

HEALTHWAYS, INC
Form 10-Q
August 08, 2012

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 June 30, 2012

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.)

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

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Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§ 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).

Yes No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer

Accelerated filer

Non-accelerated filer (Do not check if a smaller reporting company) Smaller reporting company

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 August 3, 2012, there were outstanding 33,524,286 shares of the registrant's common stock, par value \$.001 per share.

Healthways, Inc.
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Part I

Item 1. Financial
Statements

HEALTHWAYS, INC.
CONSOLIDATED BALANCE SHEETS
(In thousands)
(Unaudited)

ASSETS

	June 30, 2012	December 31, 2011
Current assets:		
Cash and cash equivalents	\$ 1,322	\$ 864
Accounts receivable, net	105,216	97,459
Prepaid expenses	10,670	11,417
Other current assets	2,432	1,412
Income taxes receivable	2,680	6,065
Deferred tax asset	9,879	10,314
Total current assets	132,199	127,531
Property and equipment:		
Leasehold improvements	40,983	41,622
Computer equipment and related software	261,013	239,732
Furniture and office equipment	25,511	26,324
Capital projects in process	22,803	17,811
	350,310	325,489
Less accumulated depreciation	(199,605)	(183,301)
	150,705	142,188
Other assets	11,546	10,797
Intangible assets, net	93,048	92,997
Goodwill, net	338,837	335,392
Total assets	\$ 726,335	\$ 708,905

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

	June 30, 2012	December 31, 2011
Current liabilities:		
Accounts payable	\$ 19,535	\$ 22,578
Accrued salaries and benefits	25,138	35,617
Accrued liabilities	32,197	28,639
Deferred revenue	7,553	9,273
Contract billings in excess of earned revenue	15,779	13,154
Current portion of long-term debt	12,593	3,725
Current portion of long-term liabilities	5,605	5,771
Total current liabilities	118,400	118,757
Long-term debt	283,072	266,117
Long-term deferred tax liability	31,662	26,964
Other long-term liabilities	26,371	31,351
Stockholders' equity:		
Preferred stock		
\$.001 par value, 5,000,000 shares		
authorized, none outstanding	—	—
Common stock		
\$.001 par value, 120,000,000 shares authorized,		
33,443,081 and 33,304,681 shares outstanding, respectively	33	33
Additional paid-in capital	245,472	247,137
Retained earnings	50,909	48,517
Treasury stock, at cost, 2,254,953 shares in treasury	(28,182)	(28,182)
Accumulated other comprehensive loss	(1,402)	(1,789)
Total stockholders' equity	266,830	265,716
Total liabilities and stockholders' equity	\$ 726,335	\$ 708,905

See accompanying notes to the consolidated financial statements.

HEALTHWAYS, INC.
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
(In thousands, except earnings per share data)
(Unaudited)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2012	2011	2012	2011
Revenues	\$ 170,214	\$ 169,596	\$ 335,432	\$ 332,565
Cost of services (exclusive of depreciation and amortization of \$8,848, \$8,970, \$17,531, and \$17,994, respectively, included below)	129,305	126,009	269,540	247,917
Selling, general and administrative expenses	14,989	17,706	28,729	35,547
Depreciation and amortization	12,801	12,443	24,974	24,876
Operating income	13,119	13,438	12,189	24,225
Interest expense	4,387	3,170	7,572	6,588
Income before income taxes	8,732	10,268	4,617	17,637
Income tax expense	3,675	4,490	2,225	7,723
Net income	\$ 5,057	\$ 5,778	\$ 2,392	\$ 9,914
Earnings per share:				
Basic	\$ 0.15	\$ 0.17	\$ 0.07	\$ 0.29
Diluted	\$ 0.15	\$ 0.17	\$ 0.07	\$ 0.29
Comprehensive income	\$ 5,037	\$ 5,835	\$ 2,779	\$ 10,668
Weighted average common shares and equivalents:				
Basic	33,424	33,942	33,385	33,957
Diluted	33,525	34,790	33,524	34,711

See accompanying notes to the consolidated financial statements.

HEALTHWAYS, INC.
CONSOLIDATED STATEMENT OF CHANGES IN STOCKHOLDERS' EQUITY
For the Six Months Ended June 30, 2012
(In thousands)
(Unaudited)

	Preferred Stock	Common Stock	Additional Paid-in Capital	Retained Earnings	Treasury Stock	Accumulated Other Comprehensive Loss	Total
Balance, December 31, 2011	\$—	\$33	\$247,137	\$48,517	\$(28,182)	\$(1,789)	\$265,716
Comprehensive income	—	—	—	2,392	—	387	2,779
Exercise of stock options	—	—	9	—	—	—	9
Tax effect of stock options and restricted stock units	—	—	(4,462)	—	—	—	(4,462)
Share-based employee compensation expense	—	—	2,730	—	—	—	2,730
Other	—	—	58	—	—	—	58
Balance, June 30, 2012	\$—	\$33	\$245,472	\$50,909	\$(28,182)	\$(1,402)	\$266,830

See accompanying notes to the consolidated financial statements.

