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 June 30, 2014

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

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 August 5, 2014, there were outstanding 35,345,174 shares of the registrant's common stock, par value $.001 per share ("common stock").

Healthways, Inc.
Form 10-Q
Table of Contents

Part I. Financial Information

Item 1. Financial Statements

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

ASSETS

	June 30, 2014	December 31, 2013
Current assets:		
Cash and cash equivalents	$ 2,427	$ 2,584
Accounts receivable, net	108,715	89,484
Prepaid expenses	9,873	9,228
Other current assets	7,694	6,857
Income taxes receivable	5,465	1,402
Deferred tax asset	8,562	9,667
Total current assets	142,736	119,222
Property and equipment:		
Leasehold improvements	38,143	37,463
Computer equipment and related software	305,482	290,392
Furniture and office equipment	23,230	22,881
Capital projects in process	35,618	25,228
	402,473	375,964
Less accumulated depreciation	(238,949)	(217,766)
	163,524	158,198
Other assets	63,886	53,629
Intangible assets, net	74,029	79,162
Goodwill, net	338,800	338,800
Total assets	$ 782,975	$ 749,011

See accompanying notes to the consolidated financial statements.

HEALTHWAYS, INC.
CONSOLIDATED BALANCE SHEETS
(In thousands, except share and per share data)
(Unaudited)

LIABILITIES AND STOCKHOLDERS' EQUITY

	June 30, 2014	December 31, 2013
Current liabilities:		
Accounts payable	$ 42,206	$ 33,125
Accrued salaries and benefits	17,325	20,157
Accrued liabilities	47,767	32,065
Deferred revenue	11,888	4,496
Contract billings in excess of earned revenue	18,612	17,411
Current portion of long-term debt	18,533	14,340
Current portion of long-term liabilities	784	2,822
Total current liabilities	157,115	124,416
Long-term debt	234,224	237,582
Long-term deferred tax liability	28,971	33,320
Other long-term liabilities	64,775	51,003
Stockholders' equity:		
Preferred stock $.001 par value, 5,000,000 shares authorized, none outstanding	—	—
Common stock $.001 par value, 120,000,000 shares authorized, 35,334,275 and 35,107,303 shares outstanding, respectively	35	35
Additional paid-in capital	288,146	283,244
Retained earnings	37,887	48,000
Treasury stock, at cost, 2,254,953 shares in treasury	(28,182)	(28,182)
Accumulated other comprehensive income (loss)	4	(407)
Total stockholders' equity	297,890	302,690
Total liabilities and stockholders' equity	$ 782,975	$ 749,011

See accompanying notes to the consolidated financial statements.

HEALTHWAYS, INC.
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)
(In thousands, except earnings per share data)
(Unaudited)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2014	2013	2014	2013
Revenues	$ 180,613	$ 162,270	$ 357,391	$ 327,435
Cost of services (exclusive of depreciation and amortization of $9,604, $8,886, $18,976, and $17,712, respectively, included below)	146,476	133,468	294,624	274,726
Selling, general and administrative expenses	16,899	14,279	33,331	27,377
Depreciation and amortization	13,536	13,015	26,872	26,548
Legal settlement charges	—	—	9,363	—
Operating income (loss)	3,702	1,508	(6,799)	(1,216)
Interest expense	4,516	3,158	8,899	6,479
Loss before income taxes	(814)	(1,650)	(15,698)	(7,695)
Income tax benefit	(297)	(549)	(5,585)	(2,644)
Net loss	$ (517)	$ (1,101)	$ (10,113)	$ (5,051)
Loss per share:				
Basic	$ (0.01)	$ (0.03)	$ (0.29)	$ (0.15)
Diluted (1)	$ (0.01)	$ (0.03)	$ (0.29)	$ (0.15)
Comprehensive loss	$ (449)	$ (1,136)	$ (9,702)	$ (4,888)
Weighted average common shares and equivalents:				
Basic	35,285	34,188	35,219	34,089
Diluted (1)	35,285	34,188	35,219	34,089

(1) The assumed exercise of stock-based compensation awards for the three and six months ended June 30, 2014 and 2013 was not considered because the impact would be anti-dilutive.

See accompanying notes to the consolidated financial statements.

HEALTHWAYS, INC.
CONSOLIDATED STATEMENT OF CHANGES IN STOCKHOLDERS' EQUITY
For the Six Months Ended June 30, 2014
(In thousands)
(Unaudited)

	Preferred Stock	Common Stock	Additional Paid-in Capital	Retained Earnings	Treasury Stock	Accumulated Other Comprehensive Income (Loss)	Total
Balance, December 31, 2013	$ —	$ 35	$ 283,244	$ 48,000	$ (28,182)	$ (407)	$ 302,690
Comprehensive income (loss)	—	—	—	(10,113)	—	411	(9,702)
Exercise of stock options	—	—	1,265	—	—	—	1,265
Tax effect of stock options and restricted stock units	—	—	(570)	—	—	—	(570)
Share-based employee compensation expense	—	—	3,558	—	—	—	3,558
Issuance of CareFirst warrants	—	—	649	—	—	—	649
Balance, June 30, 2014	$ —	$ 35	$ 288,146	$ 37,887	$ (28,182)	$ 4	$ 297,890

See accompanying notes to the consolidated financial statements.

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

	Six Months Ended June 30, 2014	Six Months Ended June 30, 2013
Cash flows from operating activities:		
Net loss	**$ (10,113)**	$ (5,051)
Adjustments to reconcile net loss to net cash flows provided by operating activities, net of business acquisitions:		
Depreciation and amortization	**26,872**	26,548
Amortization of deferred loan costs	**925**	483
Amortization of debt discount	**3,303**	—
Share-based employee compensation expense	**3,558**	3,458
Deferred income taxes	**(3,332)**	500
Excess tax benefits from share-based payment arrangements	**(310)**	(231)
(Increase) decrease in accounts receivable, net	**(19,373)**	26,613
Increase in other current assets	**(940)**	(3,917)
Decrease in accounts payable	**(3,251)**	(1,611)
Decrease in accrued salaries and benefits	**(3,489)**	(8,090)
Increase in other current liabilities	**17,913**	293
Other	**7,548**	(96)
Net cash flows provided by operating activities	**19,311**	38,899
Cash flows from investing activities:		
Acquisition of property and equipment	**(20,976)**	(19,579)
Business acquisitions, net of cash acquired	**—**	(830)
Other	**(3,829)**	(3,843)
Net cash flows used in investing activities	**(24,805)**	(24,252)
Cash flows from financing activities:		
Proceeds from borrowings of long-term debt	**224,900**	228,625
Payments of long-term debt	**(233,554)**	(254,252)
Deferred loan costs	**(88)**	(1,180)
Excess tax benefits from share-based payment arrangements	**310**	231
Exercise of stock options	**1,265**	2,164
Change in outstanding checks and other	**12,114**	11,366
Net cash flows provided by (used in) financing activities	**4,947**	(13,046)
Effect of exchange rate changes on cash	**390**	(1,109)
Net (decrease) increase in cash and cash equivalents	**(157)**	492
Cash and cash equivalents, beginning of period	**2,584**	1,759
Cash and cash equivalents, end of period	**$ 2,427**	$ 2,251
Noncash Activities:		
Assets acquired through capital lease obligation	**$ 5,479**	$ —

See accompanying notes to the consolidated financial statements.

(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 presentation.

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, 2013.

(2) Recent Accounting Standards

In July 2013, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") No. 2013-11, "Income Taxes (Topic 740)—Presentation of an Unrecognized Tax Benefit When a Net Operating Loss Carryforward, a Similar Tax Loss, or a Tax Credit Carryforward Exists," which requires an entity to present in the financial statements an unrecognized tax benefit, or a portion of an unrecognized tax benefit, as a reduction to a deferred tax asset resulting from a net operating loss carryforward, a similar tax loss, or a tax credit carryforward. However, when the above situation is not available at the reporting date or the tax law of the applicable jurisdiction does not require the entity to use the deferred tax asset for such purpose, the unrecognized tax benefit should be presented in the financial statements as a liability and should not be combined with deferred tax assets. ASU No. 2013-11 is effective prospectively for reporting periods beginning after December 15, 2013. We adopted this standard for the interim period beginning January 1, 2014. The adoption of this standard did not have a material impact on our consolidated results of operations, financial position, cash flows, or notes to the consolidated financial statements.

In May 2014, the FASB issued guidance codified in FASB Accounting Standards Codification ("ASC") Topic 606, "Revenue Recognition - Revenue from Contracts with Customers," which amends the guidance in former 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, 2016, including interim periods within those years. We are currently evaluating the impact of adopting ASC Topic 606.

(3) Share-Based Compensation

We have several stockholder-approved stock incentive plans for our employees and directors. We currently have four types of share-based awards outstanding under these plans: stock options, restricted stock units, restricted stock, and performance share units (beginning in June 2014). Performance share units have a multi-year performance period and vest four years from the grant date. We believe that our share-based awards align the interests of our employees and directors with those of our stockholders.

For the three and six months ended June 30, 2014, we recognized share-based compensation costs of $1.9 million and $3.6 million, respectively. For the three and six months ended June 30, 2013, we recognized share-based compensation costs of $1.9 million and $3.5 million, respectively.

A summary of our stock options as of June 30, 2014 and changes during the six months then ended is presented below:

Stock Options	Shares (000s)	Weighted-Average Exercise Price	Weighted-Average Remaining Contractual Term (years)	Aggregate Value ($000s)
Outstanding at January 1, 2014	4,325	$ 15.09		
Granted	98	16.60		
Exercised	(106)	12.39		
Forfeited	(59)	13.00		
Expired	(28)	33.49		
Outstanding at June 30, 2014	4,230	15.09	6.04	$ 20,135
Exercisable at June 30, 2014	2,441	$ 17.72	4.62	$ 9,335

The weighted-average grant-date fair value of stock options granted during the three and six months ended June 30, 2014 was $9.10 and $9.05, respectively.

The following table shows a summary of our restricted stock, restricted stock units and performance share units ("nonvested shares") as of June 30, 2014, as well as activity during the six months then ended:

	Restricted Stock and Restricted Stock Units		Performance Share Units	
Nonvested Shares	**Shares (000s)**	**Weighted-Average Grant Date Fair Value**	**Shares (000s)**	**Weighted-Average Grant Date Fair Value**
Nonvested at January 1, 2014	841	$ 10.44	—	$ —
Granted	264	16.71	303	14.74
Vested	(160)	10.92	—	—
Forfeited	(21)	11.16	—	—
Nonvested at June 30, 2014	924	$ 12.14	303	$ 14.74

(4) Income Taxes

For the three months ended June 30, 2014, we had an effective tax benefit rate of 36.5% compared to 33.3% for the three months ended June 30, 2013. The increase in the effective rate of benefit was primarily due to the smaller base of pretax loss for the 2014 period in relation to certain items for which we currently are not able to recognize a tax benefit.

Our effective tax benefit rate remained relatively consistent at 35.6% for the six months ended June 30, 2014 compared to approximately 34.4% for the six months ended June 30, 2013.

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 2010 to present.

(5) Long-Term Debt

1.50% Cash Convertible Senior Notes Due 2018

On July 16, 2013, we issued $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. The Cash Convertible Notes are convertible into cash based on the conversion rate set forth below and 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 will be amortized over the term of the Cash Convertible Notes using the effective interest method. For the six months ended June 30, 2014, we recorded $3.3 million of interest expense related to the amortization of the debt discount based upon an effective interest rate of 5.7%.

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 6 for additional information regarding the Cash Convertible Notes Hedges and the Cash Conversion Derivative and their fair values as of June 30, 2014.

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 $25.95 per share, which effectively increases the conversion price of the 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. The CareFirst Warrants issued prior to June 30, 2014 totaling 73,761 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"). The Fifth Amended Credit Agreement provides us with a $200.0 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, $105.0 million of which remained outstanding at June 30, 2014, and an uncommitted incremental accordion facility of $200.0 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, Cash Convertible Notes Hedges and Warrants 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 15, 2014, in connection with the agreement to resolve our former contractual dispute with Blue Cross Blue Shield of Minnesota ("BCBSMN") as discussed in Note 8, we entered into an additional amendment to the Fifth Amended Credit Agreement that provides for an add-back to our consolidated EBITDA, which is used for purposes of calculating financial covenants under the Fifth Amended Credit Agreement, for the $9.4 million charge incurred as a result of the settlement of our dispute with BCBSMN. As of June 30, 2014, availability under the revolving credit facility totaled $41.3 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) 1.250% of the original aggregate principal amount of the term loans during each of the eight quarters beginning with the quarter ended September 30, 2012, (2) 1.875% of the original aggregate principal amount of the term loans during each of the next four quarters beginning with the quarter ending September 30, 2014, and (3) 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.

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. As of June 30, 2014, we were in compliance with all of the financial covenant requirements of the Fifth Amended Credit Agreement.

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) Derivative Investments and Hedging Activities

We use derivative instruments to manage risks related to interest rate swap agreements, foreign currencies, and the Cash Convertible Notes. 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 interest rates ranging from 0.690% to 1.480% plus a spread (see Note 5). We maintain interest rate swap agreements with current notional amounts of $145.0 million and termination dates ranging from November 2015 to December 2016. Of this amount, $95.0 million was effective at June 30, 2014, and $50.0 million will become effective in December 2015, as older interest rate swap agreements expire. 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 June 30, 2014, we expect to reclassify $0.4 million of net losses on interest rate swap agreements from accumulated OCI to interest expense within the next 12 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 and six months ended June 30, 2014 and 2013:

(In $000s)	**For the Three Months Ended**		**For the Six Months Ended**	
Derivatives in Cash Flow Hedging Relationships	**June 30, 2014**	**June 30, 2013**	**June 30, 2014**	**June 30, 2013**
Loss (gain) related to effective portion of derivatives recognized in accumulated OCI, gross of tax effect	$ 216	$ (754)	$ 281	$ (696)
Loss related to effective portion of derivatives reclassified from accumulated OCI to interest expense, gross of tax effect	$ 130	$ 551	$ 256	$ 1,180

Gains and losses representing either hedge ineffectiveness or hedge components excluded from the assessment of effectiveness are recognized in current earnings. During the three and six months ended June 30, 2014 and 2013, 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, 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). These derivative instruments not designated as hedging instruments did not have a material impact in the aggregate on our consolidated statements of comprehensive income (loss) during the three and six months ended June 30, 2014 and 2013.

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.

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

(In $000s)	**Three Months Ended June 30, 2014**	**Six Months Ended June 30, 2014**	**Statements of Comprehensive Income (Loss) Classification**
Cash Convertible Notes Hedges:			
Net unrealized gain	$ 1,849	$ 9,580	Selling, general and administrative expenses
Cash Conversion Derivative:			
Net unrealized loss	$ (1,849)	$ (9,580)	Selling, general and administrative expenses

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 June 30, 2014, we had forward contracts with notional amounts of $20.9 million to exchange foreign currencies, primarily the Australian dollar and 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 June 30, 2014 and December 31, 2013, excluding the impact of netting derivative assets and liabilities when a legally enforceable master netting agreement exists, were as follows:

	June 30, 2014			December 31, 2013		
(In $000s)	Foreign currency exchange contracts	Interest rate swap agreements	Cash Convertible Notes Hedges and Cash Conversion Derivative	Foreign currency exchange contracts	Interest rate swap agreements	Cash Convertible Notes Hedges and Cash Conversion Derivative
Assets:						
Derivatives not designated as hedging instruments:						
Other current assets	$ 56	$ —	$ —	$ 178	$ —	$ —
Other assets	—	—	37,346	—	—	27,766
Total assets	$ 56	$ —	$ 37,346	$ 178	$ —	$ 27,766
Liabilities:						
Derivatives not designated as hedging instruments:						
Accrued liabilities	$ 227	$ —	$ —	$ 67	$ —	$ —
Other long-term liabilities	—	—	37,346	—	—	27,766
Derivatives designated as hedging instruments:						
Accrued liabilities	—	—	—	—	—	—
Other long-term liabilities	—	583	—	—	505	—
Total liabilities	$ 227	$ 583	$ 37,346	$ 67	$ 505	$ 27,766

See also Note 7.

(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 Recurring Basis

The following tables present our assets and liabilities measured at fair value on a recurring basis at June 30, 2014 and December 31, 2013:

(In $000s) June 30, 2014	Level 2	Level 3	Gross Fair Value	Netting (1)	Net Fair Value
Assets:					
Foreign currency exchange contracts	$ 56	$ —	$ 56	$ (9)	$ 47
Cash Convertible Notes Hedges	—	37,346	37,346	—	37,346
Liabilities:					
Foreign currency exchange contracts	$ 227	$ —	$ 227	$ (9)	$ 218
Interest rate swap agreements	583	—	583	—	583
Cash Conversion Derivative	—	37,346	37,346	—	37,346

(In $000s) December 31, 2013	Level 2	Level 3	Gross Fair Value	Netting (1)	Net Fair Value
Assets:					
Foreign currency exchange contracts	$ 178	$ —	$ 178	$ (57)	$ 121
Cash Convertible Notes Hedges	—	27,766	27,766	—	27,766
Liabilities:					
Foreign currency exchange contracts	$ 67	$ —	$ 67	$ (57)	$ 10
Interest rate swap agreements	505	—	505	—	505
Cash Conversion Derivative	—	27,766	27,766	—	27,766

(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 and the Cash Conversion Derivative are measured using Level 3 inputs. These instruments are not actively traded and 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 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, 2013	Purchases of Level 3 Instruments	Issuances of Level 3 Instruments	Gains/(Losses) Included in Earnings	Balance at June 30, 2014
Cash Convertible Notes Hedges	$ 27,766	$ —	$ —	$ 9,580	$ 37,346
Cash Conversion Derivative	(27,766)	—	—	(9,580)	(37,346)

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) as selling, general and administrative expenses.

Fair Value of Other Financial Instruments

In addition to foreign currency exchange contracts, interest rate swap agreements, the Cash Convertible Notes Hedges, and the Cash Conversion Derivative, the estimated fair values of which are disclosed above, the estimated fair value of each class of financial instruments at June 30, 2014 was as follows:

- Cash and cash equivalents – The carrying amount of $2.4 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 June 30, 2014 are $106.1 million and $106.6 million, respectively.

  The Cash Convertible Notes are actively traded and therefore are classified as Level 1 valuations. The estimated fair value at June 30, 2014 was $164.2 million, which is based on the last quoted price of the Cash Convertible Notes on June 30, 2014, and the par value was $150.0 million. The carrying amount of the Cash Convertible Notes at June 30, 2014 was $119.7 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 June 30, 2014, the carrying amount of the CareFirst Convertible Note of $20.0 million approximates fair value because there were no factors present that would result in a change in the fair value since its issuance on October 1, 2013.

(8) Commitments and Contingencies

Contract Disputes

On January 25, 2010, BCBSMN issued notice of arbitration with the American Arbitration Association in Minneapolis in accordance with the terms of the contract alleging violations of certain contract provisions and seeking recoupment of an unspecified amount of payments made to us under the contract. We believe we performed our services in compliance with the terms of our agreement and that the assertions made in the arbitration notice are without merit. On August 3, 2011, we asserted numerous counterclaims against BCBSMN. On April 15, 2014, we entered into an agreement with BCBSMN to resolve this dispute. Under the terms of the agreement, we agreed to pay BCBSMN in two separate installments: $4 million which was paid in April 2014 and $5.5 million to be paid in January 2015. BCBSMN has an option to receive discounts on our well-being improvement services in lieu of the January 2015 payment.

