

HEALTHWAYS, INC  
Form PRE 14A  
April 14, 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  b  
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.  
 Fee computed on table below per Exchange Act Rules 14a-6(i)(1) and 0-11.

(1) Title of each class of securities to which transaction applies:

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(2) Aggregate number of securities to which transaction applies:

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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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(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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PRELIMINARY COPY – SUBJECT TO COMPLETION

701 Cool Springs Blvd  
Franklin, Tennessee 37067

NOTICE OF ANNUAL MEETING OF STOCKHOLDERS

Stockholders of Healthways, Inc.:

The 2014 Annual Meeting of Stockholders of Healthways, Inc., a Delaware corporation (the "Company"), will be held at the Franklin Marriott Cool Springs, 700 Cool Springs Boulevard, Franklin, Tennessee, 37067 at 9:30 a.m., Central time, on Tuesday, June 24, 2014, for the following purposes:

- (1) To elect four directors to hold office for a term of one year or until their successors have been elected and qualified;
- (2) To consider and act upon a non-binding, advisory vote to approve compensation of the Company's named executive officers as disclosed in this Proxy Statement;
- (3) To ratify the appointment of Ernst & Young LLP as the Company's independent registered public accounting firm for fiscal 2014;
- (4) To consider and act upon a proposal to approve a new 2014 Stock Incentive Plan;
- (5) To consider and act upon a proposal to approve an amendment to the Company's Amended and Restated Bylaws, as amended, to implement majority voting for uncontested elections of directors; and
- (6) To transact such other business as may properly come before the meeting, or any adjournment or postponement thereof.

Your vote will be especially important at the 2014 Annual Meeting of Stockholders. As you may be aware, North Tide Capital Master, LP ("North Tide") has proposed four alternative director nominees for election at the 2014 Annual Meeting of Stockholders. The Board does not endorse the election of North Tide's nominees.

We strongly urge you (1) to read the accompanying Proxy Statement carefully and vote FOR the independent and highly qualified nominees proposed by the Board of Directors (John W. Ballantine, Kevin G. Wills, Daniel J. Englander, and C. Warren Neel, Ph.D.) and in accordance with the Board's recommendations on the other proposals by using the enclosed WHITE proxy card and (2) not to return any proxy card sent to you by North Tide. If you vote using a BLUE proxy card sent to you by North Tide, you can subsequently revoke it by following the instructions on the WHITE proxy card to vote by telephone, by Internet or by signing, dating and returning the WHITE proxy card in the postage-paid envelope provided. Only your last-dated proxy will count—any proxy may be revoked at any time prior to its exercise at the 2014 Annual Meeting of Stockholders as described in the accompanying Proxy Statement.

The Proxy Statement and form of proxy accompanying this notice are being furnished to stockholders on or about [ ], 2014. Only stockholders of record at the close of business on May 5, 2014 are entitled to notice of and to vote at the meeting or any adjournment or postponement thereof.

YOUR VOTE IS IMPORTANT

Whether or not you plan to attend the meeting in person, you are requested to complete, sign and date the enclosed WHITE proxy card and return it promptly or to vote by toll-free telephone or Internet as described in the enclosed WHITE proxy card. If you own shares in a brokerage account, your broker may not be able to vote your shares on any of the proposals, unless you provide voting instructions to your broker. THEREFORE, IT IS VERY IMPORTANT THAT YOU EXERCISE YOUR RIGHT AS A STOCKHOLDER AND VOTE ON ALL PROPOSALS.

By Order of the Board of Directors,

John W. Ballantine

Chairman

[            ], 2014

Healthways, Inc.  
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Important Notice Regarding the Availability of Proxy Materials for the Annual Meeting of Stockholders to be Held on June 24, 2014: The Proxy Statement and 2013 Annual Report are available at [www.proxyvote.com](http://www.proxyvote.com).

