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AMERICAN HEALTHWAYS INC

Form 8-K/A

August 21, 2001

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SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 8-K/A
(AMENDMENT NO. 2)

CURRENT REPORT

PURSUANT TO SECTION 13 OR 15(D) OF THE SECURITIES EXCHANGE ACT OF 1934

Date of Report (Date of earliest event reported): August 21, 2001 (June 1, 2001)

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

DELAWARE	000-19364	62-1117144
(State or other jurisdiction of incorporation or organization)	(Commission File Number)	(I.R.S. employer identification no.)

3841 GREEN HILLS VILLAGE DRIVE	
NASHVILLE, TENNESSEE	37215
(Address of principal executive offices)	(Zip code)

(615) 665-1122
(Registrant's Telephone Number, Including Area Code)

NOT APPLICABLE
(Former name or former address, if changed since last report)

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ITEM 7. FINANCIAL STATEMENTS AND EXHIBITS.

This Form 8-K/A (Amendment No. 2) includes the following financial information required to be filed pursuant to Item 7 (Financial Statements, Pro Forma Information and Exhibits) of the Registrant's Current Report on Form 8-K dated June 6, 2001 and as amended on Form 8-K/A (Amendment No. 1) dated August 15, 2001. This amendment includes changes in the unaudited pro forma information previously presented on Form 8-K/A (Amendment No. 1).

(a) Financial Statements of Businesses Acquired:

1. Independent Auditors' Report.
2. Balance Sheets of CareSteps.com, Inc. as of August 31, 2000 and May 31, 2001 (unaudited).
3. Statements of Operations of CareSteps.com, Inc. for the period from December 7, 1999 (date of incorporation) to August 31, 2000, and for the nine months ended May 31, 2001 (unaudited).
4. Statement of Changes in Stockholders' Equity of CareSteps.com, Inc. for the period from December 7, 1999 (date of incorporation) to August 31, 2000, and for the nine months ended May 31, 2001 (unaudited).

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5. Statements of Cash Flows of CareSteps.com, Inc. for the period from December 7, 1999 (date of incorporation) to August 31, 2000, and for the nine months ended May 31, 2001 (unaudited).
6. Notes to Financial Statements.

(b) Pro Forma Information:

1. Unaudited pro forma combined balance sheet of American Healthways, Inc. as of May 31, 2001 and statements of operations for the year ended August 31, 2000 and the nine months ended May 31, 2001.
2. Notes to unaudited pro forma combined balance sheet and statements of earnings.

(c) Exhibits:

- 23.1 Consent of Deloitte & Touche LLP

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INDEPENDENT AUDITORS' REPORT

To the Board of Directors
CareSteps.com, Inc.
Nashville, Tennessee

We have audited the accompanying balance sheet of CareSteps.com, Inc. (the "Company"), as of August 31, 2000 and the related statements of operations, changes in stockholders' equity and cash flows for the period from December 7, 1999 (date of incorporation) to August 31, 2000. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of CareSteps.com, Inc. as of August 31, 2000, and the results of its operations and its cash flows for the period from December 7, 1999 (date of incorporation) to August 31, 2000 in conformity with accounting principles generally accepted in the United States of America.

/s/ DELOITTE & TOUCHE LLP

Nashville, Tennessee
July 27, 2001

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CARESTEPS.COM, INC.
BALANCE SHEETS

	AUGUST 31, 2000 -----	MAY 31, 2001 ----- (UNAUDITED)
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 1,731,288	\$ 1,310,710
Accounts receivable, net	--	69,737
Other current assets	--	10,032
	-----	-----
Total current assets	1,731,288	1,390,479
Property and equipment, net (note 2)	32,247	50,689
	-----	-----
Total assets	\$ 1,763,535 =====	\$ 1,441,168 =====
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	\$ 89,527	\$ 117,835
Accrued salaries and benefits	25,520	83,577
	-----	-----
Total current liabilities	115,047	201,412
	-----	-----
Commitments and contingencies (note 4)		
Stockholders' equity (note 3):		
Preferred stock, \$.001 par value, 5,000,000 shares authorized, 100 shares outstanding	1	1
Common stock, \$.001 par value, 20,000,000 shares authorized, 15,028,008 and 16,239,372 (unaudited) shares outstanding, respectively	7,140	8,351
Additional paid-in capital	2,368,109	3,392,528
Retained earnings (deficit)	(726,762)	(2,161,124)
	-----	-----
Total stockholders' equity	1,648,488	1,239,756
	-----	-----
Total liabilities and stockholders' equity	\$ 1,763,535 =====	\$ 1,441,168 =====

See accompanying notes to the financial statements.

