

HEALTHWAYS, INC
Form 10-Q
May 09, 2011

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 March 31, 2011

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 ☐

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 May 4, 2011 there were outstanding 33,960,952 shares of the Registrant’s Common Stock, par value \$.001 per share.

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	18
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	33
Item 2. Unregistered Sales of Equity Securities and Use of Proceeds	34
Item 3. Defaults Upon Senior Securities	34
Item 4. Removed and Reserved	34
Item 5. Other Information	34
Item 6. Exhibits	34

Part I

Item 1. Financial
StatementsHEALTHWAYS, INC.
CONSOLIDATED BALANCE SHEETS
(In thousands)
(Unaudited)

ASSETS

	March 31, 2011	December 31, 2010
Current assets:		
Cash and cash equivalents	\$ 4,336	\$ 1,064
Accounts receivable, net	87,261	89,108
Prepaid expenses	9,387	12,577
Other current assets	2,694	3,064
Income taxes receivable	4,100	8,695
Deferred tax asset	11,625	11,272
Total current assets	119,403	125,780
Property and equipment:		
Leasehold improvements	40,775	40,662
Computer equipment and related software	214,511	207,077
Furniture and office equipment	27,443	27,328
Capital projects in process	10,116	10,117
	292,845	285,184
Less accumulated depreciation	(163,767)	(154,528)
	129,078	130,656
Other assets	13,684	14,733
Intangible assets, net	92,836	94,255
Goodwill, net	496,265	496,265
Total assets	\$ 851,266	\$ 861,689

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

	March 31, 2011	December 31, 2010
Current liabilities:		
Accounts payable	\$ 16,297	\$ 22,555
Accrued salaries and benefits	34,851	39,157
Accrued liabilities	36,108	31,532
Deferred revenue	5,568	5,931
Contract billings in excess of earned revenue	20,617	18,814
Current portion of long-term debt	2,999	3,935
Current portion of long-term liabilities	3,759	3,309
Total current liabilities	120,199	125,233
Long-term debt	239,625	243,425
Long-term deferred tax liability	22,354	23,050
Other long-term liabilities	33,942	39,140
Stockholders' equity:		
Preferred stock		
\$.001 par value, 5,000,000 shares		
authorized, none outstanding	—	—
Common stock		
\$.001 par value, 120,000,000 shares authorized,		
33,987,051 and 34,018,706 shares outstanding	34	34
Additional paid-in capital	235,864	232,524
Retained earnings	210,345	206,210
Treasury stock, at cost, 728,547 and 429,654 shares in treasury	(8,362)	(4,494)
Accumulated other comprehensive loss	(2,735)	(3,433)
Total stockholders' equity	435,146	430,841
Total liabilities and stockholders' equity	\$ 851,266	\$ 861,689

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 March 31,	
	2011	2010
Revenues	\$ 162,969	\$ 178,999
Cost of services (exclusive of depreciation and amortization of \$9,023 and \$10,233, respectively, included below)	121,908	128,868
Selling, general & administrative expenses	17,842	17,235
Depreciation and amortization	12,433	13,554
Operating income	10,786	19,342
Interest expense	3,418	3,422
Income before income taxes	7,368	15,920
Income tax expense	3,233	6,506
Net income	\$ 4,135	\$ 9,414
Earnings per share:		
Basic	\$ 0.12	\$ 0.28
Diluted	\$ 0.12	\$ 0.27
Weighted average common shares and equivalents:		
Basic	33,975	33,955
Diluted	34,690	34,919

See accompanying notes to the consolidated financial statements.

HEALTHWAYS, INC.
CONSOLIDATED STATEMENT OF CHANGES IN STOCKHOLDERS' EQUITY
For the Three Months Ended March 31, 2011
(In thousands)
(Unaudited)

	Preferred	Common	Additional	Retained	Treasury	Accumulated Other Comprehensive Income (Loss)	Total
	Stock	Stock	Paid-in Capital	Earnings	Stock		
Balance, December 31, 2010	\$—	\$34	\$232,524	\$206,210	\$(4,494)	\$(3,433)	\$430,841
Comprehensive income:							
Net income	—	—	—	4,135	—	—	4,135
Net change in fair value of interest rate swaps, net of income tax expense of \$508	—	—	—	—	—	786	786
Foreign currency translation adjustment	—	—	—	—	—	(88)	(88)
Total comprehensive income							4,833
Repurchases of common stock	—	—	—	—	(3,868)	—	(3,868)
Exercise of stock options and other	—	—	1,885	—	—	—	1,885
Tax effect of stock options and restricted stock units	—	—	(797)	—	—	—	(797)
Share-based employee compensation expense	—	—	2,252	—	—	—	2,252
Balance, March 31, 2011	\$—	\$34	\$235,864	\$210,345	\$(8,362)	\$(2,735)	\$435,146

See accompanying notes to the consolidated financial statements.

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

	Three Months Ended March 31,	
	2011	2010
Cash flows from operating activities:		
Net income	\$ 4,135	\$ 9,414
Adjustments to reconcile net income to net cash provided by (used in) operating activities, net of business acquisitions:		
Depreciation and amortization	12,433	13,554
Amortization of deferred loan costs	477	396
Share-based employee compensation expense	2,252	2,972
Excess tax benefits from share-based payment arrangements	(172)	(401)
Decrease (increase) in accounts receivable, net	1,909	(16,274)
Decrease in other current assets	7,022	2,853
Decrease in accounts payable	(2,782)	(6,744)
Decrease in accrued salaries and benefits	(10,248)	(25,322)
Increase in other current liabilities	7,805	10,225
Deferred income taxes	(2,700)	3,509
Other	928	1,892
Decrease (increase) in other assets	137	(1,034)
Payments on other long-term liabilities	(358)	(2,313)
Net cash flows provided by (used in) operating activities	20,838	(7,273)
Cash flows from investing activities:		
Change in restricted cash	469	—
Acquisition of property and equipment	(9,787)	(12,638)
Other	(1,796)	(1,412)
Net cash flows used in investing activities	(11,114)	(14,050)
Cash flows from financing activities:		
Proceeds from issuance of long-term debt	119,918	281,250
Payments of long-term debt	(123,445)	(256,922)
Deferred loan costs	(40)	(2,963)
Excess tax benefits from share-based payment arrangements	172	401
Exercise of stock options	1,862	393
Repurchases of common stock	(3,868)	—

Edgar Filing: HEALTHWAYS, INC - Form 10-Q

Change in outstanding checks and other	(1,320)	(1,817)
Net cash flows (used in) provided by financing activities	(6,721)	20,342
Effect of exchange rate changes on cash	269	(86)
Net increase (decrease) in cash and cash equivalents	3,272	(1,067)
Cash and cash equivalents, beginning of period	1,064	2,356
Cash and cash equivalents, end of period	\$ 4,336	\$ 1,289

See accompanying notes to the consolidated financial statements.

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 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, 2010.

(2) Share-Based Compensation

We have several shareholder-approved stock incentive plans for 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 months ended March 31, 2011 and 2010, we recognized share-based compensation costs of \$2.3 million and \$3.0 million, respectively.

A summary of our stock options as of March 31, 2011 and changes during the three months then ended is presented below:

Weighted-