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HEALTHWAYS, INC.  
701 Cool Springs Boulevard  
Franklin, Tennessee 37067

PROXY STATEMENT  
FOR ANNUAL MEETING OF STOCKHOLDERS  
TO BE HELD ON  
TUESDAY, JUNE 24, 2014

The proxy is solicited by the Board of Directors (the "Board") of Healthways, Inc. (the "Company") for use at the Annual Meeting of Stockholders to be held on Tuesday, June 24, 2014, at 9:30 a.m., Central time, at the Franklin Marriott Cool Springs, 700 Cool Springs Boulevard, Franklin, Tennessee, 37067, and at all adjournments or postponements thereof (the "2014 Annual Meeting of Stockholders"), for the purposes set forth in the foregoing Notice of Annual Meeting of Stockholders. Our Annual Report containing our audited financial statements for the fiscal year ended December 31, 2013 has been mailed to all stockholders entitled to vote. Copies of this Proxy Statement, the attached notice and the form of proxy are being furnished to stockholders on or about [            ], 2014.

Shares represented by proxies will be voted in accordance with the choices specified thereon. If you sign your proxy card without giving specific voting instructions, the shares represented by such proxies will be voted FOR the election of the director nominees set forth under Proposal No. 1, FOR the non-binding, advisory vote to approve compensation of the Company's named executive officers as disclosed in this Proxy Statement set forth under Proposal No. 2, FOR the ratification of the appointment of Ernst & Young LLP as the independent registered public accounting firm for 2014 set forth under Proposal No. 3, FOR the approval of the Company's 2014 Stock Incentive Plan (the "2014 Plan") set forth under Proposal No. 4, and FOR the approval of an amendment to the Company's Amended and Restated Bylaws, as amended (the "Bylaws"), to implement majority voting for uncontested elections of directors set forth under Proposal No. 5. The board does not know of any other matters that will be presented for action at the meeting, but the persons named in the proxy intend to vote or act with respect to any other proposal that may be properly presented for action according to their best judgment in light of the conditions then prevailing.

Please note that North Tide Capital, LLC and certain affiliated entities (collectively, "North Tide") have nominated four alternative director candidates: Edwin "Mac" Crawford, Bradley S. Karro, Paul H. Keckley and Conan J. Laughlin. The Board DOES NOT endorse the election of North Tide's nominees. You may receive proxy solicitation materials from North Tide, including its proxy statement and proxy cards. We are not responsible for the accuracy of any information provided by or relating to North Tide or its nominees contained in any proxy solicitation materials filed or disseminated by, or on behalf of, North Tide or any other statements that North Tide may otherwise make.

**THE BOARD RECOMMENDS VOTING FOR THE ELECTION OF EACH OF THE BOARD NOMINEES USING THE ENCLOSED WHITE PROXY CARD AND URGES YOU NOT TO SIGN OR RETURN OR VOTE ANY PROXY CARD SENT TO YOU BY NORTH TIDE.**

If you have previously signed a proxy card sent by North Tide, you have the right to change your vote by telephone or by Internet by following the instructions on the WHITE proxy card, or by signing, dating and returning the enclosed WHITE proxy card in the post-paid envelope provided. Only the latest dated proxy card you vote will be counted. If you are a beneficial owner or you hold your shares in "street name," please follow the voting instructions provided by your bank, broker or other nominee to change your vote. We urge you to disregard any proxy card sent to you by North Tide.



In the election of directors, you may vote "FOR" all of the nominees or your vote may be to "WITHHOLD" with respect to one or more of the nominees. As a result of North Tide's intention to propose Edwin "Mac" Crawford, Bradley S. Karro, Paul H. Keckley and Conan J. Laughlin as alternative nominees, and assuming these nominees are not withdrawn by North Tide, there will be more than four nominees. This means that the four candidates receiving the highest number of "FOR" votes will be elected. This number is called a plurality. A properly executed proxy card marked "WITHHOLD" with respect to the election of a director nominee will be counted for purposes of determining if there is a quorum at the 2014 Annual Meeting of Stockholders, but will not be considered to have been voted for the director nominees. Broker non-votes (as discussed below) will also not be considered to have been voted for any director nominee.

IF YOU VOTE YOUR SHARES BY PROXY, THE ONLY WAY TO SUPPORT ALL FOUR OF YOUR BOARD'S NOMINEES IS TO VOTE "FOR" THE BOARD'S NOMINEES ON THE WHITE PROXY CARD. PLEASE DO NOT SIGN OR RETURN A BLUE PROXY CARD FROM NORTH TIDE, EVEN IF YOU VOTE "AGAINST" OR WITHHOLD ON THEIR DIRECTOR NOMINEES. DOING SO MAY CANCEL OR WAIVE ANY PREVIOUS VOTE YOU CAST ON THE COMPANY'S WHITE PROXY CARD.

