HEALTHWAYS, INC
Form 10-Q
May 06, 2016

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

[x] Quarterly Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934

For the Quarterly Period Ended March 31, 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

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 April 30, 2016 there were outstanding 36,140,003 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

	March 31, 2016	December 31, 2015
Current assets:		
Cash and cash equivalents	$3,094	$1,870
Accounts receivable, net	101,233	108,195
Prepaid expenses	10,057	10,207
Other current assets	4,314	5,230
Income taxes receivable	1,293	1,076
Deferred tax asset	—	8,209
Total current assets	119,991	134,787
Property and equipment:		
Leasehold improvements	37,627	37,565
Computer equipment and related software	317,918	315,890
Furniture and office equipment	19,812	19,776
Capital projects in process	16,939	13,676
	392,296	386,907
Less accumulated depreciation	(242,546)	(230,907)
	149,750	156,000
Other assets	17,255	23,846
Intangible assets, net	60,480	61,317
Goodwill, net	336,974	336,974
Total assets	$684,450	$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

	March 31, 2016	December 31, 2015
Current liabilities:		
Accounts payable	$44,703	$41,035
Accrued salaries and benefits	21,268	21,620
Accrued liabilities	47,695	50,074
Deferred revenue	6,810	7,056
Contract billings in excess of earned revenue	13,967	12,893
Current portion of long-term debt	23,007	23,308
Current portion of long-term liabilities	6,722	6,204
Total current liabilities	164,172	162,190
Long-term debt	206,386	208,289
Long-term deferred tax liability	16,328	23,617
Other long-term liabilities	28,192	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, 36,137,666 and 36,079,446 shares outstanding, respectively	36	36
Additional paid-in capital	304,121	302,488
Retained earnings (deficit)	(4,550)	9,659
Treasury stock, at cost, 2,254,953 shares in treasury	(28,182)	(28,182)
Accumulated other comprehensive loss	(3,139)	(4,087)
Total Healthways, Inc. stockholders' equity	268,286	279,914
Non-controlling interest	1,086	676
Total stockholders' equity	269,372	280,590
Total liabilities and stockholders' equity	$684,450	$712,924

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 March 31,	
	2016	2015
Revenues	$189,217	$189,862
Cost of services (exclusive of depreciation and amortization of $10,418 and $9,526, respectively, included below)	164,002	161,453
Selling, general and administrative expenses	16,195	15,982
Depreciation and amortization	12,746	12,643
Restructuring and related charges	5,741	—
Operating loss	(9,467)	(216)
Interest expense	4,382	4,490
Equity in income from joint ventures	132	—
Loss before income taxes	(13,717)	(4,706)
Income tax expense (benefit)	180	(1,793)
Net loss	$(13,897)	$(2,913)
Less: net income attributable to non-controlling interest	312	—
Net loss attributable to Healthways, Inc.	$(14,209)	$(2,913)
Loss per share attributable to Healthways, Inc.:		
Basic	$(0.39)	$(0.08)
Diluted [(1)]	$(0.39)	$(0.08)
Comprehensive loss	$(12,851)	$(4,590)
Less: comprehensive income attributable to non-controlling interest	410	—
Comprehensive loss attributable to Healthways, Inc.	$(13,261)	$(4,590)
Weighted average common shares and equivalents:		
Basic	36,109	35,595
Diluted [(1)]	36,109	35,595

[(1)] The impact of potentially dilutive securities for the three months ended March 31, 2016 and 2015 was not considered because the effect would be anti-dilutive in each of those periods.

See accompanying notes to the consolidated financial statements.

HEALTHWAYS, INC.
CONSOLIDATED STATEMENT OF CHANGES IN STOCKHOLDERS' EQUITY
For the Three Months Ended March 31, 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.	—	—	—	(14,209)	—	—	—	(14,209)
Net income attributable to non-controlling interest	—	—	—	—	—	—	312	312
Other comprehensive income (loss), net of tax:								
Net change in fair value of interest rate swaps, net of income tax benefit of $16	—	—	—	—	—	24	—	24
Foreign currency translation adjustment	—	—	—	—	—	924	98	1,022
Total other comprehensive income	—	—	—	—	—	948	98	1,046
Total comprehensive income (loss)	—	—	—	(14,209)	—	948	410	(12,851)
Tax effect of stock options and restricted stock units	—	—	(794)	—	—	—	—	(794)
Share-based employee compensation expense	—	—	2,427	—	—	—	—	2,427
Balance, March 31, 2016	$ —	$ 36	$304,121	$(4,550)	$(28,182)	$ (3,139)	$ 1,086	$269,372

See accompanying notes to the consolidated financial statements.
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HEALTHWAYS, INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS
(In thousands)
(Unaudited)

	Three Months Ended March 31, 2016	2015
Cash flows from operating activities:		
Net loss	$(13,897)	$(2,913)
Adjustments to reconcile net loss to net cash flows provided by operating activities:		
Depreciation and amortization	12,746	12,643
Amortization of deferred loan costs	554	492
Amortization of debt discount	1,826	1,726
Share-based employee compensation expense	2,427	2,380
Equity in income from joint ventures	(132)	—
Deferred income taxes	(191)	6,067
Excess tax benefits from share-based payment arrangements	—	(368)
Decrease in accounts receivable, net	7,471	4,962
Decrease in other current assets	1,955	236
(Decrease) increase in accounts payable	(1,175)	4,791
Decrease in accrued salaries and benefits	(440)	(9,937)
Decrease in other current liabilities	(2,013)	(19,545)
Other	(1,734)	1,297
Net cash flows provided by operating activities	7,397	1,831
Cash flows from investing activities:		
Acquisition of property and equipment	(6,450)	(8,609)
Investment in joint ventures	(453)	(2,825)
Other	(275)	(286)
Net cash flows used in investing activities	(7,178)	(11,720)
Cash flows from financing activities:		
Proceeds from issuance of long-term debt	131,500	150,850
Payments of long-term debt	(136,084)	(141,086)
Excess tax benefits from share-based payment arrangements	—	368
Exercise of stock options	—	1,138
Proceeds from non-controlling interest	—	1,377
Change in cash overdraft and other	4,600	481
Net cash flows provided by financing activities	16	13,128
Effect of exchange rate changes on cash	989	(1,252)
Net increase in cash and cash equivalents	1,224	1,987
Cash and cash equivalents, beginning of period	1,870	1,765
Cash and cash equivalents, end of period	$3,094	$3,752

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 generally accepted accounting principles in the United States ("U.S. GAAP"). In our opinion, the accompanying consolidated financial statements of Healthways, Inc. and its wholly-owned subsidiaries (collectively, "Healthways," the "Company," or such terms as "we," "us," or "our") reflect all adjustments consisting of normal, recurring accruals necessary for a fair statement. 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 year ended December 31, 2015.

On March 11, 2015, we formed a joint venture with SulAmérica, one of the largest independent insurers in Brazil, to sell total population health services to the Brazilian market. With its contribution, SulAmérica acquired a 49% interest in the joint venture, Healthways Brasil Servicos De Consultoria LTDA ("Healthways Brazil"). We have determined that our interest in Healthways Brazil represents a controlling financial interest and, therefore, have consolidated the financial statements of Healthways Brazil and have presented a noncontrolling interest for the portion owned by SulAmérica.

(2) Recent Accounting Standards

In May 2014, the Financial Accounting Standards Board ("FASB") issued Accounting Standard Update ("ASU") 2014-09, which creates Accounting Standards Codification ("ASC") Topic 606, "Revenue from Contracts with Customers" ("ASC Topic 606") and supersedes ASC Topic 605, "Revenue Recognition." The provisions of ASC Topic 606 provide for a single comprehensive principles-based standard for the recognition of revenue across all industries and expanded disclosure about the nature, amount, timing and uncertainty of revenue, as well as certain additional quantitative and qualitative disclosures. The standard is effective for annual periods beginning after December 15, 2017, including interim periods within those years. We are currently evaluating the impact of adopting ASC Topic 606.

In April 2015, the FASB issued ASU 2015-03, "Simplifying the Presentation of Debt Issuance Costs" ("ASU 2015-03"), which requires that debt issuance costs related to a recognized debt liability be presented in the balance sheet as a direct deduction from the carrying amount of the related debt liability, consistent with debt discounts. This ASU was adopted in the first quarter of 2016 and has been applied on a retrospective basis to all periods presented. The adoption of this standard resulted in debt issuance costs being presented as a direct deduction from the carrying amount of the related debt liability and totaled $3.5 million and $4.1 million as of March 31, 2016 and December 31, 2015, respectively.

In November 2015, the FASB issued ASU 2015-17, "Income Taxes: Balance Sheet Classification of Deferred Taxes" ("ASU 2015-17"), which simplifies the presentation of deferred income taxes by eliminating the separate classification of deferred income tax liabilities and assets into current and noncurrent amounts in the consolidated balance sheet. The amendments in ASU 2015-17 require that all deferred tax liabilities and assets be classified as noncurrent in the consolidated balance sheet. This ASU was adopted in the first quarter of 2016 and presented prospectively for the three months ended March 31, 2016.

In February 2016, the FASB issued ASU No. 2016-02, "Leases" ("ASU 2016-02"), which requires that lessees recognize assets and liabilities for leases with lease terms greater than twelve months in the statement of financial position. ASU 2016-02 also requires improved disclosures to help users of financial statements better understand the amount, timing and uncertainty of cash flows arising from leases. The update is effective for fiscal years beginning after December 15, 2018, including interim reporting periods within those years. We are currently evaluating the impact the adoption of ASU 2016-02 will have our financial position, results of operations and cash flows.

In March 2016, the FASB Issued ASU No. 2016-09, "Compensation-Stock Compensation (Topic 718): Improvements to Employee Share-Based Payment Accounting" ("ASU 2016-09"). ASU 2016-09 changes how companies account for certain aspects of share-based payment awards to employees, including the accounting for income taxes, forfeitures, and statutory tax withholding requirements, as well as classification in the statement of cash flows. The standard is effective for interim and annual reporting periods beginning after December 15, 2016, although early adoption is permitted. We are currently assessing how the adoption of ASU 2016-09 will impact our our financial position, results of operations and cash flows.

