control, any SARs and stock options, which are not then exercisable, in the discretion of the Board of Directors, will become fully exercisable and vested. Similarly, the restrictions applicable to restricted stock and other stock-based awards will lapse and such shares and awards will be deemed fully vested. Stock options, SARs, limited SARs, restricted stock and other stock-based awards, will, unless otherwise determined by the Compensation Committee in its sole discretion, be cashed out on the basis of the change in control price described below. All restrictions imposed on restricted stock granted to Outside Directors will expire upon a change in control.

The change in control price will be the highest price per share paid in any transaction reported on The Nasdaq Stock Market, or paid or offered to be paid in any bona fide transaction relating to a potential or actual change in control of the Company, at any time during the immediately preceding 60 day period as defined by the Compensation Committee. A change in control occurs if (1) any person becomes a beneficial owner, directly or indirectly, of 35% or more of the total voting stock of the Company (subject to certain exceptions), (2) as a result of, or in connection with, any cash tender or exchange offer, merger or other business combination or similar transaction, less than a majority of the combined voting power of the then outstanding securities of the Company are held in the aggregate by the holders of Company securities entitled to vote generally in the election of directors immediately prior to such transaction, or (3) during any period of two consecutive years, individuals who at the beginning of such period constitute the Board of Directors cease for any reason to constitute at least a majority thereof. A potential change in control means (1) approval by the stockholders of an agreement which, if completed, would constitute a change in control, or (2) the acquisition by a person of 5% or more of the total voting stock of the Company and the adoption by the Board of Directors of a resolution that a potential change in control, as defined in the 1996 Plan, has occurred.

*Amendment.* The 1996 Plan may be amended by the Board of Directors, except that the Board of Directors may not, without the approval of the Company s stockholders, increase the total number of shares reserved for the purposes of the 1996 Plan, materially increase the benefits accruing to participants under the 1996 Plan, or materially modify the requirements as to eligibility for participation in the 1996 Plan. The Committee is also prohibited from modifying any options to specify a lower exercise price or accept the surrender of outstanding options and authorize the grant of new options in substitution therefor at a lower price. In addition, the provisions of the 1996 Plan relating to grants to Outside Directors may not be amended more than once every six months except to comply with changes in the Code, and the Employee Retirement Income Security Act of 1974, as amended, and the regulations thereunder.

*Adjustment.* In the case of a stock split, stock dividend, reclassification, recapitalization, merger, reorganization, or other changes in the Company s structure affecting the Common Stock, appropriate adjustments will be made by the Compensation Committee, in its sole discretion, in the number of shares reserved under the 1996 Plan and in the number of shares covered by options and other awards then outstanding under the 1996 Plan and, where applicable, the exercise price for awards under the 1996 Plan.

*Federal Income Tax Aspects with Respect to Stock Options and Restricted Stock Awards.* The following is a brief summary of the federal income tax aspects of stock options and restricted stock awards made under the 1996 Plan based upon the federal income tax laws in effect on the date hereof. This summary is not intended to be exhaustive, and does not describe state or local tax consequences.

1. Incentive Stock Options. No taxable income is realized by the participant upon the grant or exercise of an ISO. If Common Stock is issued to a participant pursuant to the exercise of an ISO, and if the participant does not dispose of the shares within two years of the date of grant or within one year after the transfer of the shares to the participant (a disqualifying disposition ), then: (a) upon the sale of the shares, any amount realized in excess of the option price will be taxed to the participant as a long-term capital gain, and any loss sustained will be a capital loss, and (b) no deduction will be allowed to the Company for federal income tax purposes. The exercise of an ISO will give rise to an item of tax preference that may result in an alternative minimum tax liability for the participant unless the participant makes a disqualifying disposition of the shares received upon exercise.

   If Common Stock acquired upon the exercise of an ISO is disposed of prior to the expiration of the holding periods described above, then generally: (a) the participant will recognize ordinary income in the year of disposition in an amount equal to the excess, if any, of the fair market value of the shares at exercise (or, if less, the amount realized on the disposition of the shares) over the option price paid for such shares, and (b) the Company will be entitled to deduct any such recognized amount. Any further gain or loss realized by the participant will be taxed as short-term or long-term capital gain or loss, as the case may be, and will not result in any deduction by the Company.

Subject to certain exceptions for disability or death, if an ISO is exercised more than three months following the termination of the participant s employment, the option will generally be taxed as a non-qualified stock option.