For the advisory vote to approve compensation of the Company's named executive officers as disclosed in this Proxy Statement, the ratification of the appointment of Ernst & Young LLP, the approval of the 2014 Plan and the approval of an amendment to the Bylaws to implement majority voting for uncontested elections of directors, you may vote "FOR," "AGAINST" or "ABSTAIN." If you "ABSTAIN," it will have the same effect as a vote "AGAINST" these proposals.

The quorum requirement for holding the 2014 Annual Meeting of Stockholders and transacting business is a majority of the outstanding shares entitled to vote. The shares may be present in person or represented by proxy at the 2014 Annual Meeting of Stockholders. Abstentions will be counted as present for the purpose of determining the presence of a quorum. Broker non-votes will not be counted for the purpose of determining the presence of a quorum, as they are not shares entitled to vote.

Votes are counted by an independent third party. In the election for directors, the four persons receiving the highest number of "FOR" votes will be elected. In the advisory vote to approve executive compensation, the affirmative "FOR" vote of a majority of those shares present in person or represented by proxy will constitute the stockholders' non-binding approval with respect to our executive compensation programs. The proposal to ratify the appointment of the independent registered public accounting firm, the proposal to approve the 2014 Plan and the proposal to amend the Company's bylaws to provide for majority voting in uncontested elections of directors require the affirmative "FOR" vote of a majority of those shares present in person or represented by proxy.

Generally, broker non-votes occur when shares held by a broker in "street name" for a beneficial owner are not voted with respect to a particular proposal because (1) the broker has not received voting instructions from the beneficial owner and (2) the broker lacks discretionary voting power to vote those shares. Usually, a broker is entitled to vote shares held for a beneficial owner on routine matters, such as the ratification of the appointment of Ernst & Young LLP as independent registered public accounting firm, without instructions from the beneficial owner of those shares. However, because North Tide has initiated a proxy contest, it is likely that none of the proposals at the 2014 Annual Meeting of Stockholders will be considered a "routine" matter, and, therefore, your shares will not be voted on any matter unless you instruct your brokerage firm to vote in a timely manner. As there will likely be no "routine" matters at the 2014 Annual Meeting of Stockholders, broker non-votes will have no effect on the outcome of any of the proposals presented at the 2014 Annual Meeting of Stockholders. Abstentions will have the same effect as a vote "AGAINST" each of the proposals presented at the 2014 Annual Meeting of Stockholders, except for the election of directors, with respect to which abstentions will have no effect.

A proxy may be revoked by a stockholder at any time before its exercise by attending the meeting and voting in person, by filing, no later than 5:00 p.m., Central Time, on Monday, June 23, 2014, with the Secretary of the



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Company a written notice of revocation, by duly executing a proxy bearing a later date or by casting a new vote by toll-free telephone or the Internet no later than 11:59 p.m., Eastern Time, on Monday, June 23, 2014.

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Because North Tide has proposed alternative nominees for election at the 2014 Annual Meeting of Stockholders, we expect that you will receive proxy solicitation materials from North Tide, including an opposition proxy statement and a BLUE proxy card. Our Board unanimously recommends that you disregard it. We are not responsible for the accuracy of any information provided by or relating to North Tide or its nominees contained in any proxy solicitation materials filed or disseminated by, or on behalf of, North Tide or any other statements that North Tide may otherwise make. If you have already voted using the BLUE proxy card, you have every right to change your vote by making, signing, dating and returning the enclosed WHITE proxy card in the accompanying postage-paid envelope or by voting by telephone or via the Internet by following the instructions on your WHITE proxy card. Submitting a North Tide proxy card will revoke votes you have previously made via the Company's WHITE proxy card. Only the latest dated proxy you submit will be counted. If you vote against North Tide nominees using the BLUE proxy card, your vote will not be counted as a vote for all four of the Board's nominees and will result in a revocation of any previous vote you may have cast on the Company's WHITE proxy card. If you wish to vote pursuant to the recommendation of the Board, you should disregard any proxy card that you receive other than the WHITE proxy card.

