

KRONOS INC  
Form DEF 14A  
January 09, 2006

**UNITED STATES**  
**SECURITIES AND EXCHANGE COMMISSION**  
**WASHINGTON D.C. 20549**

**SCHEDULE 14A**

**Proxy Statement Pursuant to Section 14(a) of the**  
**Securities Exchange Act of 1934**  
**(Amendment No. )**

Filed by the Registrant

Filed by a Party other than the Registrant

Check the appropriate box:

Preliminary Proxy Statement

Definitive Proxy Statement

Definitive Additional Materials

Soliciting Material under Rule 14a-12

Confidential, For Use of the Commission Only (as permitted by Rule 14a-6(e)(2))

**KRONOS INCORPORATED**

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(Name of Registrant as Specified In Its Charter)

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

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- No fee required.
- Fee computed on table below per Exchange Act Rules 14a-6(i)(4) and 0-11.

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

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

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(3) Proposed maximum aggregate value of transaction:

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

(1) Amount Previously Paid:

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

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(4) Filing Party:

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(5) Date Filed:

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Notes:

Reg. § 240.14a-101.

SEC 1913 (3-99)

**KRONOS INCORPORATED**

**297 Billerica Road**

**Chelmsford, Massachusetts 01824**

January 9, 2006

Dear Stockholder:

We cordially invite you to attend our 2006 annual meeting of stockholders, which will be held at 10:00 a.m. on Thursday, February 16, 2006 at our offices, which are located at 297 Billerica Road, Chelmsford, Massachusetts 01824.

At this year's annual meeting, the agenda will include the election of directors, approval of our amended and restated 2002 stock incentive plan, and the ratification of the selection of our registered public accounting firm for fiscal 2006. Please refer to the enclosed proxy statement for detailed information on each of these proposals and other important information about Kronos.

We hope you will be able to attend the annual meeting, but we know that not every stockholder will be able to do so. Whether or not you plan to attend, please complete, sign and return your proxy so that your shares will be voted at the annual meeting.

Sincerely,

MARK S. AIN

*Executive Chairman of the Board*

## KRONOS INCORPORATED

297 Billerica Road

Chelmsford, Massachusetts 01824

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### NOTICE OF 2006 ANNUAL MEETING OF STOCKHOLDERS

February 16, 2006

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Dear Stockholder:

The annual meeting of stockholders of Kronos Incorporated will be held at 10:00 a.m. on Thursday, February 16, 2006, at our corporate headquarters located at 297 Billerica Road, Chelmsford, Massachusetts 01824. The purpose of the annual meeting is to:

1. Elect two class II directors to hold office for the next three years.
2. Approve our amended and restated 2002 stock incentive plan.
3. Ratify the selection of Ernst & Young LLP as our registered public accounting firm for the 2006 fiscal year.

Only stockholders of record at the close of business on December 19, 2005 will be entitled to vote at the annual meeting and any and all adjourned sessions thereof. Our stock transfer books will remain open.

To ensure that your vote is recorded promptly, please vote as soon as possible. Most stockholders have three options for submitting their vote. If you are a stockholder of record, you may vote by telephone if you reside in the United States, Canada or the US territories, via the Internet (see the instructions on the proxy card), or by completing, signing and mailing the proxy card in the enclosed postage-paid envelope. If you have Internet access, **we encourage you to record your vote on the Internet**. It is convenient and it saves Kronos significant postage and processing costs. If your shares are held in street name, that is held for your account by a broker or other nominee, you will receive instructions from the holder of record that you must follow for your shares to be voted.

By Order of the Board of Directors,

PAUL A. LACY,

*Secretary*

Chelmsford, Massachusetts

January 9, 2006

## **KRONOS INCORPORATED**

**297 Billerica Road**

**Chelmsford, Massachusetts 01824**

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### **PROXY STATEMENT**

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Our board of directors is soliciting your proxy for the annual meeting of stockholders to be held at our corporate headquarters located at 297 Billerica Road, Chelmsford, Massachusetts 01824, on Thursday, February 16, 2006 at 10:00 a.m. and at any and all adjourned sessions of the annual meeting.

We are mailing our annual report for the fiscal year ended September 30, 2005, to our stockholders with this notice and proxy statement on or about January 9, 2006.

#### **Record Date and Quorum Requirements**

Only stockholders of record at the close of business on December 19, 2005 will be entitled to vote at the annual meeting. The majority of the shares of common stock issued and outstanding and entitled to vote on the record date must be present in person or by proxy to have a quorum for the transaction of business at the annual meeting. Shares of common stock present in person or represented by proxy (including shares which abstain, withhold the vote or do not vote with respect to one or more of the matters presented for stockholder approval) will be counted for purposes of determining whether a quorum exists for a matter presented at the annual meeting. At the close of business on December 19, 2005, we had 31,865,530 shares of common stock issued and outstanding. Each share of common stock is entitled to one vote.

