UNITED STATES DISTRICT COURT

MIDDLE DISTRICT OF TENNESSEE

NASHVILLE DIVISION

[redacted] Individually and on Behalf of All Others Similarly Situated, Plaintiff, vs. HEALTHWAYS INC., THOMAS G. CIGARRAN, BEN R. LEEDLE JR., and MARY A. CHAPUT, Defendants.	Civil Action No. Judge: ______________________ CLASS ACTION COMPLAINT FOR VIOLATIONS OF FEDERAL SECURITIES LAWS DEMAND FOR JURY TRIAL

Plaintiff has alleged the following based upon the investigation of Plaintiff's counsel, which included a review of United States Securities and Exchange Commission ("SEC") filings by Healthways, Inc. ("Healthways" or the "Company"), as well as regulatory filings and reports, securities analysts' reports and advisories about the Company, press releases and other public statements issued by the Company, and media reports about the Company, and Plaintiff believes that substantial additional evidentiary support will exist for the allegations set forth herein after a reasonable opportunity for discovery.

NATURE OF THE ACTION

1. This is a federal class action on behalf of purchasers of the common stock of Healthways between October 17, 2007 and February 26, 2008, inclusive (the "Class Period"), seeking to pursue remedies under the Securities Exchange Act of 1934 (the "Exchange Act").

JURISDICTION AND VENUE

2. The claims asserted herein arise under and pursuant to Sections 10(b) and 20(a) of the Exchange Act [15 U.S.C. §§78j(b) and 78t(a)] and Rule 10b-5 promulgated thereunder by the SEC [17 C.F.R. §240.10b-5].

3. This Court has jurisdiction over the subject matter of this action pursuant to 28 U.S.C. §1331 and Section 27 of the Exchange Act.

4. Venue is proper in this District pursuant to Section 27 of the Exchange Act and 28 U.S.C. §1391(b). Many of the acts charged herein, including the preparation and dissemination of materially false and misleading information, occurred in substantial part in this District.

5. In connection with the acts alleged in this Complaint, Defendants, directly or indirectly, used the means and instrumentalities of interstate commerce, including, but not limited to, the mails, interstate telephone communications and the facilities of the national securities markets.

PARTIES

6. Plaintiff [redacted] as set forth in the accompanying certification and incorporated by reference herein, purchased the common stock of Healthways at artificially inflated prices during the Class Period and has been damaged thereby.

7. Defendant Healthways provides specialized health and care support solutions in the United States.

8. (a) Defendant Thomas G. Cigarran ("Cigarran") is, and was at all relevant times, Chairman of the Board of Directors of Healthways.

(b) Defendant Ben R. Leedle Jr. ("Leedle") is, and was at all relevant times, Chief Executive Officer and President of Healthways.

(c) Defendant Mary A. Chaput ("Chaput") is, and was at all relevant times, Chief Financial Officer and Executive Vice President of Healthways.

(d) Defendants Cigarran, Leedle and Chaput are collectively referred to herein as the "Individual Defendants."

9. During the Class Period, the Individual Defendants, as senior executive officers and/or directors of Healthways, were privy to confidential and proprietary information concerning Healthways, its operations, finances, financial condition and present and future business prospects. The Individual Defendants also had access to material adverse non-public information concerning Healthways, as discussed in detail below. Because of their positions with Healthways, the Individual Defendants had access to non-public information about its business, finances, products, markets and present and future business prospects via internal corporate documents, conversations and connections with other corporate officers and employees, attendance at management and/or board of directors meetings and committees thereof, and via reports and other information provided to them in connection therewith. Because of their possession of such information, the Individual Defendants

knew or recklessly disregarded that the adverse facts specified herein had not been disclosed to, and were being concealed from, the investing public.

10. The Individual Defendants are liable as direct participants in the wrongs complained of herein. In addition, the Individual Defendants, by reason of their status as senior executive officers and/or directors, were "controlling persons" within the meaning of Section 20(a) of the Exchange Act and had the power and influence to cause the Company to engage in the unlawful conduct complained of herein. Because of their positions of control, the Individual Defendants were able to and did, directly or indirectly, control the conduct of Healthways' business.

11. The Individual Defendants, because of their positions with the Company, controlled and/or possessed the authority to control the contents of its reports, press releases and presentations to securities analysts and through them, to the investing public. The Individual Defendants were provided with copies of the Company's reports and press releases, alleged herein to be misleading, prior to or shortly after their issuance and had the ability and opportunity to prevent their issuance or cause them to be corrected. Thus, the Individual Defendants had the opportunity to commit the fraudulent acts alleged herein.

