

UNITED STATES DISTRICT COURT  
MIDDLE DISTRICT OF TENNESSEE  
NASHVILLE DIVISION

|   |   |                                 |
|---|---|---------------------------------|
| JOHN RICHARD BEACH, Individually and on<br>Behalf of All Others Similarly Situated, | ) | Civil Action No. 3:08-cv-00569  |
|   | ) | <b>(Consolidated)</b>           |
| Plaintiff,  | ) | <u>CLASS ACTION</u>             |
| vs.   | ) | Judge Todd J. Campbell          |
| HEALTHWAYS INC., et al.,  | ) | Magistrate Judge Juliet Griffin |
| Defendants.   | ) |                                 |

NOTICE OF PENDENCY AND PROPOSED SETTLEMENT OF CLASS ACTION

TO: ALL PERSONS WHO PURCHASED HEALTHWAYS, INC. ("HEALTHWAYS" OR THE "COMPANY") SECURITIES DURING THE PERIOD BETWEEN JULY 5, 2007 AND AUGUST 25, 2008, INCLUSIVE ("CLASS PERIOD")

PLEASE READ THIS NOTICE CAREFULLY AND IN ITS ENTIRETY. YOUR RIGHTS MAY BE AFFECTED BY PROCEEDINGS IN THIS LITIGATION. PLEASE NOTE THAT IF YOU ARE A CLASS MEMBER, YOU MAY BE ENTITLED TO SHARE IN THE PROCEEDS OF THE SETTLEMENT DESCRIBED IN THIS NOTICE. TO CLAIM YOUR SHARE OF THIS FUND, YOU MUST SUBMIT A VALID PROOF OF CLAIM AND RELEASE FORM POSTMARKED ON OR BEFORE OCTOBER 25, 2010.

This Notice has been sent to you pursuant to Rule 23 of the Federal Rules of Civil Procedure and an Order of the United States District Court for the Middle District of Tennessee, Nashville Division (the "Court"). The purpose of this Notice is to inform you of the proposed settlement of this class action litigation and of the hearing to be held by the Court to consider the fairness, reasonableness, and adequacy of the settlement. The settlement resolves the Class's claims against Healthways, Thomas G. Cigarran, Ben R. Leedle, Jr., Mary A. Chaput, Mary Hunter, Matthew Kelliher, and Donald Taylor (collectively, "Defendants"). This Notice describes the rights you may have in connection with the settlement and what steps you may take in relation to the settlement and this class action litigation.

The proposed settlement creates a fund in the amount of \$23,600,000 in cash and will include interest that accrues on the fund prior to distribution. Based on Lead Counsel's estimate of the number of shares entitled to participate in the settlement and the anticipated number of claims to be submitted by Class Members, the average distribution per share to Class Members who purchased Healthways securities during the Class Period, would be approximately \$0.91 before deduction of Court-approved fees and expenses. Your actual recovery from this fund will depend on a number of variables, including the number of claimants, the number of shares they purchased, the number and type of shares of Healthways securities you purchased, the expense of administering the claims process, and the timing of your purchases and sales, if any (see the Plan of Allocation below for a more detailed description of how the settlement proceeds will be allocated among Class Members).

Plaintiffs and Defendants do not agree on the average amount of damages per share that would be recoverable if Plaintiffs had prevailed on each claim asserted. The issues on which the parties disagree include: (1) whether the statements made or facts allegedly omitted were false, material, or otherwise actionable under the federal securities laws; (2) the extent to which the various matters that Plaintiffs alleged were materially false or misleading influenced (if at all) the trading price of Healthways securities at various times during the Class Period; (3) the extent to which the various allegedly adverse material facts that Plaintiffs alleged were omitted influenced (if at all) the trading price of Healthways securities at various times during the Class Period; (4) the extent to which external factors, such as general market conditions, influenced the trading price of Healthways securities at various times during the Class Period; (5) the effect of various market forces influencing the trading price of Healthways securities at various times during the Class Period; (6) the amount by which Healthways securities were allegedly artificially inflated (if at all) during the Class Period; and (7) the appropriate economic model for determining the amount by which Healthways securities were allegedly artificially inflated (if at all) during the Class Period.

