

HEALTHWAYS, INC  
Form DEFA14A  
May 13, 2014

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

SCHEDULE 14A

Proxy Statement Pursuant to Section 14(a) of the Securities  
Exchange Act of 1934  
(Amendment No. )

Filed by the Registrant   
Filed by a party other than the Registrant

Check the appropriate box:

- Preliminary Proxy Statement
- Confidential, for Use of the Commission Only (as permitted by Rule 14a-6(e)(2))
- Definitive Proxy Statement
- Definitive Additional Materials
- Soliciting Material Pursuant to §240.14a-12

HEALTHWAYS, INC.  
(Name of Registrant as Specified In Its Charter)

(Name of Person(s) Filing Proxy Statement, if other than the Registrant)

Payment of Filing Fee (Check the appropriate box):

- No fee required.
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(3) Per unit price or other underlying value of transaction computed pursuant to Exchange Act Rule 0-11 (set forth the amount on which the filing fee is calculated and state how it was determined):

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(4) Proposed maximum aggregate value of transaction:

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(5) Total fee paid:

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(1) Amount Previously Paid:

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(2) Form, Schedule or Registration Statement No.:

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(3) Filing Party:

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(4) Date Filed:

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**HEALTHWAYS FILES DEFINITIVE PROXY MATERIALS  
FOR ANNUAL MEETING ON JUNE 24, 2014**

Sends Letter to Stockholders Urging Them to Vote the WHITE Proxy Card

Reelection of Healthways' Four Independent and Highly Qualified Board Nominees Will Support Company's Strong Momentum As #1 Independent Population Health Service Provider

Letter Details Significant Flaws of North Tide's Proposals and Nominees

NASHVILLE, Tenn. (May 13, 2014) – Healthways (NASDAQ: HWAY) (the "Company"), today announced that it has filed definitive proxy materials with the Securities and Exchange Commission ("SEC") in connection with its 2014 Annual Meeting of Stockholders, which will be held on June 24, 2014. Healthways stockholders of record as of May 5, 2014 may vote at the 2014 Annual Meeting.

The Board of Directors of Healthways also sent a letter to its stockholders urging them to vote the WHITE proxy card for the reelection of Healthways' four independent and highly qualified Board nominees. The letter also details the significant flaws of North Tide Capital's proposals and nominees.

The letter to stockholders, an investor presentation and other communications materials related to the annual meeting are available via the "Investors" section of Healthways' website at [www.healthways.com](http://www.healthways.com) and via the SEC website at [www.sec.gov](http://www.sec.gov).

The text of the letter follows:

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May 13, 2014

Dear Fellow Healthways Stockholder:

You have a critical decision to make about the future of your investment in Healthways. Once you review the facts, we are confident you will agree that the best way to protect your investment in Healthways and support its strong momentum as the #1 independent population health service provider is to vote FOR Healthways' Board of Director nominees at this year's Annual Meeting of Stockholders on June 24, 2014. We urge you NOT to vote for North Tide Capital's unqualified nominees. We believe their flawed agenda would derail Healthways' momentum toward sustained profitability and destroy stockholder value.

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VOTE FOR HEALTHWAYS' NOMINEES

üProtect your investment in Healthways  
üSupport Healthways' highly-qualified and independent Board nominees  
üContinue Healthways' strong momentum

DON'T LET NORTH TIDE DERAIL YOUR COMPANY

üReject North Tide's short-sighted proposals and slate of unqualified nominees

Exercise your stockholder right to vote today by telephone, Internet, or by signing, dating and returning the enclosed WHITE PROXY CARD in the postage-paid envelope provided.

HEALTHWAYS HAS COMPLETED ITS TRANSFORMATION INTO THE  
#1 INDEPENDENT PLAYER IN THE  
\$50 BILLION POPULATION HEALTH SERVICES MARKET

In 2006, Healthways recognized that an evolving healthcare landscape and difficult economic headwinds were challenging its conventional stand-alone disease management model. Building on the Company's core strengths over the ensuing seven years, the Board and management completed a major strategic transformation to become the leader in the rapidly growing population health management industry.

The transformation included:

- § Investing wisely in technology and innovative capabilities to form our scalable platform to deliver our comprehensive well-being improvement solution;
- § Expanding the scope and extending the term of our relationships with our biggest customers; and
- § Establishing significant new customer relationships by providing value aligned with their needs.

As the leader in population health, Healthways has established a fundamental value proposition: improving people's well-being reduces health-related costs and increases productivity and performance across whole populations. With our transformation work and investments behind us, Healthways now has a unique, highly scalable business that generates strong recurring revenue and cash flow, and we believe the business is poised to deliver sustained profitable growth.

"Healthways outperformed its competitors by pivoting out of Disease Management. I don't think North Tide is sufficiently aware that this industry was an ebbing tide and almost all the other boats got stranded altogether."

– Alfred Lewis, Author and President of the Disease Management Purchasing Consortium

We believe that demand for the company's services remains very strong, and a variety of health insurers, employers and now providers clearly see the fundamental logic of the HWAY business. The marketplace is evolving and we believe this is creating significant opportunities for HWAY."

