

SPECTRX INC
Form DEF 14A
April 22, 2003

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

Filed by the Registrant
Filed by a Party other than the Registrant

Check the appropriate box:

- Preliminary Proxy Statement
- Confidential, for Use of the Commission Only (as permitted by Rule 14a-6(e)(2))
- Definitive Proxy Statement**
- Definitive Additional Materials
- Soliciting Material Pursuant to § 240.14a-12

SPECTRX, INC.

(Name of Registrant as Specified In Its Charter)

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

Payment of Filing Fee (Check the appropriate box):

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

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

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

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

(4) Proposed maximum aggregate value of transaction:

(5) Total fee paid:

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

(1) Amount Previously Paid:

(2) Form, Schedule or Registration Statement No.:

(3) Filing Party:

(4) Date Filed:

SPECTRX, INC.

NOTICE OF ANNUAL MEETING OF STOCKHOLDERS
TO BE HELD ON MAY 22, 2003

TO THE STOCKHOLDERS:

Notice is hereby given that the 2003 annual meeting of stockholders of SpectRx, Inc., a Delaware corporation, will be held on Thursday, May 22, 2003 at 10:00 a.m., local time, at the Drury Inn & Suites Hotel, 5655 Jimmy Carter Blvd., Norcross, Georgia 30071 for the following purposes:

1. To elect directors of SpectRx.
2. To ratify the appointment of Ernst & Young LLP as SpectRx's independent auditors for the 2003 fiscal year.
3. To transact such other business as may properly come before the annual meeting or any adjournment of the annual meeting.

These matters are more fully described in the proxy statement accompanying this notice.

Only stockholders of record at the close of business on April 4, 2003 are entitled to notice of and to vote at the annual meeting.

All stockholders are cordially invited to attend the meeting in person. However, to assure your representation at the meeting, you are urged to sign and return the enclosed proxy as promptly as possible in the postage-prepaid envelope enclosed for that purpose. Any stockholder attending the meeting may vote in person even if the stockholder has returned a proxy.

By Order of The Board of Directors

Mark A. Samuels
*Chairman, Chief Executive Officer
and Director*

Norcross, Georgia
April 22, 2003

SPECTRX, INC.

PROXY STATEMENT
2003 ANNUAL MEETING OF STOCKHOLDERS

INFORMATION CONCERNING SOLICITATION AND VOTING

General

The enclosed proxy is solicited by the board of directors on behalf of SpectRx, Inc., a Delaware corporation, for use at the annual meeting of stockholders to be held Thursday, May 22, 2003 at 10:00 a.m., local time, or at any adjournment of the annual meeting, for the purposes listed in this proxy statement and in the accompanying notice of annual meeting of stockholders. The annual meeting will be held at the Drury Inn & Suites Hotel, 5655 Jimmy Carter Blvd., Norcross, Georgia 30071. Our principal executive offices are located at 6025A Unity Drive, Norcross, Georgia 30071, and our telephone number at our principal office is (770) 242-8723.

This proxy statement and the accompanying form of proxy are first being sent or given to stockholders on or about April 22, 2003.

Record Date and Voting Securities

Stockholders of record of our common stock, par value \$.001 per share, at the close of business on April 4, 2003, which is referred to as the record date, are entitled to notice of and to vote at the annual meeting. Each stockholder is entitled to one vote for each share held as of the record date. As of the record date, 11,269,554 shares of our common stock were issued and outstanding and held of record by 156 stockholders.

Revocability of Proxies

Any proxy given pursuant to this solicitation may be revoked by the person giving it at any time before its use by delivering to our corporate secretary a written notice of revocation or a duly executed proxy bearing a later date, or by attending the annual meeting and voting in person.

Solicitation

We will pay the cost of soliciting proxies. In addition, we may reimburse brokerage firms and other persons representing beneficial owners of shares for their expenses in forwarding solicitation material to those beneficial owners. Proxies may also be solicited by some of our directors, officers and regular employees, without additional compensation, personally or by telephone or facsimile.

Quorum; Abstentions and Broker Non-Votes

Votes cast by proxy or in person at the annual meeting will be tabulated by the inspector of elections with the assistance of our transfer agent. The inspector will also determine whether or not a quorum is present. In general, Delaware law provides that a quorum consists of a majority of shares, which are entitled to vote and which are present or represented by proxy at the meeting. For this annual meeting, once a quorum is present, the affirmative vote of a majority of shares present in person or represented by proxy at the meeting is required under Delaware law for approval of proposals presented to stockholders, except that the directors will be elected by a plurality of votes.

The inspector will treat shares that are voted "WITHHELD" or "ABSTAIN" or proxies required to be treated as "non-votes" as being present and entitled to vote for purposes of determining the presence of a quorum. A "non-vote" occurs if a broker indicates on the enclosed proxy or its substitute that it does not have discretionary authority as to some shares to vote on a particular matter. "Non-votes" will be considered as present for purposes of determining the number of votes required for a proposal to be approved. Shares voted "WITHHELD" or "ABSTAIN" or "non-votes", however, will not be treated as votes in favor of approving any matter submitted to the stockholders for a vote and, therefore, will have the same effect as a vote against the proposal.

