HEALTHWAYS, INC
Form 10-Q
August 07, 2015

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

FORM 10-Q

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

For the Quarterly Period Ended June 30, 2015

or

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

For the transition period from _____ to _____

Commission File Number 000-19364

HEALTHWAYS, INC.
(Exact Name of Registrant as Specified in its Charter)

Delaware	62-1117144
(State or Other Jurisdiction of Incorporation or Organization)	(I.R.S. Employer Identification No.)

701 Cool Springs Boulevard, Franklin, TN 37067
(Address of Principal Executive Offices) (Zip Code)

615-614-4929
(Registrant's Telephone Number, Including Area Code)

(Former name, former address and former fiscal year, if changed since last report)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.
Yes No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§ 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).
Yes No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See definitions of "large accelerated filer," "accelerated filer" and "smaller reporting

company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer		Accelerated filer
Non-accelerated filer	(Do not check if a smaller reporting company)	Smaller reporting company

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes No

As of August 3, 2015, there were outstanding 35,832,147 shares of the registrant's common stock, par value $.001 per share ("common stock").

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Part I

Item 1. Financial Statements

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

ASSETS

	June 30, 2015	December 31, 2014
Current assets:		
Cash and cash equivalents	$5,265	$1,765
Accounts receivable, net	113,914	126,559
Prepaid expenses	10,728	10,680
Other current assets	6,684	7,662
Income taxes receivable	2,265	2,917
Deferred tax asset	7,035	13,118
Total current assets	145,891	162,701
Property and equipment:		
Leasehold improvements	38,825	39,285
Computer equipment and related software	349,351	316,808
Furniture and office equipment	23,095	23,257
Capital projects in process	24,478	38,389
	435,749	417,739
Less accumulated depreciation	(272,134)	(252,043)
	163,615	165,696
Other assets	42,846	75,550
Intangible assets, net	66,227	69,161
Goodwill, net	338,800	338,800
Total assets	$757,379	$811,908

See accompanying notes to the consolidated financial statements.

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

LIABILITIES AND STOCKHOLDERS' EQUITY

	June 30, 2015	December 31, 2014
Current liabilities:		
Accounts payable	$40,289	$37,204
Accrued salaries and benefits	20,570	24,198
Accrued liabilities	47,688	62,674
Deferred revenue	9,476	8,282
Contract billings in excess of earned revenue	15,292	15,232
Current portion of long-term debt	23,808	20,613
Current portion of long-term liabilities	3,187	2,127
Total current liabilities	160,310	170,330
Long-term debt	229,456	231,112
Long-term deferred tax liability	24,811	32,883
Other long-term liabilities	38,343	72,993
Stockholders' equity:		
Preferred stock		
$.001 par value, 5,000,000 shares authorized, none outstanding	—	—
Common stock		
$.001 par value, 120,000,000 shares authorized, 35,818,495 and 35,511,221 shares outstanding, respectively	36	35
Additional paid-in capital	297,138	292,346
Retained earnings	38,113	42,439
Treasury stock, at cost, 2,254,953 shares in treasury	(28,182)	(28,182)
Accumulated other comprehensive loss	(3,309)	(2,048)
Total Healthways, Inc. stockholders' equity	303,796	304,590
Non-controlling interest	663	—
Total stockholders' equity	304,459	304,590
Total liabilities and stockholders' equity	$757,379	$811,908

See accompanying notes to the consolidated financial statements.