(3) Share-Based Compensation

We currently have four types of share-based awards outstanding to our employees and directors: stock options, restricted stock units, restricted stock and market stock units. We believe that our share-based awards align the interests of our employees and directors with those of our stockholders.

We estimate share-based compensation expense based on the number of awards expected to vest, after consideration of expected forfeitures and estimated vesting of performance-based stock units. We recognize share-based compensation expense for the market stock units if the requisite service period is rendered, even if the market condition is never satisfied. For the three months ended March 31, 2016, we recognized share-based compensation costs of $2.4 million. For the three months ended March 31, 2015, we recognized share-based compensation costs of $2.4 million.

A summary of our stock options as of March 31, 2016 and changes during the three months then ended is presented below:

	Shares (000s)	Weighted-Average Exercise Price	Weighted-Average Remaining Contractual Term (years)	Aggregate Intrinsic Value ($000s)
Options				
Outstanding at January 1, 2016	2,122	$ 13.34		
Granted	—	—		
Exercised	—	—		
Forfeited	(2)	17.12		
Expired	(96)	21.63		
Outstanding at March 31, 2016	2,024	12.95	5.38	$ 985
Exercisable at March 31, 2016	1,629	$ 13.02	5.09	$ 869

There were no stock options granted during the three months ended March 31, 2016.

The following table shows a summary of our restricted stock and restricted stock units as of March 31, 2016, as well as activity during the three months then ended:

	Restricted Stock and Restricted Stock Units	
	Shares (000s)	Weighted-Average Grant Date Fair Value

Nonvested at January 1, 2016	1,618	$ 12.35
Granted	727	10.24
Vested	(81)	10.24
Forfeited	(41)	13.16
Nonvested at March 31, 2016	2,223	$ 11.72

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Market stock units granted during the three months ended March 31, 2016 have a multi-year performance period ending in 2019 and vest three years from the grant date.

The following table shows a summary of our market stock units as of March 31, 2016, as well as activity during the three months then ended:

	Market Stock Units	
	Shares (000s)	Weighted-Average Grant Date Fair Value
Nonvested at January 1, 2016	474	$ 6.53
Granted	204	7.15
Vested	—	—
Forfeited	—	—
Nonvested at March 31, 2016	678	$ 6.72

(4) Income Taxes

For the three months ended March 31, 2016, we had an effective income tax rate of 1.3%, compared to an effective tax benefit rate of 38.1% for the three months ended March 31, 2015 primarily due to the Company's inability to recognize a tax benefit on the pretax loss for the three months ended March 31, 2016.

During the three months ended March 31, 2016, an increase of $5.1 million was recorded to the valuation allowance on certain deferred tax assets in the U.S. Federal and state jurisdictions, as well as in certain foreign jurisdictions.

We file income tax returns in the U.S. federal jurisdiction and various state and foreign jurisdictions. Tax years remaining subject to examination in these major jurisdictions include 2012 to present.

(5) Long-Term Debt

The Company's long-term debt, net of unamortized deferred loan costs, consists of the following at March 31, 2016 and December 31, 2015:

(In thousands)	March 31, 2016	December 31, 2015
Cash Convertible Notes, net of unamortized discount	$132,121	$130,296
CareFirst Convertible Note	20,000	20,000
Fifth Amended Credit Agreement:		
Term Loan	75,000	80,000
Revolver	1,100	—
Capital lease obligations and other	4,691	5,374
	232,912	235,670
Less: deferred loan costs	(3,519)	(4,073)
	229,393	231,597
Less: current portion	(23,007)	(23,308)
	$206,386	$208,289

1.50% Cash Convertible Senior Notes Due 2018

On July 16, 2013, we completed the issuance of $150.0 million aggregate principal amount of cash convertible senior notes due 2018 (the "Cash Convertible Notes"), which bear interest at a rate of 1.50% per year, payable semiannually in arrears on January 1 and July 1 of each year, beginning on January 1, 2014. The Cash Convertible Notes will mature on July 1, 2018, unless earlier repurchased or converted into cash in accordance with their terms prior to such date. At the option of the holders, the Cash Convertible Notes are convertible into cash based on the conversion rate set forth below only upon occurrence of certain triggering events as defined in the Indenture dated as of July 8, 2013 by and between the Company and U.S. Bank National Association, none of which had occurred as of March 31, 2016. Accordingly, we have classified the Cash Convertible Notes as long-term debt at March 31, 2016 and December 31, 2015. The Cash Convertible Notes are not convertible into our common stock or any other securities under any circumstances. The initial cash conversion rate is approximately 51.38 shares of our common stock per $1,000 principal amount of Cash Convertible Notes (equivalent to an initial conversion price of approximately $19.46 per share of common stock). The Cash Convertible Notes are our senior unsecured obligations and rank senior in right of payment to any of our indebtedness that is expressly subordinated in right of payment to the Cash Convertible Notes. As a result of this transaction, we recognized deferred loan costs of approximately $3.9 million, which are being amortized over the term of the Cash Convertible Notes using the effective interest method.

The cash conversion feature of the Cash Convertible Notes (the "Cash Conversion Derivative") requires bifurcation from the Cash Convertible Notes in accordance with FASB ASC Topic 815, "Derivatives and Hedging", and is recorded in other long-term liabilities as a derivative liability and carried at fair value. The fair value of the Cash Conversion Derivative at the time of issuance of the Cash Convertible Notes was $36.8 million, which was recorded as a debt discount for purposes of accounting for the debt component of the Cash Convertible Notes. The debt discount is being amortized over the term of the Cash Convertible Notes using the effective interest method. For the three months ended March 31, 2016, we recorded $1.8 million of interest expense related to the amortization of the debt discount based upon an effective interest rate of 5.7%. The net carrying amount of the Cash Convertible Notes at March 31, 2016 and December 31, 2015 was $132.1 million and $130.3 million, respectively, net of the unamortized discount of $17.9 million and $19.7 million, respectively.

In connection with the issuance of the Cash Convertible Notes, we entered into privately negotiated convertible note hedge transactions (the "Cash Convertible Notes Hedges"), which are cash-settled and are intended to reduce our exposure to potential cash payments that we would be required to make if holders elect to convert the Cash Convertible Notes at a time when our stock price exceeds the conversion price. The initial cost of the Cash Convertible Notes Hedges was $36.8 million. The Cash Convertible Notes Hedges are recorded in other assets as a derivative asset under FASB ASC Topic 815 and are carried at fair value. See Note 8 for additional information regarding the Cash Convertible Notes Hedges and the Cash Conversion Derivative and their fair values as of March 31, 2016.

In July 2013, we also sold separate privately negotiated warrants (the "Warrants") initially relating, in the aggregate, to a notional number of shares of our common stock underlying the Cash Convertible Notes Hedges. The Warrants have an initial strike price of approximately $25.95 per share, which effectively increases the conversion price of the Cash Convertible Notes to a 60% premium to our stock price on July 1, 2013. The Warrants will be net share settled by issuing a number of shares of our common stock per Warrant corresponding to the excess of the market price per share of our common stock (as measured on each warrant exercise date under the terms of the Warrants) over the applicable strike price of the Warrants. The Warrants meet the definition of derivatives under the guidance in ASC Topic 815; however, because these instruments have been determined to be indexed to our own stock and meet the criteria for equity classification under ASC Topic 815-40, the Warrants have been accounted for as an adjustment to our additional paid-in-capital.

If the market value per share of our common stock exceeds the strike price of the Warrants, the Warrants will have a dilutive effect on net income per share, and the "treasury stock" method will be used in calculating the dilutive effect on earnings per share.

CareFirst Convertible Note

On October 1, 2013, we entered into an Investment Agreement (the "Investment Agreement") with CareFirst Holdings, LLC ("CareFirst"), which is in addition to certain existing commercial agreements between us and CareFirst relating to, among other things, disease management and care coordination services (the "Commercial Agreements"). Pursuant to the Investment Agreement, we issued to CareFirst a convertible subordinated promissory note in the aggregate original principal amount of $20 million (the "CareFirst Convertible Note") for a purchase price of $20 million. The CareFirst Convertible Note bears interest at a rate of 4.75% per year, payable quarterly in arrears on March 31, June 30, September 30 and December 31 of each calendar year, beginning on December 31, 2013. The CareFirst Convertible Note may be prepaid only under limited circumstances and upon the terms and conditions specified therein. If the CareFirst Convertible Note has not been fully converted or redeemed in accordance with its terms, it will mature on October 1, 2019. The CareFirst Convertible Note is subordinate in right of payment to the prior payment in full of (a) all of our indebtedness under the Fifth Amended Credit Agreement (as defined below) and (b) any other of our senior debt, which currently includes only the Cash Convertible Notes.

The CareFirst Convertible Note is convertible into shares of our common stock at the conversion rate determined by dividing (a) the sum of the portion of the principal to be converted and accrued and unpaid interest with respect to such principal by (b) the conversion price equal to $22.41 per share of our common stock. The conversion price is subject to adjustment for stock splits, stock dividends, recapitalizations, reorganizations, reclassifications and similar events.

CareFirst has an opportunity to earn warrants to purchase shares of our common stock ("CareFirst Warrants") based on achievement of certain quarterly thresholds (the "Revenue Thresholds") for revenue derived from both the Commercial Agreements and from new business to us from third parties as a result of an introduction or referral to us by CareFirst (collectively, the "Quarterly Revenue"). If the Quarterly Revenue is greater than or equal to the applicable Revenue Threshold for any quarter ending on or prior to September 30, 2017, then we will issue to CareFirst a certain number of warrants exercisable for the number of shares of our common stock ("CareFirst Warrant Shares") determined in accordance with the terms of the Investment Agreement unless (i) CareFirst elects to receive a cash payment in accordance with the terms of the Investment Agreement or (ii) there is a change of control. The aggregate number of CareFirst Warrant Shares in any single 12-month period beginning on October 1, 2013 cannot exceed 400,000, and the aggregate number of CareFirst Warrant Shares issuable pursuant to the Investment Agreement cannot exceed 1,600,000. As of March 31, 2016, we had issued CareFirst Warrant Shares totaling 590,683 at a weighted average exercise price of $15.83, none of which were issued in 2016. These CareFirst Warrants may have a dilutive effect on net income per share, and the "treasury stock" method is used in calculating the dilutive effect on earnings per share.

