

HEALTHWAYS, INC  
Form 10-Q  
August 08, 2013

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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, 2013

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 62-1117144  
(State or Other Jurisdiction of (I.R.S. Employer  
Incorporation or Organization) 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

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.



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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 6, 2013, there were outstanding 34,398,507 shares of the registrant's common stock, par value \$.001 per share.

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## Part I

## Item 1. Financial Statements

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

## ASSETS

	June 30, 2013	December 31, 2012
Current assets:		
Cash and cash equivalents	\$2,251	\$1,759
Accounts receivable, net	82,455	108,337
Prepaid expenses	11,580	9,727
Other current assets	12,503	7,227
Income taxes receivable	4,378	5,920
Deferred tax asset	8,451	8,839
Total current assets	121,618	141,809
Property and equipment:		
Leasehold improvements	38,316	40,679
Computer equipment and related software	275,164	267,902
Furniture and office equipment	23,532	23,552
Capital projects in process	19,745	11,799
	356,757	343,932
Less accumulated depreciation	(201,253)	(187,438)
	155,504	156,494
Other assets	21,602	21,042
Intangible assets, net	84,408	90,228
Goodwill, net	339,132	338,695
Total assets	\$722,264	\$748,268

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, 2013	December 31, 2012
Current liabilities:		
Accounts payable	\$35,304	\$26,343
Accrued salaries and benefits	17,345	24,909
Accrued liabilities	36,512	39,234
Deferred revenue	6,252	5,643
Contract billings in excess of earned revenue	19,064	14,793
Current portion of long-term debt	12,877	11,801
Current portion of long-term liabilities	3,325	5,535
Total current liabilities	130,679	128,258
Long-term debt	253,990	278,534
Long-term deferred tax liability	33,545	36,053
Other long-term liabilities	25,302	26,602
Stockholders' equity:		
Preferred stock \$.001 par value, 5,000,000 shares authorized, none outstanding	—	—
Common stock \$.001 par value, 120,000,000 shares authorized, 34,288,207 and 33,924,464 shares outstanding, respectively	34	34
Additional paid-in capital	256,172	251,357
Retained earnings	51,490	56,541
Treasury stock, at cost, 2,254,953 shares in treasury	(28,182 )	(28,182 )
Accumulated other comprehensive loss	(766 )	(929 )
Total stockholders' equity	278,748	278,821
Total liabilities and stockholders' equity	\$722,264	\$748,268

See accompanying notes to the consolidated financial statements

## HEALTHWAYS, INC.

## CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)

(In thousands, except earnings per share data)

(Unaudited)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2013	2012	2013	2012
Revenues	\$162,270	\$170,214	\$327,435	\$335,432
Cost of services (exclusive of depreciation and amortization of \$8,886, \$8,848, \$17,712, and \$17,531, respectively, included below)	133,468	129,305	274,726	269,540
Selling, general and administrative expenses	14,279	14,989	27,377	28,729
Depreciation and amortization	13,015	12,801	26,548	24,974
Operating income (loss)	1,508	13,119	(1,216 )	12,189
Interest expense	3,158	4,387	6,479	7,572
Income (loss) before income taxes	(1,650 )	8,732	(7,695 )	4,617
Income tax expense (benefit)	(549 )	3,675	(2,644 )	2,225
Net income (loss)	\$(1,101 )	\$5,057	\$(5,051 )	\$2,392
Earnings (loss) per share:				
Basic	\$(0.03 )	\$0.15	\$(0.15 )	\$0.07
Diluted <sup>(1)</sup>	\$(0.03 )	\$0.15	\$(0.15 )	\$0.07
Comprehensive income (loss)	\$(1,136 )	\$5,037	\$(4,888 )	\$2,779
Weighted average common shares and equivalents:				
Basic	34,188	33,424	34,089	33,385
Diluted <sup>(1)</sup>	34,188	33,525	34,089	33,524

<sup>(1)</sup> The assumed exercise of stock-based compensation awards for the three and six months ended June 30, 2013 was not considered because the impact would be anti-dilutive.

See accompanying notes to the consolidated financial statements.

## HEALTHWAYS, INC.

## CONSOLIDATED STATEMENT OF CHANGES IN STOCKHOLDERS' EQUITY

For the Six Months Ended June 30, 2013

(In thousands)

(Unaudited)

	Preferred Stock	Common Stock	Additional Paid-in Capital	Retained Earnings	Treasury Stock	Accumulated Other Comprehensive Loss	Total
Balance, December 31, 2012	\$ —	\$ 34	\$251,357	\$56,541	\$(28,182)	\$ (929)	) \$278,821
Comprehensive income (loss)	—	—	—	(5,051)	—	163	(4,888)
Exercise of stock options	—	—	2,164	—	—	—	2,164
Tax effect of stock options and restricted stock units	—	—	(807)	—	—	—	(807)
Share-based employee compensation expense	—	—	3,458	—	—	—	3,458
Balance, June 30, 2013	\$ —	\$ 34	\$256,172	\$51,490	\$(28,182)	\$ (766)	) \$278,748

See accompanying notes to the consolidated financial statements.



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

	Six Months Ended	
	June 30,	
	2013	2012
Cash flows from operating activities:		
Net income (loss)	\$(5,051 )	\$2,392
Adjustments to reconcile net income (loss) to net cash flows provided by operating activities, net of business acquisitions:		
Depreciation and amortization	26,548	24,974
Amortization and write-off of deferred loan costs	483	1,870
Share-based employee compensation expense	3,458	2,730
Deferred income taxes	500	(1,510 )
Excess tax benefits from share-based payment arrangements	(231 )	(3 )
Decrease (increase) in accounts receivable, net	26,613	(7,820 )
(Increase) decrease in other current assets	(3,917 )	1,741
Decrease in accounts payable	(1,611 )	(6,930 )
Decrease in accrued salaries and benefits	(8,090 )	(12,260 )
Increase in other current liabilities	293	9,646
Other	(96 )	(3,621 )
Net cash flows provided by operating activities	38,899	11,209
Cash flows from investing activities:		
Acquisition of property and equipment	(19,579 )	(27,790 )
Business acquisitions, net of cash acquired	(830 )	(4,693 )
Other	(3,843 )	(4,279 )
Net cash flows used in investing activities	(24,252 )	(36,762 )
Cash flows from financing activities:		
Proceeds from issuance of long-term debt	228,625	569,675
Payments of long-term debt	(254,252)	(545,280)
Deferred loan costs	(1,180 )	(2,547 )
Excess tax benefits from share-based payment arrangements	231	3
Exercise of stock options	2,164	9
Change in outstanding checks and other	11,366	4,190
Net cash flows (used in) provided by financing activities	(13,046 )	26,050
Effect of exchange rate changes on cash	(1,109 )	(39 )
Net increase in cash and cash equivalents	492	458