HEALTHWAYS, INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS
(In thousands)
(Unaudited)

	Six Months Ended June 30,	
	2012	2011
Cash flows from operating activities:		
Net income	\$ 2,392	\$ 9,914
Adjustments to reconcile net income to net cash flows provided by operating activities, net of business acquisitions:		
Depreciation and amortization	24,974	24,876
Amortization and write-off of deferred loan costs	1,870	954
Share-based employee compensation expense	2,730	4,528
Deferred income taxes	(1,510)	(2,757)
Excess tax benefits from share-based payment arrangements	(3)	(339)
(Increase) decrease in accounts receivable, net	(7,820)	6,391
Decrease in other current assets	1,741	7,238
(Decrease) increase in accounts payable	(6,930)	2,084
Decrease in accrued salaries and benefits	(12,260)	(12,421)
Increase in other current liabilities	9,646	8,962
Other	(3,621)	(458)
Net cash flows provided by operating activities	11,209	48,972
Cash flows from investing activities:		
Acquisition of property and equipment	(27,790)	(21,664)
Business acquisitions, net of cash acquired	(4,693)	—
Other	(4,279)	(3,117)
Net cash flows used in investing activities	(36,762)	(24,781)
Cash flows from financing activities:		
Proceeds from issuance of long-term debt	569,675	203,147
Payments of long-term debt	(545,280)	(223,198)
Deferred loan costs	(2,547)	—
Excess tax benefits from share-based payment arrangements	3	339
Exercise of stock options	9	3,736
Repurchases of common stock	—	(9,456)
Change in outstanding checks and other	4,190	611
Net cash flows provided by (used in) financing activities	26,050	(24,821)
Effect of exchange rate changes on cash	(39)	521
Net increase (decrease) in cash and cash equivalents	458	(109)
Cash and cash equivalents, beginning of period	864	1,064

Cash and cash equivalents, end of period	\$	1,322	\$	955
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See accompanying notes to the consolidated financial statements.

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HEALTHWAYS, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

(1) Basis of Presentation

Our financial statements and accompanying notes are prepared in accordance with accounting principles generally accepted in the United States of America (“U.S. GAAP”). In our opinion, the accompanying consolidated financial statements of Healthways, Inc. and its wholly-owned subsidiaries (“Healthways”, the “Company”, or such terms as “we,” “us,” or “our”) reflect all adjustments consisting of normal, recurring accruals necessary for a fair presentation. We have reclassified certain items in prior periods to conform to current classifications.

We have omitted certain financial information that is normally included in financial statements prepared in accordance with U.S. GAAP but that is not required for interim reporting purposes. You should read the accompanying consolidated financial statements in conjunction with the financial statements and notes thereto included in our Annual Report on Form 10-K for the fiscal year ended December 31, 2011.

(2) Recently Adopted Accounting Standard

In June 2011, the Financial Accounting Standards Board (the “FASB”) issued Accounting Standards Update (“ASU”) No. 2011-05, “Presentation of Comprehensive Income”. This standard eliminates the current option to report other comprehensive income and its components in the statement of changes in stockholders’ equity and requires an entity to present net income and other comprehensive income in one continuous statement or in two separate but consecutive statements. In December 2011, the FASB issued No. ASU 2011-12, “Deferral of the Effective Date for Amendments to the Presentation of Reclassifications of Items Out of Accumulated Other Comprehensive Income in Accounting Standards Update No. 2011-05”, which defers the requirement to present on the face of the financial statements reclassification adjustments for items that are reclassified from other comprehensive income to net income while the FASB further deliberates this aspect of the proposal. ASU No. 2011-05, as amended by ASU No. 2011-12, is effective for interim and annual reporting periods beginning after December 15, 2011. We adopted this standard for the interim period beginning January 1, 2012 and elected to present net income and other comprehensive income in one continuous statement. The adoption of this standard did not have an impact on our consolidated results of operations, financial position, cash flows, or notes to the consolidated financial statements.

(3) Share-Based Compensation

We have several stockholder-approved stock incentive plans for our employees and directors. We currently have three types of share-based awards outstanding under these plans: stock options, restricted stock units, and restricted stock. We believe that such awards align the interests of our employees and directors with those of our stockholders.

For the three and six months ended June 30, 2012, we recognized share-based compensation costs of \$1.3 million and \$2.7 million, respectively. For the three and six months ended June 30, 2011, we recognized share-based compensation costs of \$2.3 million and \$4.5 million, respectively.

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A summary of our stock options as of June 30, 2012 and changes during the six months then ended is presented below:

Shares	Weighted-	Weighted- Average Remaining	Aggregate
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