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CARESTEPS.COM, INC.
STATEMENTS OF OPERATIONS

	PERIOD FROM DECEMBER 7, 1999 (DATE OF INCORPORATION) TO AUGUST 31, 2000	NINE MONTHS ENDED MAY 31, 2001
	-----	----- (UNAUDITED)
Revenues	\$ --	\$ 409,793
Operating expenses:		
Salaries and benefits	96,483	920,133
Consulting fees	388,836	74,215
Technology support	120,406	307,118
Marketing	90,196	126,493
Other operating expenses	60,912	458,705
Depreciation and amortization	511	6,409
	-----	-----
Total operating expenses	757,344	1,893,073
	-----	-----
Loss from operations	(757,344)	(1,483,280)
Interest income	30,582	48,918
	-----	-----
Net loss	\$ (726,762)	\$ (1,434,362)
	=====	=====

See accompanying notes to the financial statements.

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CARESTEPS.COM, INC.
STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY

	PREFERRED STOCK	COMMON STOCK	ADDITIONAL PAID-IN CAPITAL	RETAINED EARNINGS (DEFICIT)	TOTAL
	-----	-----	-----	-----	-----
Balance, December 7, 1999 (date of incorporation)	\$-	\$3,000	\$ --	\$ --	\$
Issuance of common stock, net of issuance costs	1	4,140	2,368,109	--	2,37

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Net loss	-	--	--	(726,762)	(72
	--	-----	-----	-----	-----
Balance, August 31, 2000	1	7,140	2,368,109	(726,762)	1,64
Issuance of common stock	-	1,211	1,023,789	--	1,02
Capital contribution	-	--	630	--	
Net loss	-	--	--	(1,434,362)	(1,43
	--	-----	-----	-----	-----
Balance, May 31, 2001 (unaudited)	\$1	\$8,351	\$3,392,528	\$ (2,161,124)	\$ 1,23
	==	=====	=====	=====	=====

See accompanying notes to the financial statements.

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CARESTEPS.COM, INC.
STATEMENTS OF CASH FLOWS

	PERIOD FROM DECEMBER 7, 1999 (DATE OF INCORPORATION) TO AUGUST 31, 2000	NINE EN MA 2 (UNAU
	-----	-----
Cash flows from operating activities:		
Net loss	\$ (726,762)	\$ (1,
Depreciation and amortization	511	
Increase in accounts receivable	--	
Increase in other current assets	--	
Increase in accounts payable	89,527	
Increase in accrued salaries and benefits	25,520	
	-----	-----
Net cash flows used in operating activities	(611,204)	(1,
	-----	-----
Cash flows from investing activities:		
Purchase of property and equipment	(32,758)	
	-----	-----
Net cash flows used in investing activities	(32,758)	
	-----	-----
Cash flows from financing activities:		
Proceeds from issuance of common stock	2,375,250	1,
Capital contributions	--	
	-----	-----
Net cash flows provided by financing activities	2,375,250	1,
	-----	-----

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Net increase (decrease) in cash and cash equivalents	1,731,288	(
Cash and cash equivalents, beginning of period	--	1,
	-----	-----
Cash and cash equivalents, end of period	\$ 1,731,288	\$ 1,
	=====	=====

See accompanying notes to the financial statements.

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CARESTEPS.COM, INC.
 NOTES TO FINANCIAL STATEMENTS
 PERIOD FROM DECEMBER 7, 1999 (DATE OF INCORPORATION) TO AUGUST 31, 2000
 AND NINE MONTHS ENDED MAY 31, 2001 (UNAUDITED)

(1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. ORGANIZATION AND NATURE OF OPERATIONS

CareSteps.com, Inc. (the "Company") through the development and of use medical software applications provides care management services to payors, providers and purchasers of healthcare services.