We are involved in a contractual dispute with Plastipak Packaging, Inc. ("Plastipak"). On September 10, 2012, Plastipak filed suit in the Circuit Court for Wayne County, Michigan seeking damages relating to an alleged breach of a services agreement with us. The case is currently in the discovery phase of litigation. We deny Plastipak's claims and intend to vigorously defend the action.

Performance Award Lawsuit

On September 4, 2012, Milton Pfeiffer ("Plaintiff"), claiming to be a stockholder of the Company, filed a putative derivative action against the Company and the Board of Directors (the "Board") in Delaware Chancery Court (the "Court") alleging that the Compensation Committee of the Board and the Board breached their fiduciary duties and violated the Company's 2007 Stock Incentive Plan (the "Plan") by granting Ben R. Leedle, Jr., Chief Executive Officer and President of the Company, discretionary performance awards under the Plan in the form of options to purchase an aggregate of 500,000 shares of the Company's common stock, which consisted of a performance award in November 2011 granting Mr. Leedle the right to purchase 365,000 shares and a performance award in February 2012 granting Mr. Leedle the right to purchase 135,000 shares (the "Performance Awards"). Plaintiff alleges that the Performance Awards exceeded what is authorized by the Plan and that the Company's 2012 proxy statement, in which the Performance Awards are disclosed, is false and misleading. Plaintiff also alleges that Mr. Leedle breached his fiduciary duties and was unjustly enriched by receiving the Performance Awards. Plaintiff is seeking, among other things, the rescission or disgorgement of all alleged "excess" awards granted to Mr. Leedle under the Performance Awards, to recover any incidental damages to the Company, and an award of attorneys' fees and expenses. On November 2, 2012, the Company and the Board filed a Motion to Dismiss because Plaintiff failed to make a demand upon the Board as required by Delaware law. On November 8, 2013, the Court denied the Company's Motion to Dismiss. On February 21, 2014, the Company filed its answer and intends to vigorously defend the allegations.

Outlook

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 will have a material adverse effect on our liquidity or financial condition. As these matters are subject to inherent uncertainties, our view of these matters may change in the future.

Contractual Commitments

We entered into a 25-year strategic relationship agreement with Gallup in January 2008 and a global joint venture agreement with Gallup in October 2012 that requires us to make payments over a 5-year period beginning January 2013. We have minimum remaining contractual cash obligations of $38.3 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 $135.4 million; however, based on current required service and equipment level assumptions, we estimate that the remaining payments will be approximately $280.6 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.

(9) Earnings Per Share

The following is a reconciliation of the numerator and denominator of basic and diluted earnings per share for the three and six months ended June 30, 2014 and 2013:

(In 000s, except per share data)	**Three Months Ended**		**Six Months Ended**	
	June 30, 2014	**June 30, 2013**	**June 30, 2014**	**June 30, 2013**
Numerator:				
Net loss - numerator for basic loss per share	**$ (517)**	$ (1,101)	**$ (10,113)**	$ (5,051)
Denominator:				
Shares used for basic loss per share	**35,285**	34,188	**35,219**	34,089
Effect of dilutive securities outstanding:				
Non-qualified stock options [1]	**—**	—	**—**	—
Restricted stock units [1]	**—**	—	**—**	—
Shares used for diluted loss per share [1]	**35,285**	34,188	**35,219**	34,089
Loss per share:				
Basic	**$ (0.01)**	$ (0.03)	**$ (0.29)**	$ (0.15)
Diluted [1]	**$ (0.01)**	$ (0.03)	**$ (0.29)**	$ (0.15)
Dilutive securities outstanding not included in the computation of loss per share because their effect is antidilutive:				
Non-qualified stock options	**2,237**	3,848	**2,164**	3,892
Restricted stock units	**300**	339	**298**	423
Performance stock units	**1**	—	**7**	—
Warrants related to Cash Convertible Notes	**7,707**	—	**7,707**	—
CareFirst Convertible Note	**892**	—	**892**	—
CareFirst Warrants	**36**	—	**34**	—

[1] The assumed exercise of stock-based compensation awards for the three and six months ended June 30, 2014 and 2013 was not considered because the impact would be anti-dilutive.

(10) Accumulated OCI

The following tables summarize the changes in accumulated OCI, net of tax, for the six months ended June 30, 2014 and 2013:

(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, 2014	$ (513)	$ 106	$ (407)
Other comprehensive income (loss) before reclassifications, net of tax	(150)	407	257
Amounts reclassified from accumulated OCI, net of tax	154	—	154
Net increase in other comprehensive income (loss), net of tax	4	407	411
Accumulated OCI, net of tax, as of June 30, 2014	$ (509)	$ 513	$ 4

(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, 2013	$ (1,790)	$ 861	$ (929)
Other comprehensive income (loss) before reclassifications, net of tax	421	(971)	(550)
Amounts reclassified from accumulated OCI, net of tax	713	—	713
Net increase (decrease) in other comprehensive income (loss), net of tax	1,134	(971)	163
Accumulated OCI, net of tax, as of June 30, 2013	$ (656)	$ (110)	$ (766)

The following table provides details about reclassifications out of accumulated OCI for the six months ended June 30, 2014 and 2013:

	Six Months Ended June 30,		Statement of Comprehensive
(In $000s)	2014	2013	Loss Classification
Interest rate swaps	$ 256	$ 1,180	Interest expense
	(102)	(467)	Income tax benefit
	$ 154	$ 713	Net of tax

See Note 6 for further discussion of our interest rate swaps.

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

Overview

Founded and incorporated in Delaware in 1981, Healthways, Inc., together with its wholly-owned subsidiaries, provides specialized, comprehensive solutions to help people improve their well-being, thereby improving their health and productivity and reducing their health-related costs.

We believe well-being consists of five essential elements:

- Physical: Having good health and enough energy to get things done daily
- Financial: Managing your economic life to reduce stress and increase security
- Social: Having supportive relationships and love in your life
- Community: Liking where you live, feeling safe and having pride in your community
- Purpose: Liking what you do each day and being motivated to achieve your goals

Our programs provide highly specific and personalized interventions for each individual in a population, irrespective of health status, age or paying sponsor. These programs improve the well-being status of member populations and reduce the short- and long-term health-related costs for participants, including associated costs from the loss of employee productivity. As described further below, our programs are designed to change behaviors to improve well-being across an entire population over time in order to (1) keep healthy people healthy, (2) eliminate or reduce lifestyle risks and (3) optimize care for persistent or chronic conditions.

Our population health platform using our proprietary analytics and predictive models enables us to stratify the population, develop individualized well-being plans and actions, and deliver solutions to improve individual and organizational well-being. Through this data-driven process we identify the needs of each individual in a population and determine the right level of support. This allows us to deploy successful strategies efficiently to sustain engagement, to use the best science to drive behavior change and ultimately deliver meaningful, measurable outcomes. Our services are delivered using a range of methods including venue-based face-to-face interactions; print; phone; mobile and remote devices with unique applications; on-line including social networks; and any combination thereof to motivate and sustain healthy behaviors.

First, our programs are designed to keep healthy people healthy by:

- fostering wellness and disease prevention through total population screening and well-being assessments;
- engaging people in our well-being improvement programs, such as fitness, weight management, stress management, and financial and lifestyle management; and
- providing access to our fitness, chiropractic, and complementary and alternative medicine networks.

Our wellness and prevention programs focus on education, physical fitness, nutrition, health coaching, and tools that support behavior change. Many of our programs for lifestyle support, management and education are delivered through web-based portals and mobile applications and may also offer a social networking opportunity. Our web-based tools and our educational capabilities include the Well-Being Connect® portal and the Dave Ramsey Core™ Financial Wellness program, and we also utilize mobile applications such as wellbeingGO®, Well-Being Tracker™, Daily Challenge®, and Walkadoo™.

Second, our programs are designed to eliminate or reduce lifestyle risks by:

- promoting personal change and improvement in the lifestyle behaviors that lead to poor health or chronic conditions; and
- providing personal interactions with highly trained healthcare professionals and educational materials to create and sustain healthier behaviors for those individuals at risk or in the early stages of chronic conditions.

Our programs for reducing or eliminating lifestyle risks are designed to motivate people to make positive lifestyle changes and accomplish individual goals, such as increasing physical activity for seniors through the Healthways SilverSneakers® fitness solution, overcoming nicotine addiction through the QuitNet® on-line smoking cessation community, or generating sustainable weight loss through our Innergy® solution.

Third, our programs are designed to help people optimize care for persistent or chronic conditions by:

- incorporating the latest, evidence-based clinical guidelines into interventions to optimize patient health outcomes;
- developing care support plans and motivating members to set attainable goals for themselves;
- providing local market resources to address acute episodic interventions;
- coordinating members' care as an extension of their healthcare providers;
- providing software technology solutions and management consulting in support of well-being improvement services; and
- providing high-risk care management for members at risk for hospitalization due to complex conditions.

Specific examples of interventions aimed at optimizing care include our Care Transitions hospital readmissions avoidance program, the Dr. Dean Ornish Program for Reversing Heart Disease™, and our disease management programs.

We recognize that each individual in a given population plays a variety of roles in his or her pursuit of improved well-being, often simultaneously. By providing the full spectrum of services to meet each individual's needs, we believe our interventions can be delivered at scale and in a manner that reflects those unique needs over time. We believe that real and sustainable behavior change generates measurable, long-term cost savings and improved individual and business performance for our customers.

In North America, 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, hospitals, and physician groups, in all 50 states and the District of Columbia. We also provide services to commercial healthcare businesses and/or government entities in Brazil, Australia, and France. All of our interventions were developed with over 30 years of experience based in science and ongoing innovation. Our technology-driven infrastructure is compatible with, and integrated into, our customer and other vendor systems. We operate domestic and international well-being improvement call centers staffed with a wide range of licensed health professionals. Our fitness center network encompasses approximately 15,000 U.S. locations. We also maintain an extensive network of over 88,000 complementary, alternative and physical medicine practitioners, which offers convenient access to the significant number of individuals who seek health services outside of the traditional healthcare system.

Forward-Looking Statements

Management's Discussion and Analysis of Financial Condition and Results of Operations contains forward-looking statements, which are based upon 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:

- the effectiveness of management's strategies and decisions;
- 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;
- 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 (collectively, "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;
- 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 or other intangible 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 the Medicare Prescription Drug, Improvement, and Modernization Act of 2003 and any legislative or regulatory changes with respect to 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;
- 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, 2013 and in this Report, including those set forth in Part II, Item 1A. "Risk Factors."

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. In addition, some of our services, such as the Healthways SilverSneakers fitness solution, include fees that are based upon member participation.

Our contracts with health plans and integrated healthcare systems generally range from three to five years with several 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 ("performance-based"). Approximately 2% of revenues recorded during the six months ended June 30, 2014 were performance-based and 1% of revenues were subject to final reconciliation as of June 30, 2014.

Technology

Our solutions require sophisticated analytical, data management, Internet, and computer-telephony capabilities based on state-of-the-art technology. These solutions help us deliver our services to large populations within our customer base at scale. Our predictive modeling capabilities, including insights gained from well-being assessments such as the Gallup-Healthways Well-Being 5™ diagnostic tool, allow us to identify and stratify those participants who are most at risk for an adverse health event. We incorporate behavior-change science with consumer-friendly interactions to facilitate consumer preferences for engagement and convenience supporting improvement across all five elements of well-being: physical, financial, social, purpose and community. We use sophisticated data analytical and reporting solutions to validate the impact of our programs on clinical and financial outcomes. Our application offerings support integrating the primary care physician into the team of well-being experts working on behalf of participants.

We have recently completed a strategic transformation from a business that solely provided disease management services almost exclusively to health plans to a business that now provides a much broader array of population health and well-being services to a broader set of end customer markets - a process that has been underway for approximately seven years. While our transformation-related infrastructure and technology investments are complete, we continue to invest in technology, as evidenced by our long-term applications and technology services outsourcing agreement with HP Enterprise Services, LLC, and are continually refining our proprietary clinical, data management, and reporting systems to continue to meet the information management requirements of our services. The behavior change techniques and predictive modeling incorporated in our technology identify an individual's readiness to change and provide personalized support through appropriate interactions using a range of methods desired by an individual, including venue-based face-to-face; print; phone; mobile and remote devices with unique applications; on-line, including social networks; and any combination thereof to motivate and sustain healthy behaviors.

Business Strategy

The World Health Organization defines health as "…not only the absence of infirmity and disease, but also a state of physical, mental, and social well-being."

Our business strategy reflects our fundamental belief that people with higher well-being result in reduced overall health-related costs, improved workforce engagement and improved productivity, which yields better performance for individuals, families, health plans, governments, employers, integrated healthcare systems, and communities. We believe well-being consists of five essential elements: physical, financial, social, community, and purpose. Our solutions are designed to improve well-being across the five elements by helping to (1) keep healthy people healthy, (2) eliminate or reduce lifestyle risks and (3) optimize care for persistent or chronic conditions.

We believe it is critical to impact an entire population's well-being and underlying health status in a long-term, cost-effective way. Through our exclusive, 25-year relationship with Gallup that 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® ("WBI"), that supports our understanding of the causes and effects of well-being for a population. In 2012, we created a global joint venture with Gallup that has developed the next generation of Gallup-Healthways individual well-being assessment tools, known as the Gallup-Healthways Well-Being 5, to 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.

To enhance well-being within their respective populations, our current and prospective customers, who typically bear risk for the higher cost and lower productivity associated with lower well-being, require solutions that focus on the underlying drivers of healthcare demand; address worsening health status; reverse or slow unsustainable cost trends; foster healthy behaviors; mitigate health risk factors; and manage chronic conditions. Our strategy is to deliver programs that engage individuals and help them enhance their well-being and underlying health status regardless of their starting point. Published, peer-reviewed studies prove that we can achieve well-being improvements in a population that generate significant cost savings and increases in productivity by providing effective programs that support the individual throughout his or her well-being journey.

As previously mentioned, we have completed a strategic transformation from a business that solely provided disease management services to a business that now provides a much broader array of population health and well-being services—a process that has been underway for approximately seven years. Our strategy includes the ongoing refinement of our value proposition through our total population management capabilities. We continue to enhance our well-being improvement solutions to extend our reach and effectiveness and to meet increasing demand for individualized, integrated solutions. The flexibility of our programs allows customers to provide a range of services they deem appropriate for their organizations. Customers may select from certain single program options up to a total-population approach, in which all members of a customer's population are eligible to receive our services. Our strategy also includes the ongoing enhancement and deployment of our proprietary technology platform known as Embrace®. This platform, which is essential to our total population management solution, enables us to integrate data from the healthcare organizations and other entities interacting with an individual. Embrace provides for the delivery of our integrated solutions and ongoing communications between the individual and his or her medical and health experts, using a range of methods, including venue-based face-to-face interactions; print; phone; mobile and remote devices with unique applications; on-line, including social networks; and any combination thereof to motivate and sustain healthy behaviors.

Today we have a number of customer markets for our well-being improvement solutions, including health plans, self-insured employers, integrated health systems / hospitals /physician groups, and international entities.

Health Plans

A number of contracts signed since 2011 have expanded both the level of integration and breadth of services provided to major regional commercial health plans, in some cases as they develop and implement a number of patient-centered medical home models. Our services extend beyond chronic care and wellness programs to include a full range of care management functions, as well as a variety of health promotion, prevention and quality improvement solutions. Examples include our collaboration with Blue Zones, LLC in delivering a scaled well-being improvement solution to support our customers' initiatives to improve the well-being of their populations; our wholly-owned subsidiary MeYou Health, LLC in bringing to market well-being improvement tools in the social media space through Internet and personal device delivery methods; and our exclusive partnership with Dr. Ornish that is creating access to the Dr. Dean Ornish Program for Reversing Heart Disease for a growing number of health plans and health systems.

We also provide a variety of services to most of the major Medicare Advantage health plans. We expect this market to grow due to the continuing trend of enrollment growth in Medicare Advantage as the size of the Medicare-eligible population increases. Our Silver Sneakers program is the largest single program within our current services. In addition, some of our Medicare Advantage health plan customers are adding additional services including web-based and mobile applications for personal support and social networking as more of the senior population becomes interested in these modalities of interaction.

Self-Insured Employers

Self-insured employers, including state and municipal government entities as employers, continue to demand services that focus across the entire population of employees and their dependent family members. Our well-being improvement solution, in addition to improving individuals' health and reducing direct healthcare costs, targets a much larger improvement in employer performance and profitability by reducing the impact of productivity lost for health-related reasons. With the success of our work aimed at total population management, we expect to enhance our competitive advantage in responding to employers' needs for a healthier, higher-performing, and less costly workforce.

Integrated Health Systems / Hospitals / Physician Groups

Significant changes in healthcare payment structures from fee for service to outcomes–based payments have expanded our opportunities to provide services to integrated healthcare systems, hospitals, and physicians. In 2011, we acquired Navvis & Company, a well-established provider of strategic counsel and change management services, enabling its healthcare system clients to become future-ready clinical enterprises within healthcare's rapidly emerging value-based reimbursement system. Our strategy includes providing integrated healthcare systems, hospitals, and physician enterprises with both consultative strategic planning services and a range of capabilities that enable and support the delivery of Physician-Directed Population Health solutions. We expect to continue to grow the number and size of our health systems relationships through the ongoing deployment of services including, for example, consulting, the American Hospital Association-endorsed acute to post-acute Care Transitions Solution™ and the Dr. Dean Ornish Program for Reversing Heart Disease, in addition to the aggregation of risk lives within health systems for our total population management services.

International Entities

Our international strategy is to pursue opportunities in countries with a relatively developed healthcare infrastructure, including the existence of one or more payors with a large volume of at risk lives. This approach allows us to partner either directly with government payors or with the private insurers and service providers that operate in those countries.

We plan to increase our competitive advantage in delivering our services by leveraging the scope of our well-being improvement capabilities, including our medical information content, behavior change processes and techniques, strategic relationships, health provider networks, and fitness center relationships. We also plan to continue to scale the delivery of our solutions employing a blend of our scalable, state-of-the-art well-being improvement call centers and proprietary technologies, modalities, and techniques. While our core population health infrastructure and technology investments are complete and our highly scalable platform is in place, we may add new capabilities and technologies through internal development, strategic alliances with other entities, and/or selective acquisitions 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, 2013. 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

Our fees are generally billed on a 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. In addition, some of our services, such as the Healthways SilverSneakers fitness solution, include fees that are based upon member participation.

Our performance-based contracts place a portion of our fees at risk based on achieving certain performance metrics, cost savings, and/or clinical outcomes improvements. Approximately 2% of revenues recorded during the six months ended June 30, 2014 were performance-based and 1% of revenues were subject to final reconciliation as of June 30, 2014.

We recognize revenue as follows: (1) we recognize the fixed portion of PMPM fees and fees for service as revenue during the period in which 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 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 service 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 we cannot bill until we reconcile them with the customer.

We generally assess our level of performance for our 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 contractual allowances for billing adjustments (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. Historically, any such adjustments have been immaterial to our financial condition and results of operations.

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 June 30, 2014, 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 $24.0 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 fiscal year that pertains to services provided during a prior fiscal year. During the six months ended June 30, 2014, we recognized a net increase in revenue of $2.7 million related to services provided prior to 2014.

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 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.

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 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, and in evaluating tax positions.

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 and six months ended June 30, 2014 and 2013 expressed as a percentage of revenues.