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2. Non-qualified Stock Options. With respect to non-qualified stock options: (a) no income is recognized by the participant at the time the option is granted; (b) generally upon exercise of the option, the participant recognizes ordinary income in an amount equal to the difference between the option price paid for the shares and the fair market value of the shares on the date of exercise, and the Company will be entitled to a tax deduction in the same amount; and (c) at disposition, any appreciation (or depreciation) after the date of exercise is treated either as short-term or long-term capital gain or loss, depending upon the length of time that the participant has held the shares.

3. Restricted Stock. A participant receiving restricted stock generally will recognize ordinary income in the amount of the fair market value of the restricted stock at the time the stock is no longer subject to forfeiture, less the consideration paid for the stock, and the participant s holding period for such stock will begin on that date. However, under Section 83(b) of the Code, a participant may elect, within 30 days of the grant of the stock, to recognize taxable ordinary income on the date of grant equal to the excess of the fair market value of the shares of restricted stock (determined without regard to the restrictions) over the purchase price of the restricted stock. Thereafter, if the shares are forfeited, the participant will be entitled to a capital loss in an amount equal to the purchase price of the forfeited shares regardless of whether the participant made a Section 83(b) election. A participant making the Section 83(b) election will have no further tax consequences at the time the stock is no longer subject to forfeiture, and the participant s holding period for the stock will begin on the grant date.

*Term of Plan.* No awards may be granted pursuant to the 1996 Plan on or after October 25, 2011.

**Options Granted Under the 1996 Plan**

Because awards under the 1996 Plan are made at the discretion of the Compensation Committee, the benefits that will be awarded under the 1996 Plan are not currently determinable.

**Equity Compensation Plans**

The following table summarizes information concerning the Company s equity compensation plans at August 31, 2003:

| | Number of Shares to be Issued Upon Exercise of | Weighted-Average Exercise Price of | Number of Shares Remaining Available for Future Issuance Under Equity Compensation Plans (Excluding Shares Reflected |
|---|---|---|---|

| Plan Category | Outstanding Options | Outstanding Options | in First Column) |
|---|---|---|---|
| Equity compensation plans approved by stockholders | 3,278,951 | $ 15.78 | 325,727 |
| Equity compensation plans not approved by stockholders | 0 | | 0 |
| Total | 3,278,951 | $ 15.78 | 325,727 |

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**PROPOSAL NO. 3**

**AMENDMENT TO**

**CERTIFICATE OF INCORPORATION TO INCREASE AUTHORIZED SHARES OF COMMON STOCK**

On November 17, 2003, the Board of Directors unanimously approved and directed that the stockholders consider an amendment to Paragraph FOURTH of the Company s Certificate of Incorporation. The amendment to Paragraph FOURTH would increase the number of authorized shares of Common Stock from 40,000,000 to 75,000,000. If this proposal is approved by the stockholders at the Annual Meeting, the amendment to Paragraph FOURTH will become effective upon the filing of a Certificate of Amendment with the Secretary of State of Delaware, which filing is expected to take place shortly after the Annual Meeting. The Board of Directors believes that it is in the best interests of the Company and all of its stockholders to amend the Certificate of Incorporation.

Except as set forth below, the relative rights of the holders of Common Stock under the Certificate of Incorporation would remain unchanged. The first sentence of Paragraph FOURTH of the Certificate of Incorporation, as amended by the proposed amendment, is set forth below. The remainder of Paragraph FOURTH will remain unchanged.

> FOURTH. The aggregate number of shares of capital stock the Corporation is authorized to issue is 80,000,000 shares, of which 75,000,000 shares shall be Common Stock, par value $.001 per share (the Common Stock ), and 5,000,000 shares shall be preferred stock, par value $.001 per share (the Preferred Stock ), of which 750,000 shares are designated as Series A Preferred Stock (the Series A Preferred Stock ).

As of December 1, 2003, there were 15,962,840 shares of Common Stock issued and outstanding, 2,330,646 shares subject to options awarded under the 1996 Plan, 167,733 shares subject to options awarded under the 1991 Plan, 882,189 shares subject to options awarded under the 2001 Plan and 12,946 shares subject to options awarded under the Outside Directors Plan. Since August 31, 2000, the Company has issued 1,663,503 shares of Common Stock in connection with acquisitions. On November 17, 2003, the Board of Directors declared a two-for-one stock split in the form of a stock dividend payable on December 19, 2003 to stockholders of record on December 5, 2003. After giving effect to the stock split, as of December 1, 2003, the Company will have 8,074,320 shares of Common Stock available for issuance.