B. BASIS OF PRESENTATION

The accompanying financial statements have been prepared under the accrual basis of accounting.

C. REVENUE RECOGNITION

Revenues under the Company's contracts with employers and health plans are recognized as the underlying services are provided.

D. CASH AND CASH EQUIVALENTS

Cash and cash equivalents consist principally of demand deposits at banks and other highly liquid short-term investments with original maturities of less than three months.

E. PROPERTY AND EQUIPMENT

Property and equipment are stated at cost. Depreciation for equipment and furniture and fixtures is recognized over useful lives of five to fifteen years.

F. MANAGEMENT ESTIMATES

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from these estimates.

G. RECENT ACCOUNTING PRONOUNCEMENTS

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In June 1998, the Financial Accounting Standards Board Issued Statement of Financial Accounting Standards No. 133, "Accounting for Derivative Instruments and Hedging Activities." The Company adopted this pronouncement on September 1, 2000, which had no impact on the Company's financial statements.

H. UNAUDITED INTERIM INFORMATION

The unaudited interim financial statements include all adjustments, consisting only of normal recurring adjustments, which management considers necessary for a fair presentation of the financial position and results of operations of the Company. The results of operations the nine months ended May 31, 2001 are not necessarily indicative of the results that may be expected for a full year.

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(2) PROPERTY AND EQUIPMENT

Property and equipment at August 31, 2000 and May 31, 2001 are as follows:

	AUGUST 31, 2000 -----	MAY 31, 2001 ----- (UNAUDITED)
Office equipment	\$ 29,839	\$ 53,162
Furniture and fixtures	2,919 -----	4,447 -----
Total cost	32,758	57,609
Accumulated depreciation	(511) -----	(6,920) -----
Property and equipment, net ...	\$ 32,247 =====	\$ 50,689 =====

(3) STOCKHOLDERS' EQUITY

In April 2000, the Company issued 2,515,508 shares of common stock valued at \$0.846 per share to private investors resulting in proceeds of \$2,028,500 (net of issuance costs of \$100,000). Preceding the completion of the offering and pursuant to the terms of a funding agreement and a consulting agreement with Springboard L.P., the Company issued 100 shares of Series A Preferred Stock and 1,625,000 shares of common stock. Based on the terms of these agreements, management attributed 406,250 of the common shares issued as payment for consulting services and accordingly recorded consulting expense of \$343,750 with a corresponding increase to additional paid-in capital.

(4) LEASES

The Company operates under facilities and office equipment leases that expire between August 2001 and August 2003. Future minimum lease payments at August 31, 2000 are as follows:

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YEAR ENDING
AUGUST 31,

2001	\$37,383
2002	2,230
2003	2,230

Total	\$41,843
	=====

The Company incurred rent expense for the period from December 7, 1999 (date of incorporation) to August 31, 2000, and the nine months ended May 31, 2001 (unaudited) of \$4,915 and \$33,509, respectively.

(5) SUBSEQUENT EVENTS

In December 2000, the Company completed an offering of 1,181,818 shares of common stock valued at \$0.846 per share to American Healthways, Inc. resulting in proceeds of \$1,000,000. The Company also issued 29,546 shares of common stock valued at \$0.846 to a third party in exchange for certain marketing and advertising services and recorded a corresponding expense of \$25,000.

Effective June 1, 2001, under the terms of an agreement and plan of merger, American Healthways, Inc. acquired the 93% interest that it did not already own of the Company's outstanding common stock in exchange for 627,106 shares of American Healthways, Inc. common stock valued at approximately \$13,884,000. Certain stockholders of the Company also received an additional 11,905 shares of American Healthways, Inc. common stock valued at approximately \$251,000 in connection with entering into covenants not to compete. In order to complete this transaction the Company, under existing stockholder agreements, was required to make cash payments to certain investors totaling \$1,081,668.