If you have any questions or need assistance voting, please call MacKenzie Partners, Inc., our proxy solicitor, at (800) 322-2885.

The preliminary voting results will be published on a Current Report on Form 8-K which will be filed by the Company with the Securities and Exchange Commission ("Commission") within four business days of the 2014 Annual Meeting of Stockholders. The final voting results, if different than the preliminary voting results, will be published on an amended Current Report on Form 8-K within four business days of the date on which the final results are known.

Each share of our common stock, \$.001 par value (the "Common Stock"), issued and outstanding on the record date, May 5, 2014, will be entitled to one vote on all matters to come before the 2014 Annual Meeting of Stockholders. Cumulative voting is not permitted. As of May 5, 2014, there were outstanding [ ] shares of Common Stock.

We will bear all costs of this solicitation, including expenses in connection with preparing, assembling and furnishing this Proxy Statement. In addition to solicitations by mail, certain of our directors, officers and employees, without additional remuneration, may solicit proxies by telephone, facsimile, email or personal interviews, but may reimburse brokerage firms and others for their reasonable expenses in forwarding solicitation material to beneficial owners. Directors, officers and employees will not be paid any additional compensation for soliciting proxies, but MacKenzie Partners, Inc. ("MacKenzie"), our proxy solicitor, will be paid a fee, estimated to be about \$[ ], for rendering solicitation services. MacKenzie expects that approximately 50 of its employees will assist in the solicitation. MacKenzie will solicit proxies by mail, by telephone, facsimile, email or personal interviews. MacKenzie will also ask brokerage houses and other custodians and nominees whether other persons are beneficial owners of our Common Stock.

Our aggregate expenses, including those of MacKenzie, related to our solicitation of proxies in excess of those normally spent for an annual meeting as a result of the proxy contest initiated by North Tide, and excluding salaries and wages of our regular employees, are expected to be approximately \$[ ] million, of which the Company estimates it has incurred approximately \$[ ] to date. Appendix A sets forth information relating to our director nominees as well as certain of our directors, officers and employees who are considered "participants" in our solicitation under the rules of the Commission by reason of their position as directors or director nominees of the Company or because they may be soliciting proxies on our behalf.

## Security Ownership of Certain Beneficial Owners and Management

The following table sets forth certain information with respect to those persons that we know to be the beneficial owners (as defined by Rule 13d-3 under the Securities Exchange Act of 1934, as amended) of more than 5% of our Common Stock, our only voting security, and with respect to the beneficial ownership of our Common Stock by all directors and nominees, each of the executive officers named in the Summary Compensation Table and all of our executive officers and directors as a group. The information set forth below is based on ownership information we received as of April 10, 2014 (except as otherwise noted below). Unless specified otherwise, the shares indicated are presently outstanding, and each of the stockholders listed below has sole voting and investment power with respect to the shares beneficially owned.

Name and Address of Beneficial Owner	Amount and Nature of Beneficial Ownership (1)	Percent of Class (1)
Prudential Financial, Inc. 751 Broad Street Newark, NJ 07102-3777	5,568,014 (2)	15.80%
North Tide Capital, LLC 500 Boylston Street Suite 310 Boston, MA 02116	3,850,000 (3)	10.93%
BlackRock, Inc. 40 East 52 <sup>nd</sup> Street New York, NY 10022	3,254,885 (4)	9.24%
EARNEST Partners, LLC 1180 Peachtree Street NE Suite 2300 Atlanta, GA 30309	2,756,961 (5)	7.82%
The Vanguard Group 100 Vanguard Boulevard Malvern, PA 19355	2,110,311 (6)	5.99%
Dimensional Fund Advisors LP Palisades West, Building One 6300 Bee Cave Road Austin, TX 78746	1,933,320 (7)	5.49%
Wells Fargo & Company 420 Montgomery Street San Francisco, CA 94104	1,878,623 (8)	5.33%

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Ben R. Leedle, Jr.****	1,242,814 (9)	3.43%
Michael Farris***	389,932 (10)	1.11%
Alfred Lumsdaine***	147,579 (11)	*
Daniel J. Englander**	115,000 (12)	*
C. Warren Neel, Ph.D**	97,105 (13)	*

