

TIVITY HEALTH, INC.
Form 10-Q
May 04, 2018

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

FORM 10-Q

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

For the Quarterly Period Ended March 31, 2018
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

TIVITY HEALTH, INC.
(Exact name of registrant as specified in its charter)

Delaware 62-1117144
(State or other jurisdiction of (I.R.S. Employer
incorporation or organization) 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 Website, 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, or an emerging growth company. See the definitions of "large accelerated filer", "accelerated filer", "smaller reporting company", and "emerging growth company" in Rule 12b-2 of the Exchange Act.

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

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

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

Yes No

As of April 30, 2018, there were outstanding 39,876,041 shares of the registrant's common stock, par value \$.001 per share ("common stock").

Tivity Health, Inc.
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PART I

Item 1. Financial Statements

TIVITY HEALTH, INC.
CONSOLIDATED BALANCE SHEETS
(In thousands)
(Unaudited)

ASSETS

	March 31, 2018	December 31, 2017
Current assets:		
Cash and cash equivalents	\$38,792	\$28,440
Accounts receivable, net	67,582	55,113
Prepaid expenses	3,485	3,444
Other current assets	4,779	2,180
Cash convertible notes hedges	157,143	134,079
Income taxes receivable	—	39
Total current assets	271,781	223,295
Property and equipment:		
Leasehold improvements	10,396	10,384
Computer equipment and related software	21,022	19,508
Furniture and office equipment	8,188	8,194
Capital projects in process	1,461	1,105
	41,067	39,191
Less accumulated depreciation	(29,650)	(28,533)
	11,417	10,658
Other assets	27,524	13,315
Long-term deferred tax asset	18,076	25,166
Intangible assets, net	29,049	29,049
Goodwill, net	334,680	334,680
Total assets	\$692,527	\$636,163

See accompanying notes to the consolidated financial statements.

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

LIABILITIES AND STOCKHOLDERS' EQUITY

	March 31, 2018	December 31, 2017
Current liabilities:		
Accounts payable	\$26,941	\$26,804
Accrued salaries and benefits	6,661	15,018
Accrued liabilities	44,971	33,527
Other current liabilities	750	984
Cash conversion derivative	157,143	134,079
Current portion of debt	147,831	145,959
Current portion of long-term liabilities	1,709	2,262
Total current liabilities	386,006	358,633
Other long-term liabilities	11,946	5,577
Stockholders' equity:		
Preferred stock \$.001 par value, 5,000,000 shares authorized, none outstanding	—	—
Common stock \$.001 par value, 120,000,000 shares authorized, 39,847,047 and 39,729,580 shares outstanding, respectively	40	40
Additional paid-in capital	350,529	349,243
Accumulated deficit	(27,812)	(49,148)
Treasury stock, at cost, 2,254,953 shares in treasury	(28,182)	(28,182)
Total stockholders' equity	294,575	271,953
Total liabilities and stockholders' equity	\$692,527	\$636,163

See accompanying notes to the consolidated financial statements.

TIVITY HEALTH, INC.
CONSOLIDATED STATEMENTS OF OPERATIONS
(In thousands, except earnings (loss) per share data)
(Unaudited)

	Three Months Ended March 31,	
	2018	2017
Revenues	\$149,930	\$ 140,970
Cost of services (exclusive of depreciation and amortization of \$975 and \$657, respectively, included below)	108,277	102,399
Selling, general & administrative expenses	8,583	8,361
Depreciation and amortization	1,123	787
Restructuring and related charges	—	737
Operating income	31,947	28,686
Interest expense	3,454	3,834
Income before income taxes	28,493	24,852
Income tax expense	7,157	9,371
Net income from continuing operations	21,336	15,481
Loss from discontinued operations, net of income tax benefit	—	(220)
Net income	\$ 21,336	\$ 15,261
Earnings (loss) per share - basic:		
Continuing operations	\$0.54	\$ 0.40
Discontinued operations	\$—	\$ (0.01)
Net income	\$0.54	\$ 0.39
Earnings (loss) per share - diluted:		
Continuing operations	\$0.49	\$ 0.38
Discontinued operations	\$—	\$ (0.01)
Net income ⁽¹⁾	\$0.49	\$ 0.38
Comprehensive income	\$21,336	\$ 15,372
Weighted average common shares and equivalents:		
Basic	39,783	39,069
Diluted	43,589	40,541

(1) Figures may not add due to rounding.