12. As senior executive officers and/or directors and as controlling persons of a publicly traded company whose common stock was, and is, registered with the SEC pursuant to the Exchange Act, and was, and is, traded on The NASDAQ Stock Market ("NASDAQ") and governed by the federal securities laws, the Individual Defendants had a duty to promptly disseminate accurate and truthful information with respect to Healthways' financial condition and performance, growth, operations, financial statements, business, products, markets, management, earnings and present and future business prospects, and to correct any previously issued statements that had become materially misleading or untrue, so that the market price of Healthways' common stock would be

based upon truthful and accurate information. The Individual Defendants' misrepresentations and omissions during the Class Period violated these specific requirements and obligations.

13. The Individual Defendants are liable as participants in a fraudulent scheme and course of conduct, which operated as a fraud or deceit on purchasers of Healthways common stock by disseminating materially false and misleading statements and/or concealing material adverse facts. The scheme: (i) deceived the investing public regarding Healthways' business, operations, management and the intrinsic value of Healthways' securities; (ii) allowed Defendant Cigarran and other Company insiders to collectively sell 288,824 shares of their personally-held Healthways common stock for gross proceeds in excess of $17.1 million; and (iii) caused Plaintiff and members of the Class (defined below) to purchase Healthways common stock at artificially inflated prices.

PLAINTIFF'S CLASS ACTION ALLEGATIONS

14. Plaintiff brings this action as a class action pursuant to Federal Rule of Civil Procedure 23(a) and (b)(3) on behalf of a class consisting of all those who purchased the common stock of Healthways between October 17, 2007 and February 26, 2008, inclusive, and who were damaged thereby (the "Class"). Excluded from the Class are Defendants, the officers and directors of the Company, at all relevant times, members of their immediate families and their legal representatives, heirs, successors or assigns and any entity in which Defendants have or had a controlling interest.

15. The members of the Class are so numerous that joinder of all members is impracticable. Throughout the Class Period, Healthways common stock was actively traded on the NASDAQ. While the exact number of Class members is unknown to Plaintiff at this time and can only be ascertained through appropriate discovery, Plaintiff believes that there are hundreds or thousands of members in the proposed Class. Record owners and other members of the Class may be identified from records maintained by Healthways or its transfer agent and may be notified of the

pendency of this action by mail, using the form of notice similar to that customarily used in securities class actions.

16. Plaintiff's claims are typical of the claims of the members of the Class as all members of the Class are similarly affected by Defendants' wrongful conduct in violation of federal law complained of herein.

17. Plaintiff will fairly and adequately protect the interests of the members of the Class and has retained counsel competent and experienced in class action and securities litigation.

18. Common questions of law and fact exist as to all members of the Class and predominate over any questions solely affecting individual members of the Class. Among the questions of law and fact common to the Class are:

(a) whether the federal securities laws were violated by Defendants' acts as alleged herein;

(b) whether statements made by Defendants to the investing public during the Class Period misrepresented material facts about the business and operations of Healthways;

(c) whether the price of Healthways common stock was artificially inflated during the Class Period; and

(d) to what extent the members of the Class have sustained damages and the proper measure of damages.

19. A class action is superior to all other available methods for the fair and efficient adjudication of this controversy since joinder of all members is impracticable. Furthermore, as the damages suffered by individual Class members may be relatively small, the expense and burden of individual litigation make it impossible for members of the Class to individually redress the wrongs done to them. There will be no difficulty in the management of this action as a class action.

SUBSTANTIVE ALLEGATIONS

20. Defendant Healthways describes itself as the "leading provider of specialized, comprehensive Health and Care Support(SM) solutions to help millions of people maintain or improve their health and, as a result, reduce overall healthcare costs. Healthways' solutions are designed to help healthy individuals stay healthy, mitigate and slow the progression of disease associated with family or lifestyle risk factors and promote the best possible health for those already affected by disease."

21. Healthways provides disease management and wellness programs for health plans, hospitals and small businesses, helping members with diabetes, cancer and other diseases to coordinate care, keep up with treatment and maintain healthy behaviors.

22. Three years ago, the Centers for Medicare & Medicaid Services ("CMS") launched the Medicare Health Support pilot program ("MHS") to improve quality of care and life for people with multiple chronic conditions, and to help the Medicare program and its beneficiaries save money. Under the plan's first, three-year phase, patients were tracked to evaluate care, satisfaction and whether the plan achieved savings targets. Based on those results, CMS would decide whether to expand the program to a second phase.

23. Unbeknownst to investors, Healthways, and four other companies still involved in MHS, were not meeting savings targets, among other requirements, set by CMS. As a result of Healthways' failures, the Company would be required to reimburse CMS for the fees they have received through the program.