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Peter Choueiri***	92,486 (14)	*
John W. Ballantine**	72,475 (15)	*
Mary Jane England, M.D.**	65,611 (16)	*
Jay C. Bisgard, M.D.**	64,624 (17)	*
Alison Taunton-Rigby, Ph. D.**	55,919 (18)	*
John A. Wickens**	57,475 (19)	*
Glenn Hargreaves***	49,520 (20)	*
William D. Novelli**	31,191 (21)	*
Mary Flipse***	14,674 (22)	*
Kevin G. Wills**	9,132 (23)	*
Donato Tramuto**	7,950 (24)	*
All directors and executive officers as a group (16 persons)	2,511,762 (25)	6.84%

\* Indicates ownership of less than one percent of our outstanding Common Stock

\*\* Director of the Company

\*\*\* Named Executive Officer

\*\*\*\* Director and Named Executive Officer

(1) Pursuant to the rules of the Commission, certain shares of our Common Stock that an individual owner set forth in this table has a right to acquire within 60 days after April 10, 2014 pursuant to the exercise of options to purchase shares of Common Stock ("stock options") or other securities are deemed to be outstanding for the purpose of computing the ownership of that owner, but are not deemed outstanding for the purpose of computing the ownership of any other individual owner shown in the table. Likewise, the shares subject to stock options or other securities held by our other directors and executive officers that are exercisable within 60 days of April 10, 2014 are all deemed outstanding for the purpose of computing the percentage ownership of all executive officers and directors as a group.

(2) Information with respect to stock ownership is based on a Schedule 13G/A filed by Prudential Financial, Inc. ("Prudential") with the Commission on January 29, 2014 and includes shares held by certain of its subsidiaries, including Jennison Associates LLC ("Jennison"). Includes 105,304 shares to which Prudential has sole voting power, 5,462,710 shares to which Prudential has shared voting power, 105,304 shares to which Prudential has sole investment power and 5,462,710 shares to which Prudential has shared investment power. Jennison filed a separate Schedule 13G/A with the Commission on February 12, 2014 reporting beneficial ownership of 5,477,265 shares to which Jennison has sole voting power and shared investment power. These shares have not been listed separately because they are included in the shares reported by Prudential, which indirectly owns 100% of the equity interests of Jennison. The address of Jennison is 466 Lexington Avenue, New York, New York 10017.

(3)

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Information with respect to stock ownership is based on a Schedule 13D/A filed with the Commission on March 3, 2014. Includes 3,850,000 shares to which North Tide Capital, LLC has shared voting and investment power. Includes 3,425,000 shares to which North Tide Capital Master, LP has shared voting and investment power. Includes 3,850,000 shares to which Conan Laughlin, who serves as the Manager of North Tide Capital, LLC, has shared voting and investment power. The address of North Tide Capital Master, LP and Conan Laughlin is 500 Boylston Street, Suite 310, Boston, Massachusetts, 02116.

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(4) Information with respect to stock ownership is based on a Schedule 13G/A filed by BlackRock, Inc. with the Commission on January 29, 2014 and includes shares held by certain of its subsidiaries. Includes 3,142,378 shares to which BlackRock, Inc. has sole voting power and 3,254,885 shares to which BlackRock, Inc. has sole investment power.

(5) Information with respect to stock ownership is based on a Schedule 13G/A filed with the Commission on February 14, 2014. Includes 1,164,444 shares to which EARNEST Partners, LLC ("EARNEST") has sole voting power, 379,742 shares to which EARNEST has shared voting power and 2,756,961 shares to which EARNEST has sole investment power.

(6) Information with respect to stock ownership is based on a Schedule 13G/A filed by The Vanguard Group, Inc. ("Vanguard") with the Commission on February 11, 2014 and includes shares held by certain of its subsidiaries. Includes 54,994 shares to which Vanguard has sole voting power, 2,057,217 shares to which Vanguard has sole investment power and 53,094 shares to which Vanguard has shared investment power.

(7) Information with respect to stock ownership is based on a Schedule 13G filed with the Commission on February 10, 2014. Includes 1,865,966 shares to which Dimensional Fund Advisors LP ("Dimensional") has sole voting power and 1,933,320 shares to which Dimensional has shared investment power.