The Board of Directors believes that with the current level of authorized capital stock, the Company is constrained in its ability to pursue strategies intended to support its planned growth and to enhance stockholder value. The Board of Directors considers the proposed increase in the number of authorized shares of Common Stock desirable because it would give the Company the necessary flexibility to issue Common Stock in connection with stock dividends and splits, acquisitions, equity financings and for other general corporate purposes.

Future issuances of Common Stock would be at the discretion of the Board of Directors without the expense and delay incidental to obtaining stockholder approval, except as may be required by applicable law or by the rules of any stock exchange or market on which the Company s securities may then be listed or authorized for quotation. For example, The Nasdaq Stock Market, on which the Common Stock is authorized for quotation, currently requires stockholder approval as a prerequisite to listing shares in several instances, including in connection with acquisitions where the present or potential issuance of shares could result in an increase in the number of shares of Common Stock outstanding by 20% or more.

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Holders of Common Stock have no preemptive rights to subscribe to any additional securities of any class that the Company may issue. The amendment to the Certificate of Incorporation is not being proposed in response to any effort known by management to acquire control of the Company.

The amendment to the Certificate of Incorporation requires the affirmative vote of the holders of a majority of the outstanding shares of Common Stock present and entitled to be cast at the meeting, assuming a quorum is present. The Board of Directors recommends a vote FOR approval of the amendment to the Certificate of Incorporation.

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## COMPLIANCE WITH SECTION 16(a) OF THE

## SECURITIES EXCHANGE ACT OF 1934

Section 16(a) of the Securities Exchange Act of 1934 requires the Company s officers and directors, and persons who own more than 10% of a registered class of the Company s equity securities, to file reports of ownership and changes in ownership with the Commission. Officers, directors and greater than 10% stockholders are required by regulation of the Commission to furnish the Company with copies of all Section 16(a) forms they file.

Based solely on a review of the Forms 3, 4 and 5 and amendments thereto and certain written representations furnished to the Company, the Company believes that during the fiscal year ended August 31, 2003, all filing requirements applicable to its officers, directors and greater than 10% beneficial owners were complied with, except for late Form 4 filings made by Mr. Cigarran, Mr. Leedle, Mr. Stone, Mr. Taylor, Ms. Chaput, Ms. Mary Hunter and Mr. Alfred Lumsdaine in October 2003 each relating to one transaction in August 2003; late Form 4 filings made by Mr. Ehmann, Mr. Koldyke and Mr. O Neil in March 2003 each relating to one transaction in January 2003; a late Form 4 filing made by Dr. Neel in March 2003 relating to one transaction in July 2001 and one transaction in January 2003; a late Form 4 filing made by Mr. Koldyke in October 2003 relating to a total of four transactions which occurred in January 2002, April 2002, December 2002 and January 2003; and a late Form 3 filing made by Mr. Matthew Kelliher in October 2003 relating to one transaction in September 2003.

## RELATIONSHIP WITH INDEPENDENT PUBLIC ACCOUNTANTS

Ernst & Young LLP, which was the Company s independent accountant for fiscal 2003, has been selected by the Audit Committee as the independent public accountant of the Company for the 2004 fiscal year. Ernst & Young LLP s report on the financial statements of the Company for the fiscal year ended August 31, 2003 contains no adverse opinion or disclaimer of opinion and was not qualified or modified as to uncertainty, audit scope or accounting principles. For the fiscal year ended August 31, 2003, there had been no disagreement between the Company and Ernst & Young LLP on any matter of accounting principles or practices, financial statement disclosure, or auditing scope or procedure, which disagreement, if not resolved to the satisfaction of Ernst & Young LLP, would have caused Ernst & Young LLP to make reference to the subject matter of the disagreement in connection with its report. Deloitte & Touche LLP was the Company s independent accountant for fiscal 2002. On November 26, 2002, the Audit Committee dismissed Deloitte & Touche LLP as the independent public accountant for fiscal 2003 and approved the appointment of Ernst & Young LLP as its new independent accountants for fiscal 2003. Deloitte & Touche LLP s report on the financial statements of the Company for the fiscal years ended August 31, 2002 and August 31, 2001 contains no adverse opinion or disclaimer of opinion and were not qualified or modified as to uncertainty, audit scope or accounting principles. For the fiscal years ended August 31, 2002 and 2001 and through November 26, 2002, (i) there had been no disagreement between the Company and Deloitte & Touche LLP on any matter of accounting principles or practices, financial statement disclosure, or auditing scope or procedure, which disagreement, if not resolved to the satisfaction of Deloitte & Touche LLP, would have caused Deloitte & Touche LLP to make reference to the subject matter of the disagreement in connection with its reports, and (ii) there were no reportable events as defined in Item 304(a)(1)(v)(A)-(D) of Regulation S-K.