24. The Class Period begins on October 17, 2007. On that date, Healthways issued a press release announcing its financial results for the fiscal fourth quarter and year end of 2007, the period ended August 31, 2007. For the quarter, the Company reported total revenues of $170.4

million, and net income of $11.5 million, or $0.31 per diluted share. Defendant Leedle, commenting on the results, stated, in pertinent part, as follows:

> We are pleased with Healthways' performance for both the fourth quarter and fiscal 2007. Our core commercial business earnings met or exceeded the high end of our earnings guidance each quarter throughout the fiscal year. These earnings contributed to the 50% growth in the Company's overall EBITDA for the fiscal year to $130.5 million from $86.7 million for fiscal 2006, which, despite the increased cost of both our international and MHS initiatives in fiscal 2007, drove a slight improvement in EBITDA as a percentage of revenues.
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> We achieved these results even as we continued to invest in enhanced product offerings that significantly expand our ability to meaningfully engage every person within a given population, regardless of age or health status, with solutions proven to maintain or improve their health and productivity. These investments are consistent with the long history of innovation and thought leadership that have led to our current market position and will fuel our continuing drive toward integrated, personalized and comprehensive WholeHealth solutions. At the same time, we are being presented with substantial new growth opportunities for our current solutions from both our existing base of available lives and potential new customers, both domestically and abroad.
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> The strong sales momentum we have built was again evident in the growth of our core commercial revenues, which increased 53% for the fourth quarter and 54% for the full fiscal year when compared with the same periods in the prior year. The Axia acquisition completed in December 2006 contributed significantly to this growth. Core commercial earnings for the fourth quarter exceeded our guidance, even after accounting for the impact of Axia integration; preparation for large contract implementations; and somewhat lower than expected summer utilization of our seniors' physical activity program, SilverSneakers(R).
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> Our expanding growth prospects were also demonstrated by the fourth-quarter announcement of our first international contract, a three-year agreement with Deutsche Angestellten Krankenkasse (DAK), Germany, to provide Health and Care Support(SM) solutions for a portion of its members with chronic diseases. Our costs related to this contract and other international efforts were $0.06 per diluted share for the fourth quarter, $0.02 higher than expected, which were offset by better than expected fourth-quarter results for both our core commercial business and for the two Medicare Health Support (MHS) pilots in which we participate.
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> We produced another year of significant profitable growth for fiscal 2007, while further strengthening our position of industry leadership. We believe our success reflects our ability to provide validated outcomes at scale, even as we continue to enhance our value proposition through industry transforming innovation. As a result of our accomplishments during the fiscal year, such as the completion of the Axia acquisition, the progress and learning achieved in our MHS pilots and the signing of

our first international Health and Care Support contract, we believe our prospects for long-term growth have increased substantially. We remain confident that, as we continue to build toward our vision of fully integrated, personalized WholeHealth solutions, the further expansion of our value proposition will drive a complementary and long-term expansion of our revenue and profit growth opportunities.

With regard to the Company's backlog of contracts, the press release stated:

> Significant backlog and strong pipeline of potential contracts. Healthways' backlog of annualized revenues for contracts signed but not yet implemented at the end of fiscal 2007 totaled approximately $40 million. Contracts signed since the end of fiscal 2007 have increased the backlog by approximately $6 million.
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> In addition, Healthways' pipeline of potential contracts continues to expand. This demand reflects the growing recognition among health plans and self-insured employers of the increasing healthcare cost management and productivity improvement benefits to be gained by addressing the health needs of every individual in their specific populations. The Company believes the current strength of the pipeline reflects its unique and demonstrated ability to drive meaningful outcomes, at scale, across its comprehensive and differentiated continuum of Health and Care Support solutions.

With regard to the Company's financial guidance for 2008, the press release stated:

> Financial Guidance
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> Revenue
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> **Healthways today established its guidance for revenues for fiscal 2008 in a range of $782 million to $815 million.** The implied 27% to 32% growth over fiscal 2007 revenues that this range represents is consistent with the Company's expectation of sustainable growth in its domestic revenues. In addition, Healthways expects to record its first revenues related to the DAK international contract during fiscal 2008 in a range of $8 million to $10 million. In prior years the Company reported its domestic operations separately as core commercial operations and the MHS pilots. However, given the relative size of the MHS pilots to the rest of the business, their limited remaining term and relative financial predictability, the Company will be reporting these results with the core commercial results on a combined basis for fiscal 2008 as our "domestic" business. While the Company does not anticipate any performance revenues from its MHS pilots for fiscal 2008, its domestic guidance does include revenues in a range of $4 million to $5 million from fixed payments related to the Company's participation in the CIGNA Phase I pilot.
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> Earnings
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> **The Company today also established its guidance for earnings per diluted share for fiscal 2008 in a range of $1.77 to $1.86**, or 45% to 52% above $1.22 for fiscal

2007. Consistent with previous years, the substantial continuing growth of our core commercial business is expected to fund the costs of the remaining term of the MHS Phase I pilots and the early stage of international initiatives. Healthways' guidance for fiscal 2008 earnings per diluted share for the domestic business is in a range of $1.88 to $1.95, which includes anticipated costs of $0.10 related to the Company's move into a new consolidated enterprise headquarters and an expected net cost impact of the MHS pilots of approximately $0.25. The Company's guidance for fiscal 2008 earnings per diluted share is also based on expected net costs in a range of $0.09 to $0.11 related to Healthways' international business. [Emphasis added.]