	Three Months Ended June 30,		Six Months Ended June 30,	
	2014	2013	2014	2013
Revenues	100.0 %	100.0 %	100.0 %	100.0 %
Cost of services (exclusive of depreciation and amortization included below)	81.1 %	82.3 %	82.4 %	83.9 %
Selling, general and administrative expenses	9.4 %	8.8 %	9.3 %	8.4 %
Depreciation and amortization	7.5 %	8.0 %	7.5 %	8.1 %
Legal settlement charges	—	—	2.6 %	—
Operating income (loss) (1)	2.0 %	0.9 %	(1.9)%	(0.4)%
Interest expense	2.5 %	1.9 %	2.5 %	2.0 %
Loss before income taxes	(0.5)%	(1.0)%	(4.4)%	(2.4)%
Income tax benefit	(0.2)%	(0.3)%	(1.6)%	(0.8)%
Net loss (1)	(0.3)%	(0.7)%	(2.8)%	(1.5)%

(1) Figures may not add due to rounding.

Revenues

Revenues increased $18.3 million, or 11.3%, and $30.0 million, or 9.1%, respectively, for the three and six months ended June 30, 2014 compared to the same periods in 2013, primarily due to the following:

- the commencement of contracts with new customers and growth with existing customers; and
- an increase in participation in our fitness solutions, as well as in the number of members eligible to participate in such solutions.

These increases were somewhat offset by terminations with certain customers.

Cost of Services

Cost of services (excluding depreciation and amortization) as a percentage of revenues decreased to 81.1% and 82.4%, respectively, for the three and six months ended June 30, 2014, compared to 82.3% and 83.9%, respectively, for the three and six months ended June 30, 2013, primarily due to the following:

- economies of scale resulting from certain types of costs that remain relatively fixed or do not increase at the same rate as revenues; and
- a decrease in employees' healthcare benefit costs related to a decrease in cost of claims.

These decreases were partially offset by a lower level of recoupment of fees related to certain supplier agreements for the three and six months ended June 30, 2014 compared to the same periods in 2013.

Selling, General and Administrative Expenses

Selling, general and administrative expenses as a percentage of revenues increased to 9.4% for the three months ended June 30, 2014 compared to 8.8% for the three months ended June 30, 2013 primarily due to expenses incurred in 2014 in connection with proxy contest defense costs.

Selling, general and administrative expenses as a percentage of revenues increased to 9.3% for the six months ended June 30, 2014 compared to 8.4% for the six months ended June 30, 2013 primarily due to expenses incurred in 2014 in connection with proxy contest defense costs in addition to an insurance reimbursement received during the six months ended June 30, 2013 for certain previously incurred legal expenses.

Depreciation and Amortization

Depreciation and amortization expense increased $0.5 million and $0.3 million, or 4.0% and 1.2%, respectively, for the three and six months ended June 30, 2014 compared to the same periods in 2013, primarily due to increased depreciation expense related to our Embrace platform, partially offset by decreased amortization expense due to certain intangible assets becoming fully amortized during 2013.

Legal Settlement Charges

On April 17, 2014, we entered into an agreement with BCBSMN to resolve a contractual dispute. As a result of this settlement, we incurred charges of approximately $9.4 million during the six months ended June 30, 2014.

Interest Expense

Interest expense increased $1.4 million and $2.4 million, respectively, for the three and six months ended June 30, 2014 compared to the same periods in 2013, primarily due to amortization of the debt discount related to the Cash Convertible Notes.

Income Tax Expense

For the three months ended June 30, 2014, we had an effective tax benefit rate of 36.5% compared to 33.3% for the three months ended June 30, 2013. The increase in the effective rate of benefit was primarily due to the smaller base of pretax loss for the 2014 period in relation to certain items for which we currently are not able to recognize a tax benefit.

Our effective tax benefit rate remained relatively consistent at 35.6% for the six months ended June 30, 2014 compared to approximately 34.4% for the six months ended June 30, 2013.

Liquidity and Capital Resources

Operating activities for the six months ended June 30, 2014 provided cash of $19.3 million compared to $38.9 million for the six months ended June 30, 2013, primarily due to the following:

- an increase in days sales outstanding in accounts receivable from 46 days at June 30, 2013 to 55 days at June 30, 2014; and

- the timing of several significant vendor payments.

Investing activities during the six months ended June 30, 2014 used $24.8 million in cash which primarily consisted of capital expenditures associated with our Embrace platform.

Financing activities during the six months ended June 30, 2014 provided $4.9 million in cash primarily due to proceeds from the revolving credit facility partially offset by net payments under the Fifth Amended Credit Agreement.

Credit Facility

On June 8, 2012, we entered into the Fifth Amended Credit Agreement. The Fifth Amended Credit Agreement provides us with a $200.0 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, $105.0 million of which remained outstanding at June 30, 2014, and an uncommitted incremental accordion facility of $200.0 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, Cash Convertible Notes Hedges and Warrants described below 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 15, 2014, in connection with the agreement to resolve our former contractual dispute with BCBSMN, we entered into an additional amendment to the Fifth Amended Credit Agreement that provides for an add-back to our consolidated EBITDA, which is used for purposes of calculating financial covenants under the Fifth Amended Credit Agreement, for the $9.4 million charge incurred as a result of the settlement of our dispute with BCBSMN. As of June 30, 2014, availability under the revolving credit facility totaled $41.3 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) 1.250% of the original aggregate principal amount of the term loans during each of the eight quarters beginning with the quarter ended September 30, 2012, (2) 1.875% of the original aggregate principal amount of the term loans during each of the next four quarters beginning with the quarter ending September 30, 2014, and (3) 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.

The Fifth Amended Credit Agreement contains financial covenants that require us to maintain, as defined, specified ratios or levels at June 30, 2014 of (1) a maximum total funded debt to EBITDA of 4.50 and (2) a minimum total fixed charge coverage of 1.50. As of June 30, 2014, our total funded debt to EBITDA ratio was 3.89, and our total fixed charge coverage ratio was 2.04, each as defined in the Fifth Amended Credit Agreement. We were in compliance with all of the financial covenant requirements of the Fifth Amended Credit Agreement as of June 30, 2014.

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. A breach of any of these covenants could result in a default under the Fifth Amended Credit Agreement, in which all amounts outstanding under the Fifth Amended Credit Agreement may become immediately due and payable, and all commitments under the Fifth Amended Credit Agreement to extend further credit may be terminated. In addition, a payment default, including an acceleration following an event of default, under the Fifth Amended Credit Agreement or under our indenture for the Cash Convertible Notes, could each trigger an event of default under the other debt instrument, which could result in the principal of and the accrued and unpaid interest on such debt becoming due and payable.

In order to reduce our exposure to interest rate fluctuations on our floating rate debt commitments, we maintain interest rate swap agreements that effectively modify our exposure to interest rate risk by converting a portion of our floating rate debt to fixed 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, and we pay a fixed rate of interest with interest rates ranging from 0.690% to 1.480% plus a spread (see Note 6 to the consolidated financial statements). We maintain interest rate swap agreements with current notional amounts of $145.0 million and termination dates ranging from November 2015 to December 2016. Of this amount, $95.0 million was effective at June 30, 2014, and $50.0 million will become effective in December 2015, as older interest rate swap agreements expire. We have designated these interest rate swap agreements as qualifying cash flow hedges. We currently meet the hedge accounting criteria under U.S. GAAP in accounting for these interest rate swap agreements.

Cash Convertible Senior Notes

On July 16, 2013, we issued $150.0 million aggregate principal amount of the Cash Convertible Notes due 2018, 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. The Cash Convertible Notes are convertible into cash based on the conversion rate set forth below and 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.

In connection with the issuance of the Cash Convertible Notes, we entered into 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 Cash Convertible Notes Hedges, which are recorded and carried at fair value as a derivative asset, are intended to offset the gain (or loss) associated with changes to the valuation of the Cash Conversion Derivative. We also entered into separate privately negotiated Warrants initially relating, in the aggregate, to a notional number of shares of our common stock underlying the Cash Convertible Notes Hedges. The Warrants could have a dilutive effect to the extent that the market price per share of our common stock (as measured under the terms of the warrant transactions) exceeds the applicable strike price of the Warrants. The initial strike price of the Warrants is 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 net proceeds from the sale of the Cash Convertible Notes were approximately $145.3 million, after deducting the initial purchasers' discounts and commissions and the placement expenses. We used $21.6 million of the net proceeds from the sale of the Cash Convertible Notes to pay the cost of the Cash Convertible Notes Hedges (after such cost was partially offset by the proceeds to the Company from the sale of the Warrants), and we used the remainder of the net proceeds from the sale of the Cash Convertible Notes to reduce the outstanding indebtedness under the Fifth Amended Credit Agreement.

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

On October 1, 2013, we entered into an Investment Agreement with CareFirst, which is in addition to the Commercial Agreements. Pursuant to the Investment Agreement, we issued the CareFirst Convertible Note in the aggregate original principal amount of $20 million to CareFirst 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 indebtedness of the Company under the Fifth Amended Credit Agreement, and (b) any other senior debt of the Company, 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 CareFirst Warrants based on achievement of the Revenue Thresholds for 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 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. The CareFirst Warrants issued prior to June 30, 2014 totaling 73,761 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.

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 the foreseeable future. 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 July 2013, the FASB issued ASU No. 2013-11, "Income Taxes (Topic 740)—Presentation of an Unrecognized Tax Benefit When a Net Operating Loss Carryforward, a Similar Tax Loss, or a Tax Credit Carryforward Exists," which requires an entity to present in the financial statements an unrecognized tax benefit, or a portion of an unrecognized tax benefit, as a reduction to a deferred tax asset resulting from a net operating loss carryforward, a similar tax loss, or a tax credit carryforward. However, when the above situation is not available at the reporting date or the tax law of the applicable jurisdiction does not require the entity to use the deferred tax asset for such purpose, the unrecognized tax benefit should be presented in the financial statements as a liability and should not be combined with deferred tax assets. ASU No. 2013-11 is effective prospectively for reporting periods beginning after December 15, 2013. We adopted this standard for the interim period beginning January 1, 2014. The adoption of this standard did not have a material impact on our consolidated results of operations, financial position, cash flows, or notes to the consolidated financial statements.

In May 2014, the FASB issued guidance codified in FASB Accounting Standards Codification ("ASC") Topic 606, "Revenue Recognition - Revenue from Contracts with Customers," which amends the guidance in former 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, 2016, including interim periods within those years. We are currently evaluating the impact of adopting ASC Topic 606.

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 interest rates ranging from 0.690% to 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 $0.1 million for the six months ended June 30, 2014.

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 six months ended June 30, 2014. 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 June 30, 2014. Based on that evaluation, our chief executive officer and chief financial officer concluded that, as of the end of the period covered by this report, the Company's disclosure controls and procedures were not effective as a result of the material weakness that existed in the Company's internal control over financial reporting as previously described in our Quarterly Report on Form 10-Q for the quarter ended March 31, 2014.

The remediation of the material weakness mentioned above is ongoing. We have implemented a standard process for preparing contemporaneous documentation of accounting conclusions reached for revenue recognition in non-standard customer contracts. Further remediation will include additional annual training for appropriate personnel on the accounting treatment for these arrangements and further centralization of contracting activity. The Company believes that its efforts, when fully implemented, will be effective in remediating such material weakness by the end of fiscal 2014. In addition, the Company will continue to monitor the results of the remediation activities and test the new controls as part of its review of its internal control over financial reporting for fiscal 2014.

Changes in Internal Control over Financial Reporting

Except for the remediation taken to date with respect to the material weakness described above in this Item 4, there were no changes in our internal controls over financial reporting during the three months ended June 30, 2014 that materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

Part II Other Information

Item 1. Legal Proceedings

Contract Disputes

On January 25, 2010, BCBSMN issued notice of arbitration with the American Arbitration Association in Minneapolis in accordance with the terms of the contract alleging violations of certain contract provisions and seeking recoupment of an unspecified amount of payments made to us under the contract. We believe we performed our services in compliance with the terms of our agreement and that the assertions made in the arbitration notice are without merit. On August 3, 2011, we asserted numerous counterclaims against BCBSMN. On April 15, 2014, we entered into an agreement with BCBSMN to resolve this dispute. Under the terms of the agreement, we agreed to pay BCBSMN in two separate installments: $4 million which was paid in April 2014 and $5.5 million to be paid in January 2015. BCBSMN has an option to receive discounts on our well-being improvement services in lieu of the January 2015 payment.

We are involved in a contractual dispute with Plastipak Packaging, Inc. ("Plastipak"). On September 10, 2012, Plastipak filed suit in the Circuit Court for Wayne County, Michigan seeking damages relating to an alleged breach of a services agreement with us. The case is currently in the discovery phase of litigation. We deny Plastipak's claims and intend to vigorously defend the action.

Performance Award Lawsuit

On September 4, 2012, Milton Pfeiffer ("Plaintiff"), claiming to be a stockholder of the Company, filed a putative derivative action against the Company and the Board of Directors (the "Board") in Delaware Chancery Court (the "Court") alleging that the Compensation Committee of the Board and the Board breached their fiduciary duties and violated the Company's 2007 Stock Incentive Plan (the "Plan") by granting Ben R. Leedle, Jr., Chief Executive Officer and President of the Company, discretionary performance awards under the Plan in the form of options to purchase an aggregate of 500,000 shares of the Company's common stock, which consisted of a performance award in November 2011 granting Mr. Leedle the right to purchase 365,000 shares and a performance award in February 2012 granting Mr. Leedle the right to purchase 135,000 shares (the "Performance Awards"). Plaintiff alleges that the Performance Awards exceeded what is authorized by the Plan and that the Company's 2012 proxy statement, in which the Performance Awards are disclosed, is false and misleading. Plaintiff also alleges that Mr. Leedle breached his fiduciary duties and was unjustly enriched by receiving the Performance Awards. Plaintiff is seeking, among other things, the rescission or disgorgement of all alleged "excess" awards granted to Mr. Leedle under the Performance Awards, to recover any incidental damages to the Company, and an award of attorneys' fees and expenses. On November 2, 2012, the Company and the Board filed a Motion to Dismiss because Plaintiff failed to make a demand upon the Board as required by Delaware law. On November 8, 2013, the Court denied the Company's Motion to Dismiss. On February 21, 2014, the Company filed its answer and intends to vigorously defend the allegations.

Outlook

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 will have a material adverse effect on our liquidity or financial condition. As these matters are subject to inherent uncertainties, our view of these matters may change in the future.

Item 1A. Risk Factors

In addition to the other information set forth in this report, you should carefully consider the risks and uncertainties previously reported under the caption "Part I — Item 1A. Risk Factors" in our Annual Report on Form 10-K for the fiscal year ended December 31, 2013, the occurrence of which could materially and adversely affect our business, prospects, financial condition and operating results. The risks previously reported and described in our Annual Report on Form 10-K for the fiscal year ended December 31, 2013 and in this report are not the only risks facing our business. Additional risks and uncertainties not currently known to us or those we currently deem to be immaterial may also materially and adversely affect our business operations.

There have been no material changes to our risk factors previously disclosed in our Annual Report on Form 10-K for the fiscal year ended December 31, 2013.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

Pursuant to the Investment Agreement with CareFirst (as described under "Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations – Liquidity and Capital Resources – CareFirst Convertible Note"), CareFirst has an opportunity to earn warrants based on achievement of Revenue Thresholds for Quarterly Revenue. On April 8, 2014 and June 16, 2014, we issued to CareFirst warrants to purchase 42,329 shares and 31,432 shares, respectively, of our common stock at an exercise price of $15.24 and $18.64 per share, respectively, in accordance with the terms of the Investment Agreement. The issuance of the CareFirst Warrants was exempt from registration under Section 4(a)(2) of the Securities Act of 1933, as amended, because it was a transaction not involving a public offering.

Item 3. Defaults Upon Senior Securities

Not Applicable.

Item 4. Mine Safety Disclosures

Not Applicable.

Item 5. Other Information

Not Applicable.

Item 6. Exhibits

(a) Exhibits

3.1 Amended and Restated Bylaws [incorporated by reference to Exhibit 3.2 to Form 10-Q of the Company's fiscal quarter ended February 29, 2004, File No. 000-19364]

3.2 Amendment to Amended and Restated Bylaws [incorporated by reference to Exhibit 3.1 to the Company's Current Report on Form 8-K dated November 15, 2007, File No. 000-19364]

3.3 Amendment No. 2 to Amended and Restated Bylaws [incorporated by reference to Exhibit 3.1 to the Company's Current Report on Form 8-K dated September 3, 2008, File No. 000-19364]

3.4 Amendment No. 3 to Amended and Restated Bylaws

10.1 Fourth Amendment to Fifth Amended and Restated Revolving Credit and Term Loan Agreement dated April 14, 2014 between the Company and SunTrust Bank as Administrative Agent

10.2 Nomination and Standstill Agreement dated June 2, 2014 among the Company, North Tide Capital Master, LP, North Tide Capital, LLC and Conan J. Laughlin [incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K dated June 3, 2014, File No. 000-19364]

10.3	2014 Stock Incentive Plan [incorporated by reference to Exhibit 99.1 to the Company's Registration Statement on Form S-8 dated June 25, 2014, Registration No. 333-197025]
10.4	Form of Non-Qualified Stock Option Award Agreement (for Executive Officers) under the Company's 2014 Stock Incentive Plan
10.5	Form of Restricted Stock Unit Award Agreement (for Executive Officers) under the Company's 2014 Stock Incentive Plan
10.6	Form of Performance Share Unit Award Agreement (for Executive Officers) under the Company's 2014 Stock Incentive Plan
10.7	Form of Performance Cash Award Agreement (for Executive Officers) under the Company's 2014 Stock Incentive Plan
10.8	Form of Non-Qualified Stock Option Award Agreement (for Directors) under the Company's 2014 Stock Incentive Plan
10.9	Form of Restricted Stock Unit Award Agreement (for Directors) under the Company's 2014 Stock Incentive Plan
31.1	Certification of Chief Executive Officer pursuant to Rule 13a-14(a) and Rule 15d-14(a) of the Securities Exchange Act of 1934, as amended
31.2	Certification of Chief Financial Officer pursuant to Rule 13a-14(a) and Rule 15d-14(a) of the Securities Exchange Act of 1934, as amended
32	Certification of Chief Executive Officer and Chief Financial Officer pursuant to 18 U.S.C 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
101.INS	XBRL Instance Document
101.SCH	XBRL Taxonomy Extension Schema
101.CAL	XBRL Taxonomy Extension Calculation Linkbase
101.DEF	XBRL Taxonomy Extension Definition Linkbase
101.LAB	XBRL Taxonomy Extension Label Linkbase
101.PRE	XBRL Taxonomy Extension Presentation Linkbase

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned hereunto duly authorized.

		Healthways, Inc.
		(Registrant)
Date August 8, 2014	By	*/s/ Alfred Lumsdaine*
		Alfred Lumsdaine
		Chief Financial Officer
		(Principal Financial Officer)

Exhibit 3.4

HEALTHWAYS, INC.