See accompanying notes to the consolidated financial statements.

TIVITY HEALTH, INC.
 CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
 (In thousands)
 (Unaudited)

	Three Months Ended March 31,	
	2018	2017
Net income	\$ 21,336	\$ 15,261
Other comprehensive income, net of tax:		
Foreign currency translation adjustment, net of tax	—	111
Total other comprehensive income, net of tax	\$ —	\$ 111
Comprehensive income	\$ 21,336	\$ 15,372

See accompanying notes to the consolidated financial statements.

TIVITY HEALTH, INC.
CONSOLIDATED STATEMENT OF CHANGES IN STOCKHOLDERS' EQUITY
For the Three Months Ended March 31, 2018
(In thousands)
(Unaudited)

	Preferred Stock	Common Stock	Additional Paid-in Capital	Accumulated Deficit	Treasury Stock	Total
Balance, December 31, 2017	\$ —	\$ 40	\$ 349,243	\$ (49,148	\$(28,182	\$271,953
))	
Comprehensive income	—	—	—	21,336	—	21,336
Exercise of stock options	—	—	770	—	—	770
Tax withholding for share-based compensation	—	—	(894)	—	(894
Share-based employee compensation expense	—	—	1,410	—	—	1,410
Balance, March 31, 2018	\$ —	\$ 40	\$ 350,529	\$ (27,812	\$(28,182)	\$294,575

See accompanying notes to the consolidated financial statements.

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

	Three Months Ended March 31,	
	2018	2017
Cash flows from operating activities:		
Net income from continuing operations	\$21,336	\$15,481
Net loss from discontinued operations	—	(220)
Adjustments to reconcile net income (loss) to net cash provided by operating activities:		
Depreciation and amortization	1,123	793
Amortization of deferred loan costs	522	516
Amortization of debt discount	2,044	1,931
Share-based employee compensation expense	1,410	1,446
Loss on sale of TPHS business	—	310
Deferred income taxes	7,090	8,972
Increase in accounts receivable, net	(12,712)	(16,459)
Decrease (increase) in other current assets	2,037	(441)
(Decrease) increase in accounts payable	(916)	1,337
Decrease in accrued salaries and benefits	(9,007)	(12,099)
(Decrease) increase in other current liabilities	(1,185)	2,642
Other	625	(1,185)
Net cash flows provided by operating activities	\$12,367	\$3,024
Cash flows from investing activities:		
Acquisition of property and equipment	\$(1,946)	\$(1,234)
Net cash flows used in investing activities	\$(1,946)	\$(1,234)
Cash flows from financing activities:		
Proceeds from issuance of long-term debt	8,400	109,975
Payments of long-term debt	(8,793)	(115,465)
Payments related to tax withholding for share-based compensation	(894)	(885)
Exercise of stock options	771	2,250
Change in cash overdraft and other	378	1,155
Net cash flows used in financing activities	\$(138)	\$(2,970)
Effect of exchange rate changes on cash	\$69	\$242
Net increase (decrease) in cash and cash equivalents	\$10,352	\$(938)
Cash and cash equivalents, beginning of period	28,440	1,602
Cash and cash equivalents, end of period	\$38,792	\$664

See accompanying notes to the consolidated financial statements.

TIVITY HEALTH, 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 Tivity Health, Inc. and its wholly-owned subsidiaries (collectively, "Tivity Health," the "Company," or such terms as "we," "us," or "our") reflect all adjustments, consisting only of normal recurring adjustments, necessary for a fair statement.

Our results from continuing operations do not include the results of the total population health services ("TPHS") business, which we sold to Sharecare, Inc. ("Sharecare") effective July 31, 2016. Navvis Healthcare, LLC and MeYou Health, LLC, which were part of the TPHS business, were sold separately to other buyers in November 2015 and June 2016, respectively. Results of operations for the TPHS business have been classified as discontinued operations for all periods presented in the accompanying consolidated financial statements prior to January 1, 2018. See Note 4 for further information.

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, 2017.

