AMERICAN HEALTHWAYS INC
Form 10-Q/A
January 25, 2002

Table of Contents

SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q/A
AMENDMENT NO. 1 TO 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: November 30, 2001

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

AMERICAN 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.)

3841 Green Hills Village Drive, Nashville, TN 37215

(Address of Principal Executive Offices) (Zip Code)
615-665-1122

(Registrant s Telephone Number, Including Area Code)

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 [X] No [ ]

As of January 11, 2002 there were outstanding 15,157,907 shares of the Registrant s Common Stock, par value $.001 per share.

Explanation of amendment:

This Amendment No. 1 amends the Quarterly Report on Form 10-Q filed by the Registrant on January 14, 2002, by amending Part I. Item 1 to change the amount reflected as Income taxes receivable for August 31, 2001 from $1,555,643 to $0.

TABLE OF CONTENTS

Table of Contents

Part I.

Item 1. Financial Statements

AMERICAN HEALTHWAYS, INC.

CONSOLIDATED BALANCE SHEETS

ASSETS

	November 30, 2001	August 31, 2001
Current assets:		
Cash and cash equivalents	$13,707,601	$12,375,772
Accounts receivable, net	7,386,562	7,005,693
Other current assets	1,725,772	1,555,643
Income taxes receivable	330,532	
Deferred tax asset	3,673,000	3,673,000
Total current assets	26,823,467	24,610,108
Property and equipment:		
Leasehold improvements	2,733,529	2,521,797
Computer equipment, related software and other equipment	23,208,884	21,060,486

	25,942,413	23,582,283
Less accumulated depreciation	(11,530,589)	(10,216,069)
	14,411,824	13,366,214
Long-term deferred tax asset	1,228,000	1,228,000
Other assets, net	1,472,439	1,720,123
Excess of cost over net assets of purchased companies, net	28,194,045	28,194,045
	$72,129,775	$69,118,490

Table of Contents

AMERICAN HEALTHWAYS, INC.

CONSOLIDATED BALANCE SHEETS

LIABILITIES AND STOCKHOLDERS EQUITY

	November 30, 2001	August 31, 2001
Current liabilities:		
Accounts payable	$3,406,591	$1,597,827
Accrued salaries and benefits	2,898,860	5,380,540
Accrued liabilities	3,997,847	3,664,884
Income taxes payable		629,373
Current portion of other long-term liabilities	441,602	286,247
Total current liabilities	10,744,900	11,558,871
Other long-term liabilities	3,351,167	3,443,545
Stockholders equity:		
Common stock $.001 par value, 40,000,000 shares authorized, 14,390,696 and 14,171,441 shares outstanding	14,391	14,171
Additional paid-in capital	47,024,801	44,601,579
Retained earnings		

	10,994,516	9,500,324
Total stockholders equity	58,033,708	54,116,074
	$72,129,775	$69,118,490

Table of Contents

AMERICAN HEALTHWAYS, INC.

CONSOLIDATED STATEMENTS OF OPERATIONS

	Three Months Ended November 30,	
	2001	**2000**
Revenues	$24,542,326	$16,535,820
Expenses:		
Salaries and benefits	14,044,754	10,086,680
Other operating expenses	6,407,079	4,054,482
Depreciation and amortization	1,503,950	1,230,756
Interest	53,351	11,845
Total expenses	22,009,134	15,383,763
Income before income taxes	2,533,192	1,152,057
Income tax expense	1,039,000	480,000
Net income	$1,494,192	$672,057
Basic income per share	$0.10	$0.05

Fully diluted income per share	$0.10	$0.05
Weighted average common shares and equivalents		
Basic	14,372,604	12,411,570
Fully diluted	15,598,450	13,196,852

4

Table of Contents

AMERICAN HEALTHWAYS, INC.