– Dougherty & Company, 24 April 2014

HEALTHWAYS IS POISED TO GAIN SIGNIFICANT OPERATING LEVERAGE  
AND ACHIEVE SUSTAINABLE PROFITABILITY

With our infrastructure and capabilities in place, we believe the key to sustained profitability is growing our top-line by signing new customers and keeping and expanding existing relationships. Thanks to the hard work of our team, we are seeing exceptional momentum with customers. 2013 was one of the most successful years for business development in Healthways' 33-year history. The Company achieved the highest revenue retention level since 2008 (~93%) and signed 104 contracts, including 25 contracts with new customers, 33 contract expansions and 46 contract extensions. That momentum is continuing in 2014, with 20 signed contracts in the first quarter, five with new customers including a major new contract with a Fortune 100 employer. The Fortune 100 company selected Healthways through a competitive process, and we replaced a national health plan – underscoring that our services and

value are positively differentiated and resonating in the market.

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<sup>1</sup> Permission to use quotations from sell-side analysts and media throughout presentation neither sought nor received

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We expect revenue growth in each of our customer markets this year, with the highest rates of growth in our Health Systems / Hospitals / Physicians, International and Large Employer customer markets. The growth in all of these markets is expected to result in a Company growth rate of 10% - 15%, leading to our \$730 - \$760 million in forecasted revenue for 2014.

Looking ahead, Healthways is confident that its highly scalable platform and infrastructure will enable the Company to gain substantial operating leverage and generate double-digit top and bottom line growth.

We expect that each \$100 million of incremental revenue booked for the next 4 to 5 years will yield 100 to 200 basis points of EBITDA margin expansion.

**KEY STATISTICS**

Revenue Growth

EBITDA

Capital Expenditures and Acquisitions/Revenue Ratio

Debt/EBITDA Ratio

**3-5 YEAR OBJECTIVES**

10% - 15% CAGR

15% - 18%

~5% (Maintenance level)

< 2x

**HEALTHWAYS HAS THE RIGHT BOARD TO ACHIEVE ITS FULL POTENTIAL**

The Company's Board of Directors is actively engaged in Healthways' strategic direction and fully supportive of CEO Ben Leedle and the current management team. The Company's four independent and highly qualified nominees – John W. Ballantine, Daniel J. Englander, C. Warren Neel, and Kevin G. Wills – are important contributors to the Board and committed to serving the best interests of all stockholders. Each has a unique skill set, differentiated experience and expertise such that all four of them, in their own right, are integral members of the Board.

Importantly, 10 of our 11 directors are independent. Three directors – including two of the nominees, Messrs. Englander and Wills – have joined the Board since 2012, bringing fresh perspectives. Collectively, this Board has exceptional healthcare industry experience and, more importantly, an in-depth knowledge of the value-based contract services business. They also possess complementary skills covering financial, operational, and corporate governance expertise.

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"We remain believers in Healthways' value proposition and management team, and we expect the healthcare provider market—which faces increased pressure to bear incremental financial and quality risk—to become a significant growth opportunity for the organization over the coming years, despite the slower ramp-up in the business thus far."

– William Blair, 24 April 2014

#### HEALTHWAYS' INDEPENDENT AND HIGHLY QUALIFIED DIRECTOR NOMINEES

JOHN W. BALLANTINE - Director since 2003

Former Executive Vice President and Chief Risk Management Officer of First Chicago NBD Corporation

§Deep understanding of institutional investors' perspectives

§Has held multiple board leadership roles at publicly listed companies

§Deep expertise in risk management and asset allocation

DANIEL J. ENGLANDER - Director since 2014

Managing Partner of Ursula Capital Partners

§Important perspective as institutional investor and Healthways shareholder since 2005

§Relevant and valuable board experience at other publicly traded companies

§Deep understanding of the markets for the Company's well-being solutions

C. WARREN NEEL, Ph.D. - Director since 1991

Former Executive Director of the Center for Corporate Governance at the University of Tennessee

§Strong business acumen and significant leadership experience, including \$20 billion+ budget management

§Academic research has been published in a variety of journals

§Understanding of complex financial data and management issues

KEVIN G. WILLS - Director since 2012

Managing Director and Chief Financial Officer of AlixPartners, LLP

§Many years of executive leadership at Fortune 500 companies

§Significant capital markets, mergers & acquisitions and international operations experience

§Deep experience with and insight into consumer perspectives on healthcare requirements and costs

#### WE BELIEVE THE NORTH TIDE NOMINEES WOULD NOT ADD VALUE TO OUR BOARD

No North Tide nominee has ever been involved at a healthcare company whose business model relied on value-based reimbursement, like Healthways. While we respect Mr. Crawford's success turning around Caremark, we see Healthways as a completely different company that is not a turnaround story – it's already on a significant growth trajectory following a major strategic transformation. Also, in our view, North Tide's nominees do not have relevant healthcare or public company board experience – only one of the four nominees has served as an independent director on a public company board.