#### **Voting Your Shares and Votes Required**

Your vote is very important. If you do not vote your shares, you will not have a say in the issues to be voted on at this annual meeting. In addition, banks and brokers cannot vote on their clients' behalf on non-routine proposals, such as the adoption of our amended and restated 2002 stock incentive plan, which we refer to as the 2002 plan.

In order to be elected as directors, both of the nominees for director must receive a plurality of the votes cast at the annual meeting. Approval of the 2002 plan and ratification of the selection of Ernst & Young LLP as our registered public accounting firm for the 2006 fiscal year will each require the affirmative vote of a majority of the shares of common stock present or represented by proxy at the annual meeting.

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Shares that abstain from voting on a particular proposal, and shares held in street name by brokers or nominees who indicate on their proxies that they do not have discretionary authority to vote such shares on a particular proposal, will not be counted as votes in favor of such proposal, and will also not be counted as votes cast or shares voting on that proposal. Accordingly, abstentions and broker non-votes will have no effect on the voting on a proposal that requires the affirmative vote of a certain percentage of the votes cast or shares voting on a proposal. However, abstentions are considered to be present or represented in determining whether a quorum exists on a given matter.

### **Submitting Your Proxy**

If you complete and submit your proxy, the persons named as proxies will vote the shares represented by your proxy in accordance with your instructions. If you submit a proxy card but do not fill out the voting instructions on the proxy card, the persons named as proxies will vote the shares represented by your proxy as follows:

FOR the election of the director nominees;

FOR the amendment of the 2002 plan; and

FOR the ratification of the selection of our registered public accounting firm.



To ensure that your vote is recorded promptly, please vote as soon as possible. Most stockholders have three options for submitting their vote. You may vote by telephone using the toll-free number printed on the proxy card if you reside in the United States, Canada or one of the US territories, via the Internet (see the instructions on the proxy card), or by completing, signing and mailing the proxy card in the enclosed postage-paid envelope. If you plan to vote by phone or via the Internet, you should have your proxy card in hand as you will need the control number printed on the card. ***If you have Internet access, we encourage you to record your vote on the Internet.*** It is convenient and it saves Kronos significant postage and processing costs.

Stockholders that attend the annual meeting and wish to vote in person will be given a ballot at the meeting. If your shares are held in street name and you want to attend the annual meeting, you must bring an account statement or letter from the brokerage firm or bank holding your shares showing that you were the beneficial owner of the shares on the record date. If you want to vote shares that are held in street name or are otherwise not registered in your name, you will need to obtain a legal proxy from the holder of record and present it at the annual meeting.

### **Revoking or Changing Your Proxy**

You may revoke or change your proxy at any time before it is voted. For a stockholder of record, meaning one whose shares are registered in his or her own name, to revoke or change a proxy, the stockholder may follow one of the procedures listed below.

1. If you voted by telephone, please call the same toll-free number that you used before. Only your last telephone vote will be counted.
2. If you voted via the Internet, please return to the Internet site printed on your proxy card. Only your last Internet vote will be counted.
3. If you voted by returning a signed proxy card, you may:

submit another properly signed proxy, which bears a later date;

deliver a written revocation to the corporate secretary; or

attend the annual meeting or any adjourned session thereof and vote in person.

If you are a beneficial owner of our common stock, and not the stockholder of record (for example your common stock is registered in street name with a brokerage firm), you must follow the procedures required by the holder of record, which is usually a brokerage firm or bank, to revoke or change a proxy. You should contact the stockholder of record directly for more information on these procedures.

### **Other Information**

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We will bear the expense of soliciting proxies and we have retained Morrow & Co., Inc. to assist us in the solicitation of proxies. We expect to pay the firm a fee of \$7,500 plus expenses. Our officers and certain other employees, without additional remuneration, may also solicit proxies personally or by telephone, e-mail or other means.

**Our annual report on form 10-K for the fiscal year ended September 30, 2005 may be found on the Internet at our website at [www.kronos.com](http://www.kronos.com) or through the SEC's electronic data system called EDGAR at [www.sec.gov](http://www.sec.gov). In addition, we will send any stockholder a free copy of our annual report on form 10-K for the fiscal year ended September 30, 2005, as filed with the SEC, except for exhibits, which may be provided at an additional charge.**

**To receive your copy, please send a written request to the Treasurer, Kronos Incorporated, 297 Billerica Road, Chelmsford, Massachusetts 01824.**

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**SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT**

The table below shows the number of our shares of common stock beneficially owned as of September 30, 2005 by:

each person or group known by us to beneficially own more than 5% of our outstanding common stock;

each director and nominee for director;

each executive officer named in the Summary Compensation Table under the heading "Executive Compensation" below; and

all of our current directors and executive officers of the company as a group.