25. Upon this news, shares of the Company's stock rose $4.33 per share, or 8%, to close at $57.58 per share, on heavy trading volume.

26. On December 19, 2007, Healthways issued a press release announcing its financial results for the fiscal first quarter of 2008, the period ended November 30, 2007. For the quarter, the Company reported total revenues of $175.8 million and net income of $11.2 million, or $0.30 per diluted share. Defendant Leedle, commenting on the results, stated, in pertinent part, as follows:

> Our first-quarter financial results represent a solid start to fiscal 2008, with earnings slightly ahead of our guidance and with substantial and sustained sales momentum contributing to a backlog of annualized revenue at the quarter's end of $51 million. In addition, since the beginning of the second quarter, we have added $10 million to the backlog. This backlog reflects strong continuing demand in both our health plan and employer markets, as we have added or expanded programs with 12 health plans and 51 employers since the beginning of fiscal 2008.
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> These contracts, as well as our significant pipeline of potential contracts, include both existing customers and new health plans and large self-insured employers. They also incorporate single and bundled services across our comprehensive continuum of Health and Care Support(SM) solutions, including contracts with:
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> - New customer, Independence Blue Cross, to provide our SilverSneakers(R) program to their Medicare Advantage members;
> - New customer, Excellus BlueCross BlueShield, to provide Health Support(SM) solutions to their members;
> - Current customer, CareFirst BlueCross BlueShield, to expand services to provide our impact conditions program;
> - Current customer, Blue Cross Blue Shield of Massachusetts, to expand services to include access to our CAM/Chiro network; and
> - Current customer, Rocky Mountain Health Plans, for comprehensive integrated Health and Care Support services.

In addition, we continue to experience increasing interest in our comprehensive integrated solution, which supports individuals in living a better life, regardless of their past, current and future health circumstances. The value proposition for health plan and employer customers is healthier individuals who cost less and are significantly more productive, driving higher performance. We expect the expansion of this value proposition to support further contracting success during the remainder of fiscal 2008, and beyond.

As anticipated, our expanded Health Support solutions were primarily accountable for the substantial increase in our revenue for the first quarter of fiscal 2008 compared with the first quarter of fiscal 2007. This growth produced a 29% increase in EBITDA, to $34.8 million for the first quarter of fiscal 2008 from $26.9 million for the first quarter of fiscal 2007. The increase in EBITDA for the comparable periods occurred even with continued integration costs from the Axia transaction, initial costs associated with four new call centers and other costs associated with preparation for new contracts scheduled to begin operations early in 2008.

Billed lives of 26.7 million at the end of the first quarter remained at a penetration rate of approximately 15% of our total available lives of 183.4 million at the quarter's end. Consistent with prior years, we expect our billed lives to increase in our second quarter as a result of the scheduled launch of contracts at the beginning of the new calendar year.

Domestic results for the first quarter continued to include costs associated with our participation in two Medicare Health Support ("MHS") pilots and were in line with our expectations. Our international results were slightly better than anticipated and included costs associated with the implementation of our first contract in Germany, including the development of the new call center in Berlin, as well as other costs related to the continuing development of our international business.

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As our guidance implies, we are confident that our expanding ability to create value provides us substantial growth opportunities for fiscal 2008 and beyond. Over the near term, we expect to grow primarily by adding billed lives through expanded services within our existing customer base. In addition, we are successfully expanding our addressable markets by the addition of new health plan and employer customers domestically and through the anticipated launch of our first international contract in Germany on January 1, 2008. We also remain fundamentally committed to enhancing our value proposition through continuous innovation. Consistent with our history of driving industry change through innovation, we are confident that our next-generation solutions will significantly expand our market opportunity and our prospects for increased stockholder value.

With regard to the Company's financial guidance for 2008, the press release stated:

Financial Guidance

Revenue

Healthways today affirmed its guidance for revenues for fiscal 2008 in a range of $782 million to $815 million. Further, Healthways expects to record its first revenues related to the contract in Germany with Deutsche Angestellten Krankenkasse (DAK) during fiscal 2008 in a range of $8 million to $10 million. The anticipated growth is consistent with our goal of sustained annual revenue growth of 25% or greater.

Earnings

The Company today also affirmed its guidance for earnings per diluted share for fiscal 2008 in a range of $1.77 to $1.86, or 45% to 52% above $1.22 for fiscal 2007. Healthways' guidance for fiscal 2008 earnings per diluted share for the domestic business is in a range of $1.88 to $1.95, which includes an expected net cost impact of the MHS pilots of approximately $0.25. The Company's guidance for fiscal 2008 earnings per diluted share is also based on expected net costs in a range of $0.09 to $0.11 related to Healthways' international business. [Emphasis added.]

27. Upon this news, shares of the Company's stock rose $4.48 per share, or 8%, to close at $60.00 per share, on heavy trading volume.