AMENDMENT NO. 3 TO
AMENDED AND RESTATED BYLAWS

1. Article II, Section 2.8 of the Amended and Restated Bylaws is hereby deleted in its entirety and the following Article II, Section 2.8 is hereby inserted in lieu thereof:

2.8 Voting Groups; Quorum; Adjournment.

The holders of a majority of the stock issued and outstanding and entitled to vote thereat, present in person or represented by proxy, shall constitute a quorum at all meetings of the stockholders for the transaction of business except as otherwise provided by statute or by the Certificate of Incorporation. If, however, such quorum shall not be present or represented at any meeting of the stockholders, the stockholders entitled to vote thereat, present in person or represented by proxy, shall have power to adjourn the meeting from time to time, without notice other than announcement at the meeting, until a quorum shall be present or represented. At such adjourned meeting at which a quorum shall be present or represented any business may be transacted which might have been transacted at the meeting as originally noticed. If the adjournment is for more than thirty (30) days, or if after the adjournment a new record date is fixed for the adjourned meeting, a notice of the adjourned meeting shall be given to each stockholder of record entitled to vote at the meeting.

When a quorum is present at any meeting, the vote of the holders of a majority of the stock having voting power present in person or represented by proxy shall decide any question (except the election of directors) brought before such meeting, unless the question is one upon which by express provision of law or of the Certificate of Incorporation, a different vote is required in which case such express provision shall govern and control the decision of such question. At any election of directors at a meeting of stockholders at which a quorum is present, each director shall be elected if the number of votes cast "for" the director exceeds the number of votes cast "against" the director, with "abstentions" and "broker non-votes" not counted as either "for" or "against" the director's election; provided, however, that if the number of nominees exceeds the number of directors to be elected, then the directors shall be elected by a plurality of the votes cast by the shares entitled to vote in the election of directors.

2. Except as otherwise set forth in this Amendment No. 3 to the Amended and Restated Bylaws, all other terms and provisions of the Amended and Restated Bylaws, as amended, shall remain in full force and effect.

Exhibit 10.1

FOURTH AMENDMENT TO FIFTH AMENDED AND RESTATED REVOLVING CREDIT AND TERM LOAN AGREEMENT

THIS FOURTH AMENDMENT TO FIFTH AMENDED AND RESTATED REVOLVING CREDIT AND TERM LOAN AGREEMENT (this "***Amendment***"), is made and entered into as of April 14, 2014, by and among HEALTHWAYS, INC., a Delaware corporation (the "***Borrower***"), the Subsidiary Loan Parties party hereto and SUNTRUST BANK, in its capacity as Administrative Agent for the Lenders (the "***Administrative Agent***") and the Swingline Lender.

W I T N E S S E T H:

WHEREAS, the Borrower, the several banks and other financial institutions from time to time party thereto (collectively, the "***Lenders***") and the Administrative Agent are parties to a certain Fifth Amended and Restated Revolving Credit and Term Loan Agreement, dated as of June 8, 2012, as amended by that certain First Amendment to Fifth Amended and Restated Revolving Credit and Term Loan Agreement dated as of February 5, 2013, that certain Second Amendment to Fifth Amended and Restated Revolving Credit and Term Loan Agreement dated as of March 15, 2013 and that certain Third Amendment to Fifth Amended and Restated Revolving Credit and Term Loan Agreement and First Amendment to Second Amended and Restated Subsidiary Guarantee Agreement dated as of July 1, 2013 (as further amended, restated, supplemented or otherwise modified from time to time prior to the date hereof, the "***Credit Agreement***"; capitalized terms used herein and not otherwise defined shall have the meanings assigned to such terms in the Credit Agreement), pursuant to which the Lenders have made certain financial accommodations available to the Borrower;

WHEREAS, the Borrower has requested that the Lenders and the Administrative Agent amend certain provisions of the Credit Agreement, and subject to the terms and conditions hereof, the Lenders are willing to do so;

NOW, THEREFORE, for good and valuable consideration, the sufficiency and receipt of all of which are acknowledged, the Borrower and the Administrative Agent, for itself as Administrative Agent, Swingline Lender and Issuing Bank and on behalf of Lenders constituting Required Lenders, agree as follows:

1. **Amendments**.

(a) Section 1.1 of the Credit Agreement is amended by replacing the definition of "Consolidated EBITDA" in its entirety with the following:

"Consolidated EBITDA" shall mean, for the Borrower and its Subsidiaries for any period, an amount equal to the sum of (a) Consolidated Net Income for such period plus (b) to the extent deducted in determining Consolidated Net Income for such period, (i) Consolidated Interest Expense, (ii) income tax expense, (iii) depreciation and amortization, (iv) all other non-cash charges (including non-cash expenses related to equity-based compensation, but excluding any such other non-cash charge to the extent that it represents an accrual of or reserve for future cash payments), (v) cash restructuring charges (including severance and lease termination costs), in an aggregate amount not to exceed $5,000,000 in any four consecutive Fiscal Quarter period (which, for the avoidance of doubt, shall include cash restructuring charges (including severance and lease termination costs) related to the closing of a call center in Raleigh, North Carolina, in an amount not to exceed $2,000,000 in the aggregate, incurred during the Fiscal

Quarter ended on December 31, 2012, in calculating Consolidated EBITDA for any period that includes such Fiscal Quarter), (vi) transaction charges incurred by the Borrower in connection with the issuance of the 2013 Convertible Notes (including charges associated with the 2013 Convertible Notes Call Spread Transaction) in an aggregate amount not to exceed $18,000,000, in each case determined on a consolidated basis in accordance with GAAP for such period and (vii) to the extent included in the calculation of Consolidated EBITDA for any period that includes either the Fiscal Quarter ended March 31, 2014, or the Fiscal Quarter ended June 30, 2014, accounting charges taken in such Fiscal Quarter(s) as a result of the BCBSM Settlement in an aggregate amount not to exceed $9,500,000. To the extent that during such period any Loan Party shall have consummated an Acquisition, or any sale, transfer or other disposition of any Person, business, property or assets, Consolidated EBITDA shall be calculated on a Pro Forma Basis with respect to such Person, business, property or assets so acquired or disposed of.

(b) Section 1.1 of the Credit Agreement is amended by adding the following new definition in the appropriate alphabetical order:

"***BCBSM Settlement***" shall mean the settlement with BCBSM, Inc., a Minnesota nonprofit corporation d/b/a Blue Cross and Blue Shield of Minnesota ("BCBSM"), of the contract dispute with BCBSM described in the Borrower's Annual Report on Form 10-K for the Fiscal Year ended December 31, 2013, on file with the Securities and Exchange Commission.

"***Fourth Amendment Date***" shall mean April 14, 2014**.**

2. **Conditions to Effectiveness of this Amendment.** Notwithstanding any other provision of this Amendment and without affecting in any manner the rights of the Lenders hereunder, it is understood and agreed that this Amendment shall not become effective, and the Borrower shall have no rights under this Amendment, until the Administrative Agent shall have received (a) executed counterparts of this Amendment from the Borrower and the Guarantors, (b) written authorization from the Required Lenders approving this Amendment and authorizing the Administrative Agent to execute this Amendment and (c) payment of the reasonable expenses of the Administrative Agent incurred in connection with this Amendment and the transactions contemplated hereby.

3. **Representations and Warranties.** To induce the Lenders and the Administrative Agent to enter into this Amendment, each Loan Party represents and warrants to the Lenders and the Administrative Agent:

(a) Each of the Borrower and its Subsidiaries (i) is duly organized, validly existing and in good standing as a corporation or limited liability company, as applicable, under the laws of the jurisdiction of its organization, (ii) has all requisite power and authority to carry on its business as now conducted, and (iii) is duly qualified to do business, and is in good standing, in each jurisdiction where such qualification is required, except where a failure to be so qualified would not reasonably be expected to result in a Material Adverse Effect;

(b) The execution, delivery and performance of this Amendment by each Loan Party are within such Loan Party's organizational powers and have been duly authorized by all necessary organizational action;

(c) The execution, delivery and performance of this Amendment by each Loan Party (i) do not require any consent or approval of, registration or filing with, or any action by, any Governmental Authority, except those as have been obtained or made and are in full force and effect or where the failure to do so, individually or in the aggregate, could not reasonably be expected to have a Material Adverse Effect, (ii) will not violate any applicable judgment, law or regulation or the charter, by-laws or other organizational documents of the Borrower or any of its Subsidiaries or any order of any Governmental Authority, (iii) will not violate or result in a default under any indenture, Material Agreement or other material instrument binding on the Borrower or any of its Subsidiaries or any of its material assets or give rise to a right thereunder to require any payment to be made by the Borrower or any of its Subsidiaries and (iv) will not result in the creation or imposition of any Lien on any material asset of the Borrower or any of its Subsidiaries, except Liens (if any) created under the Loan Documents;

(d) This Amendment has been duly executed and delivered by or on behalf of each Loan Party and constitutes a legal, valid and binding obligation of each Loan Party, enforceable against such Loan Party in accordance with its terms except as may be limited by applicable bankruptcy, insolvency, reorganization, moratorium or similar laws affecting the enforcement of creditors' rights generally and by general principles of equity; and

(e) After giving effect to this Amendment and any changes in facts and circumstances that are not prohibited by the terms of the Credit Agreement, the representations and warranties contained in the Credit Agreement and the other Loan Documents are true and correct in all material respects (subject to the limitation that representations and warranties effective as of a specified date are true and correct as of such specified date), and no Default or Event of Default exists as of the date hereof.

4. **Reaffirmations and Acknowledgments.**

(a) Reaffirmation of Guaranty. Each Subsidiary Loan Party consents to the execution and delivery by the Borrower of this Amendment and ratifies and confirms the terms of the Subsidiary Guarantee Agreement with respect to the indebtedness now or hereafter outstanding under the Credit Agreement as amended hereby and all promissory notes issued thereunder. Each Subsidiary Loan Party acknowledges that, notwithstanding anything to the contrary contained herein or in any other document evidencing any indebtedness of the Borrower to the Lenders or any other obligation of the Borrower, or any actions now or hereafter taken by the Lenders with respect to any obligation of the Borrower, the Subsidiary Guarantee Agreement (i) is and shall continue to be a primary obligation of the Subsidiary Loan Parties, (ii) is and shall continue to be an absolute, unconditional, joint and several, continuing and irrevocable guaranty of payment, and (iii) is and shall continue to be in full force and effect in accordance with its terms. Nothing contained herein to the contrary shall release, discharge, modify, change or affect the original liability of the Subsidiary Loan Parties under the Subsidiary Guarantee Agreement.

(b) Acknowledgment of Perfection of Security Interest. Each Loan Party acknowledges that, as of the date hereof, the security interests and liens granted to the Administrative Agent and the Lenders under the Credit Agreement and the other Loan Documents are in full force and effect, are properly perfected and are enforceable in accordance with the terms of the Credit Agreement and the other Loan Documents.

5. **Effect of Amendment**. Except as set forth expressly herein, all terms of the Credit Agreement, as amended hereby, and the other Loan Documents shall be and remain in full force and effect and shall constitute the legal, valid, binding and enforceable obligations of the Borrower to the Lenders and the Administrative Agent. The execution, delivery and effectiveness of this Amendment shall not, except as expressly provided herein, operate as a waiver of any right, power or remedy of the

Lenders under the Credit Agreement, nor constitute a waiver of any provision of the Credit Agreement. This Amendment shall constitute a Loan Document for all purposes of the Credit Agreement.

6. **Governing Law.** This Amendment shall be governed by, and construed in accordance with, the internal laws of the State of New York and all applicable federal laws of the United States of America.

7. **No Novation.** This Amendment is not intended by the parties to be, and shall not be construed to be, a novation of the Credit Agreement or an accord and satisfaction in regard thereto.

8. **Costs and Expenses**. The Borrower agrees to pay on demand all reasonable out-of-pocket costs and expenses of the Administrative Agent in connection with the preparation, execution and delivery of this Amendment, including, without limitation, the reasonable fees and out-of-pocket expenses of outside counsel for the Administrative Agent with respect thereto.

9. **Counterparts.** This Amendment may be executed by one or more of the parties hereto in any number of separate counterparts, each of which shall be deemed an original and all of which, taken together, shall be deemed to constitute one and the same instrument. Delivery of an executed counterpart of this Amendment by facsimile transmission or by electronic mail in pdf form shall be as effective as delivery of a manually executed counterpart hereof.

10. **Binding Nature.** This Amendment shall be binding upon and inure to the benefit of the parties hereto, their respective successors, successors-in-titles, and assigns.

11. **Entire Understanding.** This Amendment sets forth the entire understanding of the parties with respect to the matters set forth herein, and shall supersede any prior negotiations or agreements, whether written or oral, with respect thereto.

[*Signature Pages Follow*]

IN WITNESS WHEREOF, the parties hereto have caused this Amendment to be duly executed, under seal in the case of the Borrower and the Guarantors, by their respective authorized officers as of the day and year first above written.

BORROWER:

HEALTHWAYS, INC.

By: /s/ Alfred Lumsdaine
Name: Alfred Lumsdaine
Title: Chief Financial Officer and Secretary

SUBSIDIARY LOAN PARTIES:

AMERICAN HEALTHWAYS SERVICES, LLC
CARESTEPS.COM, INC.
POPULATION HEALTH SUPPORT, LLC
HEALTHWAYS INTERNATIONAL, INC.
HEALTHWAYS HEALTH SUPPORT, LLC
HEALTHWAYS WHOLEHEALTH NETWORKS, INC.
HEALTHWAYS QUITNET, LLC
HEALTHWAYS HEALTHTRENDS, LLC
CLINICAL DECISION SUPPORT, LLC
MEYOU HEALTH, LLC
HEALTHHONORS, LLC
THE STRATEGY GROUP, LLC
NAVVIS HEALTHCARE, LLC
NAVVIS CONSULTING, LLC
HEALTHWAYS HAWAII, LLC
ASCENTIA HEALTH CARE SOLUTIONS L.L.C.

By: /s/ Alfred Lumsdaine
Name: Alfred Lumsdaine
Title: Chief Financial Officer and Secretary

**[SIGNATURE PAGE TO FOURTH AMENDMENT TO
FIFTH AMENDED AND RESTATED REVOLVING CREDIT AND TERM LOAN AGREEMENT]**

ADMINISTRATIVE AGENT:

SUNTRUST BANK, as Administrative Agent

By: */s/ Mary Beth Coke*
Name: Mary Beth Coke
Title: Vice President

**[SIGNATURE PAGE TO FOURTH AMENDMENT TO
FIFTH AMENDED AND RESTATED REVOLVING CREDIT AND TERM LOAN AGREEMENT]**

Exhibit 10.4

HEALTHWAYS, INC.
2014 STOCK INCENTIVE PLAN
NON-QUALIFIED STOCK OPTION AWARD AGREEMENT
(EXECUTIVE OFFICERS AND OTHER SENIOR OFFICERS)

THIS NON-QUALIFIED STOCK OPTION AGREEMENT (this "Agreement") is made and entered into on **GRANT DATE** (the "Grant Date"), by and between HEALTHWAYS, INC., a Delaware corporation (the "Company"), including its subsidiary corporations, and **PARTICIPANT NAME** (the "Colleague").

WHEREAS, the Company desires to afford the Colleague an opportunity to purchase shares of Common Stock, $.001 par value per share ("Common Stock"), of the Company, in accordance with the provisions of the Company's 2014 Stock Incentive Plan (the "Plan").

NOW, THEREFORE, in consideration of the mutual covenants set forth in this Agreement and for other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the parties agree as follows:

1. Grant of Option. Company hereby grants to the Colleague the option (this "Option"), exercisable in whole or in part, to purchase **NUMBER OF SHARES** shares of the Company's Common Stock, for an exercise price of **EXERCISE PRICE** per share.

2. Option Plan. This Option is granted as a non-qualified stock option under the Plan, and is not intended to qualify as an incentive stock option, as that term is used in Section 422 of the Internal Revenue Code of 1986, as amended (the "Code"). This means that, at the time the Colleague exercises all or any portion of this Option, the Colleague will have taxable income equal to any positive difference between the market value of the Common Stock at the date of the exercise and the option exercise price paid for the Common Stock under this Option as shown in Section 1 of this Agreement.

The Colleague hereby acknowledges receipt of a copy of the Plan and agrees to be bound by all the terms and provisions thereof, which are incorporated herein by reference and made a part hereof. The terms of this Agreement are governed by the terms of the Plan, and in the case of any inconsistency between the terms of this Agreement and the terms of the Plan, the terms of the Plan shall govern. Terms not otherwise defined herein shall have the meanings given to them in the Plan.

3. Timing of Exercise. The Colleague may exercise this Option with respect to the percentage of shares set forth below from and after the dates specified below:

Percentage Vested	**Date of Vesting**
25%	One Year from Grant Date
50%	Two Years from Grant Date
75%	Three Years from Grant Date
100%	Four Years from Grant Date

This Option will expire ten (10) years from the Grant Date.

4. Manner of Exercise. This Option may be exercised by the Colleague (or other person entitled to exercise this Option under Section 5 of this Agreement) by providing notice to the stock plan administrator of the Colleague's or such other person's intent to exercise this Option, and providing to the stock plan administrator all required information necessary to complete the exercise transaction. Such notice shall not be effective unless accompanied by the full purchase price for all shares so purchased within the timeframe required by the plan administrator. The purchase price shall be payable in cash, personal check (subject to collection), bank draft or such other method as the Committee may determine from time to time. In the Committee's discretion, the purchase price may also be paid by the tender of, by either actual delivery or attestation, Common Stock acceptable to the Committee and valued at its Fair Market Value on the date of exercise or through a combination of Common Stock and cash. The purchase price shall be calculated as the number of shares to be purchased times the option exercise price per share as shown in Section 1 of this Agreement. The Company shall have the right to require the Colleague to remit to the Company an amount sufficient to satisfy any federal, state and local withholding tax requirements prior to the delivery of any certificate for such shares, which may be paid as set forth in Section 5.5 of the Plan.

5. Nontransferability of Option. This Option shall not be transferable by the Colleague otherwise than by will or by the laws of descent and distribution, and is exercisable during the Colleague's lifetime only by the Colleague. The terms of this Option shall be binding on the executors, administrators, heirs and successors of the Colleague.

6. Termination of Employment.

(a) Termination by the Company for Cause. If the Colleague's employment with the Company is involuntarily terminated for Cause, then all shares subject to the Option granted hereunder not previously exercisable and vested will be forfeited and the Colleague shall have no further rights with respect to such shares, and any shares subject to the Option granted hereunder that are exercisable and vested prior to the date of such termination may be exercised by the Colleague for a period of three months from the date of such termination of employment or the expiration of the Option's term, whichever period is the shorter.

(b) Termination by Reason of Retirement. If the Colleague's employment by the Company terminates by reason of Retirement, as defined in the Plan, the shares subject to the Option granted hereunder not previously exercisable and vested shall vest but continue to become first exercisable upon the schedule set forth in Section 3 (or otherwise) as if the Colleague had continued employment through each such Vesting Date and, upon becoming exercisable, the Option may be exercised until the expiration of the stated term of the Option.

(c) Termination by the Company without Cause or by the Colleague for Good Reason. If Colleague's employment with the Company (i) is involuntarily terminated by the Company for any reason other than termination for Cause, or (ii) is terminated by the Colleague for Good Reason, then all shares subject to the Option granted hereunder not previously exercisable and vested prior to the date of such termination shall immediately vest and may be exercised by the Colleague for a period of three months from the date of such termination of employment or the expiration of the Option's term, whichever period is the shorter. For purposes of this Section 6(c), the term "Good Reason" shall mean (x) a material reduction in the Colleague's base salary (unless such reduction is part of an across the board reduction affecting all Company executives with a comparable title), or (y) a requirement by the Company to relocate the Colleague to a location that is greater than 25 miles from the location of the office in which the Colleague performs his or her duties at the time of such relocation.