Proxies that are properly executed and returned will be voted at the annual meeting in accordance with the instructions on the proxy. Any properly executed proxy on which there are no instructions indicated about a specified proposal will be voted as follows:

- FOR the election of the six persons named in this proxy statement as the board of directors' nominees for election to the board of directors; and
- FOR the ratification of Ernst & Young LLP as SpectRx's independent auditors for the 2003 fiscal year.

No business other than that listed in this proxy statement is expected to come before the annual meeting. Should any other matter requiring a vote of stockholders properly arise, the persons named in the proxy will vote the shares they represent at their discretion.

Deadline for Receipt of Stockholder Proposals To Be Presented At 2004 Annual Meeting

We must receive proposals of our stockholders that are intended to be presented by stockholders at the 2004 annual meeting at our principal executive offices, no later than December 24, 2003 in order to be considered for inclusion in our proxy statement and form of proxy relating to that meeting. Moreover, with regard to any proposal by a stockholder not seeking to have its proposal included in the proxy statement but seeking to have its proposal considered at the 2004 annual meeting, if that stockholder fails to notify us in the manner just described by March 8, 2004, then the persons who are appointed as proxies may exercise their discretionary voting authority with respect to the proposal, if the proposal is considered at the 2004 annual meeting, even if stockholders have not been advised of the proposal in the proxy statement for the annual meeting. Any proposals submitted by stockholders must comply in all respects with the rules and regulations of the Securities and Exchange Commission.

Independent Auditors

Ernst & Young LLP are our current independent auditors for SpectRx. Representatives of Ernst & Young LLP are expected to attend the annual meeting of stockholders, will have the opportunity to make a statement if they desire, and will be available to respond to appropriate questions.

Changes in Certifying Accountants

On June 12, 2002, our audit committee voted to dismiss our independent public accountants, Arthur Andersen LLP, effective immediately. On June 12, 2002, the audit committee voted to engage the services of Ernst & Young LLP to serve as our independent public accountants for our 2002 fiscal year, effective immediately.

Arthur Andersen's reports on SpectRx's consolidated financial statements for each of the past two fiscal years did not contain an adverse opinion or disclaimer of opinion, nor were they qualified or modified as to uncertainty, audit scope or accounting principles.

During our two more recent fiscal years and through June 14, 2002, there were no disagreements with Arthur Andersen on any matter of accounting principle or practice, financial statement disclosure, or auditing scope or procedure which, if not resolved to Arthur Andersen's satisfaction, would have caused Arthur Andersen to make

reference to the subject matter in connection with Arthur Andersen's report on our consolidated financial statements for such years; and there were no reportable events as defined in Item 304(a)(2)(v) of Regulation S-K.

We provided Arthur Andersen with a copy of the foregoing disclosures. Attached as Exhibit 16.1 to our current report on Form 8-K dated June 14, 2002 is a copy of Arthur Andersen's letter, dated June 14, 2002, stating its agreement with such statements.

During our two fiscal years ended December 31, 2001 and through June 14, 2002, we did not consult Ernst & Young LLP with respect to the application of accounting principles to a specified transaction, either completed or proposed, or the type of audit opinion that might be rendered on our consolidated financial statements, or any other matters or reportable events as set forth in Items 304(a)(2)(i) and (ii) of Regulation S-K.

Audit Fees

Ernst & Young LLP has billed us \$75,000, in the aggregate, for professional services it rendered for its audit of our annual financial statements for the fiscal year ended December 31, 2002 and the reviews of the interim financial statements included in our Forms 10-Q filed during the fiscal year ended December 31, 2002.

Financial Information Systems Design and Implementation Fees

There were no financial information design and implementation fees as described in paragraph (c)(4)(ii) of Rule 2-01 of Regulation S-X for services rendered by Ernst & Young LLP during the fiscal year ended December 31, 2002.

All Other Fees

Ernst & Young LLP has billed us \$14,000, in the aggregate for all other services it rendered during the fiscal year ended December 31, 2002.

The audit committee has considered whether the provision of non-audit services to us by Ernst & Young LLP is compatible with maintaining Ernst & Young LLP's independence.

SECTION 16(a) BENEFICIAL OWNERSHIP REPORTING COMPLIANCE

Section 16(a) of the Securities Exchange Act of 1934, as amended, requires our directors and executive officers and persons who beneficially own more than 10% of a registered class of our equity securities to file reports of ownership and reports of changes in ownership with the Securities and Exchange Commission. These persons are required by regulations of the Securities and Exchange Commission to furnish us with copies of all Section 16(a) forms they file.

Based solely on our review of the copies of these forms received by us, we believe that, with respect to fiscal year 2002, other than Chris Monahan, who failed to timely file one Form 4 disclosing one transaction, and Thomas H. Muller, Jr. and Walter Pavlicek, who each failed to timely file one Form 5, each disclosing two transactions, our other officers, directors and 10% stockholders were in compliance with all applicable filing requirements.

SHARE OWNERSHIP OF DIRECTORS, OFFICERS AND CERTAIN BENEFICIAL OWNERS

The following table lists information regarding the beneficial ownership of our common stock as of March 31, 2003 by (i) each person who is known to us to beneficially own more than 5% of the outstanding shares of our common stock, (ii) each director, (iii) each officer named in the summary compensation table below, and (iv) all directors and executive officers as a group. Unless otherwise indicated, the address of each officer and director is 6025A Unity

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Drive, Norcross, Georgia 30071.

