

HEALTHWAYS, INC  
Form SC TO-I  
December 02, 2008

## UNITED STATES

## SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, DC 20549

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### SCHEDULE TO

Tender Offer Statement Pursuant to Section 14(d)(1) or 13(e)(1)

of the Securities Exchange Act of 1934

### HEALTHWAYS, INC.

(Name of Subject Company (Issuer) and Filing Person (Offeror))

#### OPTIONS TO PURCHASE COMMON STOCK, \$.001 PAR VALUE

(Title of Class of Securities)

**422245100**

(CUSIP Number of Class of Securities)

(Underlying Common Stock)

**R. Claiborne Richards, Jr.**

**Senior Vice President   Corporate Counsel**

**Healthways, Inc.**

**701 Cool Springs Boulevard**

**Franklin, Tennessee 37067**

**(615) 614-4929**

(Name, Address and Telephone Numbers of Person Authorized

to Receive Notices and Communications on Behalf of Filing Persons)

Copy to:

**J. Page Davidson**

**Bass, Berry & Sims PLC**

**315 Deaderick Street, Suite 2700**

**Nashville, Tennessee 37238**

**(615) 742-6200**

**Calculation of Filing Fee**

Transaction Valuation \*  
\$867,158

Amount of Filing Fee \*  
\$48.39

\* Calculated solely for purposes of determining the filing fee. This amount assumes that options to purchase 1,321,502 shares of Common Stock, \$0.001 par value, of Healthways, Inc. will be purchased pursuant to this offer for an aggregate of \$867,157.87 in cash. The actual transaction value will be based on the number of options tendered, if any, which may result in a lesser aggregate amount. The amount of the filing fee, calculated in accordance with Rule 0-11(b) of the Securities Exchange Act of 1934, as amended, and Fee Advisory No. 2 for fiscal 2009, equals \$55.80 per million dollars of the value of the transaction. The transaction valuation set forth above was calculated for the sole purpose of determining the filing fee and should not be used for any other purpose.

☐ Check the box if any part of the fee is offset as provided by Rule 0-11(a)(2) and identify the filing with which the offsetting fee was previously paid. Identify the previous filing by registration statement number, or the Form or Schedule and the date of its filing.

Amount Previously Paid: N/A  
Form or Registration Number: N/A

Filing Party: N/A  
Date Filed: N/A

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- ☐ Check the box if the filing relates solely to preliminary communications made before the commencement of a tender offer.

Check the appropriate boxes below to designate any transactions to which the statement relates:

- ☐ third-party tender offer subject to Rule 14d-1.
- ☒ issuer tender offer subject to Rule 13e-4.
- ☐ going private transaction subject to Rule 13e-3.
- ☐ amendment to Schedule 13D under Rule 13d-2.

Check the following box if the filing is a final amendment reporting the results of the tender offer:

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### Item 1. Summary Term Sheet.

The information set forth under Section I ( Summary of Terms ) in the Offer to Purchase For Cash Employee Stock Options (the Offer to Purchase ), attached hereto as Exhibit (a)(1), is incorporated herein by reference.

### Item 2. Subject Company Information.

(a) The name of the subject company is Healthways, Inc., a Delaware corporation (the Company or Healthways ). The address of the Company's principal executive offices is 701 Cool Springs Boulevard, Franklin, Tennessee 37067, and its telephone number is (615) 614-4929.

(b) The information set forth under Section I ( Summary of Terms ) and Section III.1 ( General; Eligibility; Offer Expiration Time ) in the Offer to Purchase is incorporated herein by reference.

(c) The information set forth in the Offer to Purchase under Section III.10 ( Price Range of Common Stock Underlying Eligible Options ) is incorporated herein by reference.

### Item 3. Identity and Background of Filing Persons.

(a) The Company is both the filing person and the subject company. The information set forth under Item 2(a) above and the information set forth in the Offer to Purchase under Schedule A: Information Concerning Our Directors and Executive Officers is incorporated herein by reference.