Also on October 1, 2013, in connection with the execution of the Investment Agreement, we entered into a Registration Rights Agreement with CareFirst, pursuant to which we agreed to use commercially reasonable efforts to cause any registration statement covering an underwritten offering of our common stock for our own account or for the account of any holder of our common stock (other than a registration statement on Form S-4 or Form S-8 or any successor thereto) to include those registrable common shares that any holder of such registrable common shares has requested to be registered.

The term of the Investment Agreement expires on the earlier of (a) December 31, 2017 and (b) the first date on which no Commercial Agreement is in effect.

Credit Facility

On June 8, 2012, we entered into the Fifth Amended and Restated Revolving Credit and Term Loan Agreement (as amended, the "Fifth Amended Credit Agreement"). As amended in October 2015 and further described below, the Fifth Amended Credit Agreement provides us with a $125.0 million revolving credit facility that expires on June 8, 2017 and includes a swingline sub facility of $20.0 million and a $75.0 million sub facility for letters of credit. The Fifth Amended Credit Agreement also provides a $200.0 million term loan facility that matures on June 8, 2017, $75.0 million of which remained outstanding at March 31, 2016, and an uncommitted incremental accordion facility of $100.0 million.

Borrowings under the Fifth Amended Credit Agreement generally bear interest at variable rates based on a margin or spread in excess of either (1) the one-month, two-month, three-month or six-month rate (or with the approval of affected lenders, nine-month or twelve-month rate) for Eurodollar deposits ("LIBOR") or (2) the greatest of (a) the SunTrust Bank prime lending rate, (b) the federal funds rate plus 0.50% and (c) one-month LIBOR plus 1.00% (the "Base Rate"), as selected by the Company. The LIBOR margin varies between 1.75% and 3.00%, and the Base Rate margin varies between 0.75% and 2.00%, depending on our leverage ratio. The Fifth Amended Credit Agreement also provides for an annual fee ranging between 0.30% and 0.50% of the unused commitments under the revolving credit facility. Extensions of credit under the Fifth Amended Credit Agreement are secured by guarantees from all of the Company's active domestic subsidiaries and by security interests in substantially all of the Company's and such subsidiaries' assets.

On July 1, 2013, we entered into an amendment to the Fifth Amended Credit Agreement, which provided for, among other things, the amendment of certain negative covenants to permit the issuance of and payments related to the Cash Convertible Notes described above as well as increases in the maximum required levels of total funded debt to EBITDA beginning with the quarter ended June 30, 2013. On April 14, 2014 and December 29, 2014, we entered into additional amendments to the Fifth Amended Credit Agreement, which, among other things, (1) amended the calculation of consolidated EBITDA to exclude the Blue Cross Blue Shield of Minnesota legal settlement in 2014 and, for any period that includes a fiscal quarter that ended on or before December 31, 2015, up to $5 million in the aggregate of accounting charges attributable to the settlement or other satisfaction of litigation liabilities and the incurrence of related expenses, (2) reduced the amount of the accordion facility from $200 million to $100 million, (3) provided that the net cash proceeds of an asset sale or recovery event be deposited with the administrative agent pending reinvestment or application to the payment of loans and (4) limited the aggregate consideration payable in respect of acquisitions consummated after December 29, 2014 to $150 million.

On October 27, 2015, we entered into a Seventh Amendment to the Fifth Amended Credit Agreement (the "Seventh Amendment"), which provides that the expense incurred by us in the following matters will be excluded from the calculation of consolidated EBITDA for purposes of the Fifth Amended Credit Agreement: (1) operational improvement and restructuring charges incurred from July 1, 2015 through March 31, 2017, not to exceed $27.5 million in the aggregate; (2) cash severance charges in connection with the departure of our former Chief Executive Officer during the quarter ended June 30, 2015 not to exceed $2.2 million in the aggregate; and (3) expense incurred in connection with the grant of certain cash inducement awards to our new Chief Executive Officer in an aggregate amount not to exceed approximately $1.3 million. The Seventh Amendment also reduced the amount available for borrowing under the revolving credit facility from $200.0 million to $125.0 million. As of March 31, 2016, availability under the revolving credit facility totaled $61.7 million as calculated under the most restrictive covenant.

We are required to repay outstanding revolving loans under the revolving credit facility in full on June 8, 2017. We are required to repay term loans in quarterly principal installments aggregating (1) 1.875% of the original aggregate principal amount of the term loans during each of the four quarters beginning with the quarter ending September 30, 2014, and (2) 2.500% of the original aggregate principal amount of the term loans during each of the remaining quarters prior to maturity on June 8, 2017, at which time the entire unpaid principal balance of the term loans is due and payable.

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The Fifth Amended Credit Agreement contains financial covenants that require us to maintain, as defined, specified ratios or levels of (1) total funded debt to EBITDA and (2) fixed charge coverage.

The Fifth Amended Credit Agreement contains various other affirmative and negative covenants that are typical for financings of this type. Among other things, the Fifth Amended Credit Agreement limits repurchases of our common stock and the amount of dividends that we can pay to holders of our common stock.

(6) Commitments and Contingencies

Junk Fax Prevention Act Lawsuits

On September 16, 2014, Healthways and its wholly owned subsidiary, Healthways Wholehealth Networks, Inc ("HWHN"), were named in a putative class action lawsuit filed by Edward Simon, DC in the Superior Court of California, County of Los Angeles, seeking damages and other relief relating to alleged violations of the Telephone Consumer Protection Act ("TCPA"), as amended by the Junk Fax Prevention Act ("JFPA"), in connection with faxes allegedly transmitted to members of HWHN's network of complementary and alternative care practitioners. The JFPA prohibits sending an "unsolicited advertisement" to a fax machine and requires the sender to provide a notice to allow a recipient to "opt out" of future fax transmissions (including, pursuant to rules promulgated by the Federal Communications Commission ("FCC"), those sent with the prior express invitation or permission of the recipient). The complaint seeks damages in excess of $5 million. The case has been removed to the United States District Court for the Central District of California, Eastern Division ("California Matter").

On December 22, 2014, HWHN was also named in a putative class action lawsuit filed by Affiliated Health Care Associates, P.C. in the United States District Court for the Northern District of Illinois, Eastern Division ("Illinois Matter"), seeking damages and other relief relating to alleged violations of the TCPA, the Illinois Consumer Fraud and Deceptive Business Practices Act, and Illinois common law in connection with faxes allegedly sent to members of HWHN's network of complementary and alternative care practitioners. The complaint seeks damages in an unstated amount. On May 29, 2015, the plaintiff in the Illinois Matter voluntarily dismissed its lawsuit without prejudice; that plaintiff has been joined as a party in the California Matter.

In connection with these actions, on March 2, 2015, Healthways and HWHN filed with the FCC a Petition for Retroactive Waiver ("Waiver Petition") of the FCC's regulation that requires advertising faxes sent with the prior express invitation or permission of the recipient to include an "opt-out" notice. On August 28, 2015, the FCC granted the Company relief requested in the Waiver Petition. We cannot predict the impact on the California Matter of the FCC's grant of relief pursuant to the Waiver Petition.

On December 17, 2015, the court in the California Matter denied a class certification motion by the plaintiff and on February 1, 2016, denied the plaintiff's motion to stay proceedings. On May 3, 2016, the court in the California Matter granted an order dismissing the California Matter with prejudice as to the individual claims of the plaintiff and without prejudice as to the other potential members of the class.

Summary

We are also subject to other contractual disputes, claims and legal proceedings that arise from time to time in the ordinary course of our business. While we are unable to estimate a range of potential losses, we do not believe that any of the legal proceedings pending against us as of the date of this report, some of which are expected to be covered by insurance policies, will have a material adverse effect on our financial statements. As these matters are subject to inherent uncertainties, our view of these matters may change in the future.

Contractual Commitments

In January 2008, we entered into a 25-year strategic relationship agreement with Gallup, and in October 2012 we entered into a joint venture agreement with Gallup (the "Gallup Joint Venture") that requires us to make payments over a 5-year period beginning January 2013. As of March 31, 2016, we have minimum remaining contractual cash obligations of $25.5 million related to these agreements.

In May 2011, we entered into a ten-year applications and technology services outsourcing agreement with HP Enterprise Services, LLC that contains minimum fee requirements. Total payments over the remaining term, including an estimate for future contractual cost of living adjustments, must equal or exceed a minimum level of approximately $84.7 million; however, based on current required service and equipment level assumptions, we estimate that the remaining payments will be approximately $176.7 million. The agreement allows us to terminate all or a portion of the services provided we pay certain termination fees, which could be material to the Company.

(7) Fair Value Measurements

We account for certain assets and liabilities at fair value. Fair value is defined as the price that would be received upon sale of an asset or paid upon transfer of a liability in an orderly transaction between market participants at the measurement date, assuming the transaction occurs in the principal or most advantageous market for that asset or liability.

Fair Value Hierarchy

The hierarchy below lists three levels of fair value based on the extent to which inputs used in measuring fair value are observable in the market. We categorize each of our fair value measurements in one of these three levels based on the lowest level input that is significant to the fair value measurement in its entirety. These levels are:

Level 1: Quoted prices in active markets for identical assets or liabilities;

Level 2: Quoted prices for similar instruments in active markets; quoted prices for identical or similar instruments in markets that are not active; and model-based valuation techniques in which all significant assumptions are observable in the market or can be corroborated by observable market data for substantially the full term of the assets or liabilities; and

Level 3: Unobservable inputs that are supported by little or no market activity and typically reflect management's estimates of assumptions that market participants would use in pricing the asset or liability.

Assets and Liabilities Measured at Fair Value on a Nonrecurring Basis

We account for our investment in the Gallup Joint Venture using the equity method under ASC Topic 323. In the third quarter of 2015, we observed factors causing a decline in future revenue projections as an indicator of an other than temporary impairment of the investment. Accordingly, we estimated the fair value of our investment using a discounted cash flow model. Estimating fair value requires significant judgments, including management's estimate of future cash flows, which is dependent on internal forecasts, estimation of the long-term growth rate for the joint venture, the useful life over which cash flows will occur, and determination of the weighted average cost of capital. Changes in these estimates and assumptions could materially affect the estimate of fair value.