28. On January 7, 2008, the Company filed its Form 8-K with the SEC announcing that the "Office of Management and Budget has approved a request from the Centers for Medicare and Medicaid Services ("CMS") to lower the savings target for the Medicare Health Support ("MHS") Program from 5% net savings to budget neutrality (savings greater than or equal to fees)."

29. On January 7, 2008, in an article entitled *Healthways shares reach record high on rate reduction in Medicare pilot program*, the *Associated Press* reported that shares of Healthways rose as a result of the analyst upgrade. The press release continued, in pertinent part, as follows:

Shares of Healthways Inc. reached a record high Monday after Medicare lowered a key rate affecting disease-management-program administrators, **with one analyst suggesting the change may add as much as 25 cents per share to the company's fiscal 2008 earnings.**

The stock hit a record $65.24 in afternoon trading, and closed up $6.03, or 10.3 percent, at $64.50 Monday. The company focuses on providing preventive health services, including fitness, alternative medicine and smoking cessation programs.

In a filing with the Securities and Exchange Commission Monday, Healthways said the Office of Management and Budget approved a request from the Centers for Medicare and Medicaid Services (CMS) to lower the savings target rate for the Medicare Health Support program (MHS) from 5 percent net savings to breakeven.

The rate was a cost savings benchmark which disease management companies had to achieve for their clients under the program, and a financial burden to Healthways and its peers. The rate change means savings now achieved under the program only have to cover Healthways' management fees.

In the filing, Healthways declined to adjust its fiscal 2008 financial guidance, since no timeline for implementing the new rate was disclosed. **But Banc of America Securities analyst Micheal Yuan said the rate change could mean as much as 25 cents per share more profit for the company in fiscal 2008.**

In a note to clients, he said the change will likely drive a national rollout of the pilot MHS program, boosting the population from a potential 160,000 seniors to 14 million with an annual revenue opportunity of $7 billion to $20 billion, up dramatically from $20 million presently. The first phase of the program, launched in 2005, encompasses eight regions and measures performance across about 20,000 seniors with heart conditions and diabetes. The control group, or healthy group, involves 10,000 people.

The savings target rate was one reason LifeMasters, Cigna Corp. and McKesson Corp. quit the program, leaving just Healthways, Aetna Inc., Humana Inc., and two private vendors left. Currently no vendor is achieving the savings rate, causing some to wonder if the disappointing results would drive CMS to quit the program. **But Yuan said the rate change will likely diffuse those concerns.**

Yuan reaffirmed a "Buy" rating on Healthways. The stock is trading above his 12-month price target of $60. [Emphasis added.]

30. Upon these announcements, shares of the Company's stock rose $8.74 per share, or approximately 15%, to close at $67.21 per share, over the next two trading days.

31. The statements referenced above in ¶¶24, 26, 28, 29 were materially false and misleading when made because they misrepresented and failed to disclose:

(a) that Healthways was not meeting the savings targets, among other requirements, set by CMS. As a result of Healthways' failure, CMS would not expand the MHS program to a second phase and the Company would be required to reimburse CMS for the fees they had already received through the program;

(b) that Healthways was in danger of losing at least two existing contracts and was experiencing slower enrollment in an existing contract due to a decline in the need for the Company's services; and

(c) as a result of the foregoing, the Company had no reasonable basis for its revenues and earnings guidance for fiscal 2008.

32. On January 30, 2008, the *Associated Press* reported that the "Centers for Medicare & Medicaid Services (CMS) said the first phase of a pilot wellness program will end this year, as scheduled, but didn't indicate whether a Phase II expansion is in the cards."

33. Upon this news, shares of the Company's stock fell $10.52 per share, or 16%, to clsoe at $55.85 per share, on heavy trading volume.

34. On February 12, 2008, in an article entitled *Minnesota Chill For Healthways*, Forbes.com reported, in pertinent part, as follows:

> Healthways was hurting Tuesday.
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> Shares of the provider of corporate wellness and other health-related educational and support services tumbled 9.6% on investor concerns over a potential contract cancellation by Blue Cross Blue Shield of Minnesota.
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> Healthways management reportedly told analysts that at a recent working group session, representatives of Blue Cross Blue Shield of Minnesota said they were contemplating bringing disease management services in-house. No formal contract termination has been sent to Healthways though.
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> Jefferies analysts Arthur L. Henderson said that even though a loss of the contract may be a risk for the company, it had been a declining contract, accounting for 3% of Healthway's sales in 2007 compared with 10% in 2005.
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> The contract began losing value when Minnesota's former state attorney general, Mike Hatch, publicly faulted Blue Cross for excessive spending, Henderson said. One of the ways Blue Cross cut costs was to move to an "opt in" versus "opt out" model, where patients only received Healthway's services if they opted in. This led to declining revenues over the last several years.
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> Henderson said that he believes a loss of the contract could cut annual earnings by 8 cents, partially in 2009 and fully in 2010. Henderson said that Healthways may be able to recapture some of those lost earnings by contracting directly with the health plan's employer customer base. He said 65% of Blue Cross's sales comes from self-insured employers who may contract with Healthways directly.
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> Tuesday's news comes after the Centers for Medicare and Medicaid Services announced at the end of last month that Healthways did not meet some statutory requirements of Phase 1 of its Medicare Health Support program, which will end this

year. This means the healthcare provider may not be able to continue to Phase 2, which was supposed to start in late 2009.