### Item 4. Terms of the Transaction.

(a) The information set forth under Item 2(b) above and in the Offer to Purchase under Section I ( Summary of Terms ), Section II ( Risks Of Participating in the Offer ), Section III.1 ( General; Eligibility; Offer Expiration Time ), Section III.2 ( Cash Payment for Eligible Options ), Section III.3 ( Purpose ), Section III.4 ( Procedures for Tendering Eligible Options ), Section III.5 ( Withdrawal Rights ), Section III.6 ( Acceptance of and Payment for Eligible Options ), Section III.7 ( Extension of Offer; Termination; Amendment; Subsequent Offering Period ), Section III.8 ( Material U.S. Federal Income Tax Consequences ), Section III.9 ( Conditions to Completion of the Offer ), Section III.12 ( Status of Eligible Options Acquired by Us in the Offer; Accounting Consequences of the Offer ), Section III.13 ( Legal Matters; Regulatory Approvals ), and Section III.15 ( Source and Amount of Consideration ) is incorporated herein by reference.

(b) The information set forth in the Offer to Purchase under Section I ( Summary of Terms ) and Section III.11 ( Interests of Directors and Executive Officers; Transactions and Arrangements Concerning Eligible Options ).

### Item 5. Past Contacts, Transactions, Negotiations and Agreements.

(e) The set forth in the Offer to Purchase under Section III.11 ( Interests of Directors and Executive Officers; Transactions and Arrangements Concerning Eligible Options ) and Section III.17 ( Corporate Plans, Proposals and Negotiations ) is incorporated herein by reference.

### Item 6. Purposes of the Transaction and Plans or Proposals.

(a) The information set forth in the Offer to Purchase under Section I ( Summary of Terms ) and Section III.3 ( Purpose ) is incorporated herein by reference.

(b) The information set forth in the Offer to Purchase under Section I ( Summary of Terms ), Section III.3 ( Purpose ) and Section III.12 ( Status of Eligible Options Acquired by Us in the Offer; Accounting Consequences of the Offer ) is incorporated herein by reference.

(c) The information set forth in the Offer to Purchase under Section III.17 ( Corporate Plans, Proposals and Negotiations ) is incorporated herein by reference.

**Item 7. Source and Amount of Funds or Other Consideration.**

(a) The information set forth in the Offer to Purchase under Section III.15 ( Source and Amount of Consideration ) is incorporated herein by reference.

(b) Not applicable.

(d) Not applicable.

**Item 8. Interest in Securities of the Subject Company.**

(a) The information set forth in the Offer to Purchase under Section III.11 ( Interests of Directors and Executive Officers; Transactions and Arrangements Concerning Eligible Options ) and under Schedule A: Information Concerning Our Directors and Executive Officers is incorporated herein by reference.

(b) The information set forth in the Offer to Purchase under Section III.11 ( Interests of Directors and Executive Officers; Transactions and Arrangements Concerning Eligible Options ) and under Schedule B: Transactions by Our Directors and Executive Officers is incorporated herein by reference.

**Item 9. Persons/Assets Retained, Employed, Compensated or Used.**

(a) Not applicable.

**Item 10. Financial Statements.**

(a) Not applicable.

(b) Not applicable.

**Item 11. Additional Information.**

(a) The information set forth in the Offer to Purchase under Section III.11 ( Interests of Directors and Executive Officers; Transactions and Arrangements Concerning Eligible Options ) and Section III.13 ( Legal Matters; Regulatory Approvals ) is incorporated herein by reference.

(b) Not applicable.

**Item 12. Exhibits.**

(a)(1) Offer to Purchase For Cash Employee Stock Options, dated December 2, 2008.

(a)(2) Form of Introductory Letter.

(a)(3) Letter of Transmittal.

(a)(4) Form of e-mail to Eligible Employees announcing Offer to Purchase.

(a)(5) Form of Election Withdrawal Notice.

(a)(6) Form of Reminder Notice of Expiration of Offer.

(a)(7) The Company's Annual Report on Form 10-K for the fiscal year ended August 31, 2008, filed with the Securities and Exchange Commission on October 30, 2008 (File No. 000-19364) (incorporated herein by reference).

(a)(8) The Company's Current Report on Form 8-K filed with the Securities and Exchange Commission on November 10, 2008 (File No. 000-19364) (incorporated herein by reference).

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(a)(9) A description of the Company's Common Stock contained in the Registration Statement filed with the Securities and Exchange Commission under Section 12(b) of the Exchange Act, together with any amendments or reports filed for the purposes of updating such description (incorporated herein by reference).