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2015	2014	2015	2014
Revenues	$198,073	$180,613	$387,935	$357,391
Cost of services (exclusive of depreciation and amortization of $9,814, $9,604, $19,341, and $18,976, respectively, included below)	159,483	146,476	320,935	294,624
Selling, general & administrative expenses	21,195	16,899	37,177	33,331
Depreciation and amortization	12,217	13,536	24,861	26,872
Legal settlement charges	—	—	—	9,363
Operating income (loss)	5,178	3,702	4,962	(6,799)
Interest expense	4,561	4,516	9,052	8,899
Income (loss) before income taxes	617	(814)	(4,090)	(15,698)
Income tax expense (benefit)	500	(297)	(1,294)	(5,585)
Net income (loss)	$117	$(517)	$(2,796)	$(10,113)
Less: net loss attributable to non-controlling interest	(303)	—	(303)	—
Net income (loss) attributable to Healthways, Inc.	$420	$(517)	$(2,493)	$(10,113)
Earnings (loss) per share attributable to Healthways, Inc.:				
Basic	$0.01	$(0.01)	$(0.07)	$(0.29)
Diluted [1]	$0.01	$(0.01)	$(0.07)	$(0.29)
Comprehensive income (loss)	$538	$(449)	$(4,052)	$(9,702)
Comprehensive loss attributable to non-controlling interest	(298)	—	(298)	—
Comprehensive income (loss) attributable to Healthways, Inc.	$836	$(449)	$(3,754)	$(9,702)
Weighted average common shares and equivalents:				
Basic	35,734	35,285	35,664	35,219
Diluted [1]	36,881	35,285	35,664	35,219

[1] The impact of potentially dilutive securities for the six months ended June 30, 2015 and the three and six months ended June 30, 2014 was not considered because the effect would be anti-dilutive in each of those periods.
See accompanying notes to the consolidated financial statements.

HEALTHWAYS, INC.
CONSOLIDATED STATEMENT OF CHANGES IN STOCKHOLDERS' EQUITY
For the Six Months Ended June 30, 2015
(In thousands)
(Unaudited)

	Preferred Stock	Common Stock	Additional Paid-in Capital	Retained Earnings	Treasury Stock	Accumulated Other Comprehensive Loss	Non-Controlling Interest	Total
Balance, December 31, 2014	$ —	$ 35	$292,346	$42,439	$(28,182)	$ (2,048)	$—	$304,590
Net loss attributable to Healthways, Inc.	—	—	—	(2,493)	—	—	—	(2,493)
Net loss attributable to non-controlling interest	—	—	—	—	—	—	(303)	(303)
Other comprehensive income (loss), net of tax:								
Net change in fair value of interest rate swaps, net of income tax benefit of $45	—	—	—	—	—	(16)	—	(16)
Foreign currency translation adjustment	—	—	—	—	—	(1,245)	5	(1,240)
Total other comprehensive loss:	—	—	—	—	—	(1,261)	5	(1,256)
Total comprehensive loss	—	—	—	(2,493)	—	(1,261)	(298)	(4,052)
Exercise of stock options	—	1	1,291	—	—	—	—	1,292
Repurchase of common stock	—	—	—	(1,833)	—	—	—	(1,833)
Tax effect of stock options and restricted stock units	—	—	(3,519)	—	—	—	—	(3,519)
Share-based employee compensation expense	—	—	5,797	—	—	—	—	5,797

Issuance of CareFirst Warrants	—	—	807	—	—	—	—	807
Proceeds from non-controlling interest	—	—	416	—	—	—	961	1,377
Balance, June 30, 2015	$ —	$ 36	$297,138	$38,113	$(28,182)	$ (3,309)	$663	$304,459

See accompanying notes to the consolidated financial statements.