The number of shares beneficially owned by each 5% holder, director or executive officer is determined by the rules of the Securities and Exchange Commission, and the information does not necessarily indicate beneficial ownership for any other purpose. Under such rules, beneficial ownership includes any shares over which the person or entity has sole or shared voting power or investment power and also any shares that the person or entity can acquire within 60 days of September 30, 2005 through the exercise of any stock option or other right. For purposes of computing the percentage of outstanding shares of common stock held by each person or entity, any shares that the person or entity has the right to acquire within 60 days after September 30, 2005 are deemed to be outstanding with respect to such person or entity but are not deemed to be outstanding for the purpose of computing the percentage of ownership of any other person or entity. Unless otherwise indicated, each person or entity has sole investment and voting power (or shares such power with his or her spouse) over the shares set forth in the following table. The inclusion in the table below of any shares deemed beneficially owned does not constitute an admission of beneficial ownership of those shares. As of September 30, 2005, there were 31,724,460 shares of common stock issued and outstanding. The address of all of our executive officers and directors is in care of Kronos Incorporated, 297 Billerica Road, Chelmsford, MA 01824.

<u>Name and Address of Beneficial Owner</u>	<u>Shares of Common Stock Beneficially Owned</u>	<u>Percentage of Common Stock Outstanding</u>
FMR Corp. 82 Devonshire Street Boston, MA 02109	3,281,991(1)	10.3%
Columbia Wanger Asset Management, L.P. 227 W. Monroe Street, Suite 3000 Chicago, IL 60606	2,744,087(2)	8.6%
T. Rowe Price Associates, Inc. 100 East Pratt Street Baltimore, MD 21202	2,227,749(3)	7.0%
Kayne Anderson Rudnick Investment Management, LLC	1,618,419(4)	5.1%

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1800 Avenue of the Stars, 2<sup>nd</sup> floor

Los Angeles, CA 90067

Aron J. Ain*	77,584(5)	
Mark S. Ain*	455,448(5)	1.4%
W. Patrick Decker*	15,292(5)	
Richard J. Dumler*	24,404(5)	
David B. Kiser*	5,726(5)(6)	
Lawrence J. Portner*	16,688(5)	

Name and Address of Beneficial Owner	Shares of Common Stock Beneficially Owned	Percentage of Common Stock Outstanding
Samuel Rubinovitz*	15,187(5)	
Bruce J. Ryan*	1,200	
Paul A. Lacy	112,561(5)	
Peter George	100,160(5)	
James Kizielewicz	70,541(5)	
All current directors and executive officers as a group (14 persons)	1,076,760(7)	3.3%

\* Director of our company

Less than 1% of the shares of total common stock outstanding as of September 30, 2005.

- (1) Based solely on information contained in a Schedule 13G that FMR Corp. filed with the Securities and Exchange Commission on April 11, 2005. The filing indicated that as of March 31, 2005, FMR Corp. had the sole power to dispose or direct the disposition of 3,281,991 shares and had the sole right to vote or to direct the vote of 924,206 shares.
- (2) Based on information provided to us by Columbia Wanger Asset Management, L.P., these shares consist of 1,700,000 shares held by Columbia Acorn Fund; 266,650 shares held by Columbia Acorn USA; 7,500 shares held by Banque du Louvre Multi Select; 20,000 shares held by Fairfax County Employees Retirement; 32,500 held by New America Small Caps; 4,000 held by Northeastern University; 150,000 held by the State of Oregon; and 563,437 shares held by Wanger US Smaller Companies, a series of Wanger Advisors Trust. Columbia Wanger Asset Management, L.P. acts as investment advisor to each of the registered owners above and as a result, along with its general partner WAM Acquisition G.P., has shared voting authority and dispositive power with respect to these shares of common stock.
- (3) Based on information provided to us by T. Rowe Price Associates, Inc., these shares are owned by various individuals and institutional investors for which T. Rowe Price Associates, Inc. serves as investment advisor with power to direct investments and/or vote the securities. T. Rowe Price Associates has sole dispositive power for 2,227,749 shares and sole voting power for 325,150 shares. For purposes of the reporting requirements of the Securities Exchange Act of 1934, as amended, which we refer to as the Exchange Act, T. Rowe Price Associates is deemed to be a beneficial owner of such securities; however, T. Rowe Price Associates expressly disclaims the beneficial ownership of such shares.
- (4) Based upon information provided to us by Kayne Anderson Rudnick Investment Management, these shares are owned by Kayne Anderson Rudnick Investment Management, who has sole investment and voting power with respect to these shares.
- (5) Includes the following outstanding stock options which may be exercised within 60 days of September 30, 2005: Mr. Aron Ain: 71,000; Mr. Mark Ain: 158,375; Mr. Decker: 5,062; Mr. Dumler: 12,874; Mr. Kiser: 2,576; Mr. Portner: 1,688; Mr. Rubinovitz: 1,687; Mr. Lacy: 101,000; Mr. George: 87,687; Mr. Kizielewicz: 67,187.
- (6) Includes 550 shares held by Mr. Kiser's spouse and 300 shares held by Mr. Kiser's minor son.
- (7) Includes outstanding options to purchase 664,970 shares exercisable within 60 days of September 30, 2005.