(b) Not applicable.

(d)(1) 1996 Stock Incentive Plan, as amended, and form of option agreement (incorporated herein by reference to Exhibits 10.20 and 10.22, respectively, to Form 10-K (File No. 000-19364) of the Company's fiscal year ended August 31, 2006).

(d)(2) 2001 Amended and Restated Stock Option Plan and form of option agreement (incorporated herein by reference to Exhibits 10.21 and 10.23, respectively, to Form 10-K (File No. 000-19364) of the Company's fiscal year ended August 31, 2006).

(d)(3) 2007 Stock Incentive Plan (incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K (File No. 000-19364) dated February 8, 2007).

(d)(4) Form of Non-Qualified Stock Option Agreement under the Company's 2007 Stock Incentive Plan (incorporated by reference to Exhibit 10.24 to Form 10-K (File No. 000-19364) of the Company's fiscal year ended August 31, 2007).

(g) Not Applicable.

(h) Not Applicable.

### Item 13. Information Required by Schedule-13E-3.

Not Applicable.

### SIGNATURES

After due inquiry and to the best of my knowledge and belief, I certify that the information set forth in this statement is true, complete and correct.

Dated: December 2, 2008

HEALTHWAYS, INC.

By:

/s/ Mary A. Chaput  
Mary A. Chaput  
Executive Vice President, Chief Financial Officer

### EXHIBIT INDEX

- (a)(1) Offer to Purchase For Cash Employee Stock Options, dated December 2, 2008.
  - (a)(2) Form of Introductory Letter.
  - (a)(3) Letter of Transmittal.
-

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- (a)(4) Form of e-mail to Eligible Employees announcing Offer to Purchase.
  - (a)(5) Form of Election Withdrawal Notice.
  - (a)(6) Form of Reminder Notice of Expiration of Offer.
  - (a)(7) The Company's Annual Report on Form 10-K for the fiscal year ended August 31, 2008, filed with the Securities and Exchange Commission on October 30, 2008 (File No. 000-19364) (incorporated herein by reference).
  - (a)(8) The Company's Current Report on Form 8-K filed with the Securities and Exchange Commission on November 10, 2008 (File No. 000-19364) (incorporated herein by reference).
  - (a)(9) A description of the Company's Common Stock contained in the Registration Statement filed with the Securities and Exchange Commission under Section 12(b) of the Exchange Act, together with any amendments or reports filed for the purposes of updating such description (incorporated herein by reference).
  - (b) Not applicable.
  - (d)(1) 1996 Stock Incentive Plan, as amended, and form of option agreement (incorporated herein by reference to Exhibits 10.20 and 10.22, respectively, to Form 10-K (File No. 000-19364) of the Company's fiscal year ended August 31, 2006).
  - (d)(2) 2001 Amended and Restated Stock Option Plan and form of option agreement (incorporated herein by reference to Exhibits 10.21 and 10.23, respectively, to Form 10-K (File No. 000-19364) of the Company's fiscal year ended August 31, 2006).
  - (d)(3) 2007 Stock Incentive Plan (incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K (File No. 000-19364) dated February 8, 2007).
  - (d)(4) Form of Non-Qualified Stock Option Agreement under the Company's 2007 Stock Incentive Plan (incorporated by reference to Exhibit 10.24 to Form 10-K (File No. 000-19364) of the Company's fiscal year ended August 31, 2007).
  - (g) Not Applicable.
  - (h) Not Applicable.
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**Exhibit 99.(a)(1)**

**HEALTHWAYS, INC.**

**Offer To Purchase For Cash Employee Stock Options**

**December 2, 2008**

**The Offer And The Associated Withdrawal Rights Expire On**

**December 30, 2008 At 11:59 P.M., Central Standard Time,**

**Unless The Offer Is Extended**

We are offering to purchase for cash certain employee stock options from our eligible employees. The stock options subject to this offer (the Offer ) are all outstanding employee stock options granted between September 1, 2004 and August 15, 2008 under our 1996 Stock Incentive Plan, as amended, 2001 Amended and Restated Stock Option Plan, as amended, and our 2007 Stock Incentive Plan (collectively, Our Stock Incentive Plans ), that are outstanding on December 2, 2008 and at the Offer expiration time. These options have exercise prices ranging from \$25.31 to \$66.97 per option. Eligible employees are only those employees of the Company or one of its subsidiaries, other than our Chief Executive Officer, as of December 2, 2008 who continue to be employees through the expiration date of the Offer on December 30, 2008, or a later date if the Offer is extended. Our current President and Chief Operating Officer was appointed on October 31, 2008 and does not hold any eligible options due to the grant date of the options as well as the fact that they constituted an inducement grant under NASDAQ. The per option cash amount that we are offering to pay for each eligible option that is tendered to us under this Offer ranges from \$0.29 to \$2.10, and is specifically set forth in Section III.2 (beginning on page 8).