2. Recent Relevant Accounting Standards

On January 1, 2018, we adopted Accounting Standards Codification ("ASC") Topic 606, "Revenue from Contracts with Customers" ("ASC Topic 606") using the modified retrospective method, pursuant to which we applied ASC Topic 606 to (i) all new contracts entered into after January 1, 2018 and (ii) contracts that were not completed as of January 1, 2018. In accordance with this approach, our results for periods prior to January 1, 2018 were not revised and continue to be reported in accordance with our historical accounting under ASC Topic 605, "Revenue Recognition." For contracts that were modified prior to January 1, 2018, we have not retrospectively restated the contract for those modifications in accordance with the contract modification guidance in ASC 606-10-25-12 and ASC 606-10-25-13 but instead, using the practical expedient available under ASC 606-10-65-1(f)(4), have reflected the aggregate effect of all modifications when identifying the satisfied and unsatisfied performance obligations, determining the transaction price, and allocating the transaction price.

The cumulative impact of our adoption of ASC Topic 606 was not material to record as of January 1, 2018, and there was no material impact on our consolidated income statement, balance sheet, or cash flows for the quarter ended March 31, 2018. For example, we do not have any material contract assets or contract liabilities as defined under ASC Topic 606. In addition, the incremental costs of obtaining a contract with a customer (for example, sales commissions) that would have been recognized as an asset on January 1, 2018 were not material to record. See Note 3 for a further discussion of revenue recognition.

On January 1, 2018, we adopted Accounting Standards Update ("ASU") No. 2016-15, "Statement of Cash Flows" (Topic 230) ("ASU 2016-15"). ASU 2016-15 addresses how certain cash receipts and cash payments are presented and classified in the statement of cash flows and is to be applied using a retrospective approach. The adoption of this standard did not have a material impact on our consolidated financial statements and related disclosures and did not result in a reclassification to items in prior periods.

On January 1, 2018, we adopted ASU No. 2017-09, "Compensation-Stock Compensation (Topic 718): Scope of Modification Accounting" ("ASU 2017-09"), which clarifies when changes to the terms or conditions of a share-based payment award must be accounted for as modifications. ASU 2017-09 is to be applied prospectively to awards modified on or after January 1, 2018. The adoption of this standard did not have an impact on our consolidated financial statements and related disclosures.

In February 2016, the Financial Accounting Standards Board ("FASB") issued ASU No. 2016-02, "Leases" ("ASU 2016-02"), which requires that lessees recognize assets and liabilities for leases with lease terms greater than twelve months in the statement of financial position. ASU 2016-02 also requires improved disclosures

to help users of financial statements better understand the amount, timing and uncertainty of cash flows arising from leases. The update is effective for fiscal years beginning after December 15, 2018, including interim reporting periods within those years. We are currently evaluating the impact that the adoption of ASU 2016-02 will have on our financial position, results of operations and cash flows.

In January 2017, the FASB issued ASU No. 2017-04, "Intangibles - Goodwill and Other" ("ASU 2017-04"), which simplifies the subsequent measurement of goodwill by eliminating step two from the goodwill impairment test. ASU 2017-04 is effective for annual and interim impairment tests in fiscal years beginning after December 15, 2019 and is required to be applied prospectively. Early adoption is allowed for annual goodwill impairment tests performed on testing dates after January 1, 2017. We do not anticipate that adopting this standard will have an impact on our consolidated financial statements and related disclosures.

3. Revenue Recognition

Beginning in 2018, we account for revenue from contracts with customers in accordance with ASC Topic 606. The unit of account in ASC Topic 606 is a performance obligation, which is a promise in a contract to transfer to a customer either a distinct good or service (or bundle of goods or services) or a series of distinct goods or services provided over a period of time. ASC Topic 606 requires that a contract's transaction price, which is the amount of consideration to which an entity expects to be entitled in exchange for transferring promised goods or services to a customer, is to be allocated to each performance obligation in the contract based on relative standalone selling prices and recognized as revenue when or as the performance obligation is satisfied.

We earn revenue from our three programs, SilverSneakers® senior fitness, Prime® Fitness and WholeHealth Living™. We provide the SilverSneakers senior fitness program to members of Medicare Advantage, Medicare Supplement, and Group Retiree plans through our contracts with such plans. We offer Prime Fitness, a fitness facility acc