(d) Termination by Reason of Death or Disability. If the Colleague's employment by the Company terminates by reason of death or Disability (as defined in the Plan), the shares subject to the Option granted hereunder not previously exercisable and vested shall immediately vest and this Option may thereafter be exercised by the Colleague or, in the case of the Colleague's death, by the legal representative of the estate or by the legatee of the Colleague under the will of the Colleague, until the expiration of the stated term of the Option.

(e) Other Termination. If the Colleague's employment by the Company is terminated for any reason other than as described in Sections 6(a) through 6(d) above, the Option shall thereupon terminate, except that the Option may be exercised by the Colleague, to the extent otherwise then exercisable, for a period of three months from the date of such termination of employment or the expiration of the Option's term, whichever period is the shorter.

7. Restrictions on Purchase and Sale of Shares. The Company shall be obligated to sell or issue shares pursuant to the exercise of this Option only in the event that the shares are at that time effectively registered or otherwise exempt from registration under the Securities Act of 1933, as amended (the "1933 Act"). In the event that the shares are not registered under the 1933 Act, the Colleague hereby agrees that, as a further condition to the exercise of this Option, the Colleague (or his or her successor under Section 5 of this Agreement), if the Company so requests, will execute an agreement in form satisfactory to the Company in which the Colleague represents that he or she is purchasing the shares for investment purposes, and not with a view to resale or distribution. The Colleague further agrees that if the shares of Common Stock to be issued upon the exercise of this Option are not subject to an effective registration statement filed with the Securities and Exchange Commission pursuant to the requirements of the 1933 Act, such shares shall bear an appropriate restrictive legend.

8. Option Award Subject to Recoupment Policy. The award of this Option is subject to the Healthways, Inc. Compensation Recoupment Policy (the "Policy"). The award of this Option, or any amount traceable to the award of this Option, shall be subject to the recoupment obligations described in the Policy.

9. Adjustment. In the event of any merger, reorganization, consolidation, recapitalization, extraordinary cash dividend, stock dividend, stock split or other change in corporate structure affecting the Common Stock, the number of shares of Common Stock of the Company subject to this Option and the price per share of such shares shall be equitably and proportionately adjusted by the Committee in accordance with the Plan.

10. Change in Control. If the Colleague's employment with the Company (or its successor company) (a) is involuntarily terminated within 12 months following a Change in Control for any reason other than termination for Cause, or (b) is terminated by the Colleague for Good Reason within 12 months following a Change in Control, this Option shall immediately vest, become fully exercisable and may thereafter be exercised for 12 months (or the expiration of the Option's stated term, whichever period is the shorter); provided, that if the successor of the Company in the Change in Control does not assume or substitute an equivalent award, then the Company may take such actions as provided under Section 10 of the Plan. For purposes of this Agreement, the term "Good Reason" shall mean (a) a material reduction in the Colleague's base salary or incentive compensation, (b) a requirement by the Company (or its successor company) to relocate the Colleague to a location that is greater than 25 miles from the location of the office in which the Colleague performs his or her duties at the time of such relocation, or (c) a failure by the successor person or entity, or the Board, either to honor the Colleague's employment agreement with the Company existing at the time a Change in Control occurs or to present Colleague with an employment agreement containing provisions substantially similar to such employment agreement or otherwise satisfactory to Colleague and which is executed by Colleague.

11. No Rights Until Exercise. The Colleague shall have no rights hereunder as a stockholder with respect to any shares subject to this Option until the date on which a stock certificate or book-entry shares are issued to him or her for such shares upon the exercise of this Option in accordance with this Agreement.

12. Confidentiality, Non-solicitation and Non-Compete. It is the interest of all colleagues to protect and preserve the assets of the Company. In this regard, in consideration for granting this Option and as conditions of the Colleague's ability to exercise this Option, the Colleague acknowledges and agrees that:

(a) Confidentiality. In the course of the Colleague's employment, the Colleague will have access to trade secrets and other confidential information of the Company and its clients. Accordingly, the Colleague agrees that, without the prior written consent of the Company, the Colleague will not, other than in the normal conduct of the Company's business affairs, divulge, furnish, publish or use for personal benefit or for the direct or indirect benefit of any other person or business entity, whether or not for monetary gain, any trade secrets or confidential or proprietary information of the Company or its clients, including, without limitation, any information relating to any business methods, marketing and business plans, financial data, systems, customers, suppliers, policies, procedures, techniques or research developed for the benefit of the Company or its clients. Proprietary information includes, but is not limited to, information developed by the Colleague for the Company while employed by the Company. The obligations of the Colleague under this paragraph will continue after the Colleague has left the employment of the Company. The Colleague agrees that upon leaving the employment of the Company, the Colleague will return to the Company all property and confidential information in the Colleague's possession and agrees not to copy or otherwise record in any way such information.

(b) Non-Solicitation. While employed by the Company and for a period of two years thereafter, the Colleague shall not, upon the Colleague's own behalf or on behalf of any other person or entity, directly or indirectly,

- hire or solicit to leave the employ of the Company any person employed by or under contract as an independent contractor to the Company; or

- contact, solicit, entice away, or divert any healthcare and/or well-being support services, coaching or management business from any person or entity who is a client or with whom the Company was engaged in discussions as a potential client within one year prior to the date of termination of the Colleague.

(c) Non-Compete. While employed by the Company and continuing during the period while any amounts are being paid to the Colleague and for a period of 18 months thereafter, the Colleague will not own or be employed by or assist anyone else in the conduct of any business (i) which is in competition with any business conducted by the Company or (ii) which the Colleague knows the Company was actively evaluating for possible entry, in either case in the United States or in any other jurisdiction in which the Company is engaged in business or has been engaged in business during the Colleague's employment by the Company, or in such jurisdictions where the Colleague knows the Company is actively pursuing business opportunities at the time of the Colleague's termination of employment with the Company; provided that ownership of five percent (5%) or less of the voting stock or other ownership interests of any business entity that is listed on a national securities exchange shall not constitute a violation hereof.

In the event the Colleague breaches any provisions of this Section 12, this Option shall immediately expire and may not be exercised, and the Company shall be entitled to seek other appropriate remedies it may have available in connection with such breach.

13. Amendment. Subject to the restrictions contained in the Plan, the Committee may amend the terms of this Agreement, prospectively or retroactively, but, subject to Section 9 above, no such amendment shall impair the rights of the Colleague hereunder without the Colleague's consent.

14. No Right to Continued Employment. The grant of this Option shall not be construed as giving the Colleague the right to be retained in the employ of the Company, and the Company may at any time dismiss the Colleague from employment, free from any liability or any claim under the Plan.

15. Notices. All notices required to be given under this Option shall be deemed to be received if delivered or mailed as provided for herein, to the parties at the following addresses, or to such other address as either party may provide in writing from time to time.

To the Company:	Healthways, Inc. 701 Cool Springs Boulevard Franklin, Tennessee 37067
To the Colleague: (Colleague name and address)	**PARTICIPANT NAME** Address on File at Healthways

16. Severability. If any provision of this Agreement is, or becomes, or is deemed to be invalid, illegal, or unenforceable in any jurisdiction or as to any person or the award of this Option, or would disqualify the Plan or this Option under any laws deemed applicable by the Committee, such provision shall be construed or deemed amended to conform to the applicable laws, or if it cannot be construed or deemed amended without, in the determination of the Committee, materially altering the intent of the Plan or this Agreement, such provision shall be stricken as to such jurisdiction, person or the award, and the remainder of the Plan and this Agreement shall remain in full force and effect.

17. **Governing Law**. The validity, construction and effect of this Agreement shall be determined in accordance with the laws of the State of Delaware without giving effect to conflicts of laws principles.

18. **Interpretation; Resolution of Disputes.** It is expressly understood that the Committee is authorized to administer, construe and make all determinations necessary or appropriate to the administration of the Plan and this Agreement, all of which shall be binding upon the Colleague. Any dispute or disagreement which may arise under, or as a result of, or in any way related to, the interpretation, construction or application of this Agreement shall be determined by the Committee. Any determination made hereunder shall be final, binding and conclusive on the Colleague and the Company for all purposes.

19. **Successors in Interest**. This Agreement shall inure to the benefit of and be binding upon any successor to the Company. This Agreement shall inure to the benefit of the Colleague's legal representative and permitted assignees. All obligations imposed upon the Colleague and all rights granted to the Company under this Agreement shall be binding upon the Colleague's heirs, executors, administrators, successors and assignees.

[remainder of page intentionally left blank; signature page follows]

IN WITNESS WHEREOF, the parties have caused the Stock Option Award Agreement to be duly executed as of the day and year first above written.

HEALTHWAYS, INC.:

/s/ Ben R. Leedle, Jr.
Name: Ben R. Leedle, Jr.
Title: Chief Executive Officer

Colleague: **PARTICIPANT NAME**

Online Grant Acceptance Satisfies Signature Requirement

Exhibit 10.5

HEALTHWAYS, INC.
2014 STOCK INCENTIVE PLAN
RESTRICTED STOCK UNIT AWARD AGREEMENT
(EXECUTIVE OFFICERS AND OTHER SENIOR OFFICERS)

This RESTRICTED STOCK UNIT AWARD AGREEMENT (the "Agreement"), dated **GRANT DATE**, is by and between Healthways, Inc., a Delaware corporation (the "Company"), and **PARTICIPANT NAME** (the "Grantee"), under the Company's 2014 Stock Incentive Plan (the "Plan"). Terms not otherwise defined herein shall have the meanings given to them in the Plan.

Section 1. Restricted Stock Unit Award. The Grantee is hereby granted **NUMBER OF SHARES** restricted stock units (the "Restricted Stock Units"). Each Restricted Stock Unit represents the right to receive one share of the Company's Common Stock, $.001 par value (the "Stock"), subject to the terms and conditions of this Agreement and the Plan.

Section 2. Vesting of the Award. Except as otherwise provided in Section 3 and Section 5 below, the Restricted Stock Units will vest at such times (the "Vesting Date") and in the percentages set forth below, as long as the Grantee is serving as an employee of the Company on the Vesting Date.

Vesting Date	Award Percentage of Restricted Stock Units
One Year from Grant Date	25%
Two Years from Grant Date	25%
Three Years from Grant Date	25%
Four Years from Grant Date	25%

The Company shall issue one share of Stock to the Grantee in settlement of each vested Restricted Stock Unit (the "Distributed Shares") at the time the Restricted Stock Unit vests pursuant to any provision of this Agreement. The Distributed Shares shall be represented by a certificate or by a book-entry.

Section 3. Forfeiture on Termination of Employment.

3.1. Termination by the Company for Cause. If the Grantee's employment with the Company is involuntarily terminated for Cause, then all Restricted Stock Units that have not vested prior to the date of termination of Grantee's employment will be forfeited and the Grantee shall have no further rights with respect to such Restricted Stock Units.

3.2. Termination by Reason of Retirement. If the Grantee's employment by the Company terminates by reason of Retirement (as defined in the Plan), the Restricted Stock Units granted hereunder shall not be forfeited but shall be settled in Stock to the Grantee on the same schedule as provided in Section 2 (or otherwise) as if the Grantee had continued employment through each such Vesting Date (or such other vesting event pursuant to Section 3.4 or Section 5.2).

3.3. Termination by the Company without Cause or by the Grantee for Good Reason. If Grantee's employment with the Company (a) is involuntarily terminated by the Company for any reason other than termination for Cause, or (b) is terminated by the Grantee for Good Reason, then all Restricted Stock Units that have not vested prior to the date of termination of Grantee's employment described in this Section 3.3 shall immediately vest. For purposes of this Section 3.3, the term "Good Reason" shall mean (i) a material reduction in the Grantee's base salary (unless such reduction is part of an across the board reduction affecting all Company executives with a comparable title), or (ii) a requirement by the Company to relocate the Grantee to a location that is greater than 25 miles from the location of the office in which the Grantee performs his or her duties at the time of such relocation.

3.4. Termination by Death or Disability. If the Grantee's employment by the Company terminates by reason of death or Disability (as defined in the Plan), the Restricted Stock Units granted hereunder shall immediately vest.

3.5. Other Termination. If the Grantee's employment by the Corporation is terminated for any reason other than as described in Sections 3.1 through 3.4 above, then all Restricted Stock Units that have not vested prior to the date of termination of Grantee's employment will be forfeited and the Grantee shall have no further rights with respect to such Restricted Stock Units.

Section 4. Voting Rights and Dividends. Prior to each Vesting Date, the Grantee shall be credited with cash dividend equivalents with respect to the Restricted Stock Units at the time of any payment of dividends to stockholders on shares of Common Stock in accordance with the terms set forth in the Plan, and such dividend equivalents shall be paid (in cash, without interest) to the Grantee when the Restricted Stock Units to which they relate are settled in accordance with this Agreement. The Grantee shall not have any voting rights with respect to the Stock underlying the Restricted Stock Units prior to the vesting of the Restricted Stock Units and the issuance of the Stock as set forth in Section 2. A holder of Distributed Shares shall have full dividend and voting rights as a holder of Stock.

Section 5. Restrictions on Transfer; Change in Control.

5.1. General Restrictions. The Restricted Stock Units shall not be transferable by the Grantee (or his or her personal representative or estate) other than by will or by the laws of descent and distribution. The terms of this Agreement shall be binding on the executors, administrators, heirs and successors of the Grantee.

5.2. Change in Control. If Grantee's employment with the Company (or its successor company) (a) is involuntarily terminated within 12 months following a Change in Control for any reason other than termination for Cause, (b) is terminated by the Grantee for Good Reason within 12 months following a Change in Control, or (c) has terminated by reason of Retirement as of the date of the Change in Control, all restrictions imposed on the Restricted Stock Units shall thereupon lapse, the Restricted Stock Units will become free of all restrictions and become fully vested, and the Company (or its successor company) shall issue the Stock underlying the Restricted Stock Units to the Grantee; provided, however, that if in connection with a Change in Control, the acquiring corporation (or other successor to the Company in the Change in Control) does not assume the Restricted Share Units, then the Restricted Share Units shall vest and be settled in Stock issued to the Grantee immediately prior to the Change in Control. For purposes of this Section 5.2, the term "Good Reason" shall mean (i) a material reduction in the Grantee's base salary or incentive compensation, (ii) a requirement by the Company (or its successor company) to relocate the Grantee to a location that is greater than 25 miles from the location of the office in which the Grantee performs his or her duties at the time of such relocation, or (iii) a failure by the successor person or entity, or the Board, either to honor the Grantee's employment agreement with the Company existing at the time a Change in Control occurs or to present Grantee with an employment agreement containing provisions substantially similar to such employment agreement or otherwise satisfactory to Grantee and which is executed by Grantee.

Section 6. Restrictive Agreement. As a condition to the receipt of any Distributed Shares, the Grantee (or his or her legal representative or estate or any third party transferee), if the Company so requests, will execute an agreement in form satisfactory to the Company in which the Grantee or such other recipient of the shares represents that he or she is purchasing the shares for investment purposes, and not with a view to resale or distribution.

Section 7. Restricted Stock Units Award Subject to Recoupment Policy. The award of Restricted Stock Units is subject to the Healthways, Inc. Compensation Recoupment Policy (the "Policy"). The award of Restricted Stock Units, or any amount traceable to the award of Restricted Stock Units, shall be subject to the recoupment obligations described in the Policy.

Section 8. Adjustment. In the event of any merger, reorganization, consolidation, recapitalization, extraordinary cash dividend, stock dividend, stock split or other change in corporate structure affecting the Stock, the number of Restricted Stock Units subject to this Agreement shall be equitably and proportionately adjusted by the Committee in accordance with the Plan without duplication of Section 4.

Section 9. Tax Withholding. The Company shall have the right to require the Grantee to remit to the Company an amount necessary to satisfy any federal, state and local withholding tax requirements attributable to the vesting and payment of the Restricted Stock Units prior to the delivery of the Distributed Shares, or may withhold from the Distributed Shares an amount of Stock having a Fair Market Value equal to such federal, state or local taxes as shall be required to be withheld pursuant to any applicable law or regulation.

Section 10. Plan. This Agreement is made under and subject to the provisions of the Plan, and all of the provisions of the Plan are also provisions of this Agreement. If there is a difference or conflict between the provisions of this Agreement and the provisions of the Plan, the provisions of the Plan will govern. By signing this Agreement, the Grantee confirms that he or she has received a copy of the Plan.

Section 11. Confidentiality, Non-Solicitation and Non-Compete. It is in the interest of all colleagues to protect and preserve the assets of the Company. In this regard, in consideration for granting the Restricted Stock Units and as conditions of Grantee's ability to receive the Distributed Shares, Grantee acknowledges and agrees that:

(a) Confidentiality. In the course of Grantee's employment, Grantee will have access to trade secrets and other confidential information of the Company and its clients. Accordingly, Grantee agrees that, without the prior written consent of the Company, Grantee will not, other than in the normal conduct of the Company's business affairs, divulge, furnish, publish or use for personal benefit or for the direct or indirect benefit of any other person or business entity, whether or not for monetary gain, any trade secrets or confidential or proprietary information of the Company or its clients, including, without limitation, any information relating to any business methods, marketing and business plans, financial data, systems, customers, suppliers, policies, procedures, techniques or research developed for the benefit of the Company or its clients. Proprietary information includes, but is not limited to, information developed by the Grantee for the Company while employed by the Company. The obligations of the Grantee under this paragraph will continue after the Grantee has left the employment of the Company. Grantee agrees that upon leaving the employment of the Company, Grantee will return to the Company all property and confidential information in the Grantee's possession and agrees not to copy or otherwise record in any way such information.

(b) Non-Solicitation. While employed by the Company and for a period of two years thereafter, Grantee shall not, upon Grantee's own behalf or on behalf of any other person or entity, directly or indirectly,

- hire or solicit to leave the employ of the Company any person employed by or under contract as an independent contractor to the Company; or

- contact, solicit, entice away, or divert any healthcare and/or well-being support services, coaching or management business from any person or entity who is a client or with whom the Company was engaged in discussions as a potential client within one year prior to the date of termination of Grantee.

(c) Non-Compete. While employed by the Company and continuing during the period while any amounts are being paid to Grantee by the Company and for a period of 18 months thereafter, Grantee will not own or be employed by or assist anyone else in the conduct of any business (i) which is in competition with any business conducted by the Company or (ii) which Grantee knows the Company was actively evaluating for possible entry, in either case in the United States or in any other jurisdiction in which the Company is engaged in business or has been engaged in business during Grantee's employment by the Company, or in such jurisdictions where Grantee knows the Company is actively pursuing business opportunities at the time of Grantee's termination of employment with the Company; provided that ownership of five percent (5%) or less of the voting stock or other ownership interests of any business entity that is listed on a national securities exchange shall not constitute a violation hereof.

In the event Grantee breaches any provisions of this Section 11, the Restricted Stock Units shall immediately expire, and the Company shall be entitled to seek other appropriate remedies it may have available in connection with such breach.

Section 12. Miscellaneous.

12.1. Entire Agreement. This Agreement and the Plan contain the entire understanding and agreement between the Company and the Grantee concerning the Restricted Stock Units granted hereby, and supersede any prior or contemporaneous negotiations and understandings. The Company and the Grantee have made no promises, agreements, conditions, or understandings relating to the Restricted Stock Units, either orally or in writing, that are not included in this Agreement or the Plan.