Plaintiffs believe that the proposed settlement is a good recovery and is in the best interests of the Class. Because of the risks associated with continuing to litigate and proceeding to trial, there was a danger that Plaintiffs would not have prevailed on any of their claims, in which case the Class would receive nothing. In addition, the amount of damages recoverable by the Class was and is challenged by Defendants. Recoverable damages in this case are limited to losses caused by conduct actionable under applicable law and, had the Litigation gone to trial, Defendants intended to assert that all of the losses of Class Members were caused by non-actionable market, industry, or general economic factors. Defendants would also assert that throughout the Class Period the uncertainties and risks associated with Healthways' business and financial condition were fully and adequately disclosed.

Plaintiffs' Counsel have not received any payment for their services in conducting this Litigation on behalf of Plaintiffs and the members of the Class, nor have they been reimbursed for their out-of-pocket expenditures. If the settlement is approved by the Court, Lead Counsel will apply to the Court for attorneys' fees not to exceed 30% of the settlement proceeds plus expenses not to exceed \$900,000, both to be paid from the Settlement Fund. If the amount requested by counsel is approved by the Court, the average cost per share would be approximately \$0.31.

This Notice is not an expression of any opinion by the Court about the merits of any of the claims or defenses asserted by any party in this Litigation or the fairness or adequacy of the proposed settlement.

For further information regarding this settlement you may contact: Rick Nelson, c/o Shareholder Relations, Robbins Geller Rudman & Dowd LLP, 655 West Broadway, Suite 1900, San Diego, CA 92101, Telephone: 800/449-4900. Please do not call any representative of the Defendants or the Court.

## **I. NOTICE OF HEARING ON PROPOSED SETTLEMENT**

A settlement hearing (the "Settlement Hearing") will be held on September 24, 2010, at 2:00 p.m., before the Honorable Todd J. Campbell, Chief United States District Judge, at the United States District Court for the Middle District of Tennessee, Nashville Division, Estes Kefauver Federal Building and United States Courthouse, 801 Broadway, Nashville, Tennessee 37203. The purpose of the Settlement Hearing will be to determine: (1) whether the settlement consisting of \$23,600,000 in cash plus accrued interest should be approved as fair, reasonable, and adequate to each of the Settling Parties; (2) whether the proposed plan to distribute the settlement proceeds (the "Plan of Allocation") is fair, reasonable, and adequate; (3) whether the application by Lead Counsel for an award of attorneys' fees and expenses and for reimbursement of Plaintiffs' expenses should be approved; and (4) whether the Litigation should be dismissed with prejudice. The Court may adjourn or continue the Settlement Hearing without further notice to the Class.