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NORTH TIDE NOMINEE

	§No experience at a contract services healthcare company dependent on value-based reimbursement
Conan Laughlin	§No experience in a comparable business model §No experience as an independent director on a public company board §Newly formed investment firm, North Tide Capital, has no track record §Equity research experience does not translate into operational expertise
Bradley Karro	§No experience at a contract services healthcare company dependent on value-based reimbursement §No experience in a comparable business model §Questionable operational expertise given a company where he served as COO filed for bankruptcy and was the target of litigation
Edwin Crawford	§No experience at a contract services healthcare company dependent on value-based reimbursement §No experience in a comparable business model §No experience as an independent director on a public company board §Turnaround experience not relevant to Healthways growth strategy
Paul Keckley	§No experience at a contract services healthcare company dependent on value-based reimbursement §No experience in a comparable business model §No experience as an independent director on a public company board §No discernable public company operating experience

Despite our concerns about their qualifications, we attempted to reach an agreement to avoid a costly and distracting proxy contest. Our good faith offer included:

- Expanded 12-member Board;
- 5-person slate, consisting of two qualified independent candidates to be nominated by North Tide and two qualified independent candidates to be nominated by Healthways, and a third mutually agreed upon;
- North Tide representative to serve on standing committees and a new strategic review committee.

Regrettably, North Tide rejected our settlement, which forces us to question their true motives for pursuing this – their first proxy contest – despite the costs and distraction it is causing Healthways.

**WE BELIEVE NORTH TIDE DOES NOT UNDERSTAND HEALTHWAYS' BUSINESS AND THEIR PROPOSALS TO BREAK UP OUR COMPANY WOULD DERAIL HEALTHWAYS' MOMENTUM**

We see first-time activist North Tide Capital's short-sighted proposals as deeply flawed, including their intention to sell or shut down vital assets and replace management. To us, this clearly shows they do not understand Healthways' business or the population health opportunity.

**Replacing Management**

In our view, our CEO Ben Leedle's 29-year history with Healthways provides invaluable institutional and marketplace knowledge that is essential to Healthways' future. As a pioneer in developing and delivering disease management services in the 1990's, Ben recognized the long-term limitations and the market forces threatening these stand-alone disease management models. He therefore led the company in a new direction; he was the principal architect of the strategy behind and directed the execution of Healthways' successful transformation from a disease management company into the number one independent population health services company.

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In addition to his integral role in the Company's strategic growth and operational execution, Ben is also deeply invested in and aligned with shareholder interests, and the vast majority of his personal wealth is tied to the Company's performance through stock ownership and options.

Equally as important to our future, Ben is highly valued by customers and critical to both our high customer retention and ongoing new customer development. Key customers, prospects and partners have expressed to the Company and Board their view that his departure could jeopardize the Company's continued relationships. As just two examples, we have enclosed two letters from large strategic customers – CareFirst (BlueCross BlueShield of Maryland and the District of Columbia) and Hawaii Medical Services Association, or HMSA (BlueCross Blue Shield of Hawaii) – in which they voice their concern that North Tide's agenda could disrupt their well-being programs.

"Ben sees something the rest of the industry hasn't figured out – and he has positioned Healthways to be the market leader with a prohibitive advantage in the ability to utilize well-being measures to dramatically decrease health care costs and improve organizational performance."

– Jim Clifton, Chairman and CEO, Gallup

#### Sale or Spin-Off of SilverSneakers Fitness Program

In a December 2013 letter to the Healthways Board, North Tide proposed that Healthways "unlock the value" of its SilverSneakers business, indicating that "its value as a stand-alone entity is potentially equal to or greater than the entire Healthways enterprise value today." Our Board asked a third-party expert to evaluate the merit of the North Tide's valuation of SilverSneakers and concluded that it was significantly flawed. Even if such a transaction could be executed, we strongly believe that it would significantly decelerate Healthways' business momentum and reduce our growth opportunities, while destroying value for investors.

§ SilverSneakers is an important component of our comprehensive well-being improvement solution and essential to our business operations and strategic plan.

SilverSneakers is offered through approximately 11,000 of Healthways' national network of more than 15,000 fitness § centers – a key asset to the SilverSneakers offering. Without Healthways' already established national network, SilverSneakers would have to build these relationships and agreements from scratch.

§ North Tide's analysis does not adequately factor in the incremental costs that would be necessary to operate SilverSneakers as a stand-alone company.

Part of our growth strategy is to leverage the fitness center national network to expand our product offering in the § traditional commercial Health Plan and Large Employer markets – which is an increasingly important part of our overall well-being improvement solution.

Our relationships with the large Medicare Advantage health plans continue to grow, not just through SilverSneakers, but with additional solutions including our Physical Medicine national affinity network and a number of emerging § web and mobile device applications and social networks – enabling us to leverage its cost structure across a broader revenue base. 14 of our 67 Medicare Advantage Health Plan customers have already purchased other Healthways services that are integrated with the SilverSneakers Fitness Program.