The Company requested that Deloitte & Touche LLP furnish a letter addressed to the Commission stating whether or not Deloitte & Touche LLP agreed with certain of the above statements. The Company filed a copy of such letter, in which Deloitte & Touche LLP stated such agreement, as an exhibit to a Current Report on Form 8-K filed with the Commission on December 2, 2002.

The Company has been informed that representatives of Ernst & Young LLP plan to attend the Annual Meeting. Such representatives will have the opportunity to make a statement if they desire to do so and will be available to respond to questions by the stockholders.

**Principal Accounting Fees and Services**

The aggregate fees billed for each of the last two fiscal years for professional services rendered to the Company by its professional accountants are shown in the table below.

Audit-Related Fees in fiscal 2002 included consultation services and the financial statement audit of the Company s employee benefit plan. In fiscal 2003, Audit-Related Fees primarily included due diligence services pertaining to the acquisition of StatusOne Health Systems, Inc. and the financial statement audit of the Company s employee benefit plan. Tax Fees in fiscal 2003 and 2002 included tax planning and advice, tax compliance, and review of federal tax returns. All Other Fees primarily included actuarial advisory services in fiscal 2003 and information technology consultation in fiscal 2002.

| | Fiscal Year Ended August 31, | |
|---|---|---|
| **Type of Service** | **2003** | **2002** |
| Audit Fees | $133,415 | $142,776 |
| Audit-Related Fees | 109,503 | 40,500 |
| Tax Fees | 52,401 | 4,250 |
| All Other Fees | 83,989 | 7,000 |
| Total | $379,308 | $194,526 |

The Audit Committee has considered and concluded that the provision of the non-audit services is compatible with maintaining auditor independence.

The Audit Committee has adopted policies and procedures for pre-approving all audit and permissible non-audit services performed by Ernst & Young LLP, its independent auditor. The Audit Committee may delegate pre-approval authority to one or more of its members, but the Audit Committee may not delegate its responsibility to pre-approve services to be performed by its independent accountant to management.

Under these policies, the Audit Committee pre-approves the use of audit and audit-related services following approval of the independent auditors engagement. Tax and other non-audit services that are not prohibited services, provided that those services are routine and recurring services, and would not impair the independence of the independent auditor, may also be performed by the independent auditor if those services are pre-approved by the Audit Committee.

Pre-approval fee levels for all services to be provided by the independent auditor will be established periodically by the Audit Committee. The independent auditor must provide detailed back-up documentation to the Audit Committee for each proposed service.

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## DEADLINE FOR SUBMISSION OF STOCKHOLDER

## PROPOSALS TO BE PRESENTED AT THE 2005 ANNUAL MEETING OF STOCKHOLDERS

Any proposal intended to be presented for action at the 2005 Annual Meeting of Stockholders by any stockholder of the Company must be received by the Secretary of the Company not later than August 22, 2004, in order for such proposal to be considered for inclusion in the Company s Proxy Statement and proxy relating to its 2005 Annual Meeting of Stockholders. In the event that a proposal intended to be presented for action at the 2005 Annual Meeting of Stockholders by any stockholder of the Company is not received until after August 22, 2004, and prior to October 21, 2004, then the management proxies will be permitted to use their discretionary voting authority with respect to that proposal, whether or not the proposal is discussed in the Proxy Statement. Proposals should be sent to the Company by certified mail, return receipt requested. Nothing in this paragraph shall be deemed to require the Company to include any stockholder proposal, which does not meet all the requirements for such inclusion established by the Commission at the time in effect.

