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Letter of Comment No: 2584
File Reference: 1102-100

From: Chaput, Mary [Mary.Chaput@amhealthways.com]

Sent: Wednesday, May 19, 2004 6:57 PM

To: Director - FASB

Subject: File Reference No. 1102-100

American Healthways (NASDAQ: AMHC) is a disease management company just gaining traction after many years of missionary work: proving the validity of our outcomes, establishing quality standards and gaining momentum by producing results for our customers.

So now, there is heavy competition in this new and growing industry, and we use stock options to attract talent and retain our management team, to motivate them to work hard and to share in the wealth that we hope to create for our shareholders.

Because our options are finally "in the money", the pro forma expensing results in a 20% dilution, definitely on the higher side of the average but for good reason. We have paid lower than market salaries during the Company's growth period of the last few years and supplemented those salaries with options pretty much throughout our whole organization.

If we are required to expense options, we will be pressured to reduce option grants (because of the new unfounded sensitivity to them) and as a result, we will probably have to increase salaries and benefits to continue to retain and attract the talent we need to keep growing at the fast clip allowed by the market opportunity. This will add a layer of fixed costs to the Company that could have been otherwise avoided.

There is no question in my mind that mandatory expensing will discourage entrepreneurship and business development, hurting all levels of our organization, and reducing our ability to maintain a competitive advantage that we have already paid for, in terms of blood and good old American sweat.

I do not see how FASB's plan will improve corporate governance, nor help investors gain any better understanding of a company's finances. The pro forma eps table is already available.

Finally, there will now be a "double-dilution" associated with options if required to expense them, and then include them in the # of shares outstanding when they vest.

Broad-based options plans are an entrepreneurial incentive that sparks innovation, enabling the creation and growth of successful companies that in turn provide jobs.

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