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**EQUITY COMPENSATION PLAN INFORMATION**

**As of September 30, 2005**

The following table provides information about securities authorized for issuance under our equity compensation plans as of September 30, 2005:

<u>Plan category</u>	<u>(a)</u>	<u>(b)</u>	<u>(c)</u>
	Number of securities to be issued upon exercise of outstanding options, warrants, and rights	Weighted-average exercise price  of outstanding options,  warrants, and rights	Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in column (a))
Equity compensation plans approved by stockholders(1)	3,361,506(2)	\$ 33.80	2,044,816(3)
Equity compensation plans not approved by stockholders			
<b>TOTAL</b>	<b>3,361,506</b>	<b>\$ 33.80</b>	<b>2,044,816(1)</b>

- (1) Consists of the following equity compensation plans: 1992 equity incentive plan, or 1992 plan, the 2002 plan, and 2003 employee stock purchase plan, or 2003 ESPP, each as amended and/or restated to date. Shares of common stock can only be issued under the 2002 plan and 2003 ESPP.
- (2) Consists of 414,125 shares subject to outstanding options under the 1992 plan, and 2,947,381 shares subject to outstanding options under the 2002 plan. Excludes 627,191 shares issuable or available for issuance under the 2003 ESPP in connection with the current and future offering periods, such shares being included in column (c) of the table.
- (3) Consists of (i) 1,417,625 shares available for issuance under the 2002 plan to our officers, directors, employees, consultants and advisors and (ii) 627,191 shares available for issuance under the 2003 ESPP in connection with the current and future offering periods.

**PROPOSAL I**

**ELECTION OF DIRECTORS**

Our restated articles of organization and amended and restated by-laws, each as amended to date, provide for the classification of our board into three classes, as nearly equal in number as possible. The class I, class II and class III directors are currently serving until the annual meeting of stockholders that will be held in 2008, 2006 and 2007, respectively, and until their respective successors are elected and qualified. At each annual meeting of stockholders, directors are elected for a full term of three years to succeed those whose terms are expiring.

Our board has fixed the number of directors at eight and the number of class II directors at two. There are currently three class I directors, two class II directors and three class III directors.

Unless otherwise instructed, the persons named as proxies will vote all proxies received **FOR** the election of the persons named as nominees below as class II directors for a term of three years, until the annual meeting of stockholders to be held in 2009 and until their respective successors are elected and qualified.

The nominees listed below are currently serving as directors and both of them have indicated that they are willing to continue to serve, if elected. The nominating committee of the board nominated both candidates for election. If either of the nominees should become unavailable, the persons named as proxies will vote all proxies received for a substitute nominee designated by the board, unless instructions are given to the contrary. The board has no reason to believe that either of the nominees will become unavailable.

In the section below, we provide the names and biographical information about the two class II nominees and each other member of the board. Information about the number of shares of common stock beneficially owned by each director as of September 30, 2005 appears above under the heading Security Ownership of Certain Beneficial Owners and Management on page 3.

Other than Mr. Mark Ain, our executive chairman, and Mr. Aron Ain, our chief executive officer, who are brothers, there are no family relationships among any of our directors, nominees for director and executive officers.

**Class II Director Nominees**

**Term Expiring in 2009**

Mark S. Ain, 62

*Executive Chairman of the Board*

*Mark S. Ain*, a founder of our company, has served as a director since our organization in 1977. He became the executive chairman of our board of directors in October 2005. From our organization in 1977 until October 2005, Mr. Ain served as chief executive officer and chairman of the board. He also served as president from 1977 through September 1996. From 1974 to 1977, Mr. Ain operated his own consulting company, providing strategic planning, product development and market research services. From 1971 to 1974, he was associated with a consulting firm. From 1969 to 1971, Mr. Ain was employed by Digital Equipment Corporation both in product development and as sales training director. He received a B.S. from the Massachusetts Institute of Technology and an M.B.A. from the University of Rochester. Mr. Ain is a director of KVH Industries, Inc., LTX Corporation and the National Board of the American Electronics Association.

David B. Kiser, 58

*Director*

*David B. Kiser* served as a director from 1989 to January 1997 and rejoined the board in October 2002. Mr. Kiser is a director with Sage Partners, LLC, a consulting and investment firm specializing in strategic leadership. Before joining Sage, he was an independent management consultant and investor. From 1992 until 1996, he served as chairman of the board and CEO of Gradient Corporation, an environmental consulting firm. Before that he was a partner and director of Cambridge Research Institute, Inc., a general management and healthcare consulting firm.