Based on our estimate of fair value, we determined that the present value of our remaining contractual cash obligations in the Gallup Joint Venture exceeded the estimated fair value, resulting in the recognition of a liability associated with the forward option to acquire additional membership interest (the "Gallup Derivative"). The Gallup Derivative was recorded as a derivative liability at March 31, 2016 in accordance with FASB ASC Topic 815 and will be carried at fair value.

Assets and Liabilities Measured at Fair Value on a Recurring Basis

The following tables present our assets and liabilities measured at fair value on a recurring basis at March 31, 2016 and December 31, 2015:

(In $000s) March 31, 2016	Level 2	Level 3	Gross Fair Value	Netting[1]	Net Fair Value
Assets:					
Foreign currency exchange contracts	$375	$—	$375	$ (213)	$162
Cash Convertible Notes Hedges	—	5,029	5,029	—	5,029
Liabilities:					
Foreign currency exchange contracts	$246	$—	$246	$ (213)	$33
Interest rate swap agreements	357	—	357	—	357
Cash Conversion Derivative	—	5,029	5,029	—	5,029
Gallup Derivative	—	5,589	5,589	—	5,589

(In $000s) December 31, 2015	Level 2	Level 3	Gross Fair Value	Netting[1]	Net Fair Value
Assets:					
Foreign currency exchange contracts	$284	$—	$284	$ (26)	$258
Cash Convertible Notes Hedges	—	12,632	12,632	—	12,632
Liabilities:					
Foreign currency exchange contracts	$48	$—	$48	$ (26)	$22
Interest rate swap agreements	397	—	397	—	397
Cash Conversion Derivative	—	12,632	12,632	—	12,632
Gallup Derivative	—	6,339	6,339	—	6,339

(1) This column reflects the impact of netting derivative assets and liabilities by counterparty when a legally enforceable master netting agreement exists.

The fair values of forward foreign currency exchange contracts are valued using broker quotations of similar assets or liabilities in active markets. The fair values of interest rate swap agreements are primarily determined based on the present value of future cash flows using internal models and third-party pricing services with observable inputs, including interest rates, yield curves and applicable credit spreads. The fair values of the Cash Convertible Notes Hedges, the Cash Conversion Derivative and the Gallup Derivative are measured using Level 3 inputs because these instruments are not actively traded. The Cash Convertible Notes Hedges and the Cash Conversion Derivative are valued using an option pricing model that uses observable and unobservable market data for inputs, such as expected time to maturity of the derivative instruments, the risk-free interest rate, the expected volatility of our common stock and other factors. The Gallup Derivative is valued as the difference in the present value of our remaining cash commitments and the fair value of such commitments. The Cash Convertible Notes Hedges and the Cash Conversion Derivative were designed such that changes in their fair values would offset one another, with minimal impact to the consolidated statements of comprehensive income (loss). Therefore, the sensitivity of changes in the unobservable inputs to the option pricing model for such instruments is mitigated.

The following table presents our financial instruments measured at fair value on a recurring basis using unobservable inputs (Level 3):

(In $000s)	Balance at December 31, 2015	Purchases of Level 3 Instruments	Settlements of Level 3 Instruments	Gains/(Losses) Included in Earnings	Balance at March 31, 2016
Cash Convertible Notes Hedges	$ 12,632	$ —	$ —	$ (7,603)	$ 5,029
Cash Conversion Derivative	(12,632)	—	—	7,603	(5,029)
Gallup Derivative	(6,339)	—	750	—	(5,589)

The gains and losses included in earnings noted above represent the change in the fair value of these financial instruments and are recorded each period in the consolidated statements of comprehensive income (loss). The gains and losses on the Cash Convertible Notes Hedges and Cash Conversion Derivative are recorded as selling, general and administrative expenses, and the gain or loss on the Gallup Derivative would be recorded as equity in income on joint ventures.

Fair Value of Other Financial Instruments

In addition to foreign currency exchange contracts, interest rate swap agreements, the Cash Convertible Notes Hedges, the Cash Conversion Derivative, and the Gallup Derivative, the estimated fair values of which are disclosed above, the estimated fair value of each class of financial instruments at March 31, 2016 was as follows:

Cash and cash equivalents – The carrying amount of $3.1 million approximates fair value because of the short maturity of those instruments (less than three months).

Long-term debt – The estimated fair value of outstanding borrowings under the Fifth Amended Credit Agreement, which includes a revolving credit facility and a term loan facility (see Note 5), and the Cash Convertible Notes are determined based on the fair value hierarchy as discussed above. The revolving credit facility and the term loan facility are not actively traded and therefore are classified as Level 2 valuations based on the market for similar instruments. The estimated fair value is based on the average of the prices set by the issuing bank given current market conditions and is not necessarily indicative of the amount we could realize in a current market exchange. The estimated fair value and carrying amount of outstanding borrowings under the Fifth Amended Credit Agreement at March 31, 2016 are $75.5 million and $76.1 million, respectively.

The Cash Convertible Notes are actively traded and therefore are classified as Level 1 valuations. The estimated fair value at March 31, 2016 was $137.1 million, which is based on the last traded price of the Cash Convertible Notes on March 31, 2016, and the par value was $150.0 million. The carrying amount of the Cash Convertible Notes at March 31, 2016 was $132.1 million, which is net of the debt discount discussed in Note 5.

The CareFirst Convertible Note was issued at its fair value of $20.0 million on October 1, 2013. It is not actively traded and is not based upon either an observable market, other than the market for our common stock, or on an observable index and is therefore classified as a Level 3 valuation. At March 31, 2016, the carrying amount of the CareFirst Convertible Note of $20.0 million approximates fair value.

(8) Derivative Investments and Hedging Activities

We use derivative instruments to manage risks related to interest, foreign currencies, the Cash Convertible Notes, and the fair value of the Gallup Derivative. We account for derivatives in accordance with FASB ASC Topic 815, which establishes accounting and reporting standards requiring that certain derivative instruments be recorded on the balance sheet as either an asset or liability measured at fair value. Additionally, changes in the derivative's fair value will be recognized currently in earnings unless specific hedge accounting criteria are met. As permitted under our master netting arrangements, the fair value amounts of our interest rate swaps and foreign currency options and/or forward contracts are presented on a net basis by counterparty in the consolidated balance sheets.

Derivative Instruments Designated as Hedging Instruments

Cash Flow Hedges

Derivative instruments that are designated and qualify as cash flow hedges are recorded at estimated fair value in the consolidated balance sheets, with the effective portion of the gains and losses being reported in accumulated other comprehensive income or loss ("accumulated OCI"). Cash flow hedges for all periods presented consist solely of interest rate swap agreements, which effectively modify our exposure to interest rate risk by converting a portion of our floating rate debt to fixed rate obligations, thus reducing the impact of interest rate changes on future interest expense. Under these agreements, we receive a variable rate of interest based on LIBOR (as defined in Note 5), and we pay a fixed rate of interest with an interest rate of 1.480% plus a spread (see Note 5). We maintain an interest rate swap agreement with a current notional amount of $50.0 million and a termination date of December 30, 2016. Gains and losses on these interest rate swap agreements are reclassified to interest expense in the same period during which the hedged transaction affects earnings or the period in which all or a portion of the hedge becomes ineffective. As of March 31, 2016, we expected to reclassify $0.1 million of net losses on interest rate swap agreements from accumulated OCI to interest expense within the next twelve months due to the scheduled payment of interest associated with our debt.

The following table shows the effect of our cash flow hedges on the consolidated balance sheets during the three months ended March 31, 2016 and 2015:

(In $000s)	For the Three Months Ended	
Derivatives in Cash Flow Hedging Relationships	March 31, 2016	March 31, 2015
Loss related to effective portion of derivatives recognized in accumulated OCI, gross of tax effect	$92	$201
Loss related to effective portion of derivatives reclassified from accumulated OCI to interest expense, gross of tax effect	$(133)	$(98)

Gains and losses representing either hedge ineffectiveness or hedge components excluded from the assessment of effectiveness are recognized in current earnings. During the three months ended March 31, 2016 and 2015, there were no gains or losses on cash flow hedges recognized in our consolidated statements of comprehensive income (loss) resulting from hedge ineffectiveness.

Derivative Instruments Not Designated as Hedging Instruments

Our Cash Conversion Derivative, Cash Convertible Notes Hedges, Gallup Derivative and foreign currency options and/or forward contracts do not qualify for hedge accounting treatment under U.S. GAAP and are measured at fair value with gains and losses recognized immediately in the consolidated statements of comprehensive income (loss). Other than the Gallup Derivative described in Note 7, these derivative instruments not designated as hedging instruments did not have a material impact on our consolidated statements of comprehensive income (loss) for the three months ended March 31, 2016 and 2015.

Cash Conversion Derivative and Cash Convertible Notes Hedges

The Cash Conversion Derivative is accounted for as a derivative liability and carried at fair value. In order to offset the risk associated with the Cash Conversion Derivative, we entered into Cash Convertible Notes Hedges, which are cash-settled and are intended to reduce our exposure to potential cash payments that we would be required to make if holders elect to convert the Cash Convertible Notes at a time when our stock price exceeds the conversion price. The Cash Convertible Notes Hedges are accounted for as a derivative asset and carried at fair value.

Gallup Derivative

The Gallup Derivative is accounted for as a derivative liability and carried at fair value.

The gains and losses resulting from a change in fair values of the Cash Conversion Derivative, the Cash Convertible Notes Hedges and the Gallup Derivative are reported in the consolidated statements of comprehensive income (loss) as follows:

(In $000s)	Three Months Ended March 31, 2016	Statements of Comprehensive Income (Loss) Classification
Cash Convertible Notes Hedges:		
Net unrealized loss	$(7,603)	Selling, general and administrative expenses
Cash Conversion Derivative:		
Net unrealized gain	$7,603	Selling, general and administrative expenses
Gallup Derivative:		
Net loss	$—	Equity in income from joint ventures

Foreign Currency Exchange Contracts

We also enter into foreign currency options and/or forward contracts in order to minimize our earnings exposure to fluctuations in foreign currency exchange rates. Our foreign currency exchange contracts require current period mark-to-market accounting, with any change in fair value being recorded each period in the consolidated statements of comprehensive income (loss) in selling, general and administrative expenses. At March 31, 2016, we had forward contracts with notional amounts of $33.4 million to exchange foreign currencies, primarily the Australian dollar and the Euro, that were entered into to hedge forecasted foreign net income (loss) and intercompany debt. We routinely monitor our foreign currency exposures to maximize the overall effectiveness of our foreign currency hedge positions. We do not execute transactions or hold derivative financial instruments for trading or other purposes.

