

HEALTHWAYS, INC
Form 10-Q
August 09, 2016

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, 2016

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 Incorporation or Organization) (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

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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 July 31, 2016, there were outstanding 36,738,870 shares of the registrant's common stock, par value \$.001 per share ("common stock").

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Part I

Item 1. Financial Statements

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

ASSETS

	June 30, 2016	December 31, 2015
Current assets:		
Cash and cash equivalents	\$4,635	\$233
Accounts receivable, net	48,547	50,608
Prepaid expenses	5,264	7,662
Other current assets	1,437	2,508
Income taxes receivable	407	257
Deferred tax asset	—	7,717
Current assets held for sale	52,282	65,802
Total current assets	112,572	134,787
Property and equipment:		
Leasehold improvements	27,682	27,674
Computer equipment and related software	34,504	33,496
Furniture and office equipment	13,530	13,512
Capital projects in process	1,613	1,089
	77,329	75,771
Less: accumulated depreciation	(55,943)	(53,753)
	21,386	22,018
Other assets	7,222	13,141
Intangible assets, net	29,266	29,526
Goodwill, net	334,680	336,974
Long-term assets held for sale	—	176,478
Total assets	\$505,126	\$712,924

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, 2016	December 31, 2015
Current liabilities:		
Accounts payable	\$11,291	\$21,184
Accrued salaries and benefits	11,138	7,240
Accrued liabilities	34,035	28,384
Deferred revenue	169	125
Contract billings in excess of earned revenue	415	101
Current portion of long-term debt	43,226	23,308
Current portion of long-term liabilities	7,248	6,204
Current liabilities held for sale	67,945	75,644
Total current liabilities	175,467	162,190
Long-term debt	182,393	208,289
Long-term deferred tax liability	24,112	23,617
Other long-term liabilities	26,818	38,238
Stockholders' equity:		
Preferred stock \$.001 par value, 5,000,000 shares authorized, none outstanding	—	—
Common stock \$.001 par value, 120,000,000 shares authorized, 36,243,197 and 36,079,446 shares outstanding, respectively	36	36
Additional paid-in capital	306,741	302,488
(Accumulated deficit) retained earnings	(180,146)	9,659
Treasury stock, at cost, 2,254,953 shares in treasury	(28,182)	(28,182)
Accumulated other comprehensive loss	(3,436)	(4,087)
Total Healthways, Inc. stockholders' equity	95,013	279,914
Non-controlling interest	1,323	676
Total stockholders' equity	96,336	280,590
Total liabilities and stockholders' equity	\$505,126	\$712,924

See accompanying notes to the consolidated financial statements.

HEALTHWAYS, INC.

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)

(In thousands, except earnings (loss) per share data)

(Unaudited)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2016	2015	2016	2015
Revenues	\$ 125,003	\$ 113,425	\$ 251,016	\$ 225,074
Cost of services (exclusive of depreciation and amortization of \$1,534, \$1,407, \$3,064, and \$2,810, respectively, included below)	88,879	77,307	180,258	157,407
Selling, general & administrative expenses	10,107	12,375	19,519	20,093
Depreciation and amortization	1,877	1,867	3,749	3,729
Restructuring and related charges	2	—	41	—
Operating income	24,138	21,876	47,449	43,845
Interest expense	4,176	4,178	8,281	8,372
Income before income taxes	19,962	17,698	39,168	35,473
Income tax expense	—	6,942	—	14,037
Net income from continuing operations	19,962	10,756	39,168	21,436
Losses from discontinued operations, net of income tax expense (benefit)	(195,454)	(10,639)	(228,557)	(24,232)
Net (loss) income	(175,492)	117	(189,389)	(2,796)
Less: net income (loss) attributable to non-controlling interest	104	(303)	416	(303)
Net (loss) income attributable to Healthways, Inc.	\$(175,596)	\$ 420	\$(189,805)	\$(2,493)
Earnings (loss) per share attributable to Healthways, Inc. - basic:				
Continuing operations	\$0.55	\$ 0.30	\$1.08	\$0.60
Discontinued operations	\$(5.41)	\$(0.29)	\$(6.34)	\$(0.67)
Earnings (loss) per share attributable to Healthways, Inc. - diluted:				
Continuing operations	\$0.54	\$ 0.29	\$1.06	\$0.58
Discontinued operations	\$(5.25)	\$(0.28)	\$(6.18)	\$(0.65)
Comprehensive (loss) income	\$(175,656)	\$ 538	\$(188,507)	\$(4,052)
Less: comprehensive income (loss) attributable to non-controlling interest	236	(298)	647	(298)
Comprehensive (loss) income attributable to Healthways, Inc.	\$(175,892)	\$ 836	\$(189,154)	\$(3,754)
Weighted average common shares and equivalents:				
Basic	36,172	35,734	36,140	35,664
Diluted	37,227	36,881	37,043	37,002

