

CHOLESTECH CORPORATION
Form 10-K/A
July 19, 2007

**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION**

Washington, D.C. 20549

FORM 10-K/A

(Amendment No. 1)

(Mark
One)

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES
EXCHANGE ACT OF 1934

FOR THE FISCAL YEAR ENDED MARCH 30, 2007

OR

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES
EXCHANGE ACT OF 1934

FOR THE TRANSITION PERIOD FROM TO

Commission file number: 000-20198

CHOLESTECH CORPORATION

(Exact name of registrant as specified in its charter)

California

(State or other jurisdiction of
incorporation or organization)

94-3065493

(I.R.S. Employer
Identification No.)

3347 Investment Boulevard

Hayward, California

(Address of principal executive offices)

94545

(Zip Code)

Registrant's telephone number, including area code:

(510) 732-7200

Securities registered pursuant to Section 12(b) of the Act:

Title of each class

Common Stock, no par value

Series A Participating Preferred Stock, no par value

Name of each exchange on which registered:

**The NASDAQ Stock Market LLC
(The NASDAQ-GM)**

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Securities registered pursuant to Section 12(g) of the Act:

None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes No

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of the registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of accelerated filer and large accelerated filer in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer Accelerated filer Non-accelerated filer

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes No

The aggregate market value of the voting stock held by non-affiliates of the registrant, based on the closing sale price of the common stock on September 29, 2006 as reported on the NASDAQ Stock Market LLC, was approximately \$159,656,000. Shares of common stock held by each executive officer and director and by each person who owns 5% or more of the outstanding common stock have been excluded from this computation. This determination of affiliate status is not necessarily a conclusive determination for other purposes. The registrant does not have any non-voting stock.

As of May 31, 2007, the registrant had outstanding 15,585,369 shares of common stock.

DOCUMENTS INCORPORATED BY REFERENCE

None

CHOLESTECH CORPORATION

EXPLANATORY NOTE

This Amendment No. 1 on Form 10-K/A (the "Form 10-K/A") to the Annual Report on Form 10-K for the year ended March 30, 2007, which was initially filed with the SEC on June 13, 2007 (the "Original Filing") is being filed with the SEC to provide the information required pursuant to the rules of the SEC in Part III, items 10, 11, 12, 13, and 14 of the Original Filing. In addition, pursuant to the rules of the SEC, Item 15 of Part IV of the Original Filing has been amended to contain currently dated certifications from Cholestech's Chief Executive Officer and Chief Financial Officer, as required by Sections 302 and 906 of the Sarbanes-Oxley Act of 2002 with respect to this Form 10-K/A. The currently dated certifications of Cholestech's Chief Executive Officer and Chief Financial Officer are attached to this Form 10-K/A as Exhibits 31.1, 31.2 and 32.

As used in this Form 10-K/A, references to "Cholestech," "the Company," "we," "our," or "us," mean Cholestech Corporation, unless the context otherwise indicates.

All information contained in this Amendment is as of the original filing date of the Annual Report on Form 10-K for the fiscal year ended March 30, 2007 and does not reflect any subsequent information or events other than as described above.

PART III

ITEM 10. DIRECTORS AND EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE

Directors

The following is biographical information, as of June 30, 2007, of the seven members of the Board of Directors of Cholestech:

John H. Landon, age 66, has served as a director of Cholestech since December 1997 and as our chairman since August 2000. Mr. Landon served as the vice president and general manager of Medical Products for E.I. DuPont de Nemours and Company from 1992 until his retirement in 1996. Prior to that, Mr. Landon served in various capacities at DuPont, including vice president and general manager, Diagnostics and Biotechnology from 1990 to 1992, director of Diagnostics from 1988 to 1990, business director of Diagnostic Imaging from 1985 to 1988 and in various other professional and management positions at DuPont from 1962 to 1985. Mr. Landon is also a director of Digene Corporation and Christiana Care Health System and has previously served as a director of the GenVec, Inc. Advanced Medical Technology Association (AdvaMed) and the DuPont Merck Pharmaceutical Company. Mr. Landon earned a Bachelor of Science degree in Chemical Engineering from the University of Arizona.