The estimated gross fair values of derivative instruments at March 31, 2016 and December 31, 2015, excluding the impact of netting derivative assets and liabilities when a legally enforceable master netting agreement exists, were as follows:

	March 31, 2016				December 31, 2015			
(In $000s)	Foreign currency exchange contracts	Interest rate swap agreements	Cash Convertible Notes Hedges and Cash Conversion Derivative	Gallup Derivative	Foreign currency exchange contracts	Interest rate swap agreements	Cash Convertible Notes Hedges and Cash Conversion Derivative	Gallup Derivative
Assets:								
Derivatives not designated as hedging instruments:								
Other current assets	$375	$ —	$ —	$ —	$284	$ —	$ —	$ —
Other assets	—	—	5,029	—	—	—	12,632	—
Total assets	$375	$ —	$ 5,029	$ —	$284	$ —	$ 12,632	$ —
Liabilities:								
Derivatives not designated as hedging instruments:								
Accrued liabilities	$246	$ —	$ —	$ 3,366	$48	$ —	$ —	$ 3,323
Other long-term liabilities	—	—	5,029	2,223	—	—	12,632	3,016
Derivatives designated as hedging instruments:								
Accrued liabilities	—	357	—	—	—	397	—	—
Other long-term liabilities	—	—	—	—	—	—	—	—
Total liabilities	$246	$ 357	$ 5,029	$ 5,589	$48	$ 397	$ 12,632	$ 6,339

See also Note 7 for more information on fair value measurements.

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(9) Earnings Per Share

The following is a reconciliation of the numerator and denominator of basic and diluted earnings per share for the three months ended March 31, 2016 and 2015:

(In 000s, except per share data)	Three Months Ended March 31, 2016	March 31, 2015
Numerator:		
Net loss attributable to Healthways, Inc. - numerator for basic loss per share	$(14,209)	$(2,913)
Denominator:		
Shares used for basic loss per share	36,109	35,595
Effect of dilutive securities outstanding:		
Non-qualified stock options [(1)]	—	—
Restricted stock units [(1)]	—	—
Market stock units [(1)]	—	—
Performance-based stock units [(1)]	—	—
CareFirst Warrants [(1)]	—	—
Shares used for diluted income per share [(1)]	$36,109	$35,595
Loss per share:		
Basic	$(0.39)	$(0.08)
Diluted [(1)]	$(0.39)	$(0.08)
Dilutive securities outstanding not included in the computation of loss per share because their effect is antidilutive:		
Non-qualified stock options	1,651	1,243
Restricted stock units	1,105	404
Market stock units	161	—
Performance-based stock units	—	98
Warrants related to Cash Convertible Notes	7,707	7,707
CareFirst Convertible Note	892	892
CareFirst Warrants	591	36

[(1)] The impact of potentially dilutive securities for the three months ended March 31, 2016 and 2015 was not considered because the effect would be anti-dilutive in each of those periods.

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(10) Accumulated OCI

The following tables summarize the changes in accumulated OCI, net of tax, for the three months ended March 31, 2016 and 2015:

(In $000s)	Net Change in Fair Value of Interest Rate Swaps	Foreign Currency Translation Adjustments	Total
Accumulated OCI, net of tax, as of January 1, 2016	$ (239)	$ (3,848)	$(4,087)
Other comprehensive income (loss) before reclassifications, net of tax	(56)	924	868
Amounts reclassified from accumulated OCI, net of tax	80	—	80
Net increase in other comprehensive income (loss), net of tax	24	924	948
Accumulated OCI, net of tax, as of March 31, 2016	$ (215)	$ (2,924)	$(3,139)

(In $000s)	Net Change in Fair Value of Interest Rate Swaps	Foreign Currency Translation Adjustments	Total
Accumulated OCI, net of tax, as of January 1, 2015	$ (342)	$ (1,706)	$(2,048)
Other comprehensive loss before reclassifications, net of tax	(111)	(1,625)	(1,736)
Amounts reclassified from accumulated OCI, net of tax	59	—	59
Net decrease in other comprehensive income (loss), net of tax	(52)	(1,625)	(1,677)
Accumulated OCI, net of tax, as of March 31, 2015	$ (394)	$ (3,331)	$(3,725)

The following table provides details about reclassifications out of accumulated OCI for the three months ended March 31, 2016 and 2015:

(In $000s)	Three Months Ended March 31, 2016	2015	Statement of Comprehensive Loss Classification
Interest rate swaps	$133	$98	Interest expense
	(53)	(39)	Income tax benefit
	$80	$59	Net of tax

See Note 8 for further discussion of our interest rate swaps.

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(11) Restructuring and Related Charges

In the third quarter of 2015, we began developing our reorganization and cost rationalization plan (the "2015 Restructuring Plan") that the Company committed to in October 2015, which is intended to improve efficiency and deliver greater value to our customers and stakeholders. The 2015 Restructuring Plan is expected to be complete by the end of the third quarter of 2016.

We expect to incur a total of approximately $25 million in restructuring charges related to the 2015 Restructuring Plan, substantially all of which are expected to result in cash expenditures. We expect that the total charges will consist of approximately $10.5 million to $11.5 million of severance and other employee-related costs; approximately $8 million to $9 million of lease termination costs; and approximately $5.5 million to $6 million in consulting and other costs.

The following table shows the costs incurred for the three months ended March 31, 2016 directly related to our 2015 Restructuring Plan and other restructuring costs:

(In $000s)	Severance and Other Employee-Related Costs	Consulting and Other Costs [1]	Total
Accrued restructuring and related charges liability as of January 1, 2016	$ 7,093	$ 2,900	$ 9,993
2015 Restructuring Plan charges	3,073	2,668	5,741
Cash payments	(2,541)	(2,428)	(4,969)
Non-cash charges [2]	(127)	—	(127)
Accrued restructuring and related charges liability as of March 31, 2016	$ 7,498	$ 3,140	$ 10,638

[1] Consulting and other costs primarily consist of third-party consulting charges incurred in connection with the 2015 Restructuring Plan. Consulting and other costs also include approximately $0.1 million of lease termination payments.

[2] Non-cash charges consist of share-based compensation costs.

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Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

Overview

Healthways, Inc. provides network delivered solutions and population health management services that are uniquely designed to help people improve their well-being, thereby improving their health and productivity and reducing their health-related costs. Our solutions and services are designed to improve some or all of a population's well-being elements: physical, financial, social, community and sense of purpose. In some cases we engage entire populations, including health plan memberships, workforces and communities, while in other cases we engage targeted populations such as members at high-risk, cohorts of cardiac rehabilitation patients or hospital discharge patients. In the U.S., we operate in all 50 states and the District of Columbia. Our customers include health plans, both commercial and Medicare Advantage, large self-insured employers, including state and municipal government entities, and providers of healthcare, including integrated healthcare systems, and hospitals. In addition to our U.S. operations, we also provide services to commercial healthcare businesses and/or government entities in Australia, Brazil and France.

Our Network Solutions Business contains, among others, three large programs including the SilverSneakers® senior fitness program, the Prime fitness program and the Physical Medicine access program. The SilverSneakers® senior fitness program is offered to members of Medicare Advantage, Medicare Supplement and Group Retirees. Our fitness networks encompass approximately 16,000 U.S. fitness center locations and more than 1,000 alternative locations providing classes only. We utilize the fitness center national network to also offer the Prime Fitness program through commercial health plans, employers and insurance exchanges. We also offer a Physical Medicine network of over 88,000 complementary, alternative and physical medicine practitioners to serve individuals through health plans and employers who seek health services such as physical therapy, occupational therapy, speech therapy, chiropractic care, acupuncture and more.

Our Population Health Business, whose largest customers are commercial health plans and self-insured employers, takes a systematic approach to keeping healthy people healthy, eliminating or reducing lifestyle risks and optimizing care for persistent or chronic conditions. Our population health technology platform uses our proprietary analytics and predictive models to enable us to stratify the population, develop individualized well-being improvement plans and deliver targeted action-based solutions to improve individual and organizational performance. Many of our intervention services are delivered from our domestic and international well-being improvement call centers staffed with a range of health care professionals. The professionals include, but are not limited to, nurses, dieticians, pharmacists, health coaches, exercise specialists and nutritional counselors. Our interventions are delivered using a range of other methods, including: venue-based face-to-face interactions; print; phone; mobile and remote devices with unique applications; on-line web-based portals, including social networks; and any combination of these methods.

Founded and incorporated in Delaware in 1981, Healthways, Inc. is headquartered at 701 Cool Springs Boulevard, Franklin, TN 37067.