(8) Information with respect to stock ownership is based on a Schedule 13G/A filed by Wells Fargo & Company ("WFC") with the Commission on January 28, 2014 and includes shares held by certain of its subsidiaries. Includes 116 shares to which WFC has sole voting power, 1,873,010 shares to which WFC has shared voting power, 116 shares to which WFC has sole investment power and 1,878,507 shares to which WFC has shared investment power.

(9) Includes 985,916 shares that, as of April 10, 2014, were issuable upon the exercise of outstanding stock options within 60 days after April 10, 2014.

(10) Includes 389,611 shares held in trust.

(11) Includes 113,567 shares that, as of April 10, 2014, were issuable upon the exercise of outstanding stock options within 60 days after April 10, 2014.

(12) Consists of 115,000 shares held indirectly with Ursula Capital Partners, of which Mr. Englander is the Managing Partner. Mr. Englander disclaims beneficial ownership of these securities except to the extent of his pecuniary interest therein.

(13) Includes 43,764 shares that, as of April 10, 2014, were issuable upon the exercise of outstanding stock options within 60 days after April 10, 2014.

(14) Includes 74,754 shares that, as of April 10, 2014, were issuable upon the exercise of outstanding stock options within 60 days after April 10, 2014.

(15) Includes 43,764 shares that, as of April 10, 2014, were issuable upon the exercise of outstanding stock options within 60 days after April 10, 2014, and 20,000 shares held in trust.

(16) Includes 53,764 shares that, as of April 10, 2014, were issuable upon the exercise of outstanding stock options within 60 days after April 10, 2014.

(17) Includes 43,764 shares that, as of April 10, 2014, were issuable upon the exercise of outstanding stock options within 60 days after April 10, 2014, and 20,860 shares held in trust.





- (18) Includes 33,764 shares that, as of April 10, 2014, were issuable upon the exercise of outstanding stock options within 60 days after April 10, 2014.
- (19) Includes 43,764 shares that, as of April 10, 2014, were issuable upon the exercise of outstanding stock options within 60 days after April 10, 2014, and 1,100 shares held jointly by Mr. Wickens and his spouse.
- (20) Includes 40,497 shares that, as of April 10, 2014, were issuable upon the exercise of outstanding stock options within 60 days after April 10, 2014.
- (21) Includes 27,724 shares that, as of April 10, 2014, were issuable upon the exercise of outstanding stock options within 60 days after April 10, 2014.
- (22) Includes 11,784 shares that, as of April 10, 2014, were issuable upon the exercise of outstanding stock options within 60 days after April 10, 2014.
- (23) Consists of 9,132 shares that, as of April 10, 2014, were issuable upon the exercise of outstanding stock options within 60 days after April 10, 2014.
- (24) Includes 3,750 shares that, as of April 10, 2014, were issuable upon the exercise of outstanding stock options within 60 days after April 10, 2014.
- (25) Includes 1,529,708 shares that, as of April 10, 2014, were issuable upon the exercise of outstanding stock options within 60 days after April 10, 2014.

#### Corporate Governance

##### Board Information

Our Board held nine meetings during 2013. All of the members of the Board who served during 2013 except Thomas G. Cigarran and Mr. Leedle are "independent directors," as defined under applicable law and the NASDAQ Global Select Market ("NASDAQ") listing standards. In addition, the Board has determined that Daniel J. Englander, the Board's nominee for director, is an "independent director," as defined under applicable law and NASDAQ listing standards. The Board has a Nominating and Corporate Governance Committee, an Audit Committee and a Compensation Committee.

Each of our incumbent directors attended at least 75% of the aggregate of the total number of meetings held during 2013 by the Board and of each committee of which such director was a member for the entire year.

##### Leadership Structure

We believe our board leadership structure is appropriate in light of the Company's business. Our Board of Directors' Corporate Governance Guidelines (our "Corporate Governance Guidelines") note that our Bylaws provide that our Board size should consist of at least five and no more than 12 directors which we believe provides for the optimal exchange of ideas without stifling cooperation. While our Corporate Governance Guidelines provide flexibility in who may serve as Chairman of the Board, we do not presently combine the roles of Chairman and Chief Executive Officer ("CEO"). In May 2011, the Board elected John Ballantine, a director of the Company since 2003, as Chairman of the Board. Our Corporate Governance Guidelines set forth in greater detail the responsibilities of our Board. Our Corporate Governance Guidelines are available under "Corporate Governance" accessible through the "Investors" link on the Company's website at [www.healthways.com](http://www.healthways.com).