Name and Address of Beneficial Owner	Amount of Nature of Beneficial Ownership (1)	Percent of Class (2)
Entities affiliated with Hillman Medical Ventures (3) (Charles G. Hadley) 824 Market Street, Suite 900 Wilmington, DE 19801	1,592,799	14.1%
Entities affiliated with SAFECO Corporation (4) 601 Union Street, Suite 2500 Seattle, WA 98101	1,800,000	15.6%
Noro-Moseley Partners 4200 Northside Parkway, Building 9 Atlanta, GA 30327	863,456	7.7%
Abbott Laboratories (5) 100 Abbott Park Road Abbott Park, IL 60064	755,230	6.6%
Mark A. Samuels (6)	611,597	5.3%
Keith D. Igotz (7)	515,220	4.5%
Thomas H. Muller, Jr. (8)	209,780	1.8%
Walter Pavlicek (9)	25,531	*
Mark Faupel (10)	108,187	*
Earl Lewis (11)	14,062	*
William Zachary (12)	25,025	*
Chris Monahan (13)	6,458	*
All directors and executive officers as a group (10 persons) (14)	3,198,063	25.9%

(*) Less than 1%

(1) Except as otherwise indicated in the footnotes to this table and pursuant to applicable community property laws, the persons named in the table have sole voting and investment power with respect to all shares of common stock.

(2) Percentage ownership is based on 11,269,554 shares of common stock outstanding as of March 31, 2003. Beneficial ownership is determined in accordance with the rules of the Securities and Exchange Commission, based on factors including voting and investment power with respect to shares. Shares of common stock subject to currently exercisable options, warrants or convertible preferred stock, or any such securities exercisable within 60 days after March 31, 2003, are deemed outstanding for computing the percentage ownership of the person holding those options, but are not deemed outstanding for computing the percentage ownership of any other person.

(3) Consists of 14,062 shares held by Mr. Hadley subject to stock options that are exercisable within 60 days of March 31, 2003; 82,637 shares held by Wilmington Interstate Corporation; 75,000 shares held by Hillman Medical Ventures 1997 L.P.; 423,102 shares owned by Hillman Medical Ventures 1996 L.P.; 101,860 shares owned by Hillman Medical Ventures 1995 L.P.; 9,905 shares owned by Hillman/Dover Limited Partnership; 494,101 shares held by Henry L. Hillman, Elsie Hilliard Hillman

and C.G. Grefenstette, Trustees of the Henry L. Hillman Trust U/A dated 11/18/85; and shares in the following amounts held by C.G. Grefenstette and L.M. Wagner, Trustees of Trusts dated 12/30/76 - 98,033 shares for the children of Juliet Lea Hillman Simonds ; 98,033 for the children of Audrey Hillman Fisher; 98,033 for the children of Henry Lea Hillman, Jr.; and 98,033 for the children of William Talbot Hillman. The general partners of the Hillman Medical Ventures partnerships are Cashon Biomedical Associates L.P., of which Charles Hadley, one of our directors, Hal S. Broderson and Ronald J. Brenner are the general partners, and Hillman/Dover Limited Partnership. The general partner of Hillman/Dover Limited Partnership is an indirect, wholly owned subsidiary of The Hillman Company, a firm engaged in diversified investments and operations. Wilmington Securities Corporation is an indirect, wholly owned subsidiary of The Hillman Company. The Hillman Company is controlled by Henry L. Hillman, Elsie Hilliard Hillman and C.G.Grefenstette, trustees of the Henry L. Hillman Trust, which trustees may be deemed the beneficial owners of all the shares except those subject to options owned by Mr. Hadley.

(4) Consists of 861,000 shares held by SAFECO Common Stock Trust, as to which voting and investment power are shared; 464,000 shares held by SAFECO Resource Series Trust, as to which voting and investment power are shared; and 175,000 shares held by SAFECO Corporation, which has shared voting and dispositive power with respect to all 1,500,000 shares; and warrants to purchase shares in the following amounts: 172,200 held by SAFECO Common Stock Trust, 92,800 held by SAFECO Resource Series Trust, and 35,000 held by SAFECO Corporation. All of these entities are affiliates of SAFECO Corporation.

(5) Consists of 626,342 shares held by Abbott Laboratories and 128,888 shares that will be acquired upon conversion of its 100,000 shares of convertible preferred stock, including interest, calculated assuming a conversion price of \$9.388 at 60 days past March 31, 2003.

(6) Consists of 271,926 shares held by Mr. Samuels and 339,671 shares subject to stock options that are exercisable within 60 days of March 31, 2003.

(7) Consists of 238,924 shares held by Mr. Ignatz and 276,296 shares subject to stock options that are exercisable within 60 days of March 31, 2003.

(8) Consists of 15,482 shares held by Mr. Muller and 194,298 shares subject to stock options that are exercisable within 60 days of March 31, 2003.