The requirements include improvement in clinical quality and beneficiary satisfaction, and achievement of savings targets.

Henderson said there were inherent flaws in this pilot program and that disease management is a viable sector with good growth prospects. "To continue ahead on Phase 2 with the structure that was in place would have been irresponsible for the company in terms of shareholder value," he said.

Phase 1, Henderson said, cost the company $1 a share in missed earnings.

Healthways is one of the five Medicare Health Support Organizations currently active in the program and has two MHS pilots in Maryland and District of Columbia.

In July, Healthways Chief Executive Officer Ben R. Leedle Jr. said that the company was sticking with the Medicare pilot program even though it wasn't producing any revenue and actually cost the company money.

But Leedle said the long-term benefits of establishing a strong position in the growing market outweigh the downside.

The company announced it slashed its fiscal year 2007 guidance to $1.21 to $1.22 a share, down from $1.44 to $1.61 a share, because of the Medicare program.

Healthways shares fell $4.95 Tuesday to close at $46.64.

35. On February 13, 2008, the Company issued a press release in reaction to the CMS's Conclusions with Regard to Company's MHS Phase I Pilot. In that regard, the press release stated, in pertinent part, as follows:

"The purpose of our communication with Acting Administrator Weems," Leedle stated, "was to affirmatively remind CMS that performance in MHS must be evaluated at the individual pilot, or pilot component level, not in the aggregate. Further, we continue to have a number of unresolved issues related to the design, beneficiary selection, randomization and other aspects of the Phase I pilots, including the fact that CMS did not deliver the pilot population that it was contractually obligated to provide. While ultimate resolution of these issues will impact the final results of our pilot, we believe, based on our analysis of the data that has been provided to us, our program or its components will meet or exceed the statutory and current Cooperative Agreement targets by which MHS performance is to be evaluated. This level of performance is not surprising to us given that every metric we use to evaluate the operational execution of our programs is exceeding the targets we set specifically for MHS."

Healthways letter to Weems also addressed any Beneficiary confusion or concern that CMS' announcements may have caused by informing CMS that, "Until the planned completion in July of the Phase I pilot program, we (the Company) will continue to pursue the objectives outlined in the statute and Cooperative Agreement for the nearly 16,000 program participants for whom we are making a profound, meaningful and important difference in their lives."

36. Then, on February 26, 2008, the Company issued a press release announcing that it was lowering its financial guidance for fiscal 2008. The Company lowered its revenue guidance from a range of $782 million to $815 million to a range of $720 million to $740 million. Moreover, the Company lowered its earnings guidance from a range of $1.77 to $1.86 per share to a range of $1.50 to $1.55 per share. Defendant Leedle, commenting on the revised guidance, stated, in pertinent part, as follows;

> **We are revising our fiscal 2008 guidance at this time primarily due to slower-than-projected enrollment in a new Health Support program with one large health plan customer and the recent indication that two previously anticipated contracts will not materialize during this fiscal year.**
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> Health Support enrollment: One large health plan customer was unable to provide timely access for member sign-up to reach projected enrollment into our new program. Both we and the customer believe the resulting lower enrollment rate is primarily a timing issue. We are working together to expedite the enrollment of eligible members into this Health Support program.
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> Two unrealized opportunities: We were disappointed to learn from one large, long-term health plan customer - who had already expanded with two additional programs from Healthways this year - that they were unable to purchase an anticipated third program due to budget constraints. Simultaneously, we were informed that a different health plan customer had decided to extend their current agreement for another year with their existing provider of Complementary and Alternative Medicine (CAM)/Chiropractic network services.

With regard to its financial guidance, the press release stated, in pertinent part, as follows:

> Earnings
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> The Company's revised guidance for fiscal 2008 earnings per diluted share is in the range of $1.50 to $1.55, an increase of 23% to 27% from fiscal 2007. **This guidance includes a now expected net cost impact of the MHS pilots of approximately $0.22 per diluted share**, as well as the previously expected net cost impact of the Company's move to its new headquarters and of the Company's international business. [Emphasis added.]

37. Upon this news, shares of the Company's stock fell $13.42 per share, or approximately 30%, to close at $31.93 per share, on heavy trading volume.

38. The markets for Healthways common stock were open, well-developed and efficient at all relevant times. As a result of these materially false and misleading statements and failures to disclose, Healthways' securities traded at artificially inflated prices during the Class Period. Plaintiff and other members of the Class purchased or otherwise acquired Healthways common stock relying upon the integrity of the market price of Healthways common stock and market information relating to Healthways, and have been damaged thereby.