Warren E. Pinckert II, age 63, has served as our president, chief executive officer and a director since June 1993. Mr. Pinckert served as our executive vice president of operations from 1991 to June 1993, as our chief financial officer and vice president of business development from 1989 to June 1993 and as our secretary from 1989 to January 1997. From 1983 to 1989, Mr. Pinckert was chief financial officer of Sunrise Medical Inc., an international durable medical equipment manufacturer. Mr. Pinckert also serves on the Board of Advisors for the San Francisco State University School of Business. Mr. Pinckert earned a Bachelor of Science degree in Accounting and a Masters of Business Administration degree from the University of Southern California.

Michael D. Casey, age 61, has served as a director of Cholestech since February 2001. Mr. Casey served as the chairman, president, chief executive officer and a director of Matrix Pharmaceutical, Inc. from 1997 until his retirement in February 2002. From November 1995 to December 1996, Mr. Casey was executive vice president at Schein Pharmaceutical, Inc. In December 1996, he was appointed president of the retail and specialty products division of Schein. From June 1993 to November 1995, he served as president and chief operating officer of Genetic Therapy, Inc. Mr. Casey was president of McNeil Pharmaceutical (a unit of Johnson & Johnson) from 1989 to June 1993 and vice president, sales and marketing for Ortho Pharmaceutical Corp. (a subsidiary of Johnson & Johnson) from 1985 to 1989. Mr. Casey is also a director of Celgene Corporation, Allos Therapeutics, Inc., Durect Corporation and AVI BioPharma.

John L. Castello, age 71, has served as a director since August 1993. Mr. Castello is the chairman, president and chief executive officer of Xoma Ltd., a biotechnology company. Mr. Castello joined Xoma in April 1992 as president and chief executive officer and became chairman in 1993. He served as president of Ares Sero

Diagnostics from 1986 to 1988, president and chief operating officer of The Ares Serono Group from 1988 to 1991 and chairman of Ares Serono Inc. from 1991 to 1992. From 1960 to 1986, Mr. Castello held various senior management positions at Amersham International plc, Abbott Laboratories, General Foods and Honeywell Corp. Mr. Castello earned a Bachelor of Science degree in Mechanical and Industrial Engineering from Notre Dame University.

Elizabeth H. Dávila, age 62, has served as a director since August 2003. Ms. Dávila served as chairman of the board and chief executive officer of VISX, Incorporated, a developer of proprietary technologies and systems for laser vision correction, from 2001 until May 2005 when VISX was acquired by Advanced Medical Optics, Inc. She is currently a member of the board of directors of Advanced Medical Optics. From 1995 to 2001, Ms Dávila held the positions of president, executive vice president and chief operating officer at VSX and served as a director since December 1995 at VISX. Prior to joining VISX, Ms. Dávila was at Syntex Corporation from 1977 to 1994 where she held senior management positions in its medical device, medical diagnostics, and pharmaceutical divisions. Ms. Dávila also serves on the board of directors of Nugen Technologies, Inc. She holds a masters degree in chemistry from the University of Notre Dame and an MBA from Stanford University.

Stuart Heap, age 58, has served as a director since March 2003. Mr. Heap served as chief executive officer of Regent Medical, a manufacturer of surgical gloves for the healthcare industry until his retirement in 2006. From January 2002 to June 2004, Mr. Heap served as chief executive officer and president of SSL-Americas. From January 1998 to December 2001, Mr. Heap served as the president of the contact lens division of CIBA Vision Corp., a subsidiary of Novartis AG. Mr. Heap was the head of global marketing for CIBA Vision from June 1995 to June 1997. Mr. Heap earned a Bachelor of Science degree in Engineering from Salford University in the United Kingdom.

Larry Y. Wilson, age 57, has served as a director since May 1998. Mr. Wilson has served as the senior vice president, finance of Kaiser Foundation Health Plan since September 2005. From January 2002 to September 2005, Mr. Wilson held the position of senior vice president and chief financial officer for Northern California for Kaiser Foundation Health Plan, Inc. From 1987 to June 2001, Mr. Wilson served as the executive vice president and chief operating officer of Catholic Healthcare West. Mr. Wilson served as the executive vice president and chief financial officer of Mercy Health System, a predecessor of Catholic Healthcare, from 1983 to 1986 and as a principal of the Health and Medical Division of Booz Allen Hamilton, a consulting company, from 1979 to 1983. From 1995 to December 2001, Mr. Wilson served as an officer and director of the California Healthcare Association and as its chairman in 2000. Mr. Wilson earned a Bachelor of Arts degree in English from Harvard University and a Masters of Business Administration degree from Stanford University.