(9) Consists of 2,406 shares held by Mr. Pavlicek and 23,125 shares subject to stock options that are exercisable within 60 days of March 31, 2003.

(10) Consists of 108,187 shares held by Mr. Faupel subject to stock options that are exercisable within 60 days of March 31, 2003.

(11) Consists of 14,062 shares held by Mr. Lewis subject to stock options that are exercisable within 60 days of March 31, 2003.

(12) Consists of 10,963 shares held by Mr. Zachary and 14,062 shares subject to stock options that are exercisable within 60 days of March 31, 2003.

(13) Consists of 6,458 shares held by Mr. Monahan subject to stock options that are exercisable within 60 days of March 31, 2003.

(14) Consists of 2,127,914 shares held by the directors and executive officers and 1,070,149 shares subject to stock options that are exercisable within 60 days of March 31, 2003.

PROPOSAL NO. 1:

ELECTION OF DIRECTORS

A board of six directors will be elected at the annual meeting. Unless otherwise instructed, the proxy holders will vote the proxies received by them for the six nominees named below, all of whom are presently our directors. If any nominee is unable or declines to serve as a director at the time of the annual meeting, the proxies will be voted for any nominee who is designated by the present board of directors to fill the vacancy. We do not expect that any nominee will be unable or will decline to serve as a director. The term of office of each person elected as a director will continue until the next annual meeting or until that person's successor has been elected.

The nominees for director, who are all incumbents, are as follows:

<u>Name</u>	<u>Age</u>	<u>Position with SpectRx</u>	<u>Director Since</u>
Mark A. Samuels	45	Chairman, Chief Executive Officer & Director	1992
Keith D. Ignatz	55	President, Chief Operating Officer & Director	1992
Charles G. Hadley	46	Director	1993
Earl R. Lewis	59	Director	1998
William E. Zachary, Jr	60	Director	1999
Christopher F. Monahan	64	Director	2000

Mark A. Samuels has served as a member of our board of directors and as our chief executive officer since co-founding SpectRx in 1992. Prior to that time, Mr. Samuels was a founder of Laser Atlanta Optics, Inc., an optical sensor company, where he held the position of president and chief executive officer until 1992. While at Laser Atlanta Optics, Mr. Samuels focused on the development of commercial and medical applications of electro-optics. Mr. Samuels earned a B.S. in Physics and a M.S. in Electrical Engineering from the Georgia Institute of Technology.

Keith D. Ignatz has served as a member of our board of directors and as chief operating officer since co-founding SpectRx in 1992. Prior to that time, Mr. Ignatz was president of Humphrey Instruments SmithKline Beckman (Japan), president of Humphrey Instruments GmbH (Germany), and senior vice president of Allergan Humphrey Inc., a medical device company. Mr. Ignatz is a member of the board of directors of Vismed, Inc., an ophthalmic diagnostic products company, doing business as Paradigm, and Pennsylvania College of Optometry. Mr. Ignatz earned a B.A. in Sociology and Political Science from the San Jose State University and a M.B.A. from Pepperdine University.

Charles G. Hadley has served as a member of our board of directors since 1993. Since 1988, Mr. Hadley has been general partner of Cashion Biomedical Associates, L.P., which is the managing general partner of the Hillman Medical Ventures partnerships. These venture firms' focus on investments in early stage medical technology companies. Mr. Hadley earned a B.A. from George Washington University and a J.D. and M.B.A. from Stanford University.

Earl R. Lewis has served as a member of our board of directors since July 1998. Mr. Lewis is president, chief executive officer, and chairman of the board of directors of FLIR Systems, Inc., a manufacturer of thermal imaging and broadcast camera systems for a wide variety of applications in the commercial and government markets. Prior to joining FLIR in 2000, Mr. Lewis was president and chief executive officer of Thermo Instrument Systems, Inc. He served in various capacities with Thermo Instrument Systems since 1986. Thermo Instrument Systems develops, manufactures and markets analytical instruments used to identify complex compounds as well as instruments used to image, inspect and measure various industrial processes and life sciences phenomena. Mr. Lewis is a member of the board of directors of Spectra Physics Laser, Inc., IGI, Inc. and Harvard Bioscience, Inc.

William E. Zachary, Jr. has served as a member of our board of directors since April 1999. Since 1971, Mr. Zachary has been a member with the law firm of Zachary & Seagraves, P.A. of Decatur, Georgia, of which he is a

founding member. He served on the Investigative Panel of the State Bar of Georgia Disciplinary Board from 1997 to 2000. Mr. Zachary was a founder and was chairman of the board of directors of Bank Atlanta from 1986 to 2000, at which time Bank Atlanta merged with Branch Bank & Trust Company. Mr. Zachary is a qualified arbitrator for the New York and American Stock Exchanges and the National Association of Securities Dealers, Inc.

Christopher F. Monahan has served as a member of our board of directors since October 2000. Mr. Monahan has been a private investor since 1998, following a 38-year career in the medical industry. Most recently, Mr. Monahan served as the divisional vice president and general manager in the Diagnostics Division of Abbott Laboratories, from 1992 to 1998. From 1988 to 1992 he served as president of Unipath, a division of the Unilever Co., and was responsible for its worldwide hematology business and marketing of the U.S. Clearview Rapid Assay line. From 1981 to 1988, Mr. Monahan was president and chief executive officer of Sequesta Turner Corp. Mr. Monahan earned a B.A. from the University of Notre Dame.

