

HEALTHWAYS, INC
Form 10-Q
November 05, 2013

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 September 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

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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 October 31, 2013, there were outstanding 35,060,079 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

	September 30, 2013	December 31, 2012
Current assets:		
Cash and cash equivalents	\$2,815	\$1,759
Accounts receivable, net	85,731	108,337
Prepaid expenses	13,283	9,727
Other current assets	6,648	7,227
Income taxes receivable	5,653	5,920
Deferred tax asset	8,169	8,839
Total current assets	122,299	141,809
Property and equipment:		
Leasehold improvements	38,406	40,679
Computer equipment and related software	283,707	267,902
Furniture and office equipment	23,591	23,552
Capital projects in process	23,612	11,799
	369,316	343,932
Less accumulated depreciation	(211,355)	(187,438)
	157,961	156,494
Other assets	69,546	21,042
Intangible assets, net	81,809	90,228
Goodwill, net	339,132	338,695
Total assets	\$770,747	\$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

	September 30, 2013	December 31, 2012
Current liabilities:		
Accounts payable	\$ 20,547	\$ 26,343
Accrued salaries and benefits	15,848	24,909
Accrued liabilities	36,095	39,234
Deferred revenue	5,197	5,643
Contract billings in excess of earned revenue	19,263	14,793
Current portion of long-term debt	13,737	11,801
Current portion of long-term liabilities	3,181	5,535
Total current liabilities	113,868	128,258
Long-term debt	246,926	278,534
Long-term deferred tax liability	35,461	36,053
Other long-term liabilities	67,287	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, 35,024,421 and 33,924,464 shares outstanding, respectively	35	34
Additional paid-in capital	282,184	251,357
Retained earnings	53,290	56,541
Treasury stock, at cost, 2,254,953 shares in treasury	(28,182)	(28,182)
Accumulated other comprehensive loss	(122)	(929)
Total stockholders' equity	307,205	278,821
Total liabilities and stockholders' equity	\$ 770,747	\$ 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 September 30,		Nine Months Ended September 30,	
	2013	2012	2013	2012
Revenues	\$166,615	\$166,559	\$494,049	\$501,990
Cost of services (exclusive of depreciation and amortization of \$9,115, \$9,158, \$26,826, and \$26,689, respectively, included below)	131,109	126,782	405,835	396,321
Selling, general and administrative expenses	16,440	14,727	43,816	43,455
Depreciation and amortization	12,952	13,259	39,499	38,233
Operating income	6,114	11,791	4,899	23,981
Interest expense	5,006	3,249	11,486	10,822
Income (loss) before income taxes	1,108	8,542	(6,587)	13,159
Income tax expense (benefit)	(691)	3,514	(3,336)	5,739
Net income (loss)	\$1,799	\$5,028	\$(3,251)	\$7,420
Earnings (loss) per share:				
Basic	\$0.05	\$0.15	\$(0.09)	\$0.22
Diluted ⁽¹⁾	\$0.05	\$0.15	\$(0.09)	\$0.22
Comprehensive income (loss)	\$2,444	\$4,909	\$(2,444)	\$7,688
Weighted average common shares and equivalents:				
Basic	34,682	33,683	34,288	33,485
Diluted ⁽¹⁾	35,834	34,068	34,288	33,706

⁽¹⁾ The assumed exercise of stock-based compensation awards for the nine months ended September 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 Nine Months Ended September 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)	—	—	—	(3,251)	—	807	(2,444)
Exercise of stock options	—	1	12,561	—	—	—	12,562
Tax effect of stock options and restricted stock units	—	—	(1,908)	—	—	—	(1,908)
Share-based employee compensation expense	—	—	5,207	—	—	—	5,207
Issuance of warrants	—	—	15,150	—	—	—	15,150
Other	—	—	(183)	—	—	—	(183)
Balance, September 30, 2013	\$ —	\$ 35	\$ 282,184	\$ 53,290	\$(28,182)	\$ (122)) \$ 307,205

See accompanying notes to the consolidated financial statements.

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

	Nine Months Ended September 30,	
	2013	2012
Cash flows from operating activities:		
Net income (loss)	\$(3,251)	\$7,420
Adjustments to reconcile net income (loss) to net cash flows provided by operating activities, net of business acquisitions:		
Depreciation and amortization	39,499	38,233
Amortization and write-off of deferred loan costs	1,096	2,077
Amortization of debt discount	1,497	—
Share-based employee compensation expense	5,207	4,652
Deferred income taxes	45	(1,517)
Excess tax benefits from share-based payment arrangements	(572)	(477)
Decrease (increase) in accounts receivable, net	23,185	(17,081)
Decrease in other current assets	138	779
Decrease in accounts payable	(4,363)	(6,029)
Decrease in accrued salaries and benefits	(9,777)	(14,454)
(Decrease) increase in other current liabilities	(398)	12,912
Other	(941)	(3,124)
Net cash flows provided by operating activities	51,365	23,391
Cash flows from investing activities:		
Acquisition of property and equipment	(32,833)	(40,735)
Business acquisitions, net of cash acquired	(830)	(4,693)
Other	(5,754)	(6,075)
Net cash flows used in investing activities	(39,417)	(51,503)
Cash flows from financing activities:		
Proceeds from issuance of long-term debt	314,800	653,874
Payments of long-term debt	(461,380)	(631,315)
Deferred loan costs	(5,210)	(2,547)
Excess tax benefits from share-based payment arrangements	572	