##### Risk Oversight

The Company is exposed to a number of risks, including economic, environmental, operational, and regulatory risks, among others. Management is responsible for the day-to-day management of the risks the Company faces, while the Board as a whole is responsible for the oversight of such risk. Our Audit, Compensation and Nominating and Corporate Governance Committees each play a significant role in assisting the Board to fulfill its oversight responsibilities.

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Our Audit Committee, for example, is responsible for overseeing the accounting, financial, legal, and regulatory risks the Company faces. The Audit Committee receives reports from management and outside auditors regarding material issues concerning the adequacy of the Company's internal controls over financial reporting. The Audit Committee also has access to management in discharging its duties and provides regular reports to the Board.

Our Compensation Committee assists the Board with risk oversight by annually reviewing the compensation philosophy of the Company and evaluating and providing recommendations on executive compensation as well as producing an annual report on executive compensation to be included in our Proxy Statement. As further described in "Compensation Discussion and Analysis" beginning on page 27, the Compensation Committee has determined that our compensation programs do not encourage our management or colleagues to take risks reasonably likely to have a material adverse effect on our business. The Compensation Committee regularly reports its activities to the full Board.

Our Nominating and Corporate Governance Committee assists with risk oversight by managing Board structure and organization, the criteria for selecting new members to the Board and any Board committees, determining compensation for directors, evaluating Board members, and annually reviewing the corporate governance principles of the Company and recommending changes when appropriate. The Nominating and Corporate Governance Committee regularly provides reports to the Board. The activities of each of our committees are set forth in greater detail in each of their respective charters, which are available under "Corporate Governance" accessible through the "Investors" link on the Company's website at [www.healthways.com](http://www.healthways.com).

#### Committees of the Board

##### Compensation Committee

During 2013, the Compensation Committee was composed of Drs. England and Taunton-Rigby and Mr. Novelli for the entire year, Mr. Wills from February 2013 through the end of the year, Mr. Tramuto from June 2013 through the end of the year, and William C. O'Neil, Jr. from January 2013 until the 2013 Annual Meeting of Shareholders, the date of his retirement from the Board. It was chaired by Mr. Novelli. As discussed in "Compensation Discussion and Analysis," all of the directors who serve on the Compensation Committee are "non-employee directors" as defined in Rule 16b-3 of the rules promulgated under the Securities Exchange Act of 1934, as amended, "Outside Directors" for purposes of regulations promulgated pursuant to Section 162(m) of the Internal Revenue Code of 1986, as amended, and "independent directors" as defined under the NASDAQ corporate governance listing standards, in each case as determined by the Board. The Compensation Committee is responsible for overseeing our overall compensation strategies and policies, evaluating the performance of our executive officers and recommending to the independent directors the compensation of each of our executive officers and administering our equity-based incentive plans, among other things. The Compensation Committee's Charter, which is reviewed annually by the Compensation Committee and is available on our website at [www.healthways.com](http://www.healthways.com), provides a detailed description of the Compensation Committee's duties and responsibilities. The Compensation Committee held five meetings during 2013.

In connection with his election to the Board (as discussed below), the Board, upon the recommendation of the Nominating and Corporate Governance Committee, appointed Mr. Englander to serve as a member of the Compensation Committee, effective March 17, 2014.

##### Nominating and Corporate Governance Committee

During 2013, the Nominating and Corporate Governance Committee was composed of Drs. England, Bisgard and Neel and Messrs. Novelli and Wickens and was chaired by Dr. England. All of the directors who serve on the Nominating and Corporate Governance Committee are "independent directors" as defined under the NASDAQ corporate governance listing standards. The Nominating and Corporate Governance Committee's responsibilities

include identifying individuals qualified to become members of the Board and recommending such individuals to the Board for election to the Board and developing and recommending to the Board corporate governance principles applicable to the Company. The Nominating and Corporate Governance Committee's Charter, which is reviewed annually by the Nominating and Corporate Governance Committee and is available on our website at [www.healthways.com](http://www.healthways.com), provides a detailed description of the Nominating and Corporate Governance Committee's duties and responsibilities and sets forth the director nomination process. The Nominating and Corporate Governance Committee held four meetings during 2013.