§ Disposition of the SilverSneakers business would require complex tax structuring to avoid significant adverse tax consequences, potentially diminishing flexibility and/or value.

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### Shutting Down Healthways' International Business

North Tide has proposed shutting down Healthways' international business, which would deprive the Company of a profitable business and future opportunities to expand as a leader in the dynamic global healthcare marketplace.

The international business is managed separately by a dedicated senior management team, has grown from a startup § in 2006 to almost 5% of our total business, and is expected to grow significantly based on recent contract wins and renewals.

§ The international business is already profitable and is not capital intensive – generating positive EBITDA of \$3.0 million in 2012 and \$3.3 million in 2013.

§ We expect the International business to be one of our fastest growing customer markets with a pipeline of revenue opportunities in excess of \$100 million and revenue growth in 2014 expected to be greater than 10%.

§ Shutting down the international business would inflict substantial financial penalties on the Company due to breaches of our existing customer contracts and eliminate the possibility of a return to international markets for the foreseeable future.

§ Through our international business, we are building a diverse base of knowledge about the perspectives of governments and private insurers in foreign markets and gaining valuable insight into the changing needs of government entities within the U.S. and the regional health plan market. Healthways is one of the few companies positioned to benefit from trends in global healthcare reform and increasing lifestyle risks and chronic disease.

### PROTECT YOUR INVESTMENT AND SUPPORT CONTINUED GROWTH AT HEALTHWAYS

We ask for your support so that Healthways' Board and management can continue to execute on its strategy and take full advantage of the strong momentum it has created to realize the Company's full potential.

The upcoming Annual Meeting is an important event that will determine the future of Healthways. Your vote is important – no matter how many shares you own.

You may vote by telephone, Internet, or by signing, dating and returning the enclosed WHITE PROXY CARD in the postage-paid envelope. We also urge you to discard any proxy card sent to you by North Tide.

On behalf of the Board of Directors, we thank you for your continued support of our Company.

Sincerely,

/s/ John W. Ballantine

*John Ballantine, Chairman*

#### Important Additional Information

The Company, its directors and certain of its executive officers may be deemed to be participants in the solicitation of proxies from the Company's stockholders in connection with the matters to be considered at the Company's 2014 annual meeting of stockholders. On May 13, 2014, the Company filed a definitive proxy statement (as it may be amended, the "Proxy Statement") with the U.S. Securities and Exchange Commission (the "SEC") in connection with any such solicitation of proxies from Company's stockholders. INVESTORS AND STOCKHOLDERS ARE STRONGLY ENCOURAGED TO READ THE PROXY STATEMENT AND ACCOMPANYING WHITE PROXY CARD AND OTHER DOCUMENTS FILED WITH THE SEC CAREFULLY AND IN THEIR ENTIRETY WHEN THEY BECOME AVAILABLE AS THEY WILL CONTAIN IMPORTANT INFORMATION. Detailed information regarding the identity of potential participants, and their direct or indirect interests, by security holdings or otherwise, is set forth in the Proxy Statement, including Appendix A thereto. Information regarding the direct and indirect beneficial ownership of the Company's directors and executive officers in the Company's securities is set forth in the Proxy Statement. Stockholders can obtain the Proxy Statement, any amendments or supplements to the Proxy Statement and other documents filed by the Company with the SEC for no charge at the SEC's website at [www.sec.gov](http://www.sec.gov). Copies will also be available at no charge at the Investor Relations section of our corporate website at [www.healthways.com](http://www.healthways.com).

#### Forward-Looking Statements

This press release 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; the costs and management distraction attendant to a proxy contest; the Company's ability to sign and implement new contracts for its solutions; the Company's 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 the Company's services; the Company's ability to renew and/or maintain contracts with its customers under existing terms or restructure these contracts on terms that would not have a material negative impact on the Company's results of operations; the Company's ability to accurately forecast performance and the timing of revenue recognition under the terms of its customer contracts ahead of data collection and reconciliation; the Company's ability to accurately forecast enrollment and participation rates in services and programs offered within the Company's contracts; the risks associated with data privacy or security breaches, computer hacking, network penetration and other illegal intrusions; the impact of future state, federal and international legislation and regulations applicable to the Company's business, including the Patient Protection and Affordable Care Act, as amended by the Health Care and Education Reconciliation Act of 2010 on the Company's operations and/or demand for its services; and other risks detailed in the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2013, and other filings with the SEC. The Company undertakes no obligation to update or revise any such forward-looking statements.

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About Healthways

Healthways is the largest independent global provider of well-being improvement solutions. Dedicated to creating a healthier world one person at a time, the Company uses the science of behavior change to produce and measure positive change in well-being for our customers, which include employers, integrated health systems, hospitals, physicians, health plans, communities and government entities. We provide highly specific and personalized support for each individual and their team of experts to optimize each participant's health and productivity and to reduce health-related costs. Results are achieved by addressing longitudinal health risks and care needs of everyone in a given population. The Company has scaled its proprietary technology infrastructure and delivery capabilities developed over 30 years and now serves approximately 68 million people on four continents. Learn more at [www.healthways.com](http://www.healthways.com).