Information About Continuing Directors

**Class III Directors**

**Terms Expiring in 2007**

Aron J. Ain, 48

*Chief Executive Officer & Director*

*Aron J. Ain*, who is a brother of our executive chairman Mark S. Ain, was elected to the board of directors in November 2005. Mr. Ain became chief executive officer of our company in October 2005. He served as executive vice president and chief operating officer from February 2002 until October 2005 with direct responsibility for our engineering and marketing organizations as well as for worldwide sales and service. Previously, he served as the vice president of our sales and service operations from 1988 until February 2002. Mr. Ain joined our company in 1979 and served in various sales and service positions from 1979 until 1988. He received a B.A. from Hamilton College and participated in the



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executive education program run by the AEA/Stanford Executive Institute. Mr. Ain is a director of Pragmatech Software Inc., and Unica Corporation.

Richard J. Dumler, 63

*Director*

*Richard J. Dumler* has served as a director since 1982. Mr. Dumler joined Milestone Venture Partners II L.P., a venture capital partnership, as a general partner in January 2002. Mr. Dumler has also served as a general partner of Lambda Management, L.P., a venture capital investment company, since 1983, and as vice president of Lambda Fund Management Inc., an investment management company, since 1990. He served as first vice president of Drexel, Burnham, Lambert, Inc. from 1983 to 1990.

Samuel Rubinovitz, 75

*Director*

*Samuel Rubinovitz* has served as a director since 1985 and as lead Director since August 2002. From 1989 until April 1996, he was a director of PerkinElmer, Inc., a diversified manufacturer of scientific instruments and electronic, optical and mechanical equipment. In January 1994, Mr. Rubinovitz retired from his position as executive vice president of PerkinElmer, a position he had held since 1989. From 1986 to 1989, he was senior vice president of PerkinElmer. Mr. Rubinovitz is also director of Richardson Electronics, Inc. and LTX Corporation.

#### **Class I Directors**

#### **Terms Expiring in 2008**

W. Patrick Decker, 58

*Director*

*W. Patrick Decker* has served as a director since 1997. Mr. Decker retired in October 2002. Prior to that, Mr. Decker served as our president and chief operating officer from October 1996 until April 2002. Previously, he served as the vice president of our marketing and field operations from 1982 until October 1996. From 1981 to 1982, Mr. Decker was general manager at Commodore Business Machines, Inc.- New England Division, a personal computer manufacturer. From 1979 to 1980, Mr. Decker was a national sales manager for the General Distribution Division of Data General Corporation, a computer company. Mr. Decker is a director of MatrixOne, Inc.

Lawrence J. Portner, 69

*Director*

*Lawrence J. Portner* has served as a director since 1993. Mr. Portner held the position of vice president of software engineering for Data General Corporation from June 1992 to December 1994 and served as a consultant to Data General Corporation from 1988 to June 1992. Prior to that time, Mr. Portner held the position of vice president and general manager of research and development of Apollo Computer from 1983 to 1986. From 1963 to 1983, Mr. Portner served in various capacities at Digital Equipment Corporation, including vice president of strategic planning.

Bruce J. Ryan, 62

*Director*

*Bruce J. Ryan* has served as a director since August 2005, when he was appointed to serve out the term of D. Bradley McWilliams upon Mr. McWilliams' retirement. Mr. Ryan joined SilverStorm Technologies as a director in 2002 and was appointed as chairman of the board in December 2003. From February 1998 until October 2001, Mr. Ryan served as executive vice president, chief financial officer and director of Global Knowledge Network. Previously, he was executive vice president and chief financial officer at Amdahl Corporation from 1994 to 1997. From 1969 to 1994, Mr. Ryan served in various capacities at Digital Equipment Corporation, including senior vice president of industry

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marketing and vice president and corporate controller. Mr. Ryan is also a director at Axeda Systems, Inc., Enterasys Networks, Inc., and KVH Industries, Inc.

### **Director Compensation**

It is the policy of the board to pay non-employee members of the board through a mixture of cash and equity-based compensation. Each non-employee director receives a quarterly retainer of \$1,250 for his services as a director, \$2,750 for each board meeting attended, and \$1,000 for each committee meeting attended that is not held on the same day as a board meeting. In addition, the chairman of the audit committee receives a quarterly retainer of \$1,500 and each member of the audit committee receives \$500 quarterly. All other board committee chairmen also receive a quarterly retainer of \$500. We also reimburse expenses incurred by non-employee directors to attend board and committee meetings.