See accompanying notes to the consolidated financial statements.

HEALTHWAYS, INC.

CONSOLIDATED STATEMENT OF CHANGES IN STOCKHOLDERS' EQUITY

For the Six Months Ended June 30, 2016

(In thousands)

(Unaudited)

	Preferred Stock	Common Stock	Additional Paid-in Capital	Retained Earnings (Deficit)	Treasury Stock	Accumulated Other Comprehensive Loss	Non-controlling Interest	Total
Balance, December 31, 2015	\$ —	\$ 36	\$ 302,488	\$ 9,659	\$(28,182)	\$(4,087)	\$ 676	\$ 280,590
Net loss attributable to Healthways, Inc.	—	—	—	(189,805)	—	—	—	(189,805)
Net income attributable to non-controlling interest	—	—	—	—	—	—	416	416
Other comprehensive income (loss), net of tax:								
Net change in fair value of interest rate swaps, net of income tax benefit of \$56	—	—	—	—	—	85	—	85
Foreign currency translation adjustment	—	—	—	—	—	566	231	797
Total other comprehensive income	—	—	—	—	—	651	231	882
Total comprehensive income (loss)	—	—	—	(189,805)	—	651	647	(188,507)
Exercise of stock options	—	—	30	—	—	—	—	30
Tax effect of stock options and restricted stock units	—	—	(1,292)	—	—	—	—	(1,292)
Share-based employee compensation expense	—	—	5,323	—	—	—	—	5,323
Issuance of CareFirst Warrants	—	—	192	—	—	—	—	192
Balance, June 30, 2016	\$ —	\$ 36	\$ 306,741	\$(180,146)	\$(28,182)	\$(3,436)	\$ 1,323	\$ 96,336

See accompanying notes to the consolidated financial statements.

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

	Six Months Ended	
	June 30,	
	2016	2015
Cash flows from operating activities:		
Net income from continuing operations	\$39,168	\$21,436
Loss from discontinued operations	(228,557)	(24,232)
Adjustments to reconcile net loss to net cash flows provided by operating activities, net of business acquisitions:		
Depreciation and amortization	25,324	24,861
Amortization of deferred loan costs	1,103	986
Amortization of debt discount	3,698	3,495
Share-based employee compensation expense	5,323	5,797
Loss on sale of MeYou Health	4,826	—
Loss on impairment of held for sale assets	156,198	—
Equity in income from joint ventures	(303)	—
Deferred income taxes	7,835	(2,393)
Decrease in accounts receivable, net	17,263	12,427
Decrease (increase) in other current assets	3,329	(709)
(Decrease) increase in accounts payable	(4,100)	3,795
Increase (decrease) in accrued salaries and benefits	4,441	(5,362)
Decrease in other current liabilities	(737)	(12,454)
Other	(3,124)	1,340
Net cash flows provided by operating activities	31,687	28,987
Cash flows from investing activities:		
Acquisition of property and equipment	(10,330)	(17,332)
Investment in joint venture	(865)	(4,450)
Proceeds from sale of MeYou Health	5,156	—
Other	(537)	(550)
Net cash flows used in investing activities	(6,576)	(22,332)
Cash flows from financing activities:		
Proceeds from issuance of long-term debt	242,301	303,956
Payments of long-term debt		