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The following is a letter sent to stockholders of Healthways, Inc. in a mailing commenced on May 13, 2014.

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May 13, 2014

Dear Fellow Healthways Stockholder:

You have a critical decision to make about the future of your investment in Healthways. Once you review the facts, we are confident you will agree that the best way to protect your investment in Healthways and support its strong momentum as the #1 independent population health service provider is to vote FOR Healthways' Board of Director nominees at this year's Annual Meeting of Stockholders on June 24, 2014. We urge you NOT to vote for North Tide Capital's unqualified nominees. We believe their flawed agenda would derail Healthways' momentum toward sustained profitability and destroy stockholder value.

**VOTE FOR HEALTHWAYS' NOMINEES**

- üProtect your investment in Healthways
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**DON'T LET NORTH TIDE DERAIL YOUR COMPANY**

- ûReject North Tide's short-sighted proposals and slate of unqualified nominees

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**HEALTHWAYS HAS COMPLETED ITS TRANSFORMATION INTO THE #1 INDEPENDENT PLAYER IN THE \$50 BILLION POPULATION HEALTH SERVICES MARKET**

In 2006, Healthways recognized that an evolving healthcare landscape and difficult economic headwinds were challenging its conventional stand-alone disease management model. Building on the Company's core strengths over the ensuing seven years, the Board and management completed a major strategic transformation to become the leader in the rapidly growing population health management industry.

The transformation included:

- § Investing wisely in technology and innovative capabilities to form our scalable platform to deliver our comprehensive well-being improvement solution;
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**HEALTHWAYS IS POISED TO GAIN SIGNIFICANT OPERATING LEVERAGE AND ACHIEVE SUSTAINABLE PROFITABILITY**

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We expect that each \$100 million of incremental revenue booked for the next 4 to 5 years will yield 100 to 200 basis points of EBITDA margin expansion.

KEY STATISTICS	3-5 YEAR OBJECTIVES
Revenue Growth	10% - 15% CAGR
EBITDA	15% - 18%
Capital Expenditures and Acquisitions/Revenue Ratio	~5% (Maintenance level)
Debt/EBITDA Ratio	< 2x

**HEALTHWAYS HAS THE RIGHT BOARD TO ACHIEVE ITS FULL POTENTIAL**

The Company's Board of Directors is actively engaged in Healthways' strategic direction and fully supportive of CEO Ben Leedle and the current management team. The Company's four independent and highly qualified nominees – John W. Ballantine, Daniel J. Englander, C. Warren Neel, and Kevin G. Wills – are important contributors to the Board and committed to serving the best interests of all stockholders. Each has a unique skill set, differentiated experience and expertise such that all four of them, in their own right, are integral members of the Board.

Importantly, 10 of our 11 directors are independent. Three directors – including two of the nominees, Messrs. Englander and Wills – have joined the Board since 2012, bringing fresh perspectives. Collectively, this Board has

exceptional healthcare industry experience and, more importantly, an in-depth knowledge of the value-based contract services business. They also possess complementary skills covering financial, operational, and corporate governance expertise.

"We remain believers in Healthways' value proposition and management team, and we expect the healthcare provider market—which faces increased pressure to bear incremental financial and quality risk—to become a significant growth opportunity for the organization over the coming years, despite the slower ramp-up in the business thus far."

– William Blair, 24 April 2014

HEALTHWAYS' INDEPENDENT AND HIGHLY QUALIFIED DIRECTOR NOMINEES

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Former Executive Vice President and Chief Risk Management Officer of First Chicago NBD Corporation

§Deep understanding of institutional investors' perspectives

§Has held multiple board leadership roles at publicly listed companies

§Deep expertise in risk management and asset allocation

DANIEL J. ENGLANDER - Director since 2014

Managing Partner of Ursula Capital Partners

§Important perspective as institutional investor and Healthways shareholder since 2005

§Relevant and valuable board experience at other publicly traded companies

§Deep understanding of the markets for the Company's well-being solutions

C. WARREN NEEL, Ph.D. - Director since 1991

Former Executive Director of the Center for Corporate Governance at the University of Tennessee

§Strong business acumen and significant leadership experience, including \$20 billion+ budget management

§Academic research has been published in a variety of journals

§Understanding of complex financial data and management issues

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Managing Director and Chief Financial Officer of AlixPartners, LLP

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NORTH TIDE NOMINEE

	§No experience at a contract services healthcare company dependent on value-based reimbursement
Conan	§No experience in a comparable business model
Laughlin	§No experience as an independent director on a public company board
	§Newly formed investment firm, North Tide Capital, has no track record
	§Equity research experience does not translate into operational expertise
	§No experience at a contract services healthcare company dependent on value-based reimbursement
Bradley Karro	§No experience in a comparable business model
	§Questionable operational expertise given a company where he served as COO filed for bankruptcy and was the target of litigation
	§No experience at a contract services healthcare company dependent on value-based reimbursement
Edwin	§No experience in a comparable business model
Crawford	§No experience as an independent director on a public company board
	§Turnaround experience not relevant to Healthways growth strategy