12.2. Employment. By establishing the Plan, granting awards under the Plan, and entering into this Agreement, the Company does not give the Grantee any right to continue to be employed by the Company or to be entitled to any remuneration or benefits not set forth in this Agreement or the Plan.

12.3. Captions. The captions and section numbers appearing in this Agreement are inserted only as a matter of convenience. They do not define, limit, construe, or describe the scope or intent of the provisions of this Agreement.

12.4. Counterparts. This Agreement may be executed in counterparts, each of which when signed by the Company and the Grantee will be deemed an original and all of which together will be deemed the same Agreement.

12.5. Notice. All notices required to be given under this Agreement shall be deemed to be received if delivered or mailed as provided for herein, to the parties at the following addresses, or to such other address as either party may provide in writing from time to time.

To the Company:	**Healthways, Inc.** 701 Cool Springs Blvd Franklin, Tennessee 37067
To the Grantee: (Grantee name and address)	**PARTICIPANT NAME** Address on File at Healthways

12.6. Amendment. Subject to the restrictions contained in the Plan, the Committee may amend the terms of this Agreement, prospectively or retroactively, but, subject to Section 8 above, no such amendment shall impair the rights of the Grantee hereunder without the Grantee's consent.

12.7. Governing Law. This Agreement shall be governed and construed exclusively in accordance with the law of the State of Delaware applicable to agreements to be performed in the State of Delaware to the extent it may apply.

12.8. Validity; Severability. If, for any reason, any provision hereof shall be determined to be invalid or unenforceable, the validity and effect of the other provisions hereof shall not be affected thereby. Whenever possible, each provision of this Agreement will be interpreted in such manner as to be effective and valid under applicable law, but if any provision of this Agreement is held to be invalid, illegal or unenforceable in any respect under any applicable law or rule in any jurisdiction, such invalidity, illegality or unenforceability will not affect any other provision or any other jurisdiction, but this Agreement will be reformed, construed and enforced in such jurisdiction as if such invalid, illegal or unenforceable provision had never been contained herein. If any court determines that any provision of this Agreement is unenforceable but has the power to reduce the scope or duration of such provision, as the case may be, such provision, in its reduced form, shall then be enforceable.

12.9. Interpretation; Resolution of Disputes; Section 409A.

(a) It is expressly understood that the Committee is authorized to administer, construe and make all determinations necessary or appropriate to the administration of the Plan and this Agreement, all of which shall be binding upon the Grantee. Any dispute or disagreement which may arise under, or as a result of, or in any way related to, the interpretation, construction or application of this Agreement shall be determined by the Board. Any determination made hereunder shall be final, binding and conclusive on the Grantee and the Company for all purposes.

(b) Notwithstanding anything herein to the contrary, to the maximum extent permitted by applicable law, the settlement of the Restricted Stock Units (including any dividend equivalent rights) to be made to the Grantee pursuant to this Agreement is intended to qualify as a "short-term deferral" pursuant to Section 1.409A-1(b)(4) of the U.S. Treasury Regulations and this Agreement shall be interpreted consistently therewith. However, under certain circumstances, settlement of the Restricted Stock Units or any dividend equivalent rights may not so qualify, and in that case, the Committee shall administer the grant and settlement of such Restricted Stock Units and any dividend equivalent rights in strict compliance with Section 409A of the Code. Further, notwithstanding anything herein to the contrary, if at the time of a Participant's termination of employment with the Company, the Participant is a "specified employee" as defined in Section 409A of the Code, and the deferral of the commencement of any payments or benefits otherwise payable hereunder as a result of such termination of service is necessary in order to prevent the imposition of any accelerated or additional tax under Section 409A of the Code, then the Company will defer the commencement of the payment of any such payments or benefits hereunder (without any reduction in such payments or benefits ultimately paid or provided to the Participant) to the minimum extent necessary to satisfy Section 409A of the Code until the date that is six months and one day following the Participant's termination of employment with the Company (or the earliest date as is permitted under Section 409A of the Code), if such payment or benefit is payable upon a termination of employment. Each payment of Restricted Stock Units (and related dividend equivalent rights) constitutes a "separate payment" for purposes of Section 409A of the Code.

12.10. Successors in Interest. This Agreement shall inure to the benefit of and be binding upon any successor to the Company. This Agreement shall inure to the benefit of the Grantee's legal representative and permitted assignees. All obligations imposed upon the Grantee and all rights granted to the Company under this Agreement shall be binding upon the Grantee's heirs, executors, administrators, successors and assignees.

[remainder of page intentionally left blank; signature page follows]

IN WITNESS WHEREOF, the parties have caused the Restricted Stock Unit Award Agreement to be duly executed as of the day and year first written above.

HEALTHWAYS, INC.

By: */s/ Ben R. Leedle, Jr.*
Name: Ben R. Leedle, Jr.
Title: Chief Executive Officer

GRANTEE: **PARTICIPANT NAME**

Online Grant Acceptance Satisfies Signature Requirement

Exhibit 10.6

HEALTHWAYS, INC.
2014 STOCK INCENTIVE PLAN
PERFORMANCE SHARE UNIT AWARD AGREEMENT
(EXECUTIVE OFFICERS AND OTHER SENIOR OFFICERS)

This PERFORMANCE SHARE UNIT AWARD AGREEMENT (the "Agreement"), dated **GRANT DATE**, is by and between Healthways, Inc., a Delaware corporation (the "Company"), and **PARTICIPANT NAME** (the "Grantee"), under the Company's 2014 Stock Incentive Plan (the "Plan"). Terms not otherwise defined herein shall have the meanings given to them in the Plan.

Section 1. Performance Share Unit Award; Management Objectives. The Grantee is hereby granted **NUMBER OF SHARES** performance share units, with the specific number of Performance Share Units earned to be determined in accordance with Exhibit A hereto (the "Performance Share Units"). Each Performance Share Unit represents the right to receive one share of the Company's Common Stock, $.001 par value (the "Stock"), subject to the terms and conditions of this Agreement and the Plan. Except as otherwise provided in Section 3 or Section 5.2, before the Performance Share Units will be earned and settled, the Committee must certify the level of achievement of the Management Objectives described in Exhibit A hereto which the Committee shall do as soon as practicable after **END OF PERFORMANCE PERIOD** (the "End of the Performance Period"). Any Performance Share Units that are not earned as a result of the level of achievement of the Management Objectives at of the End of the Performance Period shall be immediately forfeited as of the End of the Performance Period.

Section 2. Vesting of the Award. Except as otherwise provided in Section 3 and Section 5.2 below, 100% of the Performance Share Units determined by the Committee to be earned pursuant to Section 1 hereof will vest on **VESTING DATE** (the "Vesting Date"), as long as the Grantee is serving as an employee of the Company on the Vesting Date. The Company shall issue one share of the Stock to the Grantee in settlement of each earned and vested Performance Share Unit (in the aggregate, the "Distributed Shares") at the time the Performance Share Unit vests pursuant to this Agreement. The Distributed Shares shall be represented by a certificate or by a book-entry.

Section 3. Forfeiture on Termination of Employment.

3.1. Termination by the Company for Cause. If the Grantee's employment with the Company is involuntarily terminated for Cause, then all Performance Share Units that have not vested prior to the date of termination of Grantee's employment will be forfeited and the Grantee shall have no further rights with respect to such Performance Share Units.

3.2. Termination by Reason of Retirement. If the Grantee's employment by the Company terminates by reason of Retirement (as defined in the Plan), before or after the End of the Performance Period, the Performance Share Units granted hereunder shall not be forfeited but shall be settled in Stock issued to the Grantee on the same schedule as provided in Section 2 (or otherwise) as if the Grantee had continued employment through the Vesting Date (or such other vesting event pursuant to Section 3.4 or Section 5.2) and based on actual performance of the Company as determined in accordance with Section 1 and Exhibit A hereto.

3.3. Termination by the Company without Cause or by the Grantee for Good Reason. If Grantee's employment with the Company (a) is involuntarily terminated by the Company for any reason other than termination for Cause, or (b) is terminated by the Grantee for Good Reason, then the Performance Share Units that were earned (or may be earned) as of the End of the Performance Period but that have not yet vested prior to the date of a termination of Grantee's employment described in this Section 3.3 shall not be forfeited but shall be settled in Stock issued to the Grantee on the same schedule as provided in Section 2 (or otherwise) as if the Grantee had continued employment through the Vesting Date (or such other vesting event pursuant to Section 3.4 or Section 5.2) and based on actual performance of the Company as determined in accordance with Section 1 and Exhibit A hereto. For purposes of this Section 3.3, the term "Good Reason" shall mean (i) a material reduction in the Grantee's base salary (unless such reduction is part of an across the board reduction affecting all Company executives with a comparable title), or (ii) a requirement by the Company to relocate the Grantee to a location that is greater than 25 miles from the location of the office in which the Grantee performs his or her duties at the time of such relocation.

3.4. Termination by Death or Disability. If the Grantee's employment by the Company terminates by reason of death or Disability (as defined in the Plan), and such event occurs on a date that is after the End of the Performance Period, then a number of Performance Share Units earned hereunder (as determined by the actual performance of the Company in accordance with Section 1 and Exhibit A) shall become vested on such date. If the Grantee's employment by the Company terminates by reason of death or Disability (as defined in the Plan), and such event occurs on a date that is prior to the End of the Performance Period, all Performance Share Units granted hereunder shall be forfeited.

3.5 Other Termination. Subject to Section 5.2, if the Grantee's employment with the Company terminates for any reason other than as described in Sections 3.1 through 3.4 above, then all Performance Share Units that have not vested prior to the date of termination of Grantee's employment will be forfeited and the Grantee shall have no further rights with respect to such Performance Share Units.

Section 4. Voting Rights and Dividends. Prior to the Vesting Date, the Grantee shall be credited with cash dividend equivalents with respect to the Performance Share Units at the time of any payment of dividends to stockholders on shares of Common Stock in accordance with the terms set forth in the Plan, and such dividend equivalents shall be paid (in cash, without interest) to the Grantee when the Performance Share Units to which they relate are settled in accordance with this Agreement. The Grantee shall not have any voting rights with respect to the Stock underlying the Performance Share Units prior to the vesting of the Performance Share Units and the issuance of the Stock as set forth in Section 2. A holder of Distributed Shares shall have full dividend and voting rights as a holder of Stock.

Section 5. Restrictions on Transfer; Change in Control.

5.1. General Restrictions. The Performance Share Units shall not be transferable by the Grantee (or his or her personal representative or estate) other than by will or by the laws of descent and distribution. The terms of this Agreement shall be binding on the executors, administrators, heirs and successors of the Grantee.

5.2. Change in Control.

(a) If in connection with a Change in Control, the acquiring corporation (or other successor to the Company in the Change in Control) does not assume the Performance Share Units, then the Performance Share Units shall vest and be settled in Stock issued to the Grantee immediately prior to the Change in Control. If the Change in Control occurs prior to the End of the Performance Period, then 100% of the number of Performance Share Units granted to the Grantee pursuant to Section 1 hereof (for the avoidance of doubt, not including the TSR Shares as such term is defined on Exhibit A) shall vest pursuant to this Section 5.2(a); if the Change in Control occurs after the End of the Performance Period, then the number of Performance Share Units that were earned as of the End of the Performance Period shall vest pursuant to this Section 5.2(a).

(b) If in connection with a Change in Control, the acquiring corporation (or other successor to the Company in the Change in Control) assumes the Performance Share Units, and if Grantee's employment with the Company (or its successor company) (i) is involuntarily terminated within 12 months following a Change in Control for any reason other than termination for Cause, (ii) is terminated by the Grantee for Good Reason within 12 months following a Change in Control, or (iii) has previously terminated on account of Retirement or pursuant to Section 3.3 as of the date of a Change in Control, then a number of Performance Share Units earned hereunder as determined based on the actual performance of the Company (determined in accordance with Section 1 and Exhibit A hereof) shall become vested and payable on the date of such termination (or in the case of (iii) above, on the date of the Change in Control); provided, however, that if such vesting or payment event occurs prior to the End of the Performance Period, then 100% of the number of Performance Share Units described in Section 1 (for the avoidance of doubt, not including the TSR Shares as such term is defined on Exhibit A) shall become vested or payable as of the date of such event. For purposes of this Section 5.2(b), the term "Good Reason" shall mean (x) a material reduction in the Grantee's base salary or incentive compensation, (y) a requirement by the Company (or its successor company) to relocate the Grantee to a location that is greater than 25 miles from the location of the office in which the Grantee performs his or her duties at the time of such relocation, or (z) a failure by the successor person or entity, or the Board, either to honor the Grantee's employment agreement with the Company existing at the time a Change in Control occurs or to present Grantee with an employment agreement containing provisions substantially similar to such employment agreement or otherwise satisfactory to Grantee and which is executed by Grantee.

Section 6. Restrictive Agreement. As a condition to the receipt of any Distributed Shares, the Grantee (or his or her legal representative or estate or any third party transferee), if the Company so requests, will execute an agreement in form satisfactory to the Company in which the Grantee or such other recipient of the shares represents that he or she is purchasing the shares for investment purposes, and not with a view to resale or distribution.

Section 7. Performance Share Units Award Subject to Recoupment Policy. The award of Performance Share Units is subject to the Healthways, Inc. Compensation Recoupment Policy (the "Policy"). The award of Performance Share Units, or any amount traceable to the award of Performance Share Units, shall be subject to the recoupment obligations described in the Policy.

Section 8. Adjustment. In the event of any merger, reorganization, consolidation, recapitalization, extraordinary cash dividend, stock dividend, stock split or other change in corporate structure affecting the Stock, the number of Performance Share Units subject to this Agreement, as well as the performance criteria set forth on Exhibit A, shall be equitably and proportionately adjusted by the Committee in accordance with the Plan and the intent of this Agreement without duplication of Section 4.

Section 9. Tax Withholding. The Company shall have the right to require the Grantee to remit to the Company an amount necessary to satisfy any federal, state and local withholding tax requirements attributable to the vesting and payment of the Performance Share Units prior to the delivery of the Distributed Shares, or may withhold from the Distributed Shares an amount of Stock having a Fair Market Value equal to such federal, state or local taxes as shall be required to be withheld pursuant to any applicable law or regulation.

Section 10. Plan. This Agreement is made under and subject to the provisions of the Plan, and all of the provisions of the Plan are also provisions of this Agreement. If there is a difference or conflict between the provisions of this Agreement and the provisions of the Plan, the provisions of the Plan will govern. By signing this Agreement, the Grantee confirms that he or she has received a copy of the Plan.

Section 11. Confidentiality, Non-Solicitation and Non-Compete. It is in the interest of all colleagues to protect and preserve the assets of the Company. In this regard, in consideration for granting the Performance Share Units and as conditions of Grantee's ability to receive the Distributed Shares, Grantee acknowledges and agrees that:

(a) Confidentiality. In the course of Grantee's employment, Grantee will have access to trade secrets and other confidential information of the Company and its clients. Accordingly, Grantee agrees that, without the prior written consent of the Company, Grantee will not, other than in the normal conduct of the Company's business affairs, divulge, furnish, publish or use for personal benefit or for the direct or indirect benefit of any other person or business entity, whether or not for monetary gain, any trade secrets or confidential or proprietary information of the Company or its clients, including, without limitation, any information relating to any business methods, marketing and business plans, financial data, systems, customers, suppliers, policies, procedures, techniques or research developed for the benefit of the Company or its clients. Proprietary information includes, but is not limited to, information developed by the Grantee for the Company while employed by the Company. The obligations of the Grantee under this paragraph will continue after the Grantee has left the employment of the Company. Grantee agrees that upon leaving the employment of the Company, Grantee will return to the Company all property and confidential information in the Grantee's possession and agrees not to copy or otherwise record in any way such information.

(b) Non-Solicitation. While employed by the Company and for a period of two years thereafter, Grantee shall not, upon Grantee's own behalf or on behalf of any other person or entity, directly or indirectly,

- hire or solicit to leave the employ of the Company any person employed by or under contract as an independent contractor to the Company; or

- contact, solicit, entice away, or divert any healthcare and/or well-being support services, coaching or management business from any person or entity who is a client or with whom the Company was engaged in discussions as a potential client within one year prior to the date of termination of Grantee.

(c) Non-Compete. While employed by the Company and continuing during the period while any amounts are being paid to Grantee by the Company and for a period of 18 months thereafter, Grantee will not own or be employed by or assist anyone else in the conduct of any business (i) which is in competition with any business conducted by the Company or (ii) which Grantee knows the Company was actively evaluating for possible entry, in either case in the United States or in any other jurisdiction in which the Company is engaged in business or has been engaged in business during Grantee's employment by the Company, or in such jurisdictions where Grantee knows the Company is actively pursuing business opportunities at the time of Grantee's termination of employment with the Company; provided that ownership of five percent (5%) or less of the voting stock or other ownership interests of any business entity that is listed on a national securities exchange shall not constitute a violation hereof.

In the event Grantee breaches any provisions of this Section 11, the Performance Share Units shall immediately expire, and the Company shall be entitled to seek other appropriate remedies it may have available in connection with such breach.

Section 12. Miscellaneous.

12.1. Entire Agreement. This Agreement and the Plan contain the entire understanding and agreement between the Company and the Grantee concerning the Performance Share Units granted hereby, and supersede any prior or contemporaneous negotiations and understandings. The Company and the Grantee have made no promises, agreements, conditions, or understandings relating to the Performance Share Units, either orally or in writing, that are not included in this Agreement or the Plan.

12.2. Employment. By establishing the Plan, granting awards under the Plan, and entering into this Agreement, the Company does not give the Grantee any right to continue to be employed by the Company or to be entitled to any remuneration or benefits not set forth in this Agreement or the Plan.

12.3. Captions. The captions and section numbers appearing in this Agreement are inserted only as a matter of convenience. They do not define, limit, construe, or describe the scope or intent of the provisions of this Agreement.

12.4. Counterparts. This Agreement may be executed in counterparts, each of which when signed by the Company and the Grantee will be deemed an original and all of which together will be deemed the same Agreement.

12.5. Notice. All notices required to be given under this Agreement shall be deemed to be received if delivered or mailed as provided for herein, to the parties at the following addresses, or to such other address as either party may provide in writing from time to time.

To the Company:	**Healthways, Inc.** 701 Cool Springs Blvd Franklin, Tennessee 37067
To the Grantee: (Grantee name and address)	**PARTICIPANT NAME** Address on File at Healthways

12.6. Amendment. Subject to the restrictions contained in the Plan, the Committee may amend the terms of this Agreement, prospectively or retroactively, but, subject to Section 8 above, no such amendment shall impair the rights of the Grantee hereunder without the Grantee's consent.

12.7. Governing Law. This Agreement shall be governed and construed exclusively in accordance with the law of the State of Delaware applicable to agreements to be performed in the State of Delaware to the extent it may apply.

12.8. Validity; Severability. If, for any reason, any provision hereof shall be determined to be invalid or unenforceable, the validity and effect of the other provisions hereof shall not be affected thereby. Whenever possible, each provision of this Agreement will be interpreted in such manner as to be effective and valid under applicable law, but if any provision of this Agreement is held to be invalid, illegal or unenforceable in any respect under any applicable law or rule in any jurisdiction, such invalidity, illegality or unenforceability will not affect any other provision or any other jurisdiction, but this Agreement will be reformed, construed and enforced in such jurisdiction as if such invalid, illegal or unenforceable provision had never been contained herein. If any court determines that any provision of this Agreement is unenforceable but has the power to reduce the scope or duration of such provision, as the case may be, such provision, in its reduced form, shall then be enforceable.