In addition, each non-employee director generally receives an annual stock option grant to purchase shares of common stock at a price equal to fair market value on the date of grant, so long as that director meets, as discussed below, the stock ownership guidelines established by the board. Pursuant to the terms of our 2002 plan, the number of shares underlying each annual option grant to our directors is 6,750, subject to increase (up to a maximum of 7,500 shares annually) or decrease in the discretion of the board. On February 10, 2005, each of Messrs. Decker, Dumler, Kiser, McWilliams, Portner and Rubinovitz was awarded a stock option to purchase 5,850 shares of common stock at an exercise price of \$54.38 per share. Upon his election to the board on August 2, 2005, Mr. Ryan was awarded a stock option to purchase 6,750 shares of common stock at an exercise price of \$46.10 per share.

Directors who are also employees of the company do not receive cash or equity compensation for service on our board in addition to compensation payable for their service as employees of the company.

### **Stock Ownership Guidelines**

In October 2003, the board approved new stock ownership and retention criteria. Under these guidelines, all members of the board and all of our executive officers are required to purchase a minimum of \$100,000 worth of our stock, valued at the time of purchase, and to maintain this minimum amount throughout their tenure on the board or as an executive officer. New board members and executive officers will have three years to purchase this minimum amount at the rate of at least one-third per year.

## **CORPORATE GOVERNANCE**

### **The Board and Board Meetings**

The board consists of eight directors. The board has determined that each of the directors, with the exception of Messrs. Aron Ain, Mark Ain and Decker, qualify as independent as defined by applicable NASDAQ and SEC rules. In making this determination, the board has concluded that none of these members has a relationship which, in the opinion of the board, would interfere with the exercise of independent judgment in carrying out the responsibilities of a director. Samuel Rubinovitz has served as lead director since August 2002 and presides over meetings of the independent directors.

During the fiscal year ended September 30, 2005, the board held a total of ten meetings. Each director attended at least 75% of the total number of meetings of the board and at least 75% of the meetings of all committees on which he served. Our corporate governance guidelines, which were adopted in August 2004, provide that directors are expected to attend the annual meeting of stockholders. All the directors attended the 2005 annual meeting of stockholders.

### **Board Committees**

The board currently has, and appoints members to, three standing committees: the audit committee, the compensation committee and the nominating and corporate governance committee. Each member of these committees is independent as defined by applicable NASDAQ® and SEC rules. Each of the committees has a written charter approved by the board. The current members of the committees are identified below:

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<u>Director</u>	<u>Audit</u>	<u>Compensation</u>	<u>Nominating &amp; Corporate Governance</u>
Richard J. Dumler	ü	ü (Chair)	
David B. Kiser	ü		ü
Lawrence J. Portner		ü	
Samuel Rubinovitz		ü	ü (Chair)
Bruce J. Ryan	ü (Chair)		

### **Audit Committee**

The audit committee is composed of three independent directors, Messrs. Ryan, Dumler and Kiser, each of whom meets the independence and financial literacy requirements as defined by applicable NASDAQ<sup>®</sup> and SEC rules. The audit committee assists the board in its general oversight of our financial reporting, internal controls, legal compliance, ethics programs and audit functions, and is directly responsible for the appointment, evaluation, retention and compensation of the registered public accounting firm. The board has determined that Mr. Ryan qualifies as an audit committee financial expert in accordance with the applicable rules and regulations of the SEC.

The audit committee acts under the terms of a written charter initially adopted in May 2000, which was most recently amended and restated in February 2004. The audit committee met ten times during the fiscal year ended September 30, 2005. For more information regarding the audit committee, please refer to the Report of Audit Committee beginning on page 12.

### **Compensation Committee**

The compensation committee, which is appointed by the board, is composed of three non-employee, independent directors as defined by applicable NASDAQ<sup>®</sup> rules. The committee is responsible for establishing and administering the policies that govern both annual compensation and equity ownership. It reviews and approves salaries, bonus and incentive compensation, perquisites, equity compensation, and all other forms of compensation for our executive officers, including the chief executive officer. The compensation committee is also responsible for reviewing and administering our incentive compensation plans, equity incentive programs and other benefit plans. It periodically reviews and makes recommendations to the board with respect to director compensation. The compensation committee met three times during the fiscal year ended September 30, 2005. For more information regarding the compensation committee, please refer to the Report of Compensation Committee beginning on page 13.

### **Nominating and Corporate Governance Committee**

The nominating and corporate governance committee, which is appointed by the board, is composed of two independent directors as defined by applicable NASDAQ<sup>®</sup> rules. The nominating and corporate governance committee identifies individuals qualified to become members of the board, recommends nominees for director to the board, develops and reviews applicable corporate governance principles, reviews and makes recommendations to the board with respect to senior executive succession planning and oversees the evaluation of the board and management. The nominating committee met once during the fiscal year ended September 30, 2005.

The nominating and corporate governance committee acts under the terms of a written charter, which is not presently available on our website. A copy of the nominating and corporate governance committee charter, as in effect on the date of this proxy statement, is attached as Appendix A.

### **Director Candidates**

In the event of a vacancy on the board, the process followed by the nominating and corporate governance committee to identify and evaluate director candidates includes requests to board members and others for recommendations, meetings from time to time to evaluate biographical information and background material relating to potential candidates and interviews of selected candidates by members of the committee and the board.