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

	Six Months Ended June 30,	
	2015	2014
Cash flows from operating activities:		
Net loss	$(2,796)	$(10,113)
Adjustments to reconcile net loss to net cash provided by operating activities:		
Depreciation and amortization	24,861	26,872
Amortization of deferred loan costs	986	925
Amortization of debt discount	3,495	3,303
Share-based employee compensation expense	5,797	3,558
Deferred income taxes	(2,393)	(3,332)
Excess tax benefits from share-based payment arrangements	—	(310)
Decrease (increase) in accounts receivable, net	12,427	(19,373)
Increase in other current assets	(709)	(940)
Increase (decrease) in accounts payable	3,795	(3,251)
Decrease in accrued salaries and benefits	(5,362)	(3,489)
(Decrease) increase in other current liabilities	(12,454)	17,913
Other	1,340	7,548
Net cash flows provided by operating activities	28,987	19,311
Cash flows from investing activities:		
Acquisition of property and equipment	(17,332)	(20,976)
Investment in joint ventures	(4,450)	(3,250)
Other	(550)	(579)
Net cash flows used in investing activities	(22,332)	(24,805)
Cash flows from financing activities:		
Proceeds from issuance of long-term debt	303,956	224,900
Payments of long-term debt	(307,667)	(233,554)
Deferred loan costs	—	(88)
Excess tax benefits from share-based payment arrangements	—	310
Exercise of stock options	1,292	1,265
Repurchase of common stock	(1,833)	—
Proceeds from non-controlling interest	1,377	—
Change in cash overdraft and other	619	12,114
Net cash flows (used in) provided by financing activities	(2,256)	4,947
Effect of exchange rate changes on cash	(899)	390
Net increase (decrease) in cash and cash equivalents	3,500	(157)
Cash and cash equivalents, beginning of period	1,765	2,584
Cash and cash equivalents, end of period	$5,265	$2,427

See accompanying notes to the consolidated financial statements.

HEALTHWAYS, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

(1) Basis of Presentation

Our financial statements and accompanying notes are prepared in accordance with generally accepted accounting principles in the United States ("U.S. GAAP"). In our opinion, the accompanying consolidated financial statements of Healthways, Inc. and its wholly-owned subsidiaries (collectively, "Healthways," the "Company," or such terms as "we," "us," or "our") reflect all adjustments consisting of normal, recurring accruals necessary for a fair statement. We have reclassified certain items in prior periods to conform to current classifications.

We have omitted certain financial information that is normally included in financial statements prepared in accordance with U.S. GAAP but that is not required for interim reporting purposes. You should read the accompanying consolidated financial statements in conjunction with the financial statements and notes thereto included in our Annual Report on Form 10-K for the year ended December 31, 2014.

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

(2) Recent Accounting Standards

In May 2014, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") No. 2014-9, which creates FASB Accounting Standards Codification ("ASC") Topic 606, "Revenue from Contracts with Customers" ("ASC Topic 606") and supersedes ASC Topic 605, "Revenue Recognition." The provisions of ASC Topic 606 provide for a single comprehensive principles-based standard for the recognition of revenue across all industries and expanded disclosure about the nature, amount, timing and uncertainty of revenue, as well as certain additional quantitative and qualitative disclosures. The standard is effective for annual periods beginning after December 15, 2017, including interim periods within those years. We are currently evaluating the impact of adopting ASC Topic 606.

In June 2014, the FASB issued ASU No. 2014-12, "Accounting for Share-Based Payments When the Terms of an Award Provide That a Performance Target Could Be Achieved after the Requisite Service Period" ("ASU 2014-12"). ASU 2014-12 requires that a performance target that affects vesting and that could be achieved after the requisite service period be treated as a performance condition. As such, the performance target should not be reflected in estimating the grant-date fair value of the award. Compensation cost should be recognized in the period in which it becomes probable that the performance target will be achieved and should represent the compensation cost attributable to the period(s) for which the requisite service has already been rendered. ASU 2014-12 is effective for annual periods beginning after December 15, 2015, including interim periods within those annual periods, with earlier adoption permitted. The adoption of ASU 2014-12 is not expected to have a material effect on our financial position or results of operations.

In April 2015, the FASB issued ASU No. 2015-03, "Simplifying the Presentation of Debt Issuance Costs" ("ASU 2015-03"), which requires that debt issuance costs related to a recognized debt liability be presented in the balance sheet as a direct deduction from the carrying amount of the related debt liability, consistent with debt discounts. This ASU is effective for reporting periods beginning after December 15, 2015, including interim periods within those years, and should be applied on a retrospective basis to all periods presented. The adoption of ASU 2015-03 is not expected to have an impact on our results of operations or cash flows but will result in debt issuance costs being

presented as a direct deduction from the carrying amount of the related debt liability rather than as an asset.
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(3) Share-Based Compensation

We currently have four types of share-based awards outstanding to our employees and directors: stock options, restricted stock units, restricted stock, and performance-based stock units. Performance-based stock units have a multi-year performance period and vest four years from the grant date. We believe that our share-based awards align the interests of our employees and directors with those of our stockholders.