CONSOLIDATED STATEMENT OF CHANGES IN STOCKHOLDERS EQUITY

For the three months ended November 30, 2001

	Common Stock	Additional Paid-in Capital	Retained Earnings	Total
Balance, August 31, 2001	$14,171	$44,601,579	$9,500,324	$54,116,074
Exercise of stock options	220	651,623		651,843
Tax benefit of option exercises		1,771,599		1,771,599
Net income			1,494,192	1,494,192
Balance, November 30, 2001	$14,391	$47,024,801	$10,994,516	$58,033,708

5

Table of Contents

AMERICAN HEALTHWAYS, INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS

	Three Months Ended November 30, 2001	Three Months Ended November 30, 2000
Cash flows from operating activities:		
Net income	$1,494,192	$672,057
Income tax expense	1,039,000	480,000
Income before income taxes	2,533,192	1,152,057
Noncash expenses, revenues, losses and gains included in income:		
Depreciation and amortization	1,503,950	1,230,756
Increase in working capital items	(570,742)	(1,170,152)
Other noncash transactions	205,440	173,415
	3,671,840	1,386,076
Income taxes (net paid)	(227,306)	(45,011)
Increase in other assets	(1,293)	(50,375)
Payments on other long-term liabilities	(82,916)	(295,821)
Net cash flows provided by operating activities	3,360,325	994,869

Cash flows from investing activities:		
Acquisition of property and equipment	(2,360,130)	(530,533)
Business acquisitions	(320,209)	(1,000,000)
Net cash flows used in investing activities	(2,680,339)	(1,530,533)
Cash flows from financing activities:		
Exercise of stock options	651,843	120,683
Net cash flows provided by financing activities	651,843	120,683
Net increase (decrease) in cash and cash equivalents	1,331,829	(414,981)
Cash and cash equivalents, beginning of period	12,375,772	7,025,277
Cash and cash equivalents, end of period	$13,707,601	$6,610,296

6

Table of Contents

AMERICAN HEALTHWAYS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(1) Interim Financial Reporting

The accompanying consolidated financial statements of American Healthways, Inc. and its subsidiaries (the Company) for the three month periods ended November 30, 2001 and 2000 are unaudited. However, in the opinion of the Company, all adjustments consisting of normal, recurring accruals necessary for a fair presentation, have been reflected therein.

Certain financial information, which is normally included in financial statements prepared in accordance with generally accepted accounting principles, but which is not required for interim reporting purposes, has been omitted. The accompanying consolidated financial statements should be read in conjunction with the financial statements and notes thereto included in the Company s Annual Report on Form 10-K for the fiscal year ended August 31, 2001.

(2) Business Segments

The Company provides disease and care management services to health plans and hospitals. The Company s reportable segments are the types of customers, hospital or health plan, who contract for the Company s services. The segments are managed separately and the Company evaluates performance based on operating profits of the respective segments. Because the Company s services are similar for both types of customers, the Company supports both segments with common human resources, clinical, marketing and information technology resources.

The accounting policies of the segments are the same as those discussed in the summary of significant accounting policies. There are no intersegment sales. Income (loss) before income taxes by operating segment excludes interest income, interest expense and general corporate expenses.

Table of Contents

Summarized financial information by business segment is as follows:

	Three Months Ended November 30, 2001	Three Months Ended November 30, 2000
Revenues:		
Health plan contracts	$19,760,466	$11,663,687
Hospital contracts	4,680,486	4,772,481
Other revenue	101,374	99,652
	$24,542,326	$16,535,820
Income (loss) before income taxes:		
Health plan contracts	$4,836,823	$2,572,740
Hospital contracts	1,042,544	1,191,614
Shared support services	(2,719,986)	(1,943,300)
Total segments	3,159,381	1,821,054
General corporate expenses	(626,189)	(668,997)
	$2,533,192	$1,152,057