Forward-Looking Statements

Management's Discussion and Analysis of Financial Condition and Results of Operations contains forward-looking statements, which are based upon management's current knowledge, assumptions, beliefs, estimates and expectations, involve a number of risks and uncertainties and are subject to the "safe harbor" provisions of the Private Securities Litigation Reform Act of 1995. Forward-looking statements include all statements that are not historical statements of fact and those regarding the intent, belief or expectations of the Company, including, without limitation, all statements regarding the Company's future earnings and results of operations, and can be identified by the use of words like "may," "believe," "will," "expect," "project," "estimate," "anticipate," "plan," or "continue" and similar expressions. Readers are cautioned that any such forward-looking statements are not guarantees of future performance and involve significant risks and uncertainties, and that actual results may vary from those in the forward-looking statements as a result of various factors, including, but not limited to:

- our ability to estimate the costs associated with, and to implement and realize the anticipated benefits of, the 2015 Restructuring Plan;
- the effectiveness of management's strategies and decisions, including on-going strategic review;
- the risks associated with recent changes to our senior management team;
- our ability to sign and implement new contracts for our solutions;
- our ability to accurately forecast the costs required to successfully implement new contracts;
- our ability to renew and/or maintain contracts with our customers under existing terms or restructure these contracts on terms that would not have a material negative impact on our results of operations;
- our ability to effectively compete against other entities, whose financial, research, staff and marketing resources may exceed our resources;
- our ability to accurately forecast our revenues, margins, earnings and net income, as well as any potential charges that we may incur as a result of changes in our business and leadership;
- our ability to accurately forecast performance and the timing of revenue recognition under the terms of our customer contracts ahead of data collection and reconciliation;
- the impact of the Patient Protection and Affordable Care Act, as amended by the Health Care and Education Reconciliation Act of 2010 (the "PPACA"), on our operations and/or the demand for our services;
- our ability to anticipate, change and respond to emerging trends in the domestic and international markets for healthcare and the impact of the same on demand for our services;
- the risks associated with deriving a significant concentration of our revenues from a limited number of customers;
- the risks associated with foreign currency exchange rate fluctuations and our ability to hedge against such fluctuations;
- our ability to achieve and reach mutual agreement with customers with respect to the contractually required performance metrics, cost savings and clinical outcomes improvements, or to achieve such metrics, savings and improvements within the timeframes contemplated by us;

- our ability to achieve estimated annualized revenue in backlog in the manner and within the timeframe we expect, which is based on certain estimates regarding the implementation of our services;
- our ability and/or the ability of our customers to enroll participants and to accurately forecast their level of enrollment and participation in our programs in a manner and within the timeframe anticipated by us;
- the ability of our customers to provide timely and accurate data that is essential to the operation and measurement of our performance under the terms of our contracts;
- our ability to favorably resolve contract billing and interpretation issues with our customers;
- our ability to service our debt, make principal and interest payments as those payments become due and remain in compliance with our debt covenants;
- the risks associated with changes in macroeconomic conditions, which may reduce the demand and/or the timing of purchases for our services from customers or potential customers, reduce the number of covered lives of our existing customers or restrict our ability to obtain additional financing;
- counterparty risk associated with the Cash Convertible Notes Hedges, interest rate swap agreements and foreign currency exchange contracts;
- the risks associated with valuation of the Cash Convertible Notes Hedges and the Cash Conversion Derivative, which may result in volatility to our consolidated statements of comprehensive income (loss) if these transactions do not completely offset one another;
- the risks associated with certain derivatives carried at fair value, which may result in volatility to our consolidated statements of comprehensive income (loss);
- our ability to integrate new or acquired businesses, services (including outsourced services) or technologies into our business and to accurately forecast the related costs;
- our ability to anticipate and respond to strategic changes, opportunities and emerging trends in our industry and/or business and to accurately forecast the related impact on our revenues and earnings;
- the impact of any impairment of our goodwill, intangible assets or other long-term assets;

- our ability to develop new products and deliver and report outcomes on those products;
- our ability to implement our integrated data and technology solutions platform within the required timeframe and expected cost estimates and to develop and enhance this platform and/or other technologies to meet evolving customer and market needs;
- our ability to obtain adequate financing to provide the capital that may be necessary to support our operations and to support or guarantee our performance under new contracts;
- unusual and unforeseen patterns of healthcare utilization by individuals with diseases or conditions for which we provide services;
- the ability of our customers to maintain the number of covered lives enrolled in the plans during the terms of our agreements;
- the risks associated with data privacy or security breaches, computer hacking, network penetration and other illegal intrusions of our information systems or those of third-party vendors or other service providers, which may result in unauthorized access by third parties to customer, employee or our information or patient health information and lead to enforcement actions, fines and other litigation against us;
- the impact of any new or proposed legislation, regulations and interpretations relating to Medicare or Medicare Advantage;
- the impact of future state, federal, and international legislation and regulations applicable to our business, including PPACA, on our ability to deliver our services and on the financial health of our customers and their willingness to purchase our services;
- current geopolitical turmoil, the continuing threat of domestic or international terrorism, and the potential emergence of a health pandemic or infectious disease outbreak;
- the impact of legal proceedings involving us and/or our subsidiaries; and
- other risks detailed in our Annual Report on Form 10-K for the fiscal year ended December 31, 2015 and our other filings with the Securities and Exchange Commission.

We undertake no obligation to update or revise any such forward-looking statements.

Customer Contracts

Our fees are generally billed on a per member per month ("PMPM") basis or upon member participation. For PMPM fees, we generally determine our contract fees by multiplying the contractually negotiated PMPM rate by the number of members covered by our services during the month. We typically set PMPM rates during contract negotiations with customers based on the value we expect our programs to create and a sharing of that value between the customer and the Company.

Our contracts with health plans and integrated healthcare systems generally range from three to five years with certain comprehensive strategic agreements extending up to ten years in length. Contracts with self-insured employers typically have two to four-year terms. Some of our contracts allow the customer to terminate early.

Some of our contracts place a portion of our fees at risk based on achieving certain performance metrics, cost savings, and/or clinical outcomes improvements or obtaining customer agreement ("performance-based"). Approximately 3% of revenues recorded during the three months ended March 31, 2016 were performance-based, and 2% of revenues were subject to final reconciliation as of March 31, 2016.

Business Strategy

Our business strategy and value proposition reflect our fundamental belief that people with higher well-being have lower overall health-related costs, improved workforce engagement and improved productivity. These outcomes create value for our customers, which include health plans, governments, employers, integrated healthcare systems and communities.

We believe the entire healthcare market is shifting to payment for outcomes, not simply volume of services or time, and that solutions focused on population health management are the most effective model within this pay-for-value reimbursement market. We believe this model is better aligned with macro healthcare trends and their impact on payors, providers and consumers.

As part of the 2015 Restructuring Plan, we are moving from an organization focused on five customer end markets to a structure centered on two primary businesses – Network Solutions and Population Health Services. The Network Solutions business creates interventions that are delivered through the networks that we manage, including our SilverSneakers® Fitness program and our national network of complementary and alternative medicine providers. The Population Health Services business unit delivers interventions directly to members of sponsored populations. These interventions are designed to improve people's health and well-being and drive improved performance and lower health-related costs by keeping healthy people healthy, eliminating or reducing lifestyle risks that lead to disease and optimizing care for people with persistent conditions or chronic disease.

Strategic partnerships with leading health and well-being solutions providers are an important part of our business strategy. For example, we collaborate with Blue Zones, LLC to deliver a scaled well-being improvement solution to improve the well-being of entire community populations, and we have an exclusive partnership with Dr. Dean Ornish that is expanding access to the Dr. Ornish's Program for Reversing Heart Disease™.

Delivery Model

The degree of our engagement and model of support is based on our customers' needs and preferences. Within our Network Solutions Business, we have approximately 16,000 U.S. fitness center locations and more than 1,000 alternative locations providing classes only. We utilize the fitness center national network to deliver the SilverSneakers ® Fitness proprietary curriculum and also offer the Prime Fitness program. Within our Population Health Services, behavior change techniques and predictive modeling are incorporated in our technology to identify an individual's readiness to change. We then provide personalized support through appropriate interactions using a range of methods desired by an individual, including self-directed modalities of mobile, web and integrated devices including social networks, venue-based face-to-face, print, phone and others.

Modalities used and intensity of service must deliver the expected result – healthier people who cost less and perform better. We expect to invest where appropriate in technology to refine our proprietary clinical, data management and reporting systems to continue to meet the requirements of our customers to deliver measureable outcomes.

Measurement of Outcomes

Through our exclusive, 25-year relationship with Gallup, which began in 2008, we have created a definitive measure and empiric database of changes in the well-being of the U.S. population based on over two million completed surveys to date, known as the Gallup-Healthways Well-Being Index®. This database supports our understanding of the causes and effects of well-being for a population. The Gallup-Healthways individual well-being assessment tools, known collectively as the Gallup-Healthways Well-Being 5™, provide employers, health providers, insurers and other interested parties with a validated capability to assess, measure and report on changes in the well-being of their employees, patients, members and customers.

Growth Strategy

We are engaged in a comprehensive review of the Healthways organization: our business structure, costs, product offerings and delivery. We are focused on listening to and understanding our customers' requirements and how best to meet their needs. Our objective is to be a leader in the markets in which we compete while providing a level of financial performance commensurate with that leadership position.

The outcome of our strategic review, which we expect to conclude before the end of the second quarter of 2016, might include the addition or subtraction of capabilities and technologies through internal development, strategic alliances with other entities and/or selective acquisitions, divestitures or investments.

Critical Accounting Policies

We describe our accounting policies in Note 1 of the Notes to the Consolidated Financial Statements in our Annual Report on Form 10-K for the fiscal year ended December 31, 2015. We prepare the consolidated financial statements in conformity with U.S. GAAP, which requires us to make estimates and judgments that affect the reported amounts of assets and liabilities and related disclosures at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results may differ from those estimates.

We believe the following accounting policies are the most critical in understanding the estimates and judgments that are involved in preparing our financial statements and the uncertainties that could impact our results of operations, financial condition and cash flows.

Revenue Recognition

We recognize revenue as services are performed when persuasive evidence of an arrangement exists, collectability is reasonably assured and amounts are fixed or determinable.

Our fees are generally billed on a PMPM basis or upon member participation, such as the Healthways® SilverSneakers® fitness solution. For PMPM fees, we generally determine our contract fees by multiplying the contractually negotiated PMPM rate by the number of members eligible for or receiving our services during the month. PMPM rates are established during contract negotiations with customers, often based on the value we expect our programs to create and a sharing of that value between the customer and the Company. Some of our contracts are performance-based and place a portion of our fees at risk based on achieving certain performance metrics, cost savings, and/or clinical outcomes improvements. Approximately 3% of revenues recorded during the three months ended March 31, 2016 were performance-based, and 2% of revenues were subject to final reconciliation as of March 31, 2016.

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We generally bill our customers each month for the entire amount of the fees contractually due for the prior month's enrollment, which typically includes the amount, if any, that is performance-based and may be subject to refund should we not meet performance targets. Fees for participation are typically billed in the month after the services are provided. Deferred revenues arise from contracts that permit upfront billing and collection of fees covering the entire contractual service period, generally 12 months. A limited number of our contracts provide for certain performance-based fees that cannot be billed until after they are reconciled with the customer.