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In considering whether to recommend any particular candidate for inclusion in the board's slate of recommended director nominees, the nominating and corporate governance committee applies the criteria set forth in our corporate governance guidelines. These criteria include the candidate's integrity, business acumen, knowledge of our business and industry, experience, diligence, absence of conflicts of interest and the ability to act in the interests of all stockholders. The committee does not assign specific weights to particular criteria and

no particular criterion is a prerequisite for each prospective nominee. We believe that the backgrounds and qualifications of our directors, considered as a group, should provide a composite mix of experience, knowledge and abilities that will best allow the board to fulfill its responsibilities.

Stockholders may recommend individuals to the nominating and corporate governance committee for consideration as potential director candidates by submitting their names, together with appropriate biographical information and background materials and a statement as to whether the stockholder or group of stockholders making the recommendation has beneficially owned more than 5% of our common stock for at least a year as of the date such recommendation is made, to Nominating and Corporate Governance Committee, c/o Corporate Secretary, Kronos Incorporated, 297 Billerica Road, Chelmsford, MA 01824. Assuming that appropriate biographical and background material has been provided on a timely basis, the committee will evaluate stockholder-recommended candidates by following substantially the same process, and applying substantially the same criteria, as it follows for candidates recommended by our board or others. If the board determines to nominate a stockholder-recommended candidate and recommends his or her election, then his or her name will be included in the proxy card for the next annual meeting.

Stockholders also have the right under our bylaws to directly nominate director candidates, without any action or recommendation on the part of the nominating and corporate governance committee or the board, by following the procedures set forth under *Deadline for Submission of Stockholder Proposals for the 2006 Annual Meeting* on page 32. Candidates nominated by stockholders in accordance with the procedures set forth in the bylaws will not be included in our proxy card for the next annual meeting.

### **Communicating with the Independent Directors**

Our board will give appropriate attention to written communications that are submitted by stockholders, and will respond if and as appropriate. Our lead director, Mr. Rubinovitz, with the assistance of our general counsel, is primarily responsible for monitoring communications from stockholders and for providing copies or summaries to the other directors as he considers appropriate.

Communications are forwarded to all directors if they relate to important substantive matters and include suggestions or comments that the lead director, with the assistance of our general counsel, considers to be important for the directors to know. In general, communications relating to corporate governance and long-term corporate strategy are more likely to be forwarded than communications relating to ordinary business affairs, personal grievances and matters as to which we tend to receive repetitive or duplicative communications.

Stockholders who wish to send communications on any topic to the board should address such communications to Kronos Incorporated Board of Directors, c/o Corporate Secretary, Kronos Incorporated, 297 Billerica Road, Chelmsford, MA 01824.

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

We have adopted a written code of conduct and ethics that applies to all our directors, officers and employees, including our chief executive officer and our chief financial and accounting officer. We have posted a current copy of the code on our website, which is located at [www.kronos.com](http://www.kronos.com). In addition, we intend to post on our website all disclosures that are required by law or NASDAQ® listing standards concerning any amendments to, or waivers from, any provision of the code.



**Compensation Committee Interlocks and Insider Participation**

All members of the compensation committee are independent directors, and none of them are present or past employees or officers of ours or any of our subsidiaries. No member of the compensation committee has had any relationship with us requiring disclosure under Item 404 of Regulation S-K under the Exchange Act. None of our executive officers has served on the board or compensation committee (or other committee serving an equivalent function) of any other entity, one of whose executive officers served on our board or compensation committee.

**REPORT OF AUDIT COMMITTEE**

The audit committee is responsible for assessing the information provided by management and the registered public accounting firm in accordance with its business judgment. Management is responsible for the preparation, presentation and integrity of our financial statements and for the appropriateness of the accounting principles and reporting policies that are used. Management is also responsible for testing the system of internal controls, and reports to the audit committee on any deficiencies found. Our registered public accounting firm, Ernst & Young, is responsible for auditing the financial statements and for reviewing the unaudited interim financial statements.

The audit committee reviewed with our registered public accounting firm the overall scope and plan of the audit. In addition, it met with our registered public accounting firm, with and without management present, to discuss the results of Ernst & Young's examination, the evaluation of our system of internal controls, the overall quality of our financial reporting and such other matters as are required to be discussed under generally accepted auditing standards. The audit committee has also received from, and discussed with, our registered public accounting firm the matters required to be discussed by Statement on Auditing Standards 61 (Communication with Audit Committees).

The audit committee has discussed with Ernst & Young that firm's independence from management and our company, including the matters in the written disclosures and the letter required by the Independence Standards Board Standard No. 1. The audit committee has also considered the compatibility of audit related and tax services with the auditors' independence.