We are making this Offer subject to the conditions stated in Section III.9 which permits the Board of Directors, in its sole discretion, to extend, amend, withdraw or terminate this Offer prior to the expiration thereof, and require that there must be a minimum number of options tendered under this Offer in an amount greater than, or equal to, eighty percent (80%) of the total number of shares underlying all eligible options as of the expiration date of the offer on December 30, 2008. You are not required to tender your eligible options. Tendering your eligible options means presenting them to Healthways, Inc. ( Healthways or the Company ) for purchase on the terms of this Offer. In order to participate in the Offer, you must tender all of your eligible options.

**IMPORTANT**

**If you would like to accept this Offer, you must properly complete and sign the Letter of Transmittal in accordance with the terms set forth in the offering materials and deliver it to the Company by email to [benefitscommunications@healthways.com](mailto:benefitscommunications@healthways.com), by fax to (615) 764-0346 or by mail to Attn: Betty Ann Lay, 701 Cool Springs Boulevard, Franklin, TN 37067. Your election must be received by the Company by 11:59 P.M., Central Standard Time, on December 30, 2008 (or a later time and date that we will specify if we extend the Offer period). If we do not receive your election by the Offer expiration time, you will be deemed to have rejected this Offer.**

All questions about Our Stock Incentive Plans or this Offer, or requests for assistance or for additional copies of any offering materials, should be made by email to [benefitscommunications@healthways.com](mailto:benefitscommunications@healthways.com).

**Although our Board of Directors has approved this Offer, neither Healthways, Inc. nor our Board of Directors makes any recommendation to you as to whether you should tender your eligible options.**

Participating in the Offer involves risks. See Section II (beginning on page 6).

Our common stock is quoted on the NASDAQ Global Select Market under the symbol HWAY. On November 28, 2008, the closing price of our common stock as reported on the NASDAQ Global Select Market was \$8.09 per share.



**You should obtain current market prices for our common stock before you decide whether to tender your eligible options.**

As of December 2, 2008, options to purchase up to 5,101,367 shares of our common stock were issued and outstanding under all of our stock option plans. Of these options, eligible options to purchase up to 1,321,502 shares of our common stock were outstanding and held by eligible employees.

**We have not authorized any person to make any recommendation on our behalf as to whether you should tender your eligible options in this Offer. We have not authorized anyone to give you any information or to make any representation in connection with this Offer other than the information and representations contained in this Offer document and all related documents filed as part of the Tender Offer Statement filed with the United States Securities and Exchange Commission ( SEC ) on December 2, 2008.**

**This Offer to purchase has not been approved or disapproved by the SEC or any state securities commission, nor has the SEC or any state securities commission passed upon the fairness or merits of the Offer or upon the accuracy or adequacy of the information contained in this Offer document. Any representation to the contrary is a criminal offense.**

We are not making this Offer to, nor will we accept any tender of eligible options from or on behalf of, employees in any jurisdiction in which the Offer or the acceptance of any tender of eligible options would not comply with the laws of such jurisdiction. We may, however, at our discretion, take any actions necessary for us to make the offer to eligible employees in any jurisdiction.

Nothing in this document shall be construed to give any person the right to remain in our employ or to affect our right to terminate the employment of any person at any time with or without cause to the extent permitted under law (subject to the terms of any employment agreement). Nothing in this document should be considered a contract or guarantee of wages or compensation.

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SCHEDULE A: Information Concerning our Directors and Executive Officers

SCHEDULE B: Transactions by our Directors and Executive Officers

## I. SUMMARY OF TERMS

### Questions and Answers about the Offer

The summary below answers some of the questions that you may have about this Offer. We urge you to read carefully the entire Offer to Purchase for additional details not addressed in this summary.