(3) Recently Issued Accounting Standards

In July 2001, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards (SFAS) No. 141, Business Combinations , and SFAS No. 142, Goodwill and Other Intangible Assets . The provisions of SFAS No. 141 apply to all business combinations initiated after June 30, 2001 and prohibit the use of the pooling-of-interest method for those business combinations. Furthermore, SFAS No. 141 applies to all business combinations accounted for by the purchase method for which the date of acquisition is July 1, 2001, or later. SFAS No. 142 requires that, upon adoption, amortization of goodwill and indefinite life intangible assets will cease and instead, the carrying value of goodwill and indefinite life intangible assets will be evaluated for impairment at least on an annual basis and more frequently if certain indicators are encountered. Identifiable intangible assets with a determinable useful life will continue to be amortized over that period and reviewed for impairment in accordance with SFAS No. 121, Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to be Disposed Of . SFAS No. 142 is effective for fiscal years beginning after December 15, 2001 except for goodwill and intangible assets acquired after June 30, 2001, which are subject immediately to the nonamortization provisions of this statement. The Company elected early adoption of SFAS No. 142 on September 1, 2001, the beginning of its 2002 fiscal year. The adoption of this standard resulted in goodwill no longer being amortized beginning in fiscal 2002. The Company has six months from the date of adoption to complete the initial transition impairment assessment as required by SFAS No. 142 and this analysis has not yet been completed.

Table of Contents

The reconciliation of reported net income adjusted for the adoption of SFAS No. 142 is as follows:

	Three Months Ended November 30, 2001	Three Months Ended November 30, 2000
Net Income:		
Reported net income	$1,494,192	$672,057
Add back: goodwill amortization		95,555
Adjusted net income	$1,494,192	$767,612
Basic income per share		
Reported net income	$0.10	$0.05
Add back: goodwill amortization		0.01
Adjusted net income	$0.10	$0.06
Fully diluted income per share		
Reported net income	$0.10	$0.05
Add back: goodwill amortization		0.01

Adjusted net income	$0.10	$0.06

In August 2001, the Financial Accounting Standards Board issued SFAS No. 144, Accounting for the Impairment or Disposal of Long-Lived Assets , which supersedes SFAS No. 121 and the accounting and reporting provisions of Accounting Principles Board Opinion No. 30, Reporting the Results of Operations-Reporting the Effects of Disposal of a Segment of a Business, and Extraordinary, Unusual and Infrequently Occurring Events and Transactions . This statement retains certain requirements of SFAS No. 121 relating to the recognition and measurement of impairment of long-lived assets to be held and used. Additionally, this statement results in one accounting model, based on the framework established in SFAS No. 121, for long-lived assets to be disposed of by sale and also addresses certain implementation issues related to SFAS No. 121, including the removal of goodwill from its scope due to the issuance of SFAS No. 142. SFAS No. 144 is effective for fiscal years beginning after December 15, 2001, and interim periods within those fiscal years. The Company has not yet determined the impact of the adoption of SFAS No. 144 on its financial position and results of operations.

(4) Stockholders Equity

At a Special Meeting of Stockholders on October 25, 2001, the stockholders approved (i) an amendment to the Company s Restated Certificate of Incorporation to increase the number of authorized shares of the Company s common stock from 15,000,000 to 40,000,000 and (ii) an amendment of one of the Company s stock plans to increase the number of shares available for issuance under the plan, to increase the number of shares issuable to any officer, key employee or consultant in any one year and to extend the term of the plan.

On October 29, 2001, the Company s Board of Directors approved a three-for-two stock split effected in the form of a 50% stock dividend to be distributed on November 23, 2001 to stockholders of record at the close of business on November 9, 2001. The balance sheets and statements of stockholders equity have been restated as if the split and the increase in authorized shares had occurred on August 31, 2001. Earnings per share, weighted average common shares and equivalents and stock option

Table of Contents

information have been retroactively restated as if the split had occurred at the beginning of the periods presented.

(5) Subsequent Events

The terms of the Empower Health, Inc. agreement, a business acquisition for the Company in June 2001, provided for contingent consideration of up to an additional 532,500 shares of common stock to be issued if the Company s average closing price exceeded certain targeted levels from October 1, 2001 to September 30, 2006. On December 3, 2001, those targets were met and the Company issued 532,494 shares of common stock to the original shareholders of Empower Health, Inc.

Table of Contents

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 thereunto duly authorized.

American Healthways, Inc.

(Registrant)

Date January 25, 2002 By /s/ Mary A. Chaput

Mary A. Chaput
Executive Vice President and
Chief Financial Officer

11