In fulfilling its oversight responsibilities, the audit committee has reviewed and discussed the audited financial statements in the Annual Report on Form 10-K for the year ended September 30, 2005 with both management and our registered public accounting firm. The audit committee's review included a discussion of the quality and integrity of the accounting principles, the reasonableness of significant estimates and judgments, and the clarity of disclosures in the financial statements.

In reliance on the reviews and discussions referred to above, the audit committee recommended to the board, and the board has approved, that the audited financial statements be included in the Annual Report on Form 10-K for the year ended September 30, 2005 for filing with the Securities and Exchange Commission. The audit committee has recommended to the board the reappointment of Ernst & Young as our registered public accounting firm for the 2006 fiscal year.

By the Audit Committee of the Board of Directors:

Bruce J. Ryan, Audit Committee Chair  
Richard J. Dumler, Audit Committee Member  
David B. Kiser, Audit Committee Member

## REPORT OF COMPENSATION COMMITTEE

### Introduction

Typically, the chief executive officer and executive chairman of the board make recommendations to our committee with respect to executive compensation. We review their proposals and make a final determination concerning the scope and nature of compensation arrangements. To assist us in this endeavor, we may from time to time retain the advice of an independent consultant and/or commission compensation surveys or studies as the need arises. In fiscal 2005, the committee retained the services of a nationally recognized third party advisor in connection with its review of executive compensation.

We believe that it is important that our stockholders understand our philosophy regarding executive compensation, and how this philosophy manifests itself in our various compensation plans.

### Philosophy

All of our compensation programs are designed to attract and retain key employees, motivating them to achieve and rewarding them for superior performance. Different programs are geared to short and longer-term performance with the goal of increasing stockholder value over the long term.

Executive compensation programs impact all employees by setting general levels of compensation and helping to create an environment of goals, rewards and expectations. Because we believe the performance of every employee is important to our success, we are mindful of the effect of executive compensation and incentive programs on all of our employees.

We believe that the compensation of our executives should reflect their success in attaining key operating objectives, such as growth of sales, growth of operating earnings and earnings per share and growth or maintenance of market share and long-term competitive advantage, and ultimately, in attaining an increased market price for the stock. We believe that the performance of the executives in managing our company, considered in the light of general economic and specific company, industry and competitive conditions, should be the basis for determining their compensation, bonuses and stock option awards. We also believe that their compensation should not be based on the short-term performance of our stock, whether favorable or unfavorable, but rather that the price of our stock will, in the long-term, reflect our operating performance, and ultimately, the management of the company by our executives. We seek to have the long-term performance of our stock reflected in executive compensation through our stock option and other equity incentive programs.

### Programs

We currently have three major components to our executive compensation plans: salary, bonus and stock option and other equity incentive programs. At the beginning of each year, we review the history of each executive officer's total compensation over each of the past five years and compare the compensation of the executive officers with that of the executive officers in an appropriate market comparison group.

**Base Salary**

Each year a company-wide target is set for merit increases. This is based upon our performance, which may include the company's financial performance relative to prior year plan, its competitive position and its prospects for the coming year, all in light of industry and economic conditions. Proposed executive salaries take this target into account along with the individual executive's level of responsibility, experience and performance. In determining whether the proposed base salaries are appropriate, our committee compares them to salary compensation at comparably sized companies in the electronics and software industries on both the national level and the local Massachusetts area, taking into account Kronos' performance in comparison to theirs. To track these considerations, we rely on salary surveys conducted by third parties, SEC filings and our own knowledge of compensation at companies in the greater Boston metropolitan area. In fiscal 2005, the committee also retained a third party to advise it on appropriate salary levels for our executive officers for fiscal 2006.

Our goal is to establish salary compensation for our executive officers based on our company's operating performance relative to comparable peer companies over a three to five year period. In doing so, we take into account the salary compensation of officers with comparable qualifications, experience and responsibilities at our peer companies. However, while this may result in relatively high compensation for our senior officers because of their performance, it is our policy not to pay our chief executive officer at the highest level relative to his peers but rather to set his compensation on a basis relative to the other members of our senior management team. We believe that this gives us the opportunity to attract and retain talented managerial employees both at the senior executive level and below.

### **Bonus**

The management incentive plan is designed to reward our executives for the achievement of shorter-term financial goals, principally increases in pre-tax income. It is our general philosophy that management be rewarded for their performance as a team in the attainment of these goals, rather than individually. Although each executive officer is eligible to receive an award under the plan, the granting of the awards to any individual or the officers as a group is entirely at the discretion of our committee. We may choose to award the bonus or not, and decide on the actual level of the award in light of all relevant factors after completion of the fiscal year.

At the beginning of fiscal 2005, our committee set guidelines for bonus awards based primarily upon our achievement of pre-tax income performance goals relative to our financial plan for fiscal 2005. The target bonus amount for each executive officer under the plan was established at 40% of each officer's f