This Summary is presented in question-and-answer format. The questions and answers are grouped into the following categories:

How the Option Purchase Works

Duration of the Offer

How to Elect to Tender your Eligible Options

U.S. Federal Income Tax Considerations

How to Get More Information

In this Offer to Purchase, references to Healthways, Company, we, us and our mean Healthways, Inc. and references to the date the Offer expires mean December 30, 2008, or, if we extend the Offer period, a later date we will specify. We also refer to this Offer, on the terms described in this Offer to Purchase, as the Offer.

### How the Option Purchase Works

#### *Q1. What is the Offer?*

Beginning at 12:01 A.M., Central Standard Time, on December 2, 2008 and ending at 11:59 P.M., Central Standard Time, on December 30, 2008, unless we extend the Offer, eligible employees (described in Question 2 below) may decide to tender their eligible options for a cash payment in the range of \$0.29 to \$2.10 per option (the Cash Payment). Eligible options are all stock options granted between September 1, 2004 and August 15, 2008 under Our Stock Incentive Plans that are outstanding on December 2, 2008 and at the Offer expiration time and that are held by eligible employees (for more information, see Section II.1). These eligible options have exercise prices ranging from \$25.31 to \$66.97 per option. Participation in this Offer is voluntary; however, we are making this Offer subject to the conditions stated in Section III.9 which permits the Board of Directors, in its sole discretion, to extend, amend, withdraw or terminate this Offer prior to the expiration thereof, and require that there must be a minimum number of options tendered under this Offer in an amount greater than, or equal to, eighty percent (80%) of the total number of shares underlying all eligible options as of the expiration date of the Offer on December 30, 2008. We may terminate the Offer if the minimum number of options are not tendered. In such event, any tendered eligible options will continue to be held by the tendering eligible employee as if no tender had occurred. We will provide oral, written or electronic notice of any such termination to all eligible employees holding eligible options.

#### *Q2. Who may participate in this Offer?*

Only eligible employees may participate in this Offer. Eligible employees are only those employees of the Company or one of its subsidiaries as of December 2, 2008 who continue to be employees through the expiration date of the Offer on December 30, 2008, or a later date if the Offer is extended. Our directors and Chief Executive Officer are not eligible to participate in the Offer. Our current President and Chief Operating Officer was appointed on October 31, 2008 and does not hold any eligible options due to the grant date of the options as well as the fact that they constituted an inducement grant under NASDAQ.

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*Q3. Which options may be tendered in the Offer?*

Only eligible options may be tendered under this program. In order to participate in the Offer, you must tender all of your eligible options.

*Q4. What is the Cash Payment?*

The Cash Payment is the right to receive an amount in the range of \$0.29 to \$2.10 per option.

*Q5. How was the amount of my Cash Payment determined?*

The eligible options were valued as of November 12, 2008 using a lattice-based binomial option valuation model, which calculates fair value by modeling expected exercise behavior. This calculation takes into consideration numerous factors including the trading price of the Company's common stock on the date of the valuation, a risk-free rate, and an assumed stock price volatility, as well as the exercise prices and remaining terms of each eligible option. The Cash Payment varies among the eligible options due to the different exercise prices and remaining terms, which were based on the grant date. The cash out value for the various options is listed in the table in Section III.2. To determine your Cash Payment, take the number of shares of Healthways' common stock subject to each type of eligible option and multiply it by the cash value of that option listed in the table in Section III.2 and then sum the values calculated for each type of option. The Company's determination as to the amount of your Cash Payment is final. You must make your own determination of the value to you of your eligible options, and you are encouraged to consult with your own financial, accounting, tax and legal advisors. For additional information on the determination by us of your Cash Payment, see Section III.2.

*Q6. When will I receive my Cash Payment?*

The Offer will expire December 30, 2008 at 11:59 P.M., Central Standard Time. You will be entitled to a prompt single lump sum cash payment through the Company's payroll system following the expiration date of the Offer. We anticipate that your payment will occur in early 2009. No interest will accrue and no interest will be paid on any portion of the payment, regardless of when paid.

*Q7. Can I forfeit any portion of my Cash Payment after receiving it?*

No. If you have elected to tender your eligible options in connection with this Offer and did not rescind that election prior to the Offer expiration time, you may not forfeit your associated Cash Payment.