Paul Keckley §No experience at a contract services healthcare company dependent on value-based reimbursement  
§No experience in a comparable business model  
§No experience as an independent director on a public company board  
§No discernable public company operating experience

Despite our concerns about their qualifications, we attempted to reach an agreement to avoid a costly and distracting proxy contest. Our good faith offer included:

- Expanded 12-member Board;
- 5-person slate, consisting of two qualified independent candidates to be nominated by North Tide and two qualified independent candidates to be nominated by Healthways, and a third mutually agreed upon;
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Regrettably, North Tide rejected our settlement, which forces us to question their true motives for pursuing this – their first proxy contest – despite the costs and distraction it is causing Healthways.

#### WE BELIEVE NORTH TIDE DOES NOT UNDERSTAND HEALTHWAYS' BUSINESS AND THEIR PROPOSALS TO BREAK UP OUR COMPANY WOULD DERAIL HEALTHWAYS' MOMENTUM

We see first-time activist North Tide Capital's short-sighted proposals as deeply flawed, including their intention to sell or shut down vital assets and replace management. To us, this clearly shows they do not understand Healthways' business or the population health opportunity.

#### Replacing Management

In our view, our CEO Ben Leedle's 29-year history with Healthways provides invaluable institutional and marketplace knowledge that is essential to Healthways' future. As a pioneer in developing and delivering disease management services in the 1990's, Ben recognized the long-term limitations and the market forces threatening these stand-alone disease management models. He therefore led the company in a new direction; he was the principal architect of the strategy behind and directed the execution of Healthways' successful transformation from a disease management company into the number one independent population health services company.

In addition to his integral role in the Company's strategic growth and operational execution, Ben is also deeply invested in and aligned with shareholder interests, and the vast majority of his personal wealth is tied to the Company's performance through stock ownership and options.

Equally as important to our future, Ben is highly valued by customers and critical to both our high customer retention and ongoing new customer development. Key customers, prospects and partners have expressed to the Company and Board their view that his departure could jeopardize the Company's continued relationships. As just two examples, we have enclosed two letters from large strategic customers – CareFirst (BlueCross BlueShield of Maryland and the District of Columbia) and Hawaii Medical Services Association, or HMSA (BlueCross Blue Shield of Hawaii) – in which they voice their concern that North Tide's agenda could disrupt their well-being programs.

"Ben sees something the rest of the industry hasn't figured out – and he has positioned Healthways to be the market leader with a prohibitive advantage in the ability to utilize well-being measures to dramatically decrease health care costs and improve organizational performance."

– Jim Clifton, Chairman and CEO, Gallup

#### Sale or Spin-Off of SilverSneakers Fitness Program

In a December 2013 letter to the Healthways Board, North Tide proposed that Healthways "unlock the value" of its SilverSneakers business, indicating that "its value as a stand-alone entity is potentially equal to or greater than the entire Healthways enterprise value today." Our Board asked a third-party expert to evaluate the merit of the North Tide's valuation of SilverSneakers and concluded that it was significantly flawed. Even if such a transaction could be executed, we strongly believe that it would significantly decelerate Healthways' business momentum and reduce our growth opportunities, while destroying value for investors.

§ SilverSneakers is an important component of our comprehensive well-being improvement solution and essential to our business operations and strategic plan.

SilverSneakers is offered through approximately 11,000 of Healthways' national network of more than 15,000 fitness § centers – a key asset to the SilverSneakers offering. Without Healthways' already established national network, SilverSneakers would have to build these relationships and agreements from scratch.

§ North Tide's analysis does not adequately factor in the incremental costs that would be necessary to operate SilverSneakers as a stand-alone company.

Part of our growth strategy is to leverage the fitness center national network to expand our product offering in the § traditional commercial Health Plan and Large Employer markets – which is an increasingly important part of our overall well-being improvement solution.

Our relationships with the large Medicare Advantage health plans continue to grow, not just through SilverSneakers, but with additional solutions including our Physical Medicine national affinity network and a number of emerging § web and mobile device applications and social networks – enabling us to leverage its cost structure across a broader revenue base. 14 of our 67 Medicare Advantage Health Plan customers have already purchased other Healthways services that are integrated with the SilverSneakers Fitness Program.

§ Disposition of the SilverSneakers business would require complex tax structuring to avoid significant adverse tax consequences, potentially diminishing flexibility and/or value.

#### Shutting Down Healthways' International Business

North Tide has proposed shutting down Healthways' international business, which would deprive the Company of a profitable business and future opportunities to expand as a leader in the dynamic global healthcare marketplace.

The international business is managed separately by a dedicated senior management team, has grown from a startup § in 2006 to almost 5% of our total business, and is expected to grow significantly based on recent contract wins and renewals.

§ The international business is already profitable and is not capital intensive – generating positive EBITDA of \$3.0 million in 2012 and \$3.3 million in 2013.