Executive Officers

Biographical information regarding Cholestech's executive officers as of June 13, 2007 is found in Part I, Item 1 of the Original Filing under the heading Executive Officers. There are no immediate family relationships between or among any of our executive officers or directors.

Section 16(a) Beneficial Ownership Reporting Compliance

Section 16(a) of the Securities Exchange Act of 1934, as amended, requires our directors, executive officers and persons who beneficially own more than 10 percent of our common stock to file with the Securities and Exchange Commission reports of ownership regarding the common stock and other Cholestech equity securities. These persons are required by the Securities and Exchange Commission regulations to furnish us with copies of all Section 16(a) reports they file. To our knowledge, based solely on a review of copies of the Section 16(a) reports received during the period from April 1, 2006 until March 30, 2007 and written representations from each of our directors and executive officers, all of our directors and executive officers complied with the applicable Section 16(a) filing requirements.

Code of Conduct

The Company has adopted a code of ethics, which is part of our Code of Business Conduct and Ethics that applies to all of our directors, officers and associates of the Company. In addition, the Company has also adopted a Code of Ethics for Principal Executive and Senior Financial Officers. These Codes of Ethics are posted on the Company's website at www.cholestech.com.

We intend to satisfy the disclosure requirement under Item 5.05 of Form 8-K regarding an amendment to, or waiver from, a provision of this code of ethics by posting such information on our website, at the address and location specified above, or as otherwise required by the NASDAQ Global Market.

Audit Committee

The board of directors of Cholestech has established our audit committee to, among other things, recommend to the board the selection of the independent registered public accounting firm, overseeing actions taken by our independent registered public accounting firm and reviewing our internal accounting controls. The audit committee is authorized to conduct such reviews and examinations as it deems necessary or desirable with respect to the practices and procedures of the independent registered public accounting firm, the scope of the annual audit, accounting controls, practices and policies, and the relationship between us and our independent registered public accounting firm, including the availability of our records, information and personnel. The audit committee acts under a written charter adopted and approved by our board of directors. A copy of the charter is available at the Investor Relations section of our website at <http://www.cholestech.com>.

During fiscal 2007, the audit committee consisted of Larry Y. Wilson (Chair), Elizabeth H. Davila, and Stuart Heap. In fiscal 2007, the board determined that the audit committee was composed of independent directors in accordance with the NASDAQ Global Market listing standards and all current audit committee members are financially literate under NASDAQ Global Market listing standards and that Mr. Wilson qualifies as an audit committee financial expert within the meaning of Securities and Exchange Commission regulations. No member of the audit committee received any compensation from Cholestech during the last fiscal year other than related to his services on the board.

Compensation Committee

The compensation committee is responsible for developing our overall compensation philosophy and for evaluating and recommending all elements of executive officer compensation (including cash, short-term incentives and equity incentives) to our board of directors for approval. The compensation committee also evaluates and recommends compensation levels for our non-employee directors and oversees and administers our incentive compensation and benefit plans. The compensation committee acts under a written charter adopted and approved by our board of directors and may, in its discretion, obtain the assistance of outside advisors, including compensation consultants, legal counsel and accounting and other advisors. A copy of the charter is available at the Investor Relations section of our website at <http://www.cholestech.com>.

During fiscal 2007, the compensation committee consisted of John L. Castello (Chair), John H. Landon, Elizabeth H. Davila and Stuart Heap

Item 11. Executive Compensation

Compensation Discussion and Analysis

The compensation committee establishes and administers our executive compensation program. The compensation committee has direct oversight of the compensation and benefit programs for executive officers who have significant influence and responsibilities for operations and financial accounting. Reports of the compensation committee's actions and recommendations are provided to the full board of directors.

This discussion provides the philosophical principles, program elements and other factors considered by the compensation committee in making decisions about and the rationale for such decisions regarding executive compensation, including compensation for each person who served as chief executive officer and chief financial officer in fiscal 2007 and the next three most highly compensated persons serving as executive officers as of March 30, 2007 (these five individuals are referred to in this Form 10-K/A as the named executive officers).

Compensation Philosophy and Committee Process.