*Q8. Why is the Company conducting the Offer?*

The principal reason the Company originally granted the eligible options was to attract and to provide meaningful retentive and incentive value to our employees and to effectively align the interests of our employees with those of our stockholders. However, our stock price has declined since the time these stock option grants were made, and all of the eligible options are therefore significantly out of the money (for more information about in the money and out of the money options, see Question 11). As a result, we do not believe the eligible options provide the retentive and incentive value that was the basis for their grant, yet we continue to incur the ongoing compensation cost related to these options as measured at their grant dates. We continue to believe that a long-term incentive compensation strategy utilizing a mix of stock options, restricted stock units and performance-based cash compensation as part of our overall compensation strategy is a key component of our strategy to attract, retain and motivate our eligible employees. However, we do not have a sufficient number (or pool) of shares available under the Company's 2007 Stock Incentive Plan to include equity as a component of our long-term incentive compensation strategy consistent with our current compensation philosophy and practice. Accordingly, we believe it is in the best interests of our stockholders for the Company to purchase the eligible options pursuant to the Offer to increase the pool of shares available for grant under the 2007 Stock Incentive Plan. The Compensation Committee of our Board of Directors intends to meet following the expiration of the Offer to review the pool of shares available under the 2007 Stock Incentive Plan and to determine the equity component of the long-term equity compensation for fiscal year 2008. Although we have historically granted our long-term incentive awards in October following the most recently completed fiscal year, the timing of our fiscal 2008 annual grant will be delayed until early calendar 2009 due to the recently announced change in our fiscal year. We also wish to provide you

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the opportunity to attain a portion of the value of the long-term incentive component of your compensation as a result of your hard work despite the loss of the stock's value. Accordingly, we are providing you the opportunity to obtain the more certain benefit associated with the Cash Payment, in lieu of the less certain, but potentially more valuable, benefit you could receive if you elect to retain your eligible options. Whether you would realize a greater amount by retaining your eligible options and exercising them in the future, as compared to tendering them in the Offer, will depend primarily on the future market price of our common stock. Whether to participate in the Offer is your decision, and you are free to reject the Offer if you so choose.

*Q9. Will employees receive additional equity grants in the future?*

The Company has traditionally made periodic grants of stock awards to selected officers and employees as part of the Company's long-term incentive compensation strategy and expects to continue to do so in the future. However, the Company has not authorized any specific additional grants under either the 2007 Stock Incentive Plan or any other arrangement. Your participation in the Offer will not entitle you to any additional equity grant in the future, and any additional equity grants to you will depend on factors generally unrelated to past option awards. The amount of equity awards in total that are available for future grant without stockholder approval is limited by the number of shares authorized under our 2007 Stock Incentive Plan. As indicated above, one of our purposes for making the Offer is to increase the number of shares available for future grants under our 2007 Stock Incentive Plan. Thus, although you individually will not be entitled to an additional equity grant by participating in the Offer, options that you tender and that the Company purchases in the Offer will increase the number of shares available for future grant to employees as a whole.

*Q10. Is it likely that an Offer similar to this one will be made in the future?*

The Board of Directors is making this Offer largely due to its belief that the significant decline in the Company's stock price has resulted in the eligible options no longer achieving the retention and incentive strategy intended at the time of their grant. Due to the circumstances which led to the decline in the Company's stock price, the Board of Directors has no current intention to make any similar offer in the future, and expects this to be a one-time event.

*Q11. Why should I consider participating in the Offer?*

Currently, you hold eligible options that represent your right to purchase shares of our common stock at a specified price, regardless of the actual market price at the time of your purchase. The specified purchase price for your eligible options was the market price on the date the option was granted. Due to subsequent fluctuations, the market price of a share of stock can be greater than, equal to or less than the specified purchase price of any option. When the market price is greater than the purchase price (otherwise known as an "in the money" option), you receive value from exercising the option, because you are able to buy the stock at less than the current value and sell the resulting share for the higher price. When the market price is equal to or less than the purchase price (otherwise known as an "out of the money" option), you would generally not exercise the stock option, since you would be able to purchase the same shares in the stock market at the same or lower price. If you tender your eligible options for a Cash Payment and the Board of Directors has not withdrawn or terminated this Offer prior to this Offer's expiration, and the number of options tendered under this Offer is in an amount greater than, or equal to, eighty percent (80%) of the total number of shares underlying all eligible options as of the expiration date of the Offer, as described in Section III.9, you will receive a specific payment of cash following the expiration of this Offer. This Cash Payment may or may not be more valuable to you than continuing to hold your eligible options in the future. This determination depends on a number of factors, principally the performance of the Company's common stock, the timing of such performance and your continued employment with the Company through relevant vesting dates. To illustrate this, consider the following hypothetical situation:

Assume that you hold options to purchase 1,000 shares of common stock with an exercise price of \$45 per share at a time when the common stock is trading at \$11 per share and the Company is offering a Cash Payment of \$1.34 per option. The amount of your Cash Payment would be \$1,340 if you participated in the Offer. On the other hand, even if fully vested, those options have no currently realizable value to you because they are out of the money (i.e., the exercise price of the option (\$45 per share) is equal to or greater than the price of the Company's common stock of \$11).

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To help evaluate the relative value of your eligible options and your Cash Payment, consider the following scenarios:

If the price of our common stock were to rise to \$45 per share, the option would have no value to you because it would still not be in the money. Under these circumstances, the option would be less valuable than your \$1,340 Cash Payment.

If the price of our common stock were to rise to \$46 per share, the option would now be in the money (i.e., the exercise price would be less than the price of the Company's common stock). Specifically, the option would be \$1 in the money per share, having an aggregate value of \$1,000 (i.e., the result obtained by multiplying \$1 (representing the excess of the market price of \$46 over the exercise price of \$45) by 1,000). Under these circumstances, although the option would be in the money, it would still be less valuable than your \$1,340 Cash Payment.

If the price of our common stock were to rise to \$50 per share, the option would be \$5 in the money per share, having an aggregate value of \$5,000 (i.e., the result obtained by multiplying \$5 (representing the excess of the market price of \$50 over the exercise price of \$45) by 1,000). Under these circumstances, the option would be more valuable than your \$1,340 Cash Payment.

The three preceding scenarios do not take into account any timing component. In this regard, note that your stock option agreements provide that your options vest on the fourth anniversary of the grant date and expire either on the seventh or tenth anniversary of the grant date (depending on your individual stock option agreement), but you will become entitled to the Cash Payment in its entirety upon the expiration of this Offer. In evaluating this Offer, you should keep in mind that the future performance of our common stock and the value of your eligible options will depend upon, among other factors, the overall economic environment, the performance of the overall stock market and companies in the healthcare services sector, and the performance of our own business. Accordingly, there are risks associated with keeping your eligible options and deciding not to participate in this Offer. For more information about the risks relating to Company's business in general, see Section II. We recommend that you read the discussion about our business contained in the Management's Discussion and Analysis of Financial Condition and Results of Operations section of our most recent Annual Report on Form 10-K, filed with the Securities and Exchange Commission, and available at [www.healthways.com](http://www.healthways.com).

Participating in the Offer involves a number of risks, including the risk that the price of our common stock could increase in the future. If the price of our common stock rises above the exercise price of your eligible options, your tendered options might be worth more than the Cash Payment you receive in exchange for tendering them. Also, the Cash Payment you receive for tendering your eligible options will be subject to income and employment-related taxes on the amount you receive.

*Q12. If I elect to tender my eligible options pursuant to this Offer to Purchase, do I have to tender all of my eligible options or can I just tender some of them?*

In order to participate in the Offer, you must tender all of your eligible options for the Cash Payment.

*Q13. If I choose to participate, what will happen to my options that will be tendered?*

Effective as of 11:59 P.M., Central Standard Time, on the date the Offer expires, we will cancel all of your eligible options that are accepted by the Company for Purchase. You will no longer have any rights or obligations with respect to those options. (For more information, see Sections III.6 and III.12.)