## METHOD OF COUNTING VOTES

Unless a contrary choice is indicated, all duly executed proxies will be voted in accordance with the instructions set forth on the back side of the proxy card. Abstentions and non-votes will be counted as present only for the purposes of determining a quorum. Abstentions and non-votes will not be counted either for or against the election of directors. Abstentions will be treated as votes against proposals presented to stockholders other than election of directors. Non-votes will have no effect on the outcome of proposals presented to stockholders. A non-vote occurs when a nominee holding shares for a beneficial owner votes on one proposal, but does not vote on another proposal because the nominee does not have discretionary voting power and has not received instructions from the beneficial owner.

The approval of the amendment to the Company s Certificate of Incorporation to increase the number of shares of Common Stock from 40,000,000 to 75,000,000 requires the affirmative vote of the holders of a majority of the outstanding shares of Common Stock present and entitled to be cast at the meeting, assuming a quorum is present. Therefore, abstentions and broker non-votes effectively count as votes against the amendment.

## MISCELLANEOUS

It is important that proxies be returned promptly to avoid unnecessary expense. Therefore, stockholders who do not expect to attend in person are urged, regardless of the number of shares of stock owned, to date, sign and return the enclosed proxy promptly.

**A COPY OF THE COMPANY S ANNUAL REPORT ON FORM 10-K FOR THE FISCAL YEAR ENDED AUGUST 31, 2003 MAY BE OBTAINED, WITHOUT CHARGE, BY ANY STOCKHOLDER TO WHOM THIS PROXY STATEMENT IS SENT, UPON WRITTEN REQUEST TO MARY A. CHAPUT, SECRETARY, AMERICAN HEALTHWAYS, INC., 3841 GREEN HILLS VILLAGE DRIVE, NASHVILLE, TENNESSEE 37215. COPIES OF EXHIBITS FILED WITH THE FORM 10-K ALSO WILL BE AVAILABLE UPON WRITTEN REQUEST ON PAYMENT OF CHARGES APPROXIMATING THE COMPANY S COST.**

Date: December , 2003.

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**EXHIBIT A**

**AMENDMENTS TO**

**AMERICAN HEALTHWAYS, INC.**

**1996 STOCK INCENTIVE PLAN**

Pursuant to Section 11 of the American Healthways, Inc. 1996 Stock Incentive Plan ( 1996 Plan ), the Board of Directors of American Healthways, Inc. hereby amends the 1996 Plan as follows:

(i) Section 9(a) is deleted in its entirety and replaced with the following:

(a) *General.* The provisions of this Section 9 shall apply only to awards to Outside Directors in accordance with this Section 9. The Committee shall have no authority to determine the timing of or the terms or conditions of any award under this Section 9. On and after the date of the Corporation s 2004 Annual Meeting of Stockholders, no grants shall be made to Outside Directors pursuant to Sections 9(b) through 9(i) hereof, but awards to Outside Directors shall only be made pursuant to Sections 9(j) through 9(t) hereof.

(ii) Section 9 is hereby amended to add Sections 9(k) through 9(t) as set forth below:

(k) *Grant of Stock Options.* Non-Qualified Stock Options will be awarded under this Plan pursuant to the following formula:

(i) On the date of his or her initial election to the Board, whether such election is by the Board or by the Corporation s stockholders, each Outside Director shall be granted a Non-Qualified Stock Option (an Initial Option ) to purchase up to 15,000 shares of the Corporation s Common Stock, the amount of shares to be determined by the Board, subject to adjustment as provided in Section 3, provided that such Optionee has not received an Initial Option on any previous date.

(ii) Commencing with the 2004 Annual Meeting of Stockholders and continuing in effect for each subsequent Annual Meeting, each Outside Director who has served as a director of the Corporation for at least twelve (12) months will be automatically granted on the date of each such Annual Meeting a Non-Qualified Stock Option to purchase up to 5,000 shares of the Corporation s Common Stock, the amount of shares to be determined by the Board, subject to adjustment as provided in Section 3.

(iii) Each Outside Director, other than directors elected to the Board in 2003, will be granted on the date of the 2004 Annual Meeting of Stockholders a Non-Qualified Stock Option (the 2003 Option ) to purchase 5,000 shares of the Corporation s Common Stock, subject to adjustment as provided in

Section 3, at an exercise price of $35.77 per share (the closing price of the Corporation s Common Stock on September 2, 2003).

(l) *Stock Option Price.* Except for the 2003 Options granted pursuant to subsection (k)(iii) above, each Non-Qualified Stock Option granted pursuant to this Section 9 shall represent the right to purchase the shares of Common Stock represented thereby at the Fair Market Value on the date the Non-Qualified Stock Option is granted.