§ We expect the International business to be one of our fastest growing customer markets with a pipeline of revenue opportunities in excess of \$100 million and revenue growth in 2014 expected to be greater than 10%.

Shutting down the international business would inflict substantial financial penalties on the Company due to § breaches of our existing customer contracts and eliminate the possibility of a return to international markets for the foreseeable future.

Through our international business, we are building a diverse base of knowledge about the perspectives of § governments and private insurers in foreign markets and gaining valuable insight into the changing needs of government entities within the U.S. and the regional health plan market. Healthways is one of the few companies positioned to benefit from trends in global healthcare reform and increasing lifestyle risks and chronic disease.

PROTECT YOUR INVESTMENT AND SUPPORT CONTINUED GROWTH AT HEALTHWAYS

We ask for your support so that Healthways' Board and management can continue to execute on its strategy and take full advantage of the strong momentum it has created to realize the Company's full potential.

The upcoming Annual Meeting is an important event that will determine the future of Healthways. Your vote is important – no matter how many shares you own.

You may vote by telephone, Internet, or by signing, dating and returning the enclosed WHITE PROXY CARD in the postage-paid envelope. We also urge you to discard any proxy card sent to you by North Tide.

On behalf of the Board of Directors, we thank you for your continued support of our Company.

Sincerely,

/s/ John W. Ballantine

*John Ballantine, Chairman*

### Important Additional Information

The Company, its directors and certain of its executive officers may be deemed to be participants in the solicitation of proxies from the Company's stockholders in connection with the matters to be considered at the Company's 2014 annual meeting of stockholders. On May 13, 2014, the Company filed a definitive proxy statement (as it may be amended, the "Proxy Statement") with the U.S. Securities and Exchange Commission (the "SEC") in connection with any such solicitation of proxies from Company's stockholders. **INVESTORS AND STOCKHOLDERS ARE STRONGLY ENCOURAGED TO READ THE PROXY STATEMENT AND ACCOMPANYING WHITE PROXY CARD AND OTHER DOCUMENTS FILED WITH THE SEC CAREFULLY AND IN THEIR ENTIRETY WHEN THEY BECOME AVAILABLE AS THEY WILL CONTAIN IMPORTANT INFORMATION.** Detailed information regarding the identity of potential participants, and their direct or indirect interests, by security holdings or otherwise, is set forth in the Proxy Statement, including Appendix A thereto. Information regarding the direct and indirect beneficial ownership of the Company's directors and executive officers in the Company's securities is set forth in the Proxy Statement. Stockholders can obtain the Proxy Statement, any amendments or supplements to the Proxy Statement and other documents filed by the Company with the SEC for no charge at the SEC's website at [www.sec.gov](http://www.sec.gov). Copies will also be available at no charge at the Investor Relations section of our corporate website at [www.healthways.com](http://www.healthways.com).

### Forward-Looking Statements

This document 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; the costs and management distraction attendant to a proxy contest; the Company's ability to sign and implement new contracts for its solutions; the Company's 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 the Company's services; the Company's ability to renew and/or maintain contracts with its customers under existing terms or restructure these contracts on terms that would not have a material negative impact on the Company's results of operations; the Company's ability to accurately forecast performance and the timing of revenue recognition under the terms of its customer contracts ahead of data collection and reconciliation; the Company's ability to accurately forecast enrollment and participation rates in services and programs offered within the Company's contracts; the risks associated with data privacy or security breaches, computer hacking, network penetration and other illegal intrusions; the impact of future state, federal and international legislation and regulations applicable to the Company's business, including the Patient Protection and Affordable Care Act, as amended by the Health Care and Education Reconciliation Act of 2010 on the Company's operations and/or demand for its services; and other risks detailed in the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2013, and other filings with the SEC. The Company undertakes no obligation to update or revise any such forward-looking statements.



Chet Burrell  
President and Chief Executive Officer

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Baltimore, MD 21224-5744  
Tel: 410-605-2558  
Fax: 410-781-7606  
chet.burrell@carefirst.com

March 31, 2014

John Ballantine  
Chairman of the Board  
Healthways  
701 Cool Springs Boulevard  
Franklin, TN 37067

Dear Chairman Ballantine,

We have been watching with interest and concern the public information regarding challenges to Healthways' business model and management team by a small activist shareholder group. We certainly hope that this does not threaten our longstanding relationship with and belief in Ben Leedle and the Healthways management team. As you know, we made our own investment in Healthways based on this belief and longstanding relationship. To review, our teams are working well together on two distinctive fronts:

First, on our PCMH work, we are growing the numbers of care plans that we perform through Healthways' Local Care Coordinators who are located throughout our service area. As you know, our goal is to reach 10,000 active care plans this year. In order to achieve this, an even greater number of care plans will have to be activated during the year. We are making good progress with the Healthways team to this end.