We estimate share-based compensation expense based on the number of awards expected to vest, after consideration of expected forfeitures and estimated vesting of performance-based stock units. For the three and six months ended June 30, 2015, we recognized share-based compensation costs of $3.4 million and $5.8 million, respectively, which each included the acceleration of vesting of all unexercisable stock options and unvested time-based restricted stock units held by our former chief executive officer and president at the time of his termination of employment. For the three and six months ended June 30, 2014, we recognized share-based compensation costs of $1.9 million and $3.6 million, respectively.

A summary of our stock options as of June 30, 2015 and changes during the six months then ended is presented below:

Options	Shares (000s)	Weighted-Average Exercise Price	Weighted-Average Remaining Contractual Term (years)	Aggregate Intrinsic Value ($000s)
Outstanding at January 1, 2015	3,564	$ 13.01		
Granted	—	—		
Exercised	(550)	10.53		
Forfeited	(74)	11.35		
Expired	(62)	40.01		
Outstanding at June 30, 2015	2,878	12.95	5.99	$ 3,122
Exercisable at June 30, 2015	2,193	$ 13.13	5.57	$ 2,459

There were no stock options granted during the three or six months ended June 30, 2015.

The following table shows a summary of our restricted stock, restricted stock units and performance-based stock units ("nonvested shares") as of June 30, 2015, as well as activity during the six months then ended:

	Restricted Stock and Restricted Stock Units		Performance-Based Stock Units	
Nonvested Shares	Shares (000s)	Weighted-Average Grant Date Fair Value	Shares (000s)	Weighted-Average Grant Date Fair Value
Nonvested at January 1, 2015	1,047	$ 13.15	341	$ 14.77
Granted	116	16.21	—	—
Vested	(284)	12.57	—	—
Forfeited	(49)	12.03	—	—
Nonvested at June 30, 2015	830	$ 13.87	341	$ 14.77

At the end of each reporting period, we estimate the number of performance-based stock units expected to vest based on the probability that the related performance objectives will be met. As of June 30, 2015, none of the outstanding performance-based stock units are expected to vest.

(4) Income Taxes

For the three months ended June 30, 2015, we had an effective income tax rate of 81.0%, compared to an effective tax benefit rate of 36.5% for the three months ended June 30, 2014. For the six months ended June 30, 2015, we had an effective tax benefit rate of 31.6%, compared to an effective tax benefit rate of 35.6% for the six months ended June 30, 2014. The change in the effective rates was primarily due to the smaller base of pretax income/(loss) for the 2015 periods in relation to certain items for which we currently are not able to recognize a tax benefit.

We file income tax returns in the U.S. federal jurisdiction and various state and foreign jurisdictions. Tax years remaining subject to examination in these major jurisdictions include 2011 to present.

(5) Long-Term Debt

The Company's long-term debt consists of the following at June 30, 2015 and December 31, 2014:

(In $000s)	June 30, 2015	December 31, 2014
Cash Convertible Notes, net of unamortized discount	$126,642	$123,148
CareFirst Convertible Note	20,000	20,000
Fifth Amended Credit Agreement:		
Term Loan	90,000	97,500
Revolver	9,850	4,950
Capital lease obligations and other	6,772	6,127
	253,264	251,725
Less: current portion	(23,808)	(20,613)
	$229,456	$231,112