12.9. Interpretation; Resolution of Disputes; Section 409A.

(a) It is expressly understood that the Committee is authorized to administer, construe and make all determinations necessary or appropriate to the administration of the Plan and this Agreement, all of which shall be binding upon the Grantee. Any dispute or disagreement which may arise under, or as a result of, or in any way related to, the interpretation, construction or application of this Agreement shall be determined by the Board. Any determination made hereunder shall be final, binding and conclusive on the Grantee and the Company for all purposes.

(b) Notwithstanding anything herein to the contrary, to the maximum extent permitted by applicable law, the settlement of the Performance Share Units (including any dividend equivalent rights) to be made to the Grantee pursuant to this Agreement is intended to qualify as a "short-term deferral" pursuant to Section 1.409A-1(b)(4) of the U.S. Treasury Regulations and this Agreement shall be interpreted consistently therewith. However, under certain circumstances, settlement of the Performance Share Units or any dividend equivalent rights may not so qualify, and in that case, the Committee shall administer the grant and settlement of such Performance Share Units and any dividend equivalent rights in strict compliance with Section 409A of the Code. Further, notwithstanding anything herein to the contrary, if at the time of a Participant's termination of employment with the Company, the Participant is a "specified employee" as defined in Section 409A of the Code, and the deferral of the commencement of any payments or benefits otherwise payable hereunder as a result of such termination of service is necessary in order to prevent the imposition of any accelerated or additional tax under Section 409A of the Code, then the Company will defer the commencement of the payment of any such payments or benefits hereunder (without any reduction in such payments or benefits ultimately paid or provided to the Participant) to the minimum extent necessary to satisfy Section 409A of the Code until the date that is six months and one day following the Participant's termination of employment with the Company (or the earliest date as is permitted under Section 409A of the Code), if such payment or benefit is payable upon a termination of employment. Each payment of Performance Share Units (and related dividend equivalent rights) constitutes a "separate payment" for purposes of Section 409A of the Code.

12.10. <u>Successors in Interest</u>. This Agreement shall inure to the benefit of and be binding upon any successor to the Company. This Agreement shall inure to the benefit of the Grantee's legal representative and permitted assignees. All obligations imposed upon the Grantee and all rights granted to the Company under this Agreement shall be binding upon the Grantee's heirs, executors, administrators, successors and assignees.

[remainder of page intentionally left blank; signature page follows]

IN WITNESS WHEREOF, the parties have caused the Performance Share Unit Award Agreement to be duly executed as of the day and year first written above.

HEALTHWAYS, INC.

By: *<u>/s/ Ben R. Leedle, Jr.</u>*
Name: Ben R. Leedle, Jr.
Title: Chief Executive Officer

GRANTEE: **PARTICIPANT NAME**

Online Grant Acceptance Satisfies
Signature Requirement

Exhibit 10.7

HEALTHWAYS, INC.
2014 STOCK INCENTIVE PLAN
PERFORMANCE CASH AWARD AGREEMENT
(EXECUTIVE OFFICERS AND OTHER SENIOR OFFICERS)

This PERFORMANCE CASH AWARD AGREEMENT (the "Agreement"), dated **GRANT DATE**, is by and between Healthways, Inc., a Delaware corporation (the "Company"), and **PARTICIPANT NAME** (the "Grantee"), under the Company's 2014 Stock Incentive Plan (the "Plan"). Terms not otherwise defined herein shall have the meanings given to them in the Plan.

Section 1. Performance Cash Award Target; Management Objectives. The Grantee is hereby granted a performance cash award target of **AMOUNT OF AWARD** (the "Performance Cash Award Target"), with the specific amount of the Award that will be earned to be determined in accordance with Exhibit A hereto (such earned amount, the "Performance Cash Award"). The Performance Cash Award represents the right to receive a cash payment on the applicable payment date, subject to the terms and conditions of this Agreement and the Plan. Except as otherwise provided in Section 3 or Section 5.2, before the Performance Cash Award is determined, the Committee must certify the level of achievement of the Management Objectives described in Exhibit A hereto which the Committee shall do as soon as practicable after **END OF PERFORMANCE PERIOD** (the "End of the Performance Period"). Any portion of the Performance Cash Award Target that is not earned as a result of the level of achievement of the Management Objectives as of the End of the Performance Period shall be immediately forfeited as of the End of the Performance Period.

Section 2. Vesting of the Award. Except as otherwise provided in Section 3 and Section 5.2 below, 100% of the Performance Cash Award determined by the Committee to be earned pursuant to Section 1 hereof will vest on **VESTING DATE** (the "Vesting Date"), as long as the Grantee is serving as an employee of the Company on the Vesting Date. The Company shall pay the amount of the Performance Cash Award to the Grantee in settlement of such Award (the "Distributed Cash") within 75 days of the Vesting Date.

Section 3. Forfeiture on Termination of Employment.

3.1. Termination by the Company for Cause. If the Grantee's employment with the Company is involuntarily terminated for Cause, then the entire Performance Cash Award that has not vested prior to the date of termination of Grantee's employment will be forfeited and the Grantee shall have no further rights with respect to such Performance Cash Award.

3.2. Termination by Reason of Retirement. If the Grantee's employment by the Company terminates by reason of Retirement (as defined in the Plan) before or after the End of the Performance Period, the Performance Cash Award granted hereunder shall not be forfeited but shall be settled in cash paid to the Grantee on the same schedule as provided in Section 2 (or otherwise) as if the Grantee had continued employment through the Vesting Date (or such other vesting event pursuant to Section 3.4 or Section 5.2) and based on actual performance of the Company as determined in accordance with Section 1 and Exhibit A hereto.

3.3. Termination by the Company without Cause or by the Grantee for Good Reason. If Grantee's employment with the Company (a) is involuntarily terminated by the Company for any reason other than termination for Cause, or (b) is terminated by the Grantee for Good Reason, then the Performance Cash Award that was earned (or may be earned) as of the End of the Performance Period but that has not yet vested prior to the date of a termination of Grantee's employment described in this Section 3.3 shall not be forfeited but shall be paid in cash to the Grantee on the same schedule as provided in Section 2 (or otherwise) as if the Grantee had continued employment through the Vesting Date (or such other vesting event pursuant to Section 3.4 or Section 5.2) and based on actual performance of the Company as determined in accordance with Section 1 and Exhibit A hereto. For purposes of this Section 3.3, the term "Good Reason" shall mean (i) a material reduction in the Grantee's base salary (unless such reduction is part of an across the board reduction affecting all Company executives with a comparable title), or (ii) a requirement by the Company to relocate the Grantee to a location that is greater than 25 miles from the location of the office in which the Grantee performs his or her duties at the time of such relocation.

3.4. Termination by Death or Disability. If the Grantee's employment by the Company terminates by reason of death or Disability (as defined in the Plan), and such event occurs on a date that is after the End of the Performance Period, then the amount of the Performance Cash Award earned hereunder (as determined by the actual performance of the Company in accordance with Section 1 and Exhibit A) shall become vested on such date and paid in accordance with Section 2. If the Grantee's employment by the Company terminates by reason of death or Disability (as defined in the Plan), and such event occurs on a date that is prior to the End of the Performance Period, the entire Performance Cash Award granted hereunder shall be forfeited.

3.5 Other Termination. Subject to Section 5.2, if the Grantee's employment with the Company terminates for any reason other than as described in Sections 3.1 through 3.4 above, then any portion of the Performance Cash Award that has not vested prior to the date of termination of Grantee's employment will be forfeited and the Grantee shall have no further rights with respect to such Award.

Section 4. [intentionally omitted]

Section 5. Restrictions on Transfer; Change in Control.

5.1. General Restrictions. The Performance Cash Award shall not be transferable by the Grantee (or his or her personal representative or estate) other than by will or by the laws of descent and distribution. The terms of this Agreement shall be binding on the executors, administrators, heirs and successors of the Grantee.

5.2. Change in Control.

(a) If in connection with a Change in Control, the acquiring corporation (or other successor to the Company in the Change in Control) does not assume the Performance Cash Award, then the Performance Cash Award shall vest and be paid to the Grantee immediately prior to the Change in Control. If the Change in Control occurs prior to the End of the Performance Period, then the Performance Cash Award Target granted to the Grantee pursuant to Section 1 hereof (for the avoidance of doubt, not including the TSR Cash as such term is defined on Exhibit A) shall vest and be payable pursuant to this Section 5.2(a); if the Change in Control occurs after the End of the Performance Period, then the Performance Cash Award that was determined to have been earned as of the End of the Performance Period shall vest and be payable pursuant to this Section 5.2(a).

(b) If in connection with a Change in Control, the acquiring corporation (or other successor to the Company in the Change in Control) assumes the Performance Cash Award, and if Grantee's employment with the Company (or its successor company) (i) is involuntarily terminated within 12 months following a Change in Control for any reason other than termination for Cause, (ii) is terminated by the Grantee for Good Reason within 12 months following a Change in Control, or (iii) has previously terminated on account of Retirement or pursuant to Section 3.3 as of the date of a Change in Control, then the Performance Cash Award earned hereunder as determined based on the actual performance of the Company (determined in accordance with Section 1 and Exhibit A hereof) shall become vested and payable on the date of such termination (or in the case of (iii) above, on the date of the Change in Control); provided, however, that if such vesting or payment event occurs prior to the End of the Performance Period, then an amount equal to the Performance Cash Award Target described in Section 1 (for the avoidance of doubt, not including the TSR Cash as such term is defined on Exhibit A) shall become vested and payable as of the date of such event. For purposes of this Section 5.2(b), the term "Good Reason" shall mean (x) a material reduction in the Grantee's base salary or incentive compensation, (y) a requirement by the Company (or its successor company) to relocate the Grantee to a location that is greater than 25 miles from the location of the office in which the Grantee performs his or her duties at the time of such relocation, or (z) a failure by the successor person or entity, or the Board, either to honor the Grantee's employment agreement with the Company existing at the time a Change in Control occurs or to present Grantee with an employment agreement containing provisions substantially similar to such employment agreement or otherwise satisfactory to Grantee and which is executed by Grantee.

Section 6. [intentionally omitted]

Section 7. Performance Cash Award Subject to Recoupment Policy. This Performance Cash Award is subject to the Healthways, Inc. Compensation Recoupment Policy (the "Policy"). The Performance Cash Award, or any amount traceable to the Performance Cash Award, shall be subject to the recoupment obligations described in the Policy.

Section 8. Adjustment. In the event of any merger, reorganization, consolidation, recapitalization, extraordinary cash dividend, stock dividend, stock split or other change in corporate structure affecting the Stock, the performance criteria set forth on Exhibit A shall be equitably and proportionately adjusted by the Committee in accordance with the Plan and the intent of this Agreement.

Section 9. Tax Withholding. The Company shall withhold from the Distributed Cash an amount necessary to satisfy such federal, state or local withholding obligations as shall be required pursuant to any applicable law or regulation.

Section 10. Plan. This Agreement is made under and subject to the provisions of the Plan, and all of the provisions of the Plan are also provisions of this Agreement. If there is a difference or conflict between the provisions of this Agreement and the provisions of the Plan, the provisions of the Plan will govern. By signing this Agreement, the Grantee confirms that he or she has received a copy of the Plan.

Section 11. Confidentiality, Non-Solicitation and Non-Compete. It is in the interest of all colleagues to protect and preserve the assets of the Company. In this regard, in consideration for granting the Performance Cash Award and as conditions of Grantee's ability to receive the Distributed Cash, Grantee acknowledges and agrees that:

(a) Confidentiality. In the course of Grantee's employment, Grantee will have access to trade secrets and other confidential information of the Company and its clients. Accordingly, Grantee agrees that, without the prior written consent of the Company, Grantee will not, other than in the normal conduct of the Company's business affairs, divulge, furnish, publish or use for personal benefit or for the direct or indirect benefit of any other person or business entity, whether or not for monetary gain, any trade secrets or confidential or proprietary information of the Company or its clients, including, without limitation, any information relating to any business methods, marketing and business plans, financial data, systems, customers, suppliers, policies, procedures, techniques or research developed for the benefit of the Company or its clients. Proprietary information includes, but is not limited to, information developed by the Grantee for the Company while employed by the Company. The obligations of the Grantee under this paragraph will continue after the Grantee has left the employment of the Company. Grantee agrees that upon leaving the employment of the Company, Grantee will return to the Company all property and confidential information in the Grantee's possession and agrees not to copy or otherwise record in any way such information.

(b) Non-Solicitation. While employed by the Company and for a period of two years thereafter, Grantee shall not, upon Grantee's own behalf or on behalf of any other person or entity, directly or indirectly,

- hire or solicit to leave the employ of the Company any person employed by or under contract as an independent contractor to the Company; or

- contact, solicit, entice away, or divert any healthcare and/or well-being support services, coaching or management business from any person or entity who is a client or with whom the Company was engaged in discussions as a potential client within one year prior to the date of termination of Grantee.

(c) Non-Compete. While employed by the Company and continuing during the period while any amounts are being paid to Grantee by the Company and for a period of 18 months thereafter, Grantee will not own or be employed by or assist anyone else in the conduct of any business (i) which is in competition with any business conducted by the Company or (ii) which Grantee knows the Company was actively evaluating for possible entry, in either case in the United States or in any other jurisdiction in which the Company is engaged in business or has been engaged in business during Grantee's employment by the Company, or in such jurisdictions where Grantee knows the Company is actively pursuing business opportunities at the time of Grantee's termination of employment with the Company; provided that ownership of five percent (5%) or less of the voting stock or other ownership interests of any business entity that is listed on a national securities exchange shall not constitute a violation hereof.

In the event Grantee breaches any provisions of this Section 11, this Performance Cash Award shall immediately expire and be forfeited, and the Company shall be entitled to seek other appropriate remedies it may have available in connection with such breach.

Section 12. Miscellaneous.

12.1. Entire Agreement. This Agreement and the Plan contain the entire understanding and agreement between the Company and the Grantee concerning the Performance Cash Award granted hereby, and supersede any prior or contemporaneous negotiations and understandings. The Company and the Grantee have made no promises, agreements, conditions, or understandings relating to the Performance Cash Award, either orally or in writing, that are not included in this Agreement or the Plan.

12.2. Employment. By establishing the Plan, granting awards under the Plan, and entering into this Agreement, the Company does not give the Grantee any right to continue to be employed by the Company or to be entitled to any remuneration or benefits not set forth in this Agreement or the Plan.

12.3. Captions. The captions and section numbers appearing in this Agreement are inserted only as a matter of convenience. They do not define, limit, construe, or describe the scope or intent of the provisions of this Agreement.

12.4. Counterparts. This Agreement may be executed in counterparts, each of which when signed by the Company and the Grantee will be deemed an original and all of which together will be deemed the same Agreement.

12.5. Notice. All notices required to be given under this Agreement shall be deemed to be received if delivered or mailed as provided for herein, to the parties at the following addresses, or to such other address as either party may provide in writing from time to time.

To the Company:	**Healthways, Inc.** 701 Cool Springs Blvd Franklin, Tennessee 37067
To the Grantee: (Grantee name and address)	**PARTICIPANT NAME** Address on File at Healthways

12.6. Amendment. Subject to the restrictions contained in the Plan, the Committee may amend the terms of this Agreement, prospectively or retroactively, but, subject to Section 8 above, no such amendment shall impair the rights of the Grantee hereunder without the Grantee's consent.

12.7. Governing Law. This Agreement shall be governed and construed exclusively in accordance with the law of the State of Delaware applicable to agreements to be performed in the State of Delaware to the extent it may apply.

12.8. Validity; Severability. If, for any reason, any provision hereof shall be determined to be invalid or unenforceable, the validity and effect of the other provisions hereof shall not be affected thereby. Whenever possible, each provision of this Agreement will be interpreted in such manner as to be effective and valid under applicable law, but if any provision of this Agreement is held to be invalid, illegal or unenforceable in any respect under any applicable law or rule in any jurisdiction, such invalidity, illegality or unenforceability will not affect any other provision or any other jurisdiction, but this Agreement will be reformed, construed and enforced in such jurisdiction as if such invalid, illegal or unenforceable provision had never been contained herein. If any court determines that any provision of this Agreement is unenforceable but has the power to reduce the scope or duration of such provision, as the case may be, such provision, in its reduced form, shall then be enforceable.

12.9. Interpretation; Resolution of Disputes; Section 409A.

(a) It is expressly understood that the Committee is authorized to administer, construe and make all determinations necessary or appropriate to the administration of the Plan and this Agreement, all of which shall be binding upon the Grantee. Any dispute or disagreement which may arise under, or as a result of, or in any way related to, the interpretation, construction or application of this Agreement shall be determined by the Board. Any determination made hereunder shall be final, binding and conclusive on the Grantee and the Company for all purposes.

(b) Notwithstanding anything herein to the contrary, to the maximum extent permitted by applicable law, the settlement of the Performance Cash Award to be made to the Grantee pursuant to this Agreement is intended to qualify as a "short-term deferral" pursuant to Section 1.409A-1(b)(4) of the U.S. Treasury Regulations and this Agreement shall be interpreted consistently therewith. However, under certain circumstances, settlement of the Performance Cash Award may not so qualify, and in that case, the Committee shall administer the grant and settlement of such Performance Cash Award in strict compliance with Section 409A of the Code. Further, notwithstanding anything herein to the contrary, if at the time of a Participant's termination of employment with the Company, the Participant is a "specified employee" as defined in Section 409A of the Code, and the deferral of the commencement of any payments or benefits otherwise payable hereunder as a result of such termination of service is necessary in order to prevent the imposition of any accelerated or additional tax under Section 409A of the Code, then the Company will defer the commencement of the payment of any such payments or benefits hereunder (without any reduction in such payments or benefits ultimately paid or provided to the Participant) to the minimum extent necessary to satisfy Section 409A of the Code until the date that is six months and one day following the Participant's termination of employment with the Company (or the earliest date as is permitted under Section 409A of the Code), if such payment or benefit is payable upon a termination of employment. Each payment of Performance Cash Award constitutes a "separate payment" for purposes of Section 409A of the Code.

12.10. Successors in Interest. This Agreement shall inure to the benefit of and be binding upon any successor to the Company. This Agreement shall inure to the benefit of the Grantee's legal representative and permitted assignees. All obligations imposed upon the Grantee and all rights granted to the Company under this Agreement shall be binding upon the Grantee's heirs, executors, administrators, successors and assignees.

[remainder of page intentionally left blank; signature page follows]

IN WITNESS WHEREOF, the parties have caused the Performance Cash Award Agreement to be duly executed as of the day and year first written above.

HEALTHWAYS, INC.

By: *<u>/s/ Ben R. Leedle, Jr.</u>*
Name: Ben R. Leedle, Jr.
Title: Chief Executive Officer

GRANTEE: **PARTICIPANT NAME**

Online Grant Acceptance Satisfies Signature Requirement

Exhibit 10.8

HEALTHWAYS, INC.
2014 STOCK INCENTIVE PLAN
NON-QUALIFIED STOCK OPTION AGREEMENT
(DIRECTORS)

THIS NON-QUALIFIED STOCK OPTION AGREEMENT (this "Agreement") is made and entered into on **GRANT DATE** (the "Grant Date") by and between HEALTHWAYS, INC., a Delaware corporation (the "Corporation") including its subsidiary corporations, and **PARTICIPANT NAME** (the "Director").