*Q14. Are there conditions to the Offer?*

We are making this Offer subject to the conditions stated in Section III.9 which permits the Board of Directors, in its sole discretion, to extend, amend, withdraw or terminate this Offer prior to the expiration thereof, and require that there must be a minimum number of options tendered under this Offer in an amount greater than, or equal to, eighty percent (80%) of



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the total number of shares underlying all eligible options as of the expiration date of the Offer on December 30, 2008. We may terminate the Offer if the minimum number of options are not tendered. In such event, any tendered eligible options will continue to be held by the tendering eligible employee as if no tender had occurred. We will provide oral, written or electronic notice of any such termination to all eligible employees holding eligible options.

*Q15. Is the Company making any other offers to purchase stock options from employees at this time?*  
No. For further information, see Questions 9 and 10 above.

### **Duration of the Offer**

*Q16. How long will this Offer remain open?*

This Offer begins at 12:01 A.M., Central Standard Time, on December 2, 2008 and is scheduled to remain open until 11:59 P.M., Central Standard Time, on December 30, 2008 (or, if we extend the Offer period, a later date we will specify). We have no plans to extend the Offer beyond December 30, 2008. However, if we do extend the Offer, we will announce the extension no later than 9:00 A.M., Central Standard Time, on December 31, 2008.

*Q17. If the Offer is extended, how does the extension affect the date on which I receive my Cash Payment?*

If we extend the Offer and you participate in it, you will become entitled to your Cash Payment and your eligible options will be cancelled, effective as of 11:59 P.M., Central Standard Time, on the date the Offer expires. We anticipate that your payment will occur in early 2009.

### **How to Elect to Tender Your Eligible Options**

*Q18. What do I need to do to participate in the Offer?*

To participate, you must complete and sign the Letter of Transmittal and deliver it to the Company by email to [benefitscommunications@healthways.com](mailto:benefitscommunications@healthways.com), by fax to (615) 764-0346 or by mail to Attn: Betty Ann Lay, Healthways, Inc., 701 Cool Springs Boulevard, Franklin, TN 37067. We must receive your Letter of Transmittal by 11:59 P.M., Central Standard Time, on December 30, 2008 (or, if we extend the Offer period, a later date we will specify), or it will not be given effect. (For more information, see Sections III.4 and III.7.)

*Q19. What will happen if I do not turn in an executed Letter of Transmittal by the deadline?*

If you do not return your executed Letter of Transmittal by the deadline, you will not participate in the option purchase, and all eligible options you currently hold will remain unchanged with their original exercise price and original terms. (For more information, see Section III.4.)

*Q20. What if I don't want to accept this Offer?*

You do not have to accept this Offer. This Offer is completely voluntary, and there are no penalties for electing not to participate. If you do not elect to participate, your outstanding options will remain outstanding under the terms and conditions under which they were granted. To elect not to participate, you do not need to do anything or otherwise contact the Company. In fact, if you decide not to participate in this Offer, you do not need to submit a Letter of Transmittal.

*Q21. Can I change my election?*

Yes. You may withdraw your election to tender options by delivering to the Company (at the address or fax noted in Question 18) an Election Withdrawal Notice at any time before the expiration of the Offer. Once you have withdrawn your election to tender eligible options, you may re-elect to tender eligible options only by again following the election procedure described in Question 18. (For more information, see Sections III.4 and III.5.)

**U.S. Federal Income Tax Considerations**

*Q22. What are the U.S. federal income and withholding tax consequences of payment of the Cash Payment?*

The Cash Payment will be treated as regular cash compensation. As such, you will recognize ordinary income in the year in which your Cash Payment is paid to you, which we anticipate will be in early 2009. The ordinary income resulting from your Cash Payment will be reflected in the Form W-2 reported to the Internal Revenue Service for the year in which the payment is made. At the time your Cash Payment is made, the Company will reduce your payment to reflect all required income and payroll tax withholdings and will send those amounts to the appropriate tax or other authorities. (For more information, see Section III.8.)

*Q23. Are there any other tax consequences to which I may be subject?*

Depending on where you live, there may be additional state or local tax imposed on your tender. You should consult with a tax advisor to determine the specific tax considerations and tax consequences relevant to your participation in this Offer.

**How to Get More Information**

*Q24. What should I do if I have additional questions about this Offer to Purchase?*

If you have any other questions about this Offer to Purchase, you may direct them to Betty Ann Lay by phone at (615) 614-4115 or by email at [benefitscommunications@healthways.com](mailto:benefitscommunications@healthways.com).

**II. RISKS OF PARTICIPATING IN THE OFFER**