AMERICAN HEALTHWAYS, INC.
UNAUDITED PRO FORMA COMBINED FINANCIAL INFORMATION BASIS OF PRESENTATION

The unaudited pro forma combined statements of operations of American Healthways, Inc. for the year ended August 31, 2000 and nine months ended May 31, 2001, are presented to show the effects of the acquisition of CareSteps.com, Inc. ("CareSteps") as if it had occurred on September 1, 1999. The unaudited pro forma combined balance sheet reflects the pro forma balance sheet of American Healthways as if the acquisition had occurred as of May 31, 2001. The pro forma information is based on the historical financial statements of American Healthways and CareSteps, giving effect to the acquisition under the purchase method of accounting and the assumptions and adjustments in the accompanying notes to the pro forma combined financial information. The allocation of the purchase price is preliminary, but management does not believe it will change materially.

The unaudited pro forma financial information does not purport to represent what American Healthways' results of operations would actually have been had the transactions in fact occurred on the dates indicated above, nor to

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project American Healthways' financial position or results of operations for any future date or period. In the opinion of American Healthways' management, all adjustments necessary for a fair presentation have been made. This unaudited pro forma financial information should be read in conjunction with the accompanying notes and the consolidated financial statements of American Healthways, Inc. and the related notes included in American Healthways' 2000 Annual Report on Form 10-K and Quarterly Report on Form 10-Q for the quarter ended May 31, 2001.

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AMERICAN HEALTHWAYS, INC.
 UNAUDITED PRO FORMA COMBINED BALANCE SHEET
 MAY 31, 2001
 (All amounts expressed in thousands)

	HISTORICAL	CARESTEPS	PRO-FO ADJUSTM
	-----	-----	-----
Current Assets:			
Cash and cash equivalents	\$ 9,064	\$ 1,311	(8
Accounts receivable, net	5,162	70	(1,0
Other current assets	2,016	10	
Deferred tax assets	724	--	
	-----	-----	-----
Total current assets	16,966	1,391	(1,9
Property and equipment, net	13,582	51	
Long-term deferred tax assets	2,132	--	6
Other assets	1,500	--	(1,0
Intangible assets, net	10,414	--	15,2
	-----	-----	-----
Total assets	\$ 44,594	\$ 1,442	\$ 12,8
	=====	=====	=====
Current Liabilities:			
Accounts payable	\$ 1,806	\$ 118	\$
Accrued salaries and benefits	4,001	84	
Accrued liabilities	1,319	--	
Income taxes payable	1	--	
Current portion of other long-term liabilities	380	--	
	-----	-----	-----
Total current liabilities	7,507	202	
Other long-term liabilities	3,253	--	
Stockholders' equity:			
Preferred stock	--	--	
Common stock	9	8	
Additional paid-in capital	25,340	3,393	(2,3

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Retained earnings	8,485	(2,161)	14,1
	-----	-----	(1,0)
Total stockholders' equity	33,834	1,240	2,1
	-----	-----	-----
Total liabilities and stockholders' equity	\$ 44,594	\$ 1,442	\$ 12,8
	=====	=====	=====

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AMERICAN HEALTHWAYS, INC.
 UNAUDITED PRO FORMA COMBINED STATEMENT OF OPERATIONS
 FOR THE YEAR ENDED AUGUST 31, 2000
 (All amounts expressed in thousands, except per share data)

	HISTORICAL	CARESTEPS	PRO-FORMA ADJUSTMENTS
	-----	-----	-----
Revenues	\$ 53,030	\$ --	\$ --
Expenses:			
Salaries and benefits	34,975	96	--
Other operating expenses	13,786	660	--
Depreciation and amortization	3,621	1	985 (
Interest expense (income)	22	(31)	--
	-----	-----	-----
Total expenses	52,404	726	985
	-----	-----	-----
Income (loss) before income taxes	626	(726)	(985)
Income tax expense	478	--	(323)
	-----	-----	-----
Net income (loss)	\$ 148	\$ (726)	\$ (662)
	=====	=====	=====
Basic income (loss) per share	\$ 0.02		
Diluted income (loss) per share	\$ 0.02		
Weighted average common shares and equivalents:			
Basic	8,269		639 (
Diluted	8,635		639 (

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AMERICAN HEALTHWAYS, INC.