Vote Required

The six nominees receiving the highest number of affirmative votes of the votes cast will be elected as directors.

Recommendation

THE BOARD OF DIRECTORS UNANIMOUSLY RECOMMENDS THAT THE STOCKHOLDERS VOTE "FOR" THE NOMINEES LISTED ABOVE.

Board Meetings and Committees

Our board of directors held five meetings during the fiscal year ended December 31, 2002. No director attended fewer than 75% of the meetings of the board of directors and the committees on which he served during the fiscal year ended December 31, 2002. The board of directors has an audit committee and a compensation committee. It does not have a nominating committee or a committee performing the functions of a nominating committee.

The audit committee consists of directors Hadley (Chairman), Lewis and Zachary. The board of directors has adopted a written audit committee charter. All members of the audit committee are independent as defined in Rule 4200(a)(14) of the National Association of Securities Dealers, listing standards. The audit committee is responsible for reviewing the results and scope of the audit and other services provided by our independent auditors. The audit committee held two meetings during the last fiscal year.

The compensation committee consists of directors Lewis (Chairman), Monahan and Hadley. The compensation committee reviews and makes recommendations to the board concerning salaries and incentive compensation for our employees and administers our equity incentive plans. The compensation committee held one meeting during the last fiscal year.

Director Compensation

Non-employee directors receive payments of \$3,000 per quarter, \$1,000 per meeting attended in person or \$500 if attended by telephone, and \$500 per committee meeting attended, up to a maximum of \$20,000 per year. In 2002, in lieu of cash payments for each quarter and meeting payments for the third and fourth quarters, the non-employee directors were granted stock options at the market price as of the date of the regularly scheduled board meetings. All directors are reimbursed for expenses actually incurred in attending meetings of the board of directors and its committees. Non-employee directors may be granted options to purchase common stock under our 1995 stock plan. Each non-employee director was granted options to purchase 10,000 shares, vesting over 48 months, on February 21, 2002, in addition to options to purchase 3,000 shares granted on August 20, 2002 and 3,000 shares granted on November 7, 2002 in lieu of cash payments.

Compensation Committee Interlocks and Insider Participation

Charles G. Hadley, Christopher F. Monahan and Earl R. Lewis comprise the compensation committee. No member of the compensation committee has been an officer or employee of SpectRx or had a relationship that would constitute an interlocking relationship with executive officers or directors of another entity.

EXECUTIVE COMPENSATION

Summary Compensation Table

The following table lists specified compensation we paid during each of the fiscal years ended December 31, 2000, 2001 and 2002 to the chief executive officer and our four other most highly compensated executive officers in 2002, who are referred to as the named executive officers:

Summary Compensation Table

<u>Name & Principal Position</u>	<u>Year</u>	<u>Annual Compensation</u>		<u>Long Term</u>	<u>All Other</u>
		<u>Salary (\$)</u>	<u>Bonus (\$)</u>	<u>Compensation</u> <u>Securities</u> <u>Underlying</u> <u>Options/</u> <u>SARs (#)</u>	
Mark A. Samuels	2002	\$202,292(1)	\$ 0	25,000	\$3,188(2)
Chairman and Chief	2001	227,532	25,000	---	3,148(2)
Executive Officer	2000	220,000(1)	63,250(1)	60,000	3,117(2)
Keith D. Igotz	2002	\$165,486(1)	\$ 0	15,000	\$2,880(2)
President and Chief	2001	182,236	20,000	---	2,880(2)
Operating Officer	2000	180,833(1)	40,425(1)	45,000	2,880(2)
Thomas H. Muller, Jr	2002	\$159,655(1)	\$ 0	50,000	\$2,183(2)
Executive Vice President	2001	164,289	20,000	---	2,200(2)
Chief Financial Officer and Secretary	2000	163,267(1)	36,498(1)	30,000	2,022(2)
Mark L. Faupel	2002	\$145,805(1)	\$ 0	15,000	---
Executive Vice President,	2001	153,806	21,000	---	---
Chief Technical Officer	2000	143,523	31,080	20,000	---
Walter Pavlicek	2002	\$133,842(1)	\$ 0	10,000	---
Vice President,	2001	150,355	9,268	---	---
Operations	2000	55,846	7,866	30,000	---

(1) The named executive officers have deferred salary included in the listed compensation totals. The following amounts of salary were deferred for the year indicated: Mr. Samuels -- 2000 -- \$45,000 and 2002 -- \$24,523; Mr. Igotz -- 2000 -- \$30,833 and 2002 -- \$12,157; Mr. Muller -- 2000 -- \$33,267 and 2002 -- \$13,945; Dr. Faupel -- 2002 -- \$10,677 and Dr. Pavlicek -- 2002 -- \$7,105. In 2000 the following bonus amounts were deferred: Mr. Samuels -- \$31,625; Mr. Igotz -- \$20,213; Mr. Muller -- \$18,249. In June 2001, subsequent to two private placement financings, all deferred amounts through 6/1/01 were paid to Messrs. Samuels, Igotz and Muller.