The scale of the Healthways operation and its importance to our PCMH program model cannot be overstated. Employers throughout our region are becoming increasingly aware of how the Patient– Centered Medical Home/Total Care and Cost Improvement (PCMH/TCCI) Program helps control their medical expenses and we are down to just a handful of groups that are not participating - a gap we think we will close in the coming months

Each time I review progress with the team, I come away convinced that, were it not for the partnership we have and the understanding shown by Ben and his management team, the scale and quality of the program we now have would simply be impossible. We are seeing sharp drops in in-patient admissions, readmissions and emergency room visits and, while it is impossible to determine all the cause and effect relationships, it is apparent to us that the chronic care coordination program that we are carrying out with Healthways as our partner is having a material effect.

This new path in care coordination could likely lead to new business opportunities for Healthways as we are being watched closely by other Blues who collectively serve over 100,000,000 Americans.

Second, we have been making good progress together on a unified offering of wellness and disease management services to large accounts which are based on our joint ability to identify CareFirst members who are in need of either lifestyle or disease management coaching. The goal is to prevent the inexorable progression experienced in so many

populations from health to chronic disease.

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Registered trademark of the  
Blue Cross and Blue Shield Association ® Registered trademark of CareFirst of Maryland, Inc.

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Our teams have worked out the "rules of the road" of these offerings as an integral part of our TCCI Program and are proceeding well with full data integration which enables us to receive from Healthways reports on the ongoing progress for all members involved in lifestyle and disease management coaching. As you know, this data is incorporated in our Member Health Record which is the online "source of truth" for any treating provider when reviewing the health status of a member.

It is obvious, therefore, that, our partnership covers both the beginning stages of chronic disease through the management of actual ongoing chronic disease. In this connection, we have made tremendous progress in a fast launch of our CMMI Innovation Award for Medicare fee-for-service beneficiaries. This pilot program applies all that we have developed together in the CareFirst commercial population to the Medicare fee-for-service population. We're hopeful that this opens up a major market opportunity to extend our combined services to the Medicare fee-for-service populations on a region wide scale, some 850,000 people.

As far as we know, there is no Blue plan or commercial carrier that has implemented such an ambitious and rapidly evolving program on a region wide scale. Our work together over the past three to five years has certainly helped to enable this and to establish a model for the future that is scalable and attractive to government and business alike.

My purpose in writing, as I said at the outset, is simply to convey the importance of our partnership and our concern that neither the course we are pursuing together nor the management team with whom we work (and depend on) will be diverted or derailed.

If there is more we can do to further underscore these points, please do not hesitate to let me know.

Sincerely,

/s/ Chet Burrell

Chet Burrell  
President & CEO

Cc: C. Neel, Healthways Board of Directors  
Jay Bisgard, Healthways Board of Directors  
Mary England, Healthways Board of Directors  
William Novelli, Healthways Board of Directors  
Allison Taunton-Rigby, Healthways Board of Directors  
John Wickens, Healthways Board of Directors  
Kevin Wills, Healthways Board of Directors  
Donato Tramuto, Healthways Board of Directors  
Daniel Englander, Healthways Board of Directors  
Ben Leedle, Healthways President & Chief Executive Officer  
Michael Farris, Healthways President, North America & Chief Commercial Officer

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Registered trademark of the  
Blue Cross and Blue Shield Association ® Registered trademark of CareFirst of Maryland, Inc.

March 11, 2014

Members of the Board of Directors of Healthways

Attention: Mr. John W. Ballentine

Chairman of the Board

Via Email:

Ladies and Gentlemen:

As you are aware, Healthways is currently providing care management and wellness services to Hawaii Medical Service Association for the benefit of our members under a Integrated Health Management Master Services Agreement dated January 24, 2011. As you may also be aware, HMSA and Healthways have a long history of working together and first began our collaboration in 2000 when we contracted for Healthways' disease management expertise. We are pleased to have had the opportunity to grow our relationship as Healthways has transformed from those early roots to a company that we now believe is in the best position to provide care management and wellness services to our more than 730,000 members.

We have obviously read media reports regarding the criticisms from one of your shareholders regarding Healthways' strategy and management and that shareholder's plan to initiate a proxy contest at your upcoming annual meeting. We are concerned that a change in strategic direction or management at Healthways would disrupt the strong, cohesive working relationship we have built over the last three years and the effective implementation of the services under our agreement.

HMSA does not believe it needs a care management and wellness partner with new management or new strategies. To the contrary, we selected Healthways for the very reason that we believed it was the company with the best strategy and management team to complement and add value to HMSA's initiatives to improve its members' health and well-being. With the benefit of several years' experience working closely with your management team to implement our contractual services, we believe even more strongly that this is the right team to execute on the objectives contemplated by our contract.

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Members of the Board of Directors of Healthways  
March 11, 2014  
Page 2

While we realize that it will be Healthways' shareholders, not its board, who will elect the new directors, we felt that it would be helpful in any event to let the board know how strongly one of Healthways' key clients feels about the lack of a need for change at Healthways.

Sincerely,

/s/ Michael A. Gold

Michael A. Gold  
President and Chief Executive Officer

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On May 13, 2014, Healthways, Inc. (the "Company") established a new "Proxy Contest" webpage on the Company's website at <http://info.healthways.com/protectvalueathealthways>.

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