(m) *Stock Option Agreement.* The grant of any Non-Qualified Stock Option shall be evidenced by a written Stock Option Agreement executed by the Corporation and the Optionee.

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The Stock Option Agreement shall contain the number of shares of Common Stock subject to the Non-Qualified Stock Option evidenced thereby, the other essential terms of the Non-Qualified Stock Option determined in accordance with Section 9 hereof, and other terms that are not inconsistent with requirements of this Plan.

(n) *Exercisability.*

(i) One-third of the Non-Qualified Stock Options granted pursuant to Section 9(k) shall vest immediately as of the date of grant.

(ii) One-third of the Non-Qualified Stock Options granted pursuant to Section 9(k) shall vest on the first anniversary of the date of grant, provided that the grantee is still serving as a director of the Corporation on such date.

(iii) The remaining one-third of the Non-Qualified Stock Options granted pursuant to Section 9(k) shall vest on the second anniversary of the date of grant, provided that the grantee is still serving as a director of the Corporation on such date.

(o) *Term.* All Non-Qualified Stock Options shall have a term of ten years from the date of grant, subject to earlier termination as hereinafter provided.

(p) *Forfeiture.* Non-Qualified Stock Options that have not become exercisable on the date the Optionee ceases to serve as a director of the Corporation for any reason shall be forfeited and terminated immediately upon termination of service.

(q) *Termination of Stock Options.* Non-Qualified Stock Options that have become exercisable on the date the termination or expiration of the Optionee s position as a director may be exercised as follows:

(i) *Termination or Resignation from Board following Two Terms as a Director*

If the Optionee shall cease to be a director of the Corporation for any reason other than involuntary termination by the Corporation for Cause and if the Optionee has served at least two full terms as a director of the Corporation, each Non-Qualified Stock Option granted to Optionee shall immediately vest and become fully exercisable and may be exercised by the Optionee for a period of one year from the date of such termination or cessation or until the expiration of the stated term of the Option, whichever period is the shorter (the Exercise Period ); provided, however, that if the Optionee dies during the Exercise Period, any unexercised Non-Qualified Stock Option held by such Optionee shall thereafter be exercisable for a period of three years from the date of such death or until the expiration of the stated term of the Option, whichever is shorter.

(ii) *Retirement or Disability*

If the Optionee shall cease to be a director of the Corporation by reason of retirement or Disability before the Optionee serves two full terms as a director of the Corporation, the Optionee may exercise the Non-Qualified Stock Option if and to the extent it was exercisable on the date of such cessation. Such Non-Qualified Stock Option may be exercised for a period of one year from the date of such cessation or until the expiration of the stated term of such Non-Qualified Stock Option, whichever period is shorter.

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(iii) *Death*

If the Optionee shall cease to be a director of the Corporation by reason of death at any time, the Non-Qualified Stock Option shall vest and become immediately exercisable. Such Non-Qualified Stock Option may be exercised for a period of three years from the date of such death or until the expiration of the stated term of such Non-Qualified Stock Option, whichever period is shorter.

(iv) *Termination for any other reason other than Cause*

If the Optionee shall cease to be a director of the Corporation for any reason other than retirement, Disability, or death before the Optionee serves two full terms as a director of the Corporation, the Optionee may exercise the Non-Qualified Stock Option, to the extent it was exercisable on the date of such cessation, if the Optionee s position as a director was involuntarily terminated by the Corporation without Cause (as defined in Section 5(j)). Such Non-Qualified Stock Options, if exercised, must be exercised within the lesser of three months from the date of cessation or until the expiration of the stated term of the Non-Qualified Stock Option, whichever period is shorter.

(v) *Termination for Cause*

If the Corporation terminates the Optionee s position as a director of the Corporation for Cause, the Non-Qualified Stock Option shall immediately terminate.

(r) *Method of Exercise.* A Non-Qualified Stock Option shall be exercised by delivering to the Corporate Secretary of the Corporation a written notice of exercise in the form prescribed by the Corporate Secretary for use from time to time. Such notice of exercise shall indicate the number of shares for which the Non-Qualified Stock Option is exercised and shall be accompanied by the full exercise price for the Non-Qualified Stock Options exercised.