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UNAUDITED PRO FORMA COMBINED STATEMENT OF OPERATIONS
FOR THE NINE MONTHS ENDED MAY 31, 2001
(All amounts expressed in thousands, except per share data)

	HISTORICAL	CARESTEPS	PRO-FORMA ADJUSTMENT
Revenues	\$ 52,694	\$ 410	\$ --
Expenses:			
Salaries and benefits	31,420	920	--
Other operating expenses	13,533	967	--
Depreciation and amortization	3,888	6	640
Interest expense (income)	62	(49)	--
	-----	-----	-----
Total expenses	48,903	1,844	640
	-----	-----	-----
Income (loss) before income taxes	3,791	(1,434)	(640)
Income tax expense	1,649	--	(581)
	-----	-----	-----
Net income (loss)	\$ 2,142	\$ (1,434)	\$ (59)
	=====	=====	=====
Basic income per share	\$ 0.26		
Diluted income per share	\$ 0.24		
Weighted average common shares and equivalents:			
Basic	8,368		639
Diluted	9,065		639

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AMERICAN HEALTHWAYS, INC.
NOTES TO UNAUDITED PRO FORMA COMBINED FINANCIAL INFORMATION
(All amounts expressed in thousands)

The accompanying pro forma combined balance sheet reflects the pro forma balance sheet of American Healthways, Inc. as if the acquisition of the outstanding common stock of CareSteps.com, Inc. had occurred as of May 31, 2001. The accompanying pro forma combined statements of operations reflect the pro forma results of American Healthways, Inc. as if the acquisition of CareSteps.com, Inc. had occurred on September 1, 1999.

PRO FORMA ADJUSTMENTS

1. To reclassify previous investment in unconsolidated subsidiary of \$1,000 and reflect the allocation of the purchase price (consisting of common stock valued at \$14,135 and payment of acquisition related costs of \$841) as follows:

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Fair value of assets acquired	\$ 158
Deferred tax asset	600
Intangible assets:	
Non-compete agreements	374
Acquired technology	468
Customer contracts	132
Excess of cost over net assets of purchased companies	14,244

Total purchase price	\$ 15,976
	=====

2. To eliminate equity of purchased company.
3. To reflect contractual payments to certain CareSteps.Com, Inc. investors immediately preceding the acquisition.
4. To reflect additional amortization of identifiable intangible assets and excess of cost over net assets of purchased companies using the straight-line method of amortization and the following estimated useful lives: non-compete agreements - three years; acquired technology - three years; customer contracts - one year and excess of cost over net assets of purchased companies - twenty-five years.

In July 2001, the Financial Accounting Standards Board issued SFAS No. 141, "Business Combinations," and No. 142, "Goodwill and Other Intangible Assets." SFAS No. 141 requires that the purchase method of accounting be used for all business combinations initiated after June 30, 2001 and that the pooling-of-interest method is not longer allowed. SFAS No. 142 requires that upon adoption, amortization of goodwill will cease and instead, the carrying value of goodwill will be evaluated for impairment on an annual basis. Identifiable intangible assets will continue to be amortized over their useful lives. SFAS No. 142 is effective for fiscal years beginning after December 15, 2001; however, American Healthways, Inc. may elect early adoption of this statement on September 1, 2001, the beginning of its 2002 fiscal year. American Healthways, Inc. is evaluating the impact of the adoption of these standards on previously existing intangible assets and on intangible assets generated from the acquisition of CareSteps.com, Inc. and has not yet determined the effect of adoption on its financial position and results of operations.

5. To record estimated federal and state income tax benefit at a combined rate of 38%, as a result of the decrease in pro forma combined earnings before income taxes due to the operating losses before taxes of CareSteps.com, Inc. and the amortization of non-compete agreements. The remaining amortization expense of identifiable intangible assets and excess of cost over net assets of purchased companies is not considered deductible for income tax purposes.
6. To reflect weighted average shares for stock issued in acquisition.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this amendment to be signed on its behalf by the

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undersigned thereunto duly authorized.

AMERICAN HEALTHWAYS, INC.

Date: August 21, 2001

By: /s/ Henry D. Herr

HENRY D. HERR
Executive Vice President and
Chief Financial Officer
(Principal Financial and Duly Authorized Officer)

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EXHIBIT INDEX

No.	Exhibit
---	-----
23.1	Consent of Independent Auditors