We recognize revenue as follows: (1) we recognize the fixed portion of PMPM fees and fees for service as revenue during the period we perform our services; and (2) we recognize performance-based revenue based on the most recent assessment of our performance, which represents the amount that the customer would legally be obligated to pay if the contract were terminated as of the latest balance sheet date.

We generally assess our level of performance for our performance-based contracts based on medical claims and other data that the customer is contractually required to supply, interim assessments of achievement against performance targets or metrics available from our operating platforms. A minimum of four to nine months' data is typically required for us to measure performance. In assessing our performance, we may include estimates such as medical claims incurred but not reported. In addition, we may also provide reserves for contractual allowances (such as data reconciliation differences) as appropriate.

If data is insufficient or incomplete to measure performance, or interim performance measures indicate that we are not meeting performance targets, we do not recognize performance-based fees subject to refund as revenues but instead record them in a current liability account entitled "contract billings in excess of earned revenue." Only in the event we do not meet performance levels by the end of the measurement period, typically one year, are we contractually obligated to refund some or all of the performance-based fees. We would only reverse revenues that we had already recognized if performance to date in the measurement period, previously above targeted levels, subsequently dropped below targeted levels.

During the settlement process under a contract, which generally occurs six to eight months after the end of a contract year, we settle any performance-based fees and reconcile healthcare claims and clinical data. As of March 31, 2016, cumulative performance-based revenues that have not yet been settled with our customers but that have been recognized in the current and prior years totaled approximately $32.1 million, all of which were based on actual data. Data reconciliation differences, for which we provide contractual allowances until we reach agreement with respect to identified issues, can arise between the customer and us due to customer data deficiencies, omissions, and/or data discrepancies.

Performance-related adjustments (including any amounts recorded as revenue that were ultimately refunded), changes in estimates, or data reconciliation differences may cause us to recognize or reverse revenue in a current year that pertains to services provided during a prior year. During the three months ended March 31, 2016 and 2015, we recognized a net increase in revenue of $1.3 million and $3.0 million related to services provided prior to each respective year.

We are currently evaluating the impact that the adoption of ASU No. 2014-09, (as discussed above) will have on our revenue recognition policies and procedures, financial position, result of operations, cash flows, financial disclosures and control framework.

Impairment of Intangible Assets and Goodwill

We review goodwill for impairment at the reporting unit level (operating segment or one level below an operating segment) on an annual basis (during the fourth quarter of our fiscal year) or more frequently whenever events or circumstances indicate that the carrying value may not be recoverable. We may elect to perform a qualitative assessment to determine whether it is more likely than not that the fair value of a reporting unit is less than its carrying value. If we conclude during the qualitative assessment that this is the case or if we elect not to perform a qualitative assessment, we perform a quantitative review as described below.

During a quantitative review of goodwill, we estimate the fair value of each reporting unit using a combination of a discounted cash flow model and a market-based approach, and we reconcile the aggregate fair value of our reporting units to our consolidated market capitalization. Estimating fair value requires significant judgments, including management's estimate of future cash flows, which is dependent on internal forecasts, estimation of the long-term growth rate for our business, the useful life over which cash flows will occur, and determination of our weighted average cost of capital, as well as relevant comparable company earnings multiples for the market-based approach. Changes in these estimates and assumptions could materially affect the estimate of fair value and potential goodwill impairment for each reporting unit.

If we determine that the carrying value of goodwill is impaired based upon an impairment review, we calculate any impairment using a fair-value-based goodwill impairment test as required by U.S. GAAP. The fair value of a reporting unit is the price that would be received upon a sale of the unit as a whole in an orderly transaction between market participants at the measurement date.

Except for a trade name that has an indefinite life and is not subject to amortization, we amortize identifiable intangible assets, such as acquired technologies and customer contracts, over their estimated useful lives using the straight-line method. We assess the potential impairment of intangible assets subject to amortization whenever events or changes in circumstances indicate that the carrying values may not be recoverable. If we determine that the carrying value of other identifiable intangible assets may not be recoverable, we calculate any impairment using an estimate of the asset's fair value based on the estimated price that would be received to sell the asset in an orderly transaction between market participants.

We review intangible assets not subject to amortization, which consist of a trade name, on an annual basis or more frequently whenever events or circumstances indicate that the assets might be impaired. We estimate the fair value of the trade name using a present value technique, which requires management's estimate of future revenues attributable to this trade name, estimation of the long-term growth rate for these revenues, and determination of our weighted average cost of capital. Changes in these estimates and assumptions could materially affect the estimate of fair value for the trade name.

Future events could cause us to conclude that impairment indicators exist and that goodwill and/or other intangible assets are impaired. Any resulting impairment loss could have a material adverse impact on our financial condition and results of operations.

Income Taxes

The objectives of accounting for income taxes are to recognize the amount of taxes payable or refundable for the current year and deferred tax liabilities and assets for the future tax consequences of events that have been recognized in an entity's financial statements or tax returns. Accounting for income taxes requires significant judgment in evaluating tax positions and in determining income tax provisions, including determination of deferred tax assets, deferred tax liabilities and any valuation allowances that might be required against deferred tax assets.

Valuation allowances are established when necessary to reduce deferred tax assets to the amounts that are expected to be realized. When we determine that it is more likely than not that we will be able to realize our deferred tax assets in the future, an adjustment to the deferred tax asset would be made and reflected in income. This determination will be made by considering various factors, including the reversal and timing of existing temporary differences, tax planning strategies and estimates of future taxable income exclusive of the reversal of temporary differences.

We recognize the tax benefit from an uncertain tax position only if it is more likely than not that the tax position will be sustained on examination by the taxing authorities, based on the technical merits of the position. The tax benefits recognized in the financial statements from such a position should be measured based on the largest benefit that has a greater than 50% likelihood of being realized upon ultimate settlement. U.S. GAAP also provides guidance on derecognition of income tax assets and liabilities, classification of current and deferred income tax assets and liabilities, accounting for interest and penalties associated with tax positions, and income tax disclosures. Judgment is required in assessing the future tax consequences of events that have been recognized in our financial statements or tax returns. Variations in the actual outcome of these future tax consequences could materially impact our consolidated financial position, results of operations, and cash flows.

Share-Based Compensation

We measure and recognize compensation expense for all share-based payment awards over the required vesting period based on estimated fair values at the date of grant. Determining the fair value of stock options at the grant date requires judgment in developing assumptions, which involve a number of variables. These variables include, but are not limited to, the expected stock price volatility over the term of the awards and expected stock option exercise behavior. In addition, we also use judgment in estimating the number of share-based awards that are expected to be forfeited.

Results of Operations

The following table shows the components of the consolidated statements of comprehensive income (loss) for the three months ended March 31, 2016 and 2015 expressed as a percentage of revenues.

	Three Months Ended March 31, 2016	2015
Revenues	100.0 %	100.0 %
Cost of services (exclusive of depreciation and amortization included below)	86.7 %	85.0 %
Selling, general and administrative expenses	8.6 %	8.4 %
Depreciation and amortization	6.7 %	6.7 %
Restructuring and related charges	3.0 %	— %
Operating loss	(5.0)%	(0.1)%
Interest expense	2.3 %	2.4 %
Equity in income from joint venture	0.1 %	— %
Loss before income taxes	(7.2)%	(2.5)%
Income tax expense (benefit)	0.1 %	(0.9)%
Net loss [(1)]	(7.3)%	(1.5)%
Less: net income attributable to non-controlling interest	0.2 %	— %
Net loss attributable to Healthways, Inc.	(7.5)%	(1.5)%

[(1)] Figures may not add due to rounding.

Revenues

Revenues remained relatively consistent for the three months ended March 31, 2016 compared to the same period in 2015, although there were offsetting increases and decreases within the periods.

Increases in revenues were primarily due to the following:

- an increase in the number of members eligible to participate in our fitness solutions, primarily due to increased enrollment in Medicare Advantage resulting in growth in our customers' membership; and

- an increase in average participation per member in our fitness solutions, primarily due to our initiatives to drive higher participation.

Decreases in revenues were primarily due to the following:

- contract terminations that occurred in 2015;

- an amendment to a long-term contract with a health plan customer in 2015 that resulted in lower contract revenues but largely unchanged contract profits; and

- the sale of our Navvis consulting business in November 2015.

Cost of Services

Cost of services (excluding depreciation and amortization) as a percentage of revenues increased to 86.7% for the three months ended March 31, 2016, compared to 85.0% for the three months ended March 31, 2015, primarily due to the following:

- an increase in the level of short-term incentive compensation expense based on the Company's projected financial performance against established targets; and

- certain staffing costs related to one contract that remained relatively fixed during the first quarter of 2016 in anticipation of ramping revenues.

These increases were partially offset by cost savings resulting from the 2015 Restructuring Plan.

Selling, General and Administrative Expenses

Selling, general and administrative expenses as a percentage of revenues increased to 8.6% for the three months ended March 31, 2016 compared to 8.4% for the three months ended March 31, 2015. This increase is primarily due to an increase in the level of incentive compensation expense (as described above) and increased consulting expenses incurred in connection with our strategic review during the first quarter of 2016, partially offset by cost savings resulting from the 2015 Restructuring Plan and legal fees incurred during the first quarter of 2015 related to a contractual dispute.

Depreciation and Amortization

Depreciation and amortization expense remained relatively consistent for the three months ended March 31, 2016 compared to the same period in 2015.

Restructuring and Related Charges

In connection with the 2015 Restructuring Plan, we incurred charges of $5.7 million, which primarily consisted of termination benefits and third-party consulting charges incurred in connection with the 2015 Restructuring Plan. We expect to incur a total of approximately $25 million in restructuring charges related to the 2015 Restructuring Plan, substantially all of which are expected to result in cash expenditures. We expect that the total charges will consist of approximately $10.5 million to $11.5 million of severance and other employee-related costs; approximately $8 million to $9 million of lease termination costs; and approximately $5.5 million to $6 million in consulting and other costs.

Interest Expense

Interest expense remained relatively consistent for the three months ended March 31, 2016 compared to the same period in 2015.

Equity in Income from Joint Ventures

In connection with our joint venture agreement with the Gallup Joint Venture, $0.1 million of income was recorded in the consolidated statements of comprehensive income (loss) for the three months ended March 31, 2016.