(s) *Payment of Exercise Price.* The exercise price may be paid in cash (including certified or cashier s check, bank draft or money order), Common Stock, or a combination of Common Stock and cash. The Common Stock so delivered shall be valued at the Fair Market Value of the Common Stock on the date of exercise. No shares of Common Stock shall be issued or delivered until full payment has been made.

(t) *Transferability.* Non-Qualified Stock Options shall not be transferable without the prior written consent of the Committee other than (i) transfers by the Optionee to a member of his or her Immediate Family or a trust for the benefit of Optionee or a member of his or her Immediate Family, or (ii) transfers by will or by the laws of descent and distribution. For purposes of this Section 9(t), Immediate Family shall mean any child, stepchild, grandchild, parent, stepparent, grandparent, spouse, sibling, mother-in-law, father-in-law, son-in-law, daughter-in-law, brother-in-law, or sister-in-law, and shall include adoptive relationships.

(iii) The definition of Stock Option and Option in Section 1(X) is hereby deleted in its entirety and replaced with the following:

X. Stock Option or Option means any option to purchase shares of Stock (including Restricted Stock, if the Committee so determines) granted pursuant to Section 5 or Section 9 below.

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(iv) The first and second sentences of the first paragraph of Section 3 are hereby deleted in their entirety and replaced with the following:

> The aggregate number of shares of Stock reserved and available for distribution under the Plan shall not exceed 3,870,000 shares. Any number of shares of Stock may be awarded so long as the total shares of Stock awarded does not exceed 3,870,000 shares.

(v) The first sentence of the third paragraph of Section 3 is hereby deleted in its entirety and replaced with the following:

In the event of any merger, reorganization, consolidation, recapitalization, extraordinary cash dividend, Stock dividend, Stock split or other change in corporate structure affecting the Stock, an appropriate substitution or adjustment shall be made in the aggregate number of shares reserved for issuance under the Plan, in the number and option price of shares subject to outstanding Options granted under the Plan, in the number of Non-Qualified Stock Options granted to Outside Directors pursuant to Section 9 of the Plan and in the number of shares subject to other outstanding awards granted under the Plan as may be determined to be appropriate by the Committee, in its sole discretion, provided that the number of shares subject to any award shall always be a whole number.

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**P R O X Y**
**AMERICAN HEALTHWAYS, INC.**

**Proxy solicited by the Board of Directors for the Annual Meeting of Stockholders to be held on January 21, 2004.**

The undersigned hereby appoints Thomas G. Cigarran and Mary A. Chaput, and either of them, as proxies, with full power of substitution, to vote all shares of the undersigned as shown below on this proxy at the Annual Meeting of Stockholders of American Healthways, Inc. to be held at the Loews Vanderbilt Plaza, Platinum Foyer, Lower Level, 2100 West End Avenue, Nashville, Tennessee 37203, on January 21, 2004, at 9:00 a.m., local time, and any adjournments thereof.

**PROPOSAL 1: ELECTION OF DIRECTORS:**

o **FOR** all of the following nominees (except as indicated to the contrary below):
Mr. Frank A. Ehmann, Mr. William C. O Neil, Jr., Mr. Ben R. Leedle, Jr.

o **WITHHOLD AUTHORITY (ABSTAIN)** to vote for the following nominees (please print name or names)

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**PROPOSAL 2: AMENDMENTS TO THE 1996 STOCK INCENTIVE PLAN:**

**o FOR o AGAINST o ABSTAIN**

**PROPOSAL 3: AMENDMENT TO CERTIFICATE OF INCORPORATION:**

**o FOR o AGAINST o ABSTAIN**

**In their discretion on any other matter which may properly come before said meeting or any adjournment thereof.**

**IMPORTANT: Please date and sign this proxy on the reverse side.**

Your shares will be voted in accordance with your instructions. If no choice is specified, shares will be voted FOR the nominees in the election of directors, FOR the amendments to the 1996 Stock Incentive Plan and FOR the amendment to the Certificate of Incorporation.

Date: ____________________ .

PLEASE SIGN HERE
AND RETURN PROMPTLY

____________________________

____________________________

Please sign exactly as your name appears at left. If registered in the names of two or more persons, each should sign. Executors, administrators, trustees, guardians and attorneys should show their full titles. If a corporation is stockholder, the corporate officer should sign in full corporate name and title, such as President or other officer. If a partnership is stockholder, please sign in partnership name by authorized person.

IF you have changed your address, please PRINT your new address on this line.