

HEALTHWAYS, INC
Form 10-Q
January 09, 2009
UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

Quarterly Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934

For the Quarterly Period Ended November 30, 2008

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 000-19364

HEALTHWAYS, INC.

(Exact Name of Registrant as Specified in its Charter)

Delaware
(State or Other Jurisdiction of
Incorporation or Organization)

62-1117144
(I.R.S. Employer
Identification No.)

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701 Cool Springs Boulevard, Franklin, TN 37067
(Address of Principal Executive Offices) (Zip Code)

615-614-4929
(Registrant's Telephone Number, Including Area Code)

(Former name, former address and former fiscal year, if changed since last report)

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 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):

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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

As of January 6, 2009 there were outstanding 33,652,826 shares of the Registrant's Common Stock, par value \$.001 per share.

2

Healthways, Inc.

Form 10-Q

Table of Contents

		Page
Part I		
	Item 1. Financial Statements	4
	Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations	16
	Item 3. Quantitative and Qualitative Disclosures About Market Risk	30
	Item 4. Controls and Procedures	31
Part II		
	Item 1. Legal Proceedings	32
	Item 1A. Risk Factors	34
	Item 2. Unregistered Sales of Equity Securities and Use of Proceeds	34
	Item 3. Defaults Upon Senior Securities	34
	Item 4. Submission of Matters to a Vote of Security Holders	34
	Item 5. Other Information	34
	Item 6. Exhibits	34

Part I**Item 1. Financial Statements****HEALTHWAYS, INC.****CONSOLIDATED BALANCE SHEETS****(In thousands)****(Unaudited)****ASSETS**

	November 30, 2008	August 31, 2008
Current assets:		
Cash and cash equivalents	\$ 4,351	\$ 35,242
Accounts receivable, net	121,385	113,312
Prepaid expenses	10,009	8,992
Other current assets	2,795	5,275
Deferred tax asset	25,915	24,948
Total current assets	164,455	187,769
Property and equipment:		
Leasehold improvements	38,433	37,475
Computer equipment and related software	136,148	131,296
Furniture and office equipment	29,421	29,209
Capital projects in process	16,045	12,052
	220,047	210,032
Less accumulated depreciation	(108,055)	(98,971)
	111,992	111,061
Other assets	15,592	16,575
Customer contracts, net	33,167	34,521
Other intangible assets, net	72,268	72,582
Goodwill, net	484,596	484,305
Total assets	\$ 882,070	\$ 906,813

See accompanying notes to the consolidated financial statements.

HEALTHWAYS, INC.**CONSOLIDATED BALANCE SHEETS****(In thousands, except share and per share data)****(Unaudited)****LIABILITIES AND STOCKHOLDERS' EQUITY**

	November 30, 2008	August 31, 2008
Current liabilities:		
Accounts payable	\$ 15,833	\$ 18,753
Accrued salaries and benefits	26,867	31,612
Accrued liabilities	24,644	23,555
Deferred revenue	6,955	6,422
Contract billings in excess of earned revenue	75,354	75,454
Income taxes payable	10,863	3,984
Current portion of long-term debt	2,220	2,837
Current portion of long-term liabilities	4,011	3,876
Total current liabilities	166,747	166,493
Long-term debt	304,882	345,395
Long-term deferred tax liability	6,900	9,364
Other long-term liabilities	36,795	31,227
Stockholders' equity:		
Preferred stock		
\$.001 par value, 5,000,000 shares authorized, none outstanding	—	—
Common stock		
\$.001 par value, 120,000,000 shares authorized, 33,614,758 and 33,603,320 shares outstanding	34	34
Additional paid-in capital	211,731	207,918
Retained earnings	160,353	147,772
Accumulated other comprehensive loss	(5,372)	(1,390)
Total stockholders' equity	366,746	354,334
Total liabilities and stockholders' equity	\$ 882,070	\$ 906,813

See accompanying notes to the consolidated financial statements.

HEALTHWAYS, INC.

CONSOLIDATED STATEMENTS OF OPERATIONS

(In thousands, except earnings per share data)

(Unaudited)

	Three Months Ended	
	November 30,	
	2008	2007
Revenues	\$ 185,403	\$ 175,819
Cost of services (exclusive of depreciation and amortization of \$8,888 and \$7,810, respectively, included below)	129,048	124,186
Selling, general & administrative expenses	17,945	16,848
Depreciation and amortization	12,167	10,458
Operating income	26,243	24,327
Interest expense	5,096	5,341
Income before income taxes	21,147	18,986
Income tax expense	8,566	7,803
Net income	\$ 12,581	\$ 11,183
Earnings per share:		
Basic	\$ 0.37	\$ 0.31
Diluted	\$ 0.37	\$ 0.30
Weighted average common shares and equivalents:		
Basic	33,612	35,717
Diluted	34,068	37,690

See accompanying notes to the consolidated financial statements.

HEALTHWAYS, INC.

CONSOLIDATED STATEMENT OF CHANGES IN STOCKHOLDERS' EQUITY

For the Three Months Ended November 30, 2008

(In thousands)

(Unaudited)

	Preferred	Common	Additional	Retained	Accumulated	
	Stock	Stock	Paid-in	Earnings	Other	Total
	Stock	Stock	Capital	Earnings	Loss	Total
Balance, August 31, 2008	\$—	\$34	\$207,918	\$147,772	\$(1,390)) \$354,334
Comprehensive income:						
Net income	—	—	—	12,581	—	12,581
Net change in fair value of interest rate swaps, net of income taxes of \$2,158	—	—	—	—	(3,296)) (3,296)
Foreign currency translation adjustment	—	—	—	—	(686)) (686)
Total comprehensive income						8,599
Exercise of stock options	—	—	28	—	—	28
Tax benefit of option exercises	—	—	65	—	—	65
Share-based employee compensation expense	—	—	3,720	—	—	3,720
Balance, November 30, 2008	\$—	\$34	\$211,731	\$160,353	\$(5,372)) \$366,746

See accompanying notes to the consolidated financial statements.

HEALTHWAYS, INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS

(In thousands)

(Unaudited)

	Three Months Ended	
	November 30,	
	2008	2007
Cash flows from operating activities:		
Net income	\$ 12,581	\$ 11,183
Adjustments to reconcile net income to net cash provided by operating activities, net of business acquisitions:		