Income Tax Expense

For the three months ended March 31, 2016, we had an effective income tax rate of 1.3%, compared to an effective tax benefit rate of 38.1% for the three months ended March 31, 2015 primarily due to the Company's inability to recognize a tax benefit on the pretax loss for the three months ended March 31, 2016.

Liquidity and Capital Resources

Operating activities for the three months ended March 31, 2016 provided cash of $7.4 million, compared to $1.8 million for the three months ended March 31, 2015. The increase in cash provided by operating activities was primarily due to the following:

a decrease in days sales outstanding in accounts receivable from 58 days at March 31, 2015 to 49 days at March 31, 2016; and

two legal settlement payments totaling $12.8 million during the three months ended March 31, 2015, both of which were reflected in the Company's results of operations for 2014.

Investing activities during the three months ended March 31, 2016 used $7.2 million in cash which primarily consisted of capital expenditures, most of which were associated with our Embrace platform.

Financing activities during the three months ended March 31, 2016 provided cash of $16,000 in cash primarily due to the change in our cash overdraft position partially offset by net payments under the Fifth Amended Credit Agreement.

Credit Facility

For a detailed description of the Fifth Amended Credit Agreement, refer to Note 5 of the Notes to Consolidated Financial Statements in this report. The Fifth Amended Credit Agreement contains financial covenants that require us to maintain specified ratios or levels at March 31, 2016 of (1) a maximum total funded debt to EBITDA of 3.75 and (2) a minimum total fixed charge coverage of 1.50. We were in compliance with all of the financial covenant requirements of the Fifth Amended Credit Agreement as of March 31, 2016. We plan to refinance the Fifth Amended Credit Agreement in 2016.

Cash Convertible Senior Notes

For a detailed description of the Cash Convertible Notes, Cash Convertible Notes Hedges, Cash Conversion Derivative, and Warrants entered into in July 2013, refer to Note 5 of the Notes to Consolidated Financial Statements in this report. Aside from the initial premium paid, we will not be required to make any cash payments under the Cash Convertible Notes Hedges and could be entitled to receive an amount of cash from the option counterparties generally equal to the amount by which the market price per share of common stock exceeds the strike price of the Cash Convertible Note Hedges during the relevant valuation period. The strike price under the Cash Convertible Notes Hedges is initially equal to the conversion price of the Cash Convertible Notes. Additionally, if the market price per share of our common stock exceeds the strike price of the Warrants on any warrant exercise date, we will be obligated to issue to the option counterparties a number of shares based on the amount by which the then-current market price per share of our common stock exceeds the then-effective strike price of each Warrant. We will not receive any additional proceeds if the Warrants are exercised.

CareFirst Convertible Note

For a description of the CareFirst Convertible Note and CareFirst Warrants, refer to Note 5 of the Notes to Consolidated Financial Statements in this report.

We believe that cash flows from operating activities, our available cash, and our anticipated available credit under the Fifth Amended Credit Agreement will continue to enable us to meet our contractual obligations and fund our current operations for at least the next 12 months. We cannot assure you that we would always be able to secure additional financing if needed and, if such funds were available, whether the terms or conditions would be acceptable to us.

If contract development accelerates or acquisition opportunities arise, we may need to issue additional debt or equity securities to provide the funding for these increased growth opportunities. We may also issue debt or equity securities in connection with future acquisitions or strategic alliances. We cannot assure you that we would be able to issue additional debt or equity securities on terms that would be acceptable to us.

Recently Issued Accounting Standards

In May 2014, the Financial Accounting Standards Board ("FASB") issued Accounting Standard Update ("ASU") 2014-09, which creates Accounting Standards Codification ("ASC") Topic 606, "Revenue from Contracts with Customers" ("ASC Topic 606") and supersedes ASC Topic 605, "Revenue Recognition." The provisions of ASC Topic 606 provide for a single comprehensive principles-based standard for the recognition of revenue across all industries and expanded disclosure about the nature, amount, timing and uncertainty of revenue, as well as certain additional quantitative and qualitative disclosures. The standard is effective for annual periods beginning after December 15, 2017, including interim periods within those years. We are currently evaluating the impact of adopting ASC Topic 606.

In April 2015, the FASB issued ASU 2015-03, "Simplifying the Presentation of Debt Issuance Costs" ("ASU 2015-03"), which requires that debt issuance costs related to a recognized debt liability be presented in the balance sheet as a direct deduction from the carrying amount of the related debt liability, consistent with debt discounts. This ASU was adopted in the first quarter of 2016 and has been applied on a retrospective basis to all periods presented. The adoption of this standard resulted in debt issuance costs being presented as a direct deduction from the carrying amount of the related debt liability and totaled $3.5 million and $4.1 million as of March 31, 2016 and December 31, 2015, respectively.

In November 2015, the FASB issued ASU 2015-17, "Income Taxes: Balance Sheet Classification of Deferred Taxes" ("ASU 2015-17"), which simplifies the presentation of deferred income taxes by eliminating the separate classification of deferred income tax liabilities and assets into current and noncurrent amounts in the consolidated balance sheet. The amendments in ASU 2015-17 require that all deferred tax liabilities and assets be classified as noncurrent in the consolidated balance sheet. This ASU was adopted in the first quarter of 2016 and presented prospectively for the three months ended March 31, 2016.

In February 2016, the FASB issued ASU No. 2016-02, "Leases" ("ASU 2016-02"), which requires that lessees recognize assets and liabilities for leases with lease terms greater than twelve months in the statement of financial position. ASU 2016-02 also requires improved disclosures to help users of financial statements better understand the amount, timing and uncertainty of cash flows arising from leases. The update is effective for fiscal years beginning after December 15, 2018, including interim reporting periods within those years. We are currently evaluating the impact the adoption of ASU 2016-02 will have our financial position, results of operations and cash flows.

In March 2016, the FASB Issued ASU No. 2016-09. ASU 2016-09 changes how companies account for certain aspects of share-based payment awards to employees, including the accounting for income taxes, forfeitures and statutory tax withholding requirements, as well as classification in the statement of cash flows. The standard is effective for interim and annual reporting periods beginning after December 15, 2016, although early adoption is permitted. We are currently assessing how the adoption of ASU 2016-09 will impact our our financial position, results of operations and cash flows.

Item 3. Quantitative and Qualitative Disclosures About Market Risk

We are subject to market risk related to interest rate changes, primarily as a result of the Fifth Amended Credit Agreement. Borrowings under the Fifth Amended Credit Agreement generally bear interest at variable rates based on a margin or spread in excess of either (1) one-month, two-month, three-month or six-month (or with the approval of affected lenders, nine-month or twelve-month) LIBOR or (2) the greatest of (a) the SunTrust Bank prime lending rate, (b) the federal funds rate plus 0.50% and (c) the Base Rate, as selected by the Company. The LIBOR margin varies between 1.75% and 3.00%, and the Base Rate margin varies between 0.75% and 2.00%, depending on our leverage ratio.

In order to reduce our interest rate exposure under the Fifth Amended Credit Agreement, we have entered into interest rate swap agreements effectively converting a portion of our floating rate debt to fixed obligations with an interest rate of 1.480% plus a spread.

We estimate that a one-point interest rate change would have resulted in a change in interest expense of approximately $0.2 million for the three months ended March 31, 2016.

As a result of our investment in international initiatives, we are also exposed to foreign currency exchange rate risks. Because a significant portion of these risks is economically hedged with currency options and forwards contracts and because our international initiatives are not yet material to our consolidated results of operations, a 10% change in foreign currency exchange rates would not have had a material impact on our consolidated results of operations, financial position, or cash flows for the three months ended March 31, 2016. We do not execute transactions or hold derivative financial instruments for trading purposes.

Item 4. Controls and Procedures

Evaluation of Disclosure Controls and Procedures

Our management, with the participation of our chief executive officer and chief financial officer, has reviewed and evaluated the effectiveness of our "disclosure controls and procedures" (as defined in Rule 13a-15(e) and 15d-15(e) promulgated under the Securities Exchange Act of 1934, as amended (the "Exchange Act")) as of March 31, 2016. Based on that evaluation, our chief executive officer and chief financial officer have concluded that our disclosure controls and procedures were effective as of March 31, 2016. They are designed to ensure that information required to be disclosed in the reports that the Company files or submits under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the U.S. Securities and Exchange Commission's rules and forms and to ensure that information required to be disclosed in the reports that the Company files or submits under the Exchange Act is accumulated and communicated to management, including our chief executive officer and chief financial officer, to allow timely decisions regarding required disclosure.

Changes in Internal Control over Financial Reporting

There have been no changes in our internal controls over financial reporting during the three months ended March 31, 2016 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

Part II Other Information

Item 1. Legal Proceedings

Junk Fax Prevention Act Lawsuits

On September 16, 2014, Healthways and its wholly owned subsidiary, HWHN, were named in a putative class action lawsuit filed by Edward Simon, DC in the Superior Court of California, County of Los Angeles, seeking damages and other relief relating to alleged violations of the TCPA, as amended by the JFPA, in connection with faxes allegedly transmitted to members of HWHN's network of complementary and alternative care practitioners. The JFPA prohibits sending an "unsolicited advertisement" to a fax machine and requires the sender to provide a notice to allow a recipient to "opt out" of future fax transmissions (including, pursuant to rules promulgated by the FCC, those sent with the prior express invitation or permission of the recipient). The complaint seeks damages in excess of $5 million. The case has been removed to the United States District Court for the Central District of California, Eastern Division.

On December 22, 2014, HWHN was also named in a putative class action lawsuit filed by Affiliated Health Care Associates, P.C. in the United States District Court for the Northern District of Illinois, Eastern Division, seeking damages and other relief relating to alleged violations of the TCPA, the Illinois Consumer Fraud and Deceptive Business Practices Act, and Illinois common law in connection with faxes allegedly sent to members of HWHN's network of complementary and alternative care practitioners. The complaint seeks damages in an unstated amount. On May 29, 2015, the plaintiff in the Illinois Matter voluntarily dismissed its lawsuit without prejudice; that plaintiff has been joined as a party in the California Matter.

In connection with these actions, on March 2, 2015, Healthways and HWHN filed with the