Cholestech's compensation and benefits programs are driven by our business environment and are designed to enable us to achieve our mission. Cholestech is committed to being the leading provider of tools and information for immediate risk assessment and therapeutic monitoring of heart disease, diabetes and other chronic diseases to enable all people to lead longer, healthier and more active lives. This important mission for the business requires a leadership team committed to near term as well as long-term business performance to create value for all stakeholders—our shareholder's, patients and employees. Cholestech's executive compensation program is designed to support this mission by attracting, as needed, executives with the skills necessary to achieve our business plan priorities, to reward those executives fairly over time, to retain our executives who continue to perform at or above the levels of performance we expect from our leaders and to closely align the compensation of our executives with the performance of our company on a near- and long-term basis. Cholestech's executive compensation program is designed to incentivize the executives to make decisions for the Company that will maximize shareholder value over time. Executives are not rewarded for non-satisfaction of goals and goals are not set that are effectively beyond an executive's or the Company's control.

To encourage executives to act in this way, our executive compensation programs are designed to:

- attract and retain the types of executive who have the abilities that we view as critical to the Company's long term success;
- motivate executives to perform at their highest level, and reward those individuals who demonstrate outstanding achievement;
- keep a portion of the executive's total compensation package at risk, relating that portion to the satisfaction of stated financial, organizational and management performance goals;
- encourage executives to manage the Company's affairs from a shareholder's viewpoint; and
- align our business objectives with the actions and behaviors required from our leaders to be successful.

To attain these goals, our executive compensation program design consists of base salary, a short term cash bonus plan and equity, typically in the form of stock options. Executives also participate in the benefit programs that we offer to all full-time associates.

Company and individual performance are strongly considered when we grant base salary increases, bonus and equity awards. Our short term incentive program, which also benefits approximately 25% of our workforce, provides awards to the named executive officers based on a combination of Company performance and the satisfaction of individual objectives. These objectives are established at the beginning of the fiscal year. If minimum Company goals are not satisfied, no payments are made under this program, and if exceptional performance occurs, above target payments may be made.

In developing our overall executive compensation program as a whole and in setting individual pay levels for the named executive officers, we strive to meet the following goals:

- to pay a total compensation package that is competitive in the life sciences industry; we define competitive to mean the median of market practices.
- to use, assuming that it makes sense for the Company, executive pay practices that are commonly found in the life sciences industry to ensure the total program is aligned with fair and reasonable industry practices;
- to pay base salaries, and award merit increases, on the basis of the individual executive's, performance contributions and the internal value of the position; and
- to maintain a pay for performance outlook, particularly in our incentive programs. This enables the compensation committee to differentiate among executives and emphasize the link between their personal performance and compensation.

Executive compensation program components

Our executive compensation program consists of three elements:

- base salary;
- short term cash bonus (our Management Incentive Bonus Program or MIBP); and
- grants of fair market value equity, typically in the form of stock options.

We use this mix of programs for a variety of reasons because these types of programs as a package:

- are typically offered by the types of companies from which we would seek to attract and retain executive talent;
- provide both a current and a long term incentive for the executive officers, thereby aligning the executives interests with shareholders; and
- provide the executives with short and long term awards to recognize their contribution to the company s success.

The named executive officers receive a package of fringe benefits on the same basis that is provided to all full time associates. These benefits include such items as health insurance, long-term disability insurance, 401(k) plan matching contributions and group term life insurance. The named executive officers do not receive any additional fringe benefits.

Our CEO has entered into a severance agreement with the Company, that stipulates that if the Company terminates the CEO s employment, for any or no reason, then the CEO shall be entitled to receive a severance payment in an amount equal to 18 months of the CEO s base salary. Our CEO also entered into a change of control severance agreement with the Company which provides for payments to him in the event that there is a change of control of the Company and his position is eliminated as a result of a board approved transaction.

Additionally, all of our named executive officers have entered into severance agreements with the Company, that stipulate that if the Company terminates an executive s employment, for any or no reason, then the executive shall be entitled to receive a severance

payment in an amount equal to 12 months of the executive's base salary. The named executive officers also entered into change of control severance agreements with the Company which provide for payments to the executive in the event that there is a change of control of the Company and their position is eliminated as a result of a board approved transaction.