(2) Consists of insurance premiums for a term life policy, the proceeds of which are payable to each officer's named beneficiary.

Option Grants in Last Fiscal Year

The following table lists specified information concerning stock options granted during the fiscal year ended December 31, 2002 to the named executive officers. Options are granted under our 1995 stock plan. Under the stock plan, the options were granted with an exercise price equal to the fair market value on the date of grant. The options vest over 4 years and expire in 2012. In accordance with the rules of the Securities and Exchange Commission, the following table also lists the potential realizable value over the term of the options, which is the period from the grant date to the expiration date based on assumed rates of stock appreciation of 5% and 10%, compounded annually. These amounts do not represent our estimate of future stock prices. Actual realizable values, if any, of stock options will depend on the future performance of our common stock.

Option/SAR Grants in Fiscal 2002

Individual Grants

<u>Name</u>	Number of Securities Underlying Options/SARs <u>Granted (#)</u>	% of Total Options/SARs Granted to Employees in <u>Fiscal Year (1)</u>	Exercise or Base Price <u>(\$/Sh) (2)</u>	Expiration <u>Date</u>	Potential Realizable Value At Assumed Annual Rates of Stock Price Appreciation for <u>Option Term(3)</u>	
					<u>5% (\$)</u>	<u>10% (\$)</u>
Mark A. Samuels	25,000	9.6%	5.25	2/20/2012	\$345,042	\$471,679
Keith D. Igotz	15,000	5.7%	5.25	2/20/2012	\$207,025	\$283,007
Thomas H. Muller, Jr.	50,000	19.2%	5.25	2/20/2012	\$690,085	\$943,357
Mark L. Faupel	15,000	5.7%	5.25	2/20/2012	\$207,025	\$283,007
Walter Pavlicek	10,000	3.8%	5.25	2/20/2012	\$138,017	\$188,671

(1) Based on an aggregate of 329,929 options we granted in the fiscal year ended December 31, 2002.

(2) The exercise price per share of each option was equal to the last reported sale price of the common stock on the date of grant.

(3) The potential realizable value is calculated based on the ten-year term of the option at its time of grant. It is calculated assuming that the fair market value of our common stock on the date of grant appreciates at the indicated annual rate compounded annually for the entire term of the option and that the option is exercised and sold on the last day of its term for the appreciated stock price.

Aggregated Option Exercises in Last Fiscal Year and Fiscal Year-End Option Values

There were no options exercised in 2002 by the named executive officers. The following table lists each of the named executive officers and the fiscal year end number and value of exercisable and unexercisable options:

Aggregated Option Exercises in Fiscal 2002 and
Fiscal 2002 Year-End Option/SAR Values

Number of Shares Underlying Unexercised Options/SARs at 12/31/02 (#)	Value of Unexercised In-The-Money Options/SARs at 12/31/02 (\$)(1)

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	<u>Exercisable</u>	<u>Unexercisable</u>	<u>Exercisable</u>	<u>Unexercisable</u>
Mark A. Samuels	330,817	41,042	\$179,002	\$ 0
Keith D. Ignatz	270,046	27,459	156,976	0
Thomas H. Muller, Jr	183,256	53,459	0	0
Mark L. Faupel	101,832	32,168	0	0
Walter Pavlicek	18,958	21,042	0	0

(1) Based on a value of \$1.61 per share, which was the last reported sale price of the common stock on December 31, 2002.

Change of Control Arrangements

We have a compensatory arrangement with our executive officers that will result from a change of control of SpectRx, as described below. Under the stock option agreements with each of our executive officers named in the summary compensation table, upon a change of control all options held by the officer will vest immediately. The board committee that administers the stock option plan may provide, by giving at least 30 days prior written notice, that all options will terminate if not exercised in connection with or before the change of control or, if provision is made for assumption of the options, permit the optionee to elect to accept the assumed options. Additionally, after a change of control, if the optionee's employment is terminated due to a reduction of responsibility, required relocation or other similar action, the executive officer will be entitled to receive, as specified in the agreement for each executive officer, three month's severance (in the case of Messrs. Faupel and Pavlicek) or twelve month's severance (in the case of Messrs. Samuels, Ignatz and Muller), which may be paid either as a lump sum or as a salary continuation, at our option. Generally, a change of control occurs upon an acquisition by any person or group in excess of 50% of our voting securities, a replacement of more than one-half of the members of our board of directors that is not approved by a majority of the members who were on the board before the transaction, the merger of SpectRx with or into another entity unless the holders of our securities before the transaction continue to hold a majority of our securities after the transaction, or the consolidation or sale of all or substantially all of our assets.

REPORT OF THE COMPENSATION COMMITTEE

The following report is provided to stockholders by the members of the compensation committee of the board of directors:

The compensation committee is responsible for making recommendations to the board of directors concerning salaries and incentive compensation for employees of and consultants to SpectRx. The compensation committee also has the authority and power to grant stock options to SpectRx's employees and consultants.