WHEREAS, the Corporation desires to afford the Director an opportunity to purchase shares of Common Stock, $.001 par value per share ("Common Stock") of the Corporation, in accordance with the provisions of Healthways 2014 Stock Incentive Plan (the "Plan").

NOW, THEREFORE, in consideration of the mutual covenants set forth in this Agreement and for other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the parties agree as follows:

1. Grant of Option. Corporation hereby grants to Director the option (this "Option"), exercisable in whole or in part to purchase **NUMBER OF SHARES** shares of the Corporation's Common Stock, for an exercise price of **EXERCISE PRICE** per share.

2. Option Plan. This Option is granted as a non-qualified stock option under the Plan, and is not intended to qualify as an incentive stock option, as that term is used in Section 422 of the Internal Revenue Code of 1986, as amended (the "Code"). This means that, at the time Director exercises all or any portion of this Option, Director will have taxable income equal to any positive difference between the market value of the Common Stock at the date of the exercise and the option exercise price paid for the Common Stock under this Option as shown in Section 1 of this Agreement.

The Director hereby acknowledges receipt of a copy of the Plan and agrees to be bound by all the terms and provisions thereof, which are incorporated herein by reference and made a part hereof. The terms of this Agreement are governed by the terms of the Plan, and in the case of any inconsistency between the terms of this Agreement and the terms of the Plan, the terms of the Plan shall govern. Terms not otherwise defined herein shall have the meanings given them in the Plan.

3. Timing of Exercise. The Director may exercise this Option with respect to the percentage of shares set forth below from and after the dates specified below, provided that Director is still serving as a director of the Corporation on such date except as set forth in Section 6 hereof:

Percentage Vested	Date of Vesting
25%	One Year from Grant Date
25%	Two Years from Grant Date
25%	Three Years from Grant Date
25%	Four Years from Grant Date

This Option will expire ten (10) years from the Grant Date.

4. Manner of Exercise. This Option shall be exercised by the Director (or other person entitled to exercise this Option under Section 5 of this Agreement) by providing notice to the stock plan administrator of the Director's or such other person's intent to exercise this Option, and providing to the stock plan administrator all required information necessary to complete the exercise transaction. Such notice shall not be effective unless accompanied by the full purchase price for all shares so purchased within the timeframe required by the plan administrator. The purchase price shall be payable in cash, personal check (subject to collection), bank draft or such other method as the Committee may determine from time to time. In the Committee's discretion, the purchase price may also be paid by the tender of, by either actual delivery or attestation, Common Stock acceptable to the Committee and valued at its Fair Market Value on the date of exercise or through a combination of Common Stock and cash. The purchase price shall be calculated as the number of shares to be purchased times the option exercise price per share as shown in Section 1 of this Agreement.

5. Nontransferability of Option. This Option shall not be transferable by the Director otherwise than by will or by the laws of descent and distribution, and is exercisable during the Director's lifetime only by the Director. The terms of this Option shall be binding on the executors, administrators, heirs and successors of the Director.

6. Termination or Expiration of Director's Position on the Board.

(a) Termination or Resignation from Board Following at Least Three Years as a Director. If the Director shall cease to serve as a director of the Corporation for any reason other than involuntary removal by the stockholders for cause and if the Director has (x)(A) served at least five years as a director of the Corporation, or (B)(i) served at least three years as a director of the Corporation and (ii) offered to resign from the Board on or after such Director's 72nd birthday, which offer to resign has been accepted by the Corporation, and (y) in any case of (A) or (B) above, given the Corporation at least three months' prior written notice of the Director's intent not to stand for re-election at the end of the Director's then-current term (provided that the notice requirement in this Section 6(a)(y) shall not apply in the event that the Director ceases to serve as a director of the Corporation as a result of the Corporation's request therefor), the shares subject to this Option granted hereunder not previously exercisable and vested shall continue to become exercisable on the same schedule as provided in Section 3 or otherwise as if the Director had continued to serve through each Vesting Date, and this Option may be exercised thereafter until the expiration of the stated term of this Option.

(b) Termination by Reason of Retirement. If the Director shall cease to be a director of the Corporation by reason of retirement as a result of reaching the director retirement age set forth in the Corporation's Board Corporate Governance Guidelines without meeting the requirements of section 6(a) above, this Option may thereafter be exercised by the Director, to the extent it was exercisable at the time of such cessation, for a period of one year from the date of such cessation or until the expiration of the stated term of this Option, whichever period is shorter; provided, however, that if the Director dies within such one-year period, this Option shall thereafter be exercisable to the extent to which it was exercisable at the time of death for a period of one year from the date of such death or until the expiration of the stated term of this Option, whichever period is shorter.

(c) Termination by Reason of Disability. If the Director shall cease to be a director of the Corporation by reason of Disability, the shares subject to this Option granted hereunder not previously exercisable and vested shall become fully exercisable and vested and may thereafter be exercised by the Director until the expiration of the stated term of this Option.

(d) Termination by Death. If the Director shall cease to be a director of the Corporation by reason of death, the shares subject to this Option granted hereunder not previously exercisable and vested shall become fully exercisable and vested and may thereafter be exercised, by the legal representative of the estate or by the legatee of the Director under the will of the Director, until the expiration of the stated term of this Option.

(e) Termination for any Other Reason. If the Director shall cease to be a director of the Corporation for any reason (including removal by the stockholders for cause) other than as set forth in Sections 6(a) through 6(d) of this Agreement, this Option may be exercised by the Director, only to the extent otherwise then exercisable on the date of such cessation, for a period of three months from the date of such cessation or the expiration of this Option's term, whichever period is the shorter.

7. Restrictions on Purchase and Sale of Shares. The Corporation shall be obligated to sell or issue shares pursuant to the exercise of this Option only in the event that the shares are at that time effectively registered or otherwise exempt from registration under the Securities Act of 1933, as amended ("the 1933 Act"). In the event that the shares are not registered under the 1933 Act, the Director hereby agrees that, as a further condition to the exercise of this Option, the Director (or his or her successor under Section 5 of this Agreement), if the Corporation so requests, will execute an agreement in form satisfactory to the Corporation in which the Director represents that he or she is purchasing the shares for investment purposes, and not with a view to resale or distribution. The Director further agrees that if the shares of Common Stock to be issued upon the exercise of this Option are not subject to an effective registration statement filed with the Securities and Exchange Commission pursuant to the requirements of the 1933 Act, such shares shall bear an appropriate restrictive legend.

8. Adjustment. In the event of any merger, reorganization, consolidation, recapitalization, extraordinary cash dividend, stock dividend, stock split or other change in corporate structure affecting the Common Stock, the number of shares of Common Stock of the Corporation subject to this Option and the price per share of such shares shall be equitably and proportionately adjusted by the Committee in accordance with the Plan.

9. Change in Control. Upon a Change in Control, as defined in the Plan, this Option shall become fully exercisable and vested; except as may be otherwise provided in the applicable transaction documents, a Director shall be given the reasonable opportunity to exercise this Option (to the extent not previously exercised) prior to a Change in Control, and this Option shall expire to the extent not exercised immediately following such Change in Control.

10. No Rights Until Exercise. The Director shall have no rights hereunder as a stockholder with respect to any shares subject to this Option until the date on which a stock certificate or book-entry shares are issued to him or her for such shares upon the exercise of this Option in accordance with this Agreement.

11. Amendment. Subject to the restrictions contained in the Plan, the Board may amend the terms of this Agreement, prospectively or retroactively, but, subject to Section 8 above, no such amendment shall impair the rights of the Director hereunder without the Director's consent.

12. Notices. All notices required to be given under this Agreement shall be deemed to be received if delivered or mailed as provided for herein, to the parties at the following addresses, or to such other address as either party may provide in writing from time to time.

To the Corporation:	Healthways, Inc. 701 Cool Springs Blvd Franklin, Tennessee 37067
To the Director: (Director name and address)	**PARTICIPANT NAME** Address on File at Healthways

13. Severability. If any provision of this Agreement is, or becomes, or is deemed to be invalid, illegal, or unenforceable in any jurisdiction or as to any person or the award of this Option, or would disqualify the Plan or this Option under any laws deemed applicable by the Committee, such provision shall be construed or deemed amended to conform to the applicable laws, or if it cannot be construed or deemed amended without, in the determination of the Committee, materially altering the intent of the Plan or this Agreement, such provision shall be stricken as to such jurisdiction, person or the award, and the remainder of the Plan and this Agreement shall remain in full force and effect.

14. Governing Law. The validity, construction and effect of this Agreement shall be determined in accordance with the laws of the State of Delaware without giving effect to conflicts of laws principles.

15. Interpretation; Resolution of Disputes. It is expressly understood that the Committee is authorized to administer, construe and make all determinations necessary or appropriate to the administration of the Plan and this Agreement, all of which shall be binding upon the Director. Any dispute or disagreement which may arise under, or as a result of, or in any way related to, the interpretation, construction or application of this Agreement shall be determined by the Board. Any determination made hereunder shall be final, binding and conclusive on the Director and the Corporation for all purposes.

16. **Successors in Interest**. This Agreement shall inure to the benefit of and be binding upon any successor to the Corporation. This Agreement shall inure to the benefit of the Director's legal representative and permitted assignees. All obligations imposed upon the Director and all rights granted to the Corporation under this Agreement shall be binding upon the Director's heirs, executors, administrators, successors and assignees.

[remainder of page intentionally left blank; signature page follows]

IN WITNESS WHEREOF, the parties have caused the Stock Option Agreement to be duly executed as of the day and year first above written.

HEALTHWAYS, INC.:

/s/ Ben R. Leedle, Jr.

Name: Ben R. Leedle, Jr.
Title: Chief Executive Officer

DIRECTOR:

Online Grant Acceptance Satisfies Signature Requirement

Exhibit 10.9

HEALTHWAYS, INC.
2014 STOCK INCENTIVE PLAN
RESTRICTED STOCK UNIT AWARD AGREEMENT
(DIRECTORS)

This RESTRICTED STOCK UNIT AWARD AGREEMENT (the "Agreement"), dated **GRANT DATE,** is by and between Healthways, Inc., a Delaware corporation (the "Company"), and **PARTICIPANT NAME** (the "Director"), under the Company's 2014 Stock Incentive Plan (the "Plan"). Terms not otherwise defined herein shall have the meanings given to them in the Plan.

Section 1. Restricted Stock Unit Award. The Director is hereby granted **NUMBER OF SHARES** restricted stock units (the "Restricted Stock Units"). Each Restricted Stock Unit represents the right to receive one share of the Company's Common Stock, $.001 par value (the "Stock"), subject to the terms and conditions of this Agreement and the Plan.

Section 2. Vesting of the Award. Except as otherwise provided in Section 3 below, the Restricted Stock Units will vest at such times (the "Vesting Date") and in the percentages set forth below, as long as the Director is serving as a director of the Company on the Vesting Date.

Vesting Date	Award Percentage of Restricted Stock Units
One Year from Grant Date	25%
Two Years from Grant Date	25%
Three Years from Grant Date	25%
Four Years from Grant Date	25%

The Company shall issue one share of the Stock to the Director for each vested Restricted Stock Unit (the "Distributed Shares") at the time the Restricted Stock Unit vests. The Distributed Shares shall be represented by a certificate or by a book-entry.

Section 3. Termination or Expiration of Director's Position on the Board

3.1 Termination or Resignation from Board Following At Least Three Terms as a Director. If the Director shall cease to serve as a director of the Corporation for any reason other than involuntary removal by the stockholders for cause and if the Director has (x)(A) served at least five years as a director of the Corporation, or (B)(i) served at least three years as a director of the Corporation and (ii) offered to resign from the Board on or after such Director's 72nd birthday, which offer to resign has been accepted by the Corporation, and (y) in any case of (A) or (B) above, given the Corporation at least three months' prior written notice of the Director's intent not to stand for re-election at the end of the Director's then-current term (provided that the notice requirement in this Section 3.1(y) shall not apply in the event that the Director ceases to serve as a director of the Corporation as a result of the Corporation's request therefor), the Restricted Stock Units granted hereunder shall not be forfeited and shall be paid to the Director on the same schedule as provided in Section 2 (or otherwise) as if the Director had continued to serve through each Vesting Date.

3.2 Termination by Reason of Death or Disability. If the Director shall cease to serve as a director of the Corporation by reason of death or Disability (as defined in the Plan), the Restricted Stock Units granted hereunder shall immediately vest.

3.3 Termination for any Other Reason. If the Director shall cease to be a director of the Corporation for any reason (including removal by the stockholders for cause) other than as set forth in Section 3.1 or Section 3.2 above, all Restricted Stock Units that have not vested prior to the date the Director ceases to be a director of the Corporation will be forfeited and the Director shall have no further rights with respect to such Restricted Stock Units.

Section 4. Voting Rights and Dividends. Prior to the Vesting Date, the Director shall be credited with cash dividend equivalents with respect to the Restricted Stock Units at the time of any payment of dividends to stockholders on shares of Common Stock in accordance with the terms set forth in the Plan, and such dividend equivalents shall be paid (in cash, without interest) to the Director when the Restricted Stock Units to which they relate vest in accordance with this Agreement. The Director shall not have any voting rights with respect to the Stock underlying the Restricted Stock Units prior to the vesting of the Restricted Stock Units and the issuance of Stock as set forth in Section 2. A holder of Distributed Shares shall have full dividend and voting rights as a holder of Stock.

Section 5. Restrictions on Transfer; Change in Control.

5.1 General Restrictions. The Restricted Stock Units shall not be transferable by the Director (or his or her personal representative or estate) other than by will or by the laws of descent and distribution. The terms of this Agreement shall be binding on the executors, administrators, heirs and successors of the Director.

5.2 Change in Control. All restrictions imposed on the Restricted Stock Units shall expire automatically and the Restricted Stock Units granted hereby shall be deemed fully vested upon a Change in Control, as such term is defined in the Plan, and the Distributed Shares related thereto shall be outstanding at the effective time of such Change in Control.

Section 6. Restrictive Agreement. As a condition to the receipt of any Distributed Shares, the Director (or his or her legal representative or estate or any third party transferee), if the Company so requests, will execute an agreement in form satisfactory to the Company in which the Director or such other recipient of the shares represents that he or she is purchasing the shares for investment purposes, and not with a view to resale or distribution.

Section 7. Adjustment. In the event of any merger, reorganization, consolidation, recapitalization, extraordinary cash dividend, stock dividend, stock split or other change in corporate structure affecting the Stock, the number of Restricted Stock Units subject to this Agreement shall be equitably and proportionately adjusted (without duplication of Section 4) by the Committee in accordance with the Plan.

Section 8. [Intentionally Omitted]

Section 9. Plan. This Agreement is made under and subject to the provisions of the Plan, and all of the provisions of the Plan are also provisions of this Agreement. If there is a difference or conflict between the provisions of this Agreement and the provisions of the Plan, the provisions of the Plan will govern. By signing this Agreement, the Director confirms that he or she has received a copy of the Plan.

Section 10. Miscellaneous.

10.1 Entire Agreement. This Agreement and the Plan contain the entire understanding and agreement between the Company and the Director concerning the Restricted Stock Units granted hereby, and supersede any prior or contemporaneous negotiations and understandings. The Company and the Director have made no promises, agreements, conditions, or understandings relating to the Restricted Stock Units, either orally or in writing, that are not included in this Agreement or the Plan.

10.2 Captions. The captions and section numbers appearing in this Agreement are inserted only as a matter of convenience. They do not define, limit, construe, or describe the scope or intent of the provisions of this Agreement.

10.3 Counterparts. This Agreement may be executed in counterparts, each of which when signed by the Company and the Director will be deemed an original and all of which together will be deemed the same Agreement.

10.4 Notice. All notices required to be given under this Agreement shall be deemed to be received if delivered or mailed as provided for herein, to the parties at the following addresses, or to such other address as either party may provide in writing from time to time.

To the Company:	Healthways, Inc. 701 Cool Springs Blvd Franklin, Tennessee 37067
To the Director: (Director name and address)	**PARTICIPANT NAME** Address on File at Healthways

10.5 Amendment. Subject to the restrictions contained in the Plan, the Committee may amend the terms of this Agreement, prospectively or retroactively, but, subject to Section 7 above, no such amendment shall impair the rights of the Director hereunder without the Director's consent.

10.6 Governing Law. This Agreement shall be governed and construed exclusively in accordance with the law of the State of Delaware applicable to agreements to be performed in the State of Delaware to the extent it may apply.

10.7 Validity; Severability. If, for any reason, any provision hereof shall be determined to be invalid or unenforceable, the validity and effect of the other provisions hereof shall not be affected thereby. Whenever possible, each provision of this Agreement will be interpreted in such manner as to be effective and valid under applicable law, but if any provision of this Agreement is held to be invalid, illegal or unenforceable in any respect under any applicable law or rule in any jurisdiction, such invalidity, illegality or unenforceability will not affect any other provision or any other jurisdiction, but this Agreement will be reformed, construed and enforced in such jurisdiction as if such invalid, illegal or unenforceable provision had never been contained herein. If any court determines that any provision of this Agreement is unenforceable but has the power to reduce the scope or duration of such provision, as the case may be, such provision, in its reduced form, shall then be enforceable.

10.8 Interpretation; Resolution of Disputes. It is expressly understood that the Committee is authorized to administer, construe and make all determinations necessary or appropriate to the administration of the Plan and this Agreement, all of which shall be binding upon the Director. Any dispute or disagreement which may arise under, or as a result of, or in any way related to, the interpretation, construction or application of this Agreement shall be determined by the Board. Any determination made hereunder shall be final, binding and conclusive on the Director and the Company for all purposes.

10.9 Successors in Interest. This Agreement shall inure to the benefit of and be binding upon any successor to the Company. This Agreement shall inure to the benefit of the Director's legal representative and permitted assignees. All obligations imposed upon the Director and all rights granted to the Company under this Agreement shall be binding upon the Director 's heirs, executors, administrators, successors and assignees.

[remainder of page intentionally left blank; signature page follows]

IN WITNESS WHEREOF, the parties have caused the Restricted Stock Unit Agreement to be duly executed as of the day and year first written above.

HEALTHWAYS, INC.
By: */s/ Ben R. Leedle, Jr.*
Name: Ben R. Leedle, Jr.
Title: Chief Executive Officer

DIRECTOR: **PARTICIPANT NAME**

Online Grant Acceptance Satisfies
Signature Requirement

Exhibit 31.1

CERTIFICATION

I, Ben R. Leedle, Jr., certify that:

1. I have reviewed this quarterly report on Form 10-Q of Healthways, Inc.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

(a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

(b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

(c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

(d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

(a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

(b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: August 8, 2014

/s/ Ben R. Leedle, Jr.
Ben R. Leedle, Jr.
Chief Executive Officer

Exhibit 31.2

CERTIFICATION

I, Alfred Lumsdaine, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Healthways, Inc.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

(a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

(b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

(c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

(d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

(a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

(b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: August 8, 2014

/s/ Alfred Lumsdaine
Alfred Lumsdaine
Chief Financial Officer

Exhibit 32

CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the Quarterly Report of Healthways, Inc. (the "Company") on Form 10-Q for the period ending June 30, 2014, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), we, Ben R. Leedle, Jr., Chief Executive Officer of the Company, and Alfred Lumsdaine, Chief Financial Officer of the Company, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

(1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

(2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

/s/ Ben R. Leedle, Jr.
Ben R. Leedle, Jr.
Chief Executive Officer
August 8, 2014

/s/ Alfred Lumsdaine
Alfred Lumsdaine
Chief Financial Officer
August 8, 2014