These agreements are discussed in more detail in the Potential Payments Upon Termination or Change of Control section of this Form 10-K/A on page 12. We believe that these types of agreements are necessary to attract and retain talented executives, and are consistent with industry practices, and help to minimize the uncertainty to the executive to allow the executive to focus on what is in the best interest of the company and shareholders. The compensation committee periodically reviews the terms of these agreements and is currently satisfied that they are consistent with market norms.

We believe that our executive compensation program, taken as a whole, is a cost-effective method of providing competitive pay to our named executive officers.

Setting Executive Pay

Human Resources provide compensation information to the Chief Executive Officer for those executives who report directly to him. The Chief Executive Officer provides base salary recommendations, MIBP goals and reward levels to the compensation committee for their evaluation; the Human Resources department provides similar information to the compensation committee regarding the Chief Executive Officer's compensation package.

As the compensation committee charter discusses, the compensation committee's focus is the compensation of both the Chief Executive Officer and the other executive officers, including the named executive officers. A copy of the charter is available at the Investor Relations section of our website at <http://www.cholestech.com>. Acting with a detailed calendar, the compensation committee reviews all areas of executive compensation during the year. The compensation committee retains independent compensation consultants to assist it in its assessment of management's recommendations and in their deliberations in approving any changes to compensation for the named executive officers, including the Chief Executive Officer. The compensation committee deliberates and establishes the total compensation package for each executive in an executive session.

Base Salary

Human Resources Department reviews and provides an analysis of the information contained in an independent compensation survey (Radford Biotech Survey) in which the Company participates; this survey contains executive pay information for the industry in which we compete for executives (biotech and medical devices) and for companies of similar size and complexity to reflect the accountabilities for our named executive officers. Our Human Resources department reviews the survey for pay levels at comparably sized companies, and provides survey information at the median. Our Human Resources department provides information on the named executive officers to the Chief Executive Officer, and the Chief Executive Officer then makes recommendations for the named executive officers' respective base salary increases to the compensation committee. Our Human Resources department provides similar information on the Chief Executive Officer directly to the compensation committee.

The compensation committee approves all base salary increases for the named executive officers. In addition to the survey data, the compensation committee looks at the following other factors in determining base salary:

- The executive's job responsibilities, level of experience and prior performance with the Company;
- The executive's expected future contribution to our financial success;
- Financial position of the Company; and
- Chief Executive Officer's recommendations on other members of management.

All of the factors outlined above, as well as the market data, could materially impact a named executive officer's base salary. We do not use any formula involving the above factors to determine the final base salary levels for each executive.

Fiscal year 2007 increases to base salary were as follows:

•	CEO	7.8%
•	CFO	5.0%
•	VP Quality &	7.5%
Regulatory		
•	VP Marketing & Sales	5.7%
•	VP Operations	5.0%

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Short Term Cash Bonus Program

All of our named executive officers participate in our annual cash bonus program, which is known as the Management Incentive Bonus Program (MIBP). The MIBP, which operates on our fiscal year, is offered to all associates whose job classifications fit within four levels of management approximately 25% of our full time associates participate in the MIBP.

The MIBP operates in the following manner. Prior to the beginning of the year, metrics in two areas of Company-wide achievement are created by the Chief Executive Officer and approved by the board of directors sales revenue and earnings per share. A minimum level of performance is needed before any MIBP payment can be made. These goals use financial measures that are within the Company's and named executive officer's control.

In addition to the Company-wide goals, each MIBP participant has a group of individualized MIBP performance objectives; these objectives are directly related to that individual executive's duties and overall Company strategic and operating goals. The objectives for the named executive officers are created by the Chief Executive Officer and approved by the compensation committee; the objectives for the Chief Executive Officer are created by the compensation committee and approved by the board of directors as part of the business planning process.

Each named executive officer also has a target MIBP bonus level, which is a percentage of his or her base salary; the target levels for the named executive officers except for the Chief Executive Officer are proposed to the compensation committee by the Chief Executive Officer. The compensation committee creates the MIBP target award level for the Chief Executive Officer and approves all MIBP target award levels for the other named executive officers.