39. During the Class Period, Defendants materially misled the investing public, thereby inflating the price of Healthways common stock, by publicly issuing false and misleading statements and omitting to disclose material facts necessary to make Defendants' statements, as set forth herein, not false and misleading. Said statements and omissions were materially false and misleading in that they failed to disclose material adverse information and misrepresented the truth about the Company, its business and operations, as alleged herein.

40. At all relevant times, the material misrepresentations and omissions particularized in this Complaint directly or proximately caused, or were a substantial contributing cause of, the damages sustained by Plaintiff and other members of the Class. As described herein, during the Class Period, Defendants made or caused to be made a series of materially false or misleading statements about Healthways' business, prospects and operations. These material misstatements and omissions had the cause and effect of creating in the market an unrealistically positive assessment of Healthways and its business, prospects and operations, thus causing the Company's common stock to be overvalued and artificially inflated at all relevant times. Defendants' materially false and misleading statements during the Class Period resulted in Plaintiff and other members of the Class

purchasing the Company's common stock at artificially inflated prices, thus causing the damages complained of herein.

Additional Scienter Allegations

41. As alleged herein, Defendants acted with scienter in that Defendants knew that the public documents and statements issued or disseminated in the name of the Company were materially false and misleading; knew that such statements or documents would be issued or disseminated to the investing public; and knowingly and substantially participated or acquiesced in the issuance or dissemination of such statements or documents as primary violations of the federal securities laws. As set forth elsewhere herein in detail, Defendants, by virtue of their receipt of information reflecting the true facts regarding Healthways, their control over, and/or receipt and/or modification of Healthways' allegedly materially misleading misstatements, and/or their associations with the Company which made them privy to confidential proprietary information concerning Healthways, participated in the fraudulent scheme alleged herein.

42. Defendants were further motivated to engage in this course of conduct in order to allow Defendant Cigarran and other Company insiders to collectively sell 288,824 shares of their personally-held Healthways common stock for gross proceeds in excess of $17.1 million. The insider shares sold during the Class Period are set forth more fully in the following chart:

Insider	Date	Shares	Price	Proceeds
THOMAS CIGARRAN	11/5/2007	20,123	$57.55	$1,158,079
	11/6/2007	54,877	$57.98	$3,181,768
		75,000		$4,339,847
HENRY HERR	10/29/2007	67,900	$57.55	$3,907,645
	10/29/2007	28,464	$57.55	$1,638,103
	10/29/2007	1,460	$57.55	$84,023
		97,824		$5,629,771
MARY HUNTER	1/7/2008	50,000	$62.00	$3,100,000
MATTHEW KELLIHER	11/1/2007	17,348	$59.73	$1,036,196
	11/2/2007	22,652	$58.24	$1,319,252
		40,000		$2,355,449

ALFRED LUMSDAINE	10/31/2007	2,000	$60.20	$120,400
L. BEN LYTLE	1/9/2008	24,000	$67.52	$1,620,480
	Total:	**288,824**		**$17,165,947**

Loss Causation/Economic Loss

43. During the Class Period, as detailed herein, Defendants engaged in a scheme to deceive the market and a course of conduct which artificially inflated the prices of Healthways common stock and operated as a fraud or deceit on Class Period purchasers of Healthways common stock by failing to disclose that Healthways was not meeting the savings targets, among other requirements, set by CMS. As a result of Healthways' failures, CMS would not expand the MHS program to a second phase and the Company would be required to reimburse CMS for the fees they had already received through the program. When Defendants' prior misrepresentations and fraudulent conduct were disclosed and became apparent to the market, the price of Healthways common stock fell precipitously as the prior artificial inflation came out. As a result of their purchases of Healthways common stock during the Class Period, Plaintiff and the other Class members suffered economic loss, *i.e.*, damages, under the federal securities laws.

44. By failing to disclose that Healthways was not meeting the savings targets, among other requirements, set by CMS, among other things, Defendants presented a misleading picture of Healthways' business and prospects. Defendants' false and misleading statements had the intended effect and caused Healthways common stock to trade at artificially inflated levels throughout the Class Period, reaching as high as $69.34 per share on January 10, 2008.

45. As a direct result of disclosures on January 30, 2008, February 12, 2008 and February 26, 2008, the price of Healthways common stock fell precipitously, falling by more than a collective $28 per share, or approximately 55%. These disclosures removed the inflation from the price of Healthways common stock, causing real economic loss to investors who had purchased Healthways common stock during the Class Period.