The goals of SpectRx's compensation policies are to align executive compensation with business objectives and corporate performance, and to attract and retain executives who contribute to the long-term success and value of SpectRx. We operate under the following principles to achieve these compensation goals:

- We pay competitively for experienced, highly-skilled executives:

SpectRx operates in the competitive and rapidly changing medical device industry. Executive base compensation is targeted to the salary range paid to comparable executives in companies of similar size, location, and with comparable responsibilities. The individual executive's salary is reviewed annually based on individual performance, corporate performance, and the relative compensation of the individual when compared to the salary ranges of executives in other companies with similar responsibilities.

- We reward executives for superior performance:

The committee believes that a substantial portion of each executive's compensation should be in the form of bonuses. Executive bonuses are based on a combination of individual performance and the attainment of corporate goals. Individual performance goals are based on specific objectives that must be met in order for SpectRx to achieve its corporate goals. In order to attract and retain executives who are qualified to excel in the medical device industry, performance in excess of the corporate goals results in higher bonuses.

- We strive to align long-term stockholder and executive interests:

In order to align the long-term interests of executives with those of stockholders, SpectRx grants key employees, and particularly executives, options to purchase stock. Options are granted at an exercise price equal to the closing price of one share of SpectRx's common stock on the day of the date of grant and will provide value only when the price of the common stock increases above the exercise price. Options are subject to vesting provisions designed to encourage executives to remain employed by SpectRx. Additional options are granted from time to time based on individual performance and the prior level of grants.

Compensation of Mark Samuels, Chairman and Chief Executive Officer

During 2002, the compensation of Mr. Samuels was determined by applying the same principles discussed above, which are also used to determine compensation and bonuses for all executive officers. In order to preserve cash, Mr. Samuels elected to receive some of his approved compensation as deferred compensation. Mr. Samuels did not receive a bonus in 2002. Mr. Samuel's compensation for 2002 is listed in the summary compensation table above.

Summary

The compensation committee believes that our compensation policy, as practiced to date by the compensation committee and the board, has been successful in attracting and retaining qualified employees and in tying compensation directly to corporate performance relative to corporate goals. Our compensation policy will evolve over time as SpectRx attempts to achieve the many short-term goals it faces while maintaining its focus on building long-term stockholder value through technological leadership and development and expansion of the market for SpectRx's products.

Respectfully submitted,

Earl R. Lewis, Chairman

Christopher F. Monahan

Charles G. Hadley

The above compensation committee report will not be deemed to be "soliciting material" or to be "filed" with the Securities and Exchange Commission, nor will this information be incorporated by reference into any future filing under the Securities Act of 1933, as amended, or the Securities Exchange Act of 1934, as amended.

REPORT OF THE AUDIT COMMITTEE

The following report is provided to stockholders by the members of the audit committee of the board of directors:

The board of directors of SpectRx has adopted a written audit committee charter. All members of the audit committee are independent as defined in Rule 4200(a)(14) of the National Association of Securities Dealers' listing standards.

The audit committee has reviewed and discussed with SpectRx's management and Ernst & Young LLP, SpectRx's independent auditors for the fiscal year ended December 31, 2002, the audited financial statements of SpectRx contained in its annual report to stockholders for the year ended December 31, 2002. The audit committee has also discussed with SpectRx's independent auditors the matters required to be discussed pursuant to Statement of Auditing Standards No. 61, Codification of Statements on Auditing Standards, Communication with Audit Committees.

The audit committee has received and reviewed the written disclosures and the letter from Ernst & Young required by Independence Standards Board Standard No. 1, Independence Discussions with Audit Committees, and has discussed with Ernst & Young their independence.

Based on the review and discussions referred to above, the audit committee recommended to the board of directors that the audited financial statements be included in SpectRx's Annual Report on Form 10-K for the fiscal year ended December 31, 2002, filed with the Securities and Exchange Commission.

Respectfully submitted,

Charles G. Hadley, Chairman

William E. Zachary, Jr.

Earl R. Lewis

The information contained in the report of the audit committee will not be deemed to be "soliciting material" or to be "filed" with the Securities and Exchange Commission, nor will this information be incorporated by reference into any future filing under the Securities Act of 1933, as amended, or the Securities Exchange Act of 1934, as amended.

PERFORMANCE GRAPH

The graph below shows a comparison of total stockholder return for holders of our common stock from December 31, 1997 through December 31, 2002 compared with the Nasdaq Stock Market and the Nasdaq Medical Devices Index. This graph is presented pursuant to Securities and Exchange Commission rules and assumes all dividends have been reinvested in common stock. We believe that, while total stockholder return can be an important indicator of corporate performance, the stock prices of medical device stocks like SpectRx are subject to a number of market-related factors other than our performance, such as competitive announcements, mergers and acquisitions in the industry, the general state of the economy, and the performance of other medical device stocks.

The information contained in the stock performance graph will not be deemed to be "soliciting material" or to be "filed" with the Securities and Exchange Commission, nor will this information be incorporated by reference into any future filing under the Securities Act of 1933, as amended, or the Securities Exchange Act of 1934, as amended.

CERTAIN TRANSACTIONS

In connection with a June 1994 sale of approximately 323,500 shares of restricted stock, we loaned Mark Samuels and Keith Igotz \$27,000 and \$21,000, respectively, of which \$20,000 and \$31,500, including interest, respectively, was outstanding at December 31, 2002. These full recourse loans were secured by the related common stock of the Company held by the officers, bore interest at 6% per annum, and became payable on December 31, 2002. These notes were fully satisfied in January and February 2003, and the collateral was released.