Bonuses are paid to the named executive officers only when, at least, minimum corporate and individual targets have been met. At target the CEO would receive 50% of his salary as a bonus and the other officers would receive 30% of their salaries. The range of payment once the pool funds would be equal to 25% - 100% of the CEO's salary for the CEO, and 15% - 60% of the respective named executive officer's base salary for the other officers. In fiscal 2007, the named executive officers met or exceeded their individual and corporate targets as follows:

Named Executive Officer	Bonus	% Achieved
Warren Pinckert	99	%
Jack Glenn	138	%
Barb McAleer	120	%
Ken Miller	120	%
Don Wood	159	%

A named executive officer's bonus payment is determined and approved in the following manner:

- First, the compensation committee determines the level of funding of the overall MIBP bonus pool, which is based on achievement of various levels of sales revenue and earnings per share.
- Secondly, the achievement level of each named executive officer's MIBP personal objectives is evaluated by the Chief Executive Officer and submitted to the compensation committee for review.
- Finally, the Chief Executive Officer's recommendations regarding the satisfaction of the MIBP objectives for the named executive officers and the satisfaction of the Chief Executive Officer's individual objectives are reviewed by the compensation committee.

Cholestech has no policy regarding the adjustment or recovery of MIBP awards in the event that an accounting restatement results in corporate goals not being satisfied. The Company may also modify performance objectives after the beginning of a year, particularly in response to a change in business conditions beyond our control that makes an established goal irrelevant or inappropriate.

The MIBP demonstrates our commitment to a pay for performance standard in executive compensation; the payments under this program can be above market, and the named executive officers (as well as the other people who participate in the MIBP) will not receive this benefit unless they and the Company meet specific performance standards. The MIBP is discussed in more detail in the Grants of Plan Based Awards schedule below.

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Our Company has, on rare occasions, made discretionary bonus payments to senior executives as determined and approved by the compensation committee. We have not made a discretionary bonus to any of the named executive officers in the last 2 years.

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Equity Compensation

Additionally, grants of options to purchase our stock are made to the named executive officers, as well as other associates, under our 1999 and 2000 Stock Option Plans. The compensation committee charter gives it authority to administer all of the Company's incentive compensation plans and the compensation committee has created a formal policy regarding the grant of equity awards. The policy provides that amongst other things, (i) all equity grants shall be brought before the board of directors by recommendation from the compensation committee at a regular or special meeting of the board; (ii) the compensation committee shall meet at predetermined dates that coincide with the regularly scheduled board of directors meetings to authorize the granting of equity to newly hired or promoted associates; (iii) annual grants are made to bonus eligible associates who are in good standing. Historically this has taken place at the March board meeting. Grants are based upon pre-established guidelines; (iv) all equity grants to associates shall be within established guidelines for the particular job grade as determined by the Company with the approval of the board. The board must approve all deviations from such established grant guidelines; and (v) the exercise price of each unit granted pursuant to this policy shall be equal to the closing price of the Company's common stock on the NASDAQ Global Market on the date of the meeting of the board authorizing such equity grant.

Incentive Stock Options (ISOs) are usually granted yearly to our officers. If the value of the grant to an officer exceeds the ISO limits, the remaining shares are granted as non-qualified stock options. All option shares are priced at fair market value on the date of grant as approved by the compensation committee. All of the options that are currently outstanding vest and become exercisable over a four year period beginning at the grant date.

The process for granting stock options to officers is part of the compensation committee's annual review of compensation practices and levels, as provided by Human Resources. Each named executive officer's grant is reviewed individually by the compensation committee, considering such factors as:

- historical yearly grant amounts;
- survey data;
- and the Chief Executive Officer's review of the executive's performance; and
- the compensation committee's view of the contributions that the executive has made and will make to the Company during the next year.

The compensation committee reviews the suggested allocation of awards and makes a recommendation to the entire board of directors; the board of directors makes its own determination.

Our policy regarding the granting of equity awards expressly provides that the meeting date of the compensation committee at which the awards are granted is the grant date of any award, unless the compensation committee specifically indicates a future date as the grant date; in fiscal 2007, the grant date was always the meeting date. This is described in more detail in the table entitled "Outstanding Equity Awards at Fiscal Year End" on page 11 of this Form 10-K/A.

We believe that the grant of fair market value stock options, even though there is currently a compensation expense before the options are exercised, continues to provide substantial benefits to the Company and the named executive officer. The Company benefits include:

- the options align the named executive officer's financial interest with the shareholders' interest; and
- options help to retain the named executive officers by providing value for performance to our shareholders, rather than using non-performance based plans such as non-qualified deferred compensation, to provide retention based compensation to our executives.