46. The precipitous decline in the price of Healthways common stock after these disclosures came to light was a direct result of the nature and extent of Defendants' fraud finally being revealed to investors and the market. The timing and magnitude of the price decline in Healthways common stock negates any inference that the loss suffered by Plaintiff and the other Class members was caused by changed market conditions, macroeconomic or industry factors or Company-specific facts unrelated to the Defendants' fraudulent conduct. The economic loss, *i.e.*, damages, suffered by Plaintiff and the other Class members was a direct result of Defendants' fraudulent scheme to artificially inflate the prices of Healthways common stock and the subsequent significant decline in the value of Healthways common stock when Defendants' prior misrepresentations and other fraudulent conduct were revealed

Applicability of Presumption of Reliance:
Fraud on the Market Doctrine

47. At all relevant times, the market for Healthways common stock was an efficient market for the following reasons, among others:

(a) Healthways common stock met the requirements for listing, and was listed and actively traded on the NASDAQ, a highly efficient and automated market;

(b) as a regulated issuer, Healthways filed periodic public reports with the SEC and the NASDAQ;

(c) Healthways regularly communicated with public investors via established market communication mechanisms, including regular disseminations of press releases on the national circuits of major newswire services and other wide-ranging public disclosures, such as communications with the financial press and other similar reporting services; and

(d) Healthways was followed by several securities analysts employed by major brokerage firms who wrote reports which were distributed to the sales force and certain customers of their respective brokerage firms. Each of these reports was publicly available and entered the public marketplace.

48. As a result of the foregoing, the market for Healthways common stock promptly digested current information regarding Healthways from all publicly available sources and reflected such information in the prices of the stock. Under these circumstances, all purchasers of Healthways common stock during the Class Period suffered similar injury through their purchase of Healthways common stock at artificially inflated prices and a presumption of reliance applies.

No Safe Harbor

49. The statutory safe harbor provided for forward-looking statements under certain circumstances does not apply to any of the allegedly false statements pleaded in this Complaint. Many of the specific statements pleaded herein were not identified as "forward-looking statements" when made. To the extent there were any forward-looking statements, there were no meaningful cautionary statements identifying important factors that could cause actual results to differ materially from those in the purportedly forward-looking statements. Alternatively, to the extent that the statutory safe harbor does apply to any forward-looking statements pleaded herein, Defendants are liable for those false forward-looking statements because at the time each of those forward-looking statements were made, the particular speaker knew that the particular forward-looking statement was false, and/or the forward-looking statement was authorized and/or approved by an executive officer of Healthways who knew that those statements were false when made.

COUNT I

Violation of Section 10(b) of the Exchange Act and Rule 10b-5 Promulgated Thereunder Against All Defendants

50. Plaintiff repeats and realleges each and every allegation contained above as if fully set forth herein.

51. During the Class Period, Defendants disseminated or approved the materially false and misleading statements specified above, which they knew or deliberately disregarded were misleading in that they contained misrepresentations and failed to disclose material facts necessary in order to make the statements made, in light of the circumstances under which they were made, not misleading.

52. Defendants: (a) employed devices, schemes, and artifices to defraud; (b) made untrue statements of material fact and/or omitted to state material facts necessary to make the statements not misleading; and (c) engaged in acts, practices, and a course of business which operated as a fraud and deceit upon the purchasers of the Company's common stock during the Class Period.

53. Plaintiff and the Class have suffered damages in that, in reliance on the integrity of the market, they paid artificially inflated prices for Healthways common stock. Plaintiff and the Class would not have purchased Healthways common stock at the prices they paid, or at all, if they had been aware that the market prices had been artificially and falsely inflated by Defendants' misleading statements.

54. As a direct and proximate result of Defendants' wrongful conduct, Plaintiff and the other members of the Class suffered damages in connection with their purchases of Healthways common stock during the Class Period.

COUNT II

Violation of Section 20(a) of the Exchange Act Against the Individual Defendants

55. Plaintiff repeats and realleges each and every allegation contained above as if fully set forth herein.

56. The Individual Defendants acted as controlling persons of Healthways within the meaning of Section 20(a) of the Exchange Act as alleged herein. By reason of their positions as officers and/or directors of Healthways, and their ownership of Healthways stock, the Individual Defendants had the power and authority to cause Healthways to engage in the wrongful conduct

complained of herein. By reason of such conduct, the Individual Defendants are liable pursuant to Section 20(a) of the Exchange Act.

WHEREFORE, Plaintiff prays for relief and judgment, as follows:

A. Determining that this action is a proper class action, designating Plaintiff as Lead Plaintiff and certifying Plaintiff as a Class representative under Rule 23 of the Federal Rules of Civil Procedure and Plaintiff's counsel as Lead Counsel;

B. Awarding compensatory damages in favor of Plaintiff and the other Class members against all Defendants, jointly and severally, for all damages sustained as a result of Defendants' wrongdoing, in an amount to be proven at trial, including interest thereon;

C. Awarding Plaintiff and the Class their reasonable costs and expenses incurred in this action, including counsel fees and expert fees; and

D. Such other and further relief as the Court may deem just and proper.

JURY TRIAL DEMANDED

Plaintiff hereby demands a trial by jury.

DATED: June 5, 2008