1.50% Cash Convertible Senior Notes Due 2018

On July 16, 2013, we completed the issuance of $150.0 million aggregate principal amount of cash convertible senior notes due 2018 (the "Cash Convertible Notes"), which bear interest at a rate of 1.50% per year, payable semiannually in arrears on January 1 and July 1 of each year, beginning on January 1, 2014. The Cash Convertible Notes will mature on July 1, 2018, unless earlier repurchased or converted into cash in accordance with their terms prior to such date. At the option of the holders, the Cash Convertible Notes are convertible into cash based on the conversion rate set forth below only upon occurrence of certain triggering events as defined in the Indenture dated as of July 8, 2013 by and between the Company and U.S. Bank National Association, none of which had occurred as of June 30, 2015. Accordingly, we have classified the Cash Convertible Notes as long-term debt at June 30, 2015 and June 30, 2014. The Cash Convertible Notes are not convertible into our common stock or any other securities under any circumstances. The initial cash conversion rate is approximately 51.38 shares of our common stock per $1,000 principal amount of Cash Convertible Notes (equivalent to an initial conversion price of approximately $19.46 per share of common stock). The Cash Convertible Notes are our senior unsecured obligations and rank senior in right of payment to any of our indebtedness that is expressly subordinated in right of payment to the Cash Convertible Notes. As a result of this transaction, we recognized deferred loan costs of approximately $3.9 million, which are being amortized over the term of the Cash Convertible Notes using the effective interest method.

The cash conversion feature of the Cash Convertible Notes (the "Cash Conversion Derivative") requires bifurcation from the Cash Convertible Notes in accordance with FASB ASC Topic 815, Derivatives and Hedging, and is recorded in other long-term liabilities as a derivative liability and carried at fair value. The fair value of the Cash Conversion Derivative at the time of issuance of the Cash Convertible Notes was $36.8 million, which was recorded as a debt discount for purposes of accounting for the debt component of the Cash Convertible Notes. The debt discount is being amortized over the term of the Cash Convertible Notes using the effective interest method. For the six months ended

June 30, 2015, we recorded $3.5 million of interest expense related to the amortization of the debt discount based upon an effective interest rate of 5.7%. The net carrying amount of the Cash Convertible Notes at June 30, 2015 was $126.6 million, net of the unamortized discount of $23.4 million.

In connection with the issuance of the Cash Convertible Notes, we entered into privately negotiated convertible note hedge transactions (the "Cash Convertible Notes Hedges"), which are cash-settled and are intended to reduce our exposure to potential cash payments that we would be required to make if holders elect to convert the Cash Convertible Notes at a time when our stock price exceeds the conversion price. The initial cost of the Cash Convertible Notes Hedges was $36.8 million. The Cash Convertible Notes Hedges are recorded in other assets as a derivative asset under FASB ASC Topic 815 and are carried at fair value. See Note 7 for additional information regarding the Cash Convertible Notes Hedges and the Cash Conversion Derivative and their fair values as of June 30, 2015.

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

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

CareFirst Convertible Note

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

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

CareFirst has an opportunity to earn warrants to purchase shares of our common stock ("CareFirst Warrants") based on achievement of certain quarterly thresholds (the "Revenue Thresholds") for revenue derived from both the Commercial Agreements and from new business to us from third parties as a result of an introduction or referral to us by CareFirst (collectively, the "Quarterly Revenue"). If the Quarterly Revenue is greater than or equal to the applicable Revenue Threshold for any quarter ending on or prior to September 30, 2017, then we will issue to CareFirst a certain number of warrants exercisable for the number of shares of our common stock ("CareFirst Warrant Shares") determined in accordance with the terms of the Investment Agreement unless (i) CareFirst elects to receive a cash payment in accordance with the terms of the Investment Agreement or (ii) there is a change of control. The aggregate number of CareFirst Warrant Shares in any single 12-month period beginning on October 1, 2013 cannot exceed 400,000, and the aggregate number of CareFirst Warrant Shares issuable pursuant to the Investment Agreement cannot exceed 1,600,000. As of June 30, 2015, we had issued CareFirst Warrant Shares totaling 305,121 at a weighted average exercise price of $18.98. These CareFirst Warrants may have a dilutive effect on net income per share, and the "treasury stock" method is used in calculating the dilutive effect on earnings per share.