## **II. DEFINITIONS USED IN THIS NOTICE**

1. "Authorized Claimant" means any Class Member whose claim for recovery has been allowed pursuant to the terms of the Stipulation.
2. "Claims Administrator" means the firm of Gilardi & Co. LLC.
3. "Class" means all purchasers of the securities of Healthways between July 5, 2007 and August 25, 2008, inclusive. Excluded from the Class are the Defendants and all members of the families of Thomas G. Cigarran, Ben R. Leedle, Jr., Mary A. Chaput, Mary Hunter, Matthew Kelliher, and Donald Taylor. Also excluded from the Class are any parent, subsidiary, affiliate, partner, officer, executive or director of any Defendant; any entity in which any such excluded Person has a controlling interest; the legal representatives, heirs, successors and assigns of any such excluded Person or entity; and those Persons who timely and validly request exclusion from the Class pursuant to this Notice.
4. "Class Member" or "Class Members" mean any Person who falls within the definition of the Class as set forth above.
5. "Class Period" means the period July 5, 2007 through August 25, 2008, inclusive.
6. "Effective Date" means the first date by which all of the events and conditions specified in paragraph 7.1 of the Stipulation have been met and have occurred.
7. "Escrow Agent" means Robbins Geller Rudman & Dowd LLP or its successor(s).
8. "Final" means when the last of the following with respect to the Judgment approving the Stipulation, substantially in the form of Exhibit B attached to the Stipulation, shall occur: (i) the expiration of three (3) business days after the time to file a motion to alter or amend the Judgment under Federal Rule of Civil Procedure 59(e) has passed without any such motion having been filed; (ii) the expiration of three (3) business days after the time in which to appeal the Judgment has passed without any appeal having been taken (which date shall be deemed to be thirty-three (33) days following the entry of the Judgment, unless the date to take such an appeal shall have been extended by Court order or otherwise, or unless the thirty-third (33rd) day falls on a weekend or a Court holiday, in which case the date for purposes of the Stipulation shall be deemed to be the next business day after such thirty-third (33rd) day); and (iii) if such motion to alter or amend is filed and/or if an appeal is taken, three (3) business days after the determination and disposition of that motion and/or appeal (including any petition for writ of certiorari) in such a manner as to permit the consummation of the settlement substantially in accordance with the terms and conditions of the Stipulation. For purposes of this paragraph, an "appeal" shall not include any appeal that concerns only the issue of attorneys' fees and expenses or the Plan of Allocation of the Settlement Fund. Any proceeding or order, or any appeal or petition for a writ of certiorari pertaining solely to any Plan of Allocation and/or application for or award of attorneys' fees, costs, or expenses, shall not in any way delay or preclude the Judgment from becoming Final.
9. "Healthways" means Healthways, Inc. and its subsidiaries, divisions, affiliates, joint ventures, predecessors, and successors.
10. "Individual Defendants" means Thomas G. Cigarran, Ben R. Leedle, Jr., Mary A. Chaput, Mary Hunter, Matthew Kelliher, and Donald Taylor.
11. "Judgment" means the judgment to be rendered by the Court, substantially in the form and content attached as Exhibit B to the Stipulation.
12. "Lead Counsel" means Robbins Geller Rudman & Dowd LLP or its successor(s).
13. "Liaison Counsel" means Barrett, Johnston & Parsley.
14. "Notice Order" means the order described in paragraph 3.1 to the Stipulation.
15. "Person" means a natural person, individual, corporation, partnership, limited partnership, limited liability company, association, joint venture, joint venturer, joint stock company, estate, legal representative, trust, unincorporated association, government or any political subdivision or agency thereof, and any business or legal entity and their spouses, heirs, predecessors, successors, representatives, or assignees.
16. "Plaintiffs' Counsel" means any counsel who have appeared for any plaintiff in the Litigation.
17. "Plan of Allocation" means a plan or formula of allocation of the Settlement Fund whereby the Settlement Fund shall be distributed to Authorized Claimants after payment of expenses of notice and administration of the settlement, Taxes and Tax Expenses, and such attorneys' fees, costs, expenses, and interest as may be awarded by the Court. Any Plan of Allocation is not part of the Stipulation, and Defendants and their Related Parties shall have no responsibility therefore or liability with respect thereto.
18. "Related Parties" as to Healthways, Inc. or any subsidiary or division of Healthways, Inc. means each of that entity's past, present, or future directors, officers, employees, partners, members, insurers, co-insurers, reinsurers, principals, agents, controlling shareholders, attorneys, accountants or auditors, advisors, investment advisors, underwriters, personal or legal representatives, predecessors, successors, parents, subsidiaries, divisions, joint ventures, assigns, privies, related or affiliated corporations or entities, and any entity in which Healthways, Inc. or any of its subsidiaries or divisions has a controlling interest.

“Related Parties” as to the Individual Defendants shall also include members of an Individual Defendant’s immediate family, present or former spouses, heirs, executors, administrators, agents, insurers, reinsurers, attorneys, personal or legal representatives, successors, assigns, any entity in which an Individual Defendant and/or any member of an Individual Defendant’s immediate family has or have a controlling interest (directly or indirectly), and any trust of which any Individual Defendant is the settler or which is for the benefit of any Individual Defendant and/or members of his/her immediate family.

19. “Released Claims” means any and all rights, liabilities, suits