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## Audit Committee

During 2013, the Audit Committee was composed of Messrs. Wills and Wickens and Drs. Bisgard, Neel and Taunton-Rigby for the entire year, and Mr. O'Neil through May 2013. The Audit Committee was chaired by Dr. Neel. All of the directors on the Audit Committee are "independent directors" as defined under the NASDAQ corporate governance listing standards, and satisfy the heightened independence criteria applicable to members of the Audit Committee under the NASDAQ corporate governance listing standards and Rule 10A-3(b)(1) of the Securities Exchange Act of 1934, as amended. We have, and will continue to have, at least one member of the Audit Committee who has past employment experience in finance or accounting and requisite professional certification in accounting or other comparable experience that results in the individual's financial sophistication. The Audit Committee meets with our independent registered public accounting firm and management to review our consolidated financial statements, the quality and integrity of our accounting, auditing and financial reporting process, and our systems of internal controls. The Board has determined that Mr. Wills qualifies as an "audit committee financial expert," as defined by the regulations of the Commission. The Audit Committee's Charter, which is reviewed annually by the Audit Committee and is available on our website at [www.healthways.com](http://www.healthways.com), provides a detailed description of the Audit Committee's duties and responsibilities. The Audit Committee held 12 meetings during fiscal 2013.

## Investments Sub-Committee

In September 2011, the Board formed an Investments Sub-Committee (the "Sub-Committee"). The Sub-Committee has four members, two of whom were Board-appointed and two of whom are ex officio members by virtue of serving as the Chairman of the Board and Chairman of the Audit Committee:

Jay C. Bisgard (Board-appointed)	Chairman
Kevin G. Wills (Board-appointed)	Member
John W. Ballantine	Ex Officio (Chairman of the Board)
C. Warren Neel, Ph.D.	Ex Officio (Chairman of the Audit Committee)

An "Investment" is defined as an expenditure of capital or the transfer of value by the Company in exchange for businesses, securities, assets or similar matters of value.

The CEO is authorized to approve on behalf of the Company the making of Investments that do not exceed \$10 million twice during any Company fiscal year. Actions by the CEO pursuant to this authority shall be communicated to the full Board in a timely manner.

Investments exceeding \$10 million but not exceeding \$25 million must be submitted to the Sub-Committee for review and final approval/non-approval. Actions by the Sub-Committee shall be communicated to the full Board in a timely manner.

Investments in amounts exceeding \$25 million must be submitted to the full Board for review and approval/non-approval.

Investments (regardless of amount) that involve the issuance of Company equity securities or debt securities registered under the Securities and Exchange Act of 1934, as amended, must be presented to and approved by the full Board.

Investments (regardless of amount) implicating a conflict of interest involving any officer or director of the Company must be presented to and approved by the full Board.

#### Corporate Governance Guidelines

The Board has adopted Corporate Governance Guidelines to assist the Board in the exercise of its duties and responsibilities and to serve in the best interests of the Company and its stockholders. Our Corporate Governance Guidelines, which are available on our website at [www.healthways.com](http://www.healthways.com), provide a framework for the conduct of the business of the Board.

#### Code of Conduct

Our Code of Business Conduct applies to all employees (including officers) and non-employee directors (collectively, "colleagues"). The purpose of the Code of Business Conduct is to provide written standards that are reasonably designed to promote: honest and ethical conduct; full, fair, accurate, timely and understandable disclosure in reports and documents we file with the Commission and other public communications we make; compliance with applicable governmental laws, rules and regulations; prompt internal reporting of violations of the Code of Business Conduct; and accountability for adherence to the Code of Business Conduct, and to deter wrongdoing. A copy of our Code of Business Conduct, as well as any amendments thereto, is available on our website at [www.healthways.com](http://www.healthways.com).

#### Stockholder Nominees

The policy of the Nominating and Corporate Governance Committee is to consider properly submitted stockholder nominations for director candidates as described below under "Identifying and Evaluating Nominees for Directors."  
Any stockholder