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

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

Credit Facility

On June 8, 2012, we entered into the Fifth Amended and Restated Revolving Credit and Term Loan Agreement (as amended, the "Fifth Amended Credit Agreement"). The Fifth Amended Credit Agreement provides us with a $200.0 million revolving credit facility that expires on June 8, 2017 and includes a swingline sub facility of $20.0 million and a $75.0 million sub facility for letters of credit. The Fifth Amended Credit Agreement also provides a $200.0 million term loan facility that matures on June 8, 2017, $90.0 million of which remained outstanding at June 30, 2015, and an uncommitted incremental accordion facility of $100.0 million.

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

On July 1, 2013, we entered into an amendment to the Fifth Amended Credit Agreement, which provided for, among other things, the amendment of certain negative covenants to permit the issuance of and payments related to the Cash Convertible Notes described above as well as increases in the maximum required levels of total funded debt to EBITDA beginning with the quarter ended June 30, 2013. On April 14, 2014 and December 29, 2014, we entered into additional amendments to the Fifth Amended Credit Agreement, which, among other things, (1) amended the calculation of consolidated EBITDA to exclude the Blue Cross Blue Shield of Minnesota ("BCBSMN") legal settlement and, for any period that includes a fiscal quarter ending on or before December 31, 2015, up to $5 million in the aggregate of accounting charges attributable to the settlement or other satisfaction of litigation liabilities and the incurrence of related expenses, (2) reduced the amount of the accordion facility from $200 million to $100 million, (3) provided that the net cash proceeds of an asset sale or recovery event be deposited with the administrative agent pending reinvestment or application to the payment of loans, and (4) limited the aggregate consideration payable in respect of acquisitions consummated after December 29, 2014 to $150 million. As of June 30, 2015, availability under the revolving credit facility totaled $109.9 million as calculated under the most restrictive covenant.

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

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

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

(6) Derivative Investments and Hedging Activities

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

Derivative Instruments Designated as Hedging Instruments

Cash Flow Hedges

Derivative instruments that are designated and qualify as cash flow hedges are recorded at estimated fair value in the consolidated balance sheets, with the effective portion of the gains and losses being reported in accumulated other comprehensive income or loss ("accumulated OCI"). Cash flow hedges for all periods presented consist solely of interest rate swap agreements, which effectively modify our exposure to interest rate risk by converting a portion of our floating rate debt to fixed rate obligations, thus reducing the impact of interest rate changes on future interest expense. Under these agreements, we receive a variable rate of interest based on LIBOR (as defined in Note 5), and we pay a fixed rate of interest with interest rates ranging from 0.690% to 1.480% plus a spread (see Note 5). We maintain interest rate swap agreements with current notional amounts of $125.0 million and termination dates ranging from November 2015 to December 2016. Of this amount, $75.0 million was effective at June 30, 2015, and $50.0 million will become effective in December 2015, as older interest rate swap agreements expire. Gains and losses on these interest rate swap agreements are reclassified to interest expense in the same period during which the hedged transaction affects earnings or the period in which all or a portion of the hedge becomes ineffective. As of June 30, 2015, we expect to reclassify $0.4 million of net losses on interest rate swap agreements from accumulated OCI to interest expense within the next 12 months due to the scheduled payment of interest associated with our debt.

The following table shows the effect of our cash flow hedges on the consolidated balance sheets during the three and six months ended June 30, 2015 and 2014:

(In $000s)	For the Three Months Ended		For the Six Months Ended	
Derivatives in Cash Flow Hedging Relationships	June 30, 2015	June 30, 2014	June 30, 2015	June 30, 2014
Loss related to effective portion of derivatives recognized in accumulated OCI, gross of tax effect	$54	$216	$255	$281