Cholestech does not maintain any equity ownership guidelines for our named executive officers.

Because each of our named executive officers provides unique services to us, we do not use a fixed relationship between base salary, MIBP participation and equity awards. To make decisions about a named executive officer's yearly total compensation package, the elements of base salary, MIBP potential and equity awards are considered both individually and as a complete package. Any amounts that a named executive officer may have realized in a prior year as a result of MIBP payments or stock option exercises are not considered when pay levels and goals

are established for the current year.

Accounting and Tax Considerations

In determining specific elements and payment of compensation for the named executives, the compensation committee considers how such decisions may affect Cholestech and the individual executive officer. The following highlights certain tax and accounting rules that may be considered by the compensation committee.

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Deductibility of Executive Compensation.

The compensation committee has considered the potential impact of Section 162(m) of the Internal Revenue Code on the compensation paid to our named executive officers. Section 162(m) disallows a tax deduction for any publicly held corporation for individual compensation exceeding \$1.0 million in any taxable year for any of the named executive officers. However, certain performance based compensation is specifically exempt from the deduction limit. We have adopted a policy that, where reasonably practicable, we will seek to qualify variable compensation paid to our named executive officers for an exemption from the deductibility limitations of Section 162(m).

Nonqualified Deferred Compensation.

On October 22, 2004, the American Jobs Creation Act of 2004 was signed into law, creating Section 409A of the Internal Revenue Code of 1986, as amended, and changing the tax rules applicable to nonqualified deferred compensation arrangements. In June 2007, the board of directors approved an amendment to all of our named executive officers' severance and change of control severance agreements to reflect the requirements of Section 409A.

Accounting for Stock-Based Compensation.

During the first quarter of fiscal 2007, we began accounting for all stock-based payments in accordance with the requirements of FAS 123R. The resulting compensation expense is a significant factor in determining the amount of all stock awards and stock option awards to employees.

Compensation Committee Report

The compensation committee has reviewed and discussed the Compensation Discussion and Analysis set forth above with Cholestech's management. Based upon the review and discussions noted above, the compensation committee has recommended to the board of directors that the Compensation Discussion and Analysis be included in this report.

This report is submitted by the compensation committee.

John L. Castello, Committee Chairman

John H. Landon

Elizabeth H. Dávila

Stuart Heap

Compensation Committee Interlocks and Insider Participation

During fiscal year 2007, no member of the compensation committee was an officer or employee or former officer or employee of Cholestech. No member of the compensation committee or executive officer of Cholestech served as a member of the board of directors or compensation committee of any entity that has an executive officer serving as a member of our board of directors or compensation committee. Finally, no member of the compensation committee had any other relationship requiring disclosure in this section. Mr. Pinckert, our president and chief executive officer and a director, participated as a non-member of the committee in all discussions and decisions regarding salaries and incentive compensation for all of our employees and consultants, except that Mr. Pinckert was excluded from discussions regarding his own salary, incentive compensation and stock option grants.

Summary Compensation Table

The following table presents information concerning the total compensation of the Company's Chief Executive Officer, Chief Financial Officer and the named executive officers for services rendered to the Company in all capacities for the fiscal year ended March 30, 2007. None of our named executive officers received any other compensation required to be disclosed by law or in excess of \$10,000 annually.

SUMMARY COMPENSATION TABLE

Name and Principal Position	Year	Salary (\$)	Discretionary Non-Plan Based Bonus (\$)	Stock Awards (\$)	Option Awards (\$)	Non-Equity Incentive Plan Compensation (\$)(1)	Change in Pension Value and Nonqualified Deferred Compensation Earnings (\$)	All Other Compensation (\$)	Total (\$)
Warren E. Pinckert II President and Chief Executive Officer (Principal Executive Officer)	2007	\$ 437,077				\$ 218,790			\$ 674,154
John F. Glenn Vice President of Finance, Chief Financial Officer, Treasurer and Secretary (Principal Financial Officer)	2007	\$ 244,185				\$ 102,139			\$ 368,444
Barbara T. McAleer Vice President of Quality Assurance and Regulatory Affairs	2007	\$ 215,615				\$ 78,480			\$ 306,488
Kenneth F. Miller Vice President of Marketing and Sales	2007	\$ 262,163				\$ 111,038			