In October 1996, we loaned Mark Samuels and Keith Igotz \$200,000 each for a total of \$400,000. The loans were secured by shares of common stock of Laser Atlanta Optics, Inc. ("LAO") and shares of our common stock. We and LAO are related through a common group of stockholders. The loans, which were recourse only to the extent of the collateral, bore interest at 6.72% per annum and became due and payable on December 31, 2002. During February 2003, we took possession of the collateral. As of December 31, 2002, these loans have been written down to their estimated fair value of \$57,000, which represents the value of the collateral shares at December 31, 2002. The resulting charge to operations in 2002 was approximately \$508,000.

PROPOSAL NO. 2:

RATIFICATION OF APPOINTMENT OF INDEPENDENT AUDITORS

The audit committee of our board of directors has selected Ernst & Young LLP, independent auditors, to audit our financial statements for the fiscal year ending December 31, 2003 and recommends that the stockholders ratify this selection. This firm has audited our financial statements since 2002. In the event of a negative vote, the board of directors will reconsider its selection. Representatives of Ernst & Young LLP are expected to be present at the annual meeting with the opportunity to make a statement if they desire to do so, and are expected to be available to respond to appropriate questions.

Vote Required

The affirmative vote of the majority of the votes cast will be required to ratify the appointment of Ernst & Young LLP as our independent auditors for the fiscal year ending December 31, 2003.

Recommendation

THE BOARD OF DIRECTORS UNANIMOUSLY RECOMMENDS THAT THE STOCKHOLDERS VOTE "FOR" THE RATIFICATION OF THE APPOINTMENT OF ERNST & YOUNG LLP AS OUR INDEPENDENT AUDITORS FOR THE FISCAL YEAR ENDING DECEMBER 31, 2003.

OTHER MATTERS

We know of no other matters to be submitted at the meeting. If any other matters properly come before the meeting, the persons named in the accompanying proxy intend to vote the shares represented by proxy as they, acting in their sole discretion, may determine.

WE WILL MAIL WITHOUT CHARGE TO ANY STOCKHOLDER UPON WRITTEN REQUEST A COPY OF OUR ANNUAL REPORT ON FORM 10-K FOR THE YEAR ENDED DECEMBER 31, 2002, INCLUDING THE FINANCIAL STATEMENTS AND SCHEDULES AND A LIST OF EXHIBITS. REQUESTS SHOULD BE SENT TO STOCKHOLDER RELATIONS, SPECTRX, INC., 6025A UNITY DRIVE, NORCROSS, GEORGIA 30071.

THE BOARD OF DIRECTORS

Dated: April 22, 2003

This proxy is solicited on behalf of the board of directors

**SPECTRX, INC.
2003 ANNUAL MEETING OF STOCKHOLDERS
TO BE HELD MAY 22, 2003**

The undersigned stockholder of SPECTRX, INC., a Delaware corporation, acknowledges receipt of the notice of annual meeting of stockholders and proxy statement, each dated April 22, 2003 and hereby appoints Mark A. Samuels and Thomas H. Muller, Jr. and each of them, proxies and attorneys-in-fact, with full power to each of substitution, on behalf and in the name of the undersigned, to represent the undersigned at the 2003 annual meeting to be held on May 22, 2003 at 10:00 a.m. local time, at the Drury Inn & Suites Hotel, 5655 Jimmy Carter Blvd., Norcross, Georgia 30071 and at any adjournment or adjournments of the annual meeting, and to vote all shares of common stock which the undersigned would be entitled to vote if then and there personally present, on the matters set forth below:

1. ELECTION OF DIRECTORS:

FOR all nominees listed below WITHHOLD

Mark A. Samuels, Keith D. Ignatz, Charles G. Hadley, Earl R. Lewis, William E. Zachary, Jr., Chris Monahan

Except, for vote withheld from the following nominee(s):

2. RATIFICATION OF THE APPOINTMENT OF ERNST & YOUNG LLP AS THE INDEPENDENT AUDITORS OF SPECTRX FOR THE FISCAL YEAR ENDING DECEMBER 31, 2003:

FOR AGAINST ABSTAIN

In their discretion, the proxies will vote upon any other matter or matters which may properly come before the annual meeting or any adjournment or adjournments of the annual meeting.

THIS PROXY WILL BE VOTED AS DIRECTED OR, IF NO CONTRARY DIRECTION IS INDICATED, WILL BE VOTED FOR THE ELECTION OF DIRECTORS AND THE RATIFICATION OF THE INDEPENDENT AUDITORS, AND IN THE DISCRETION OF THE DESIGNATED PROXIES ON SUCH OTHER MATTERS AS MAY PROPERLY COME BEFORE THE ANNUAL MEETING.

Dated: _____, 2003

Signature

Signature

(This proxy should be marked, dated and signed by the stockholder(s) exactly as his or her name appears on this proxy, and returned promptly in the enclosed envelope. Persons signing in a fiduciary capacity should so indicate. If shares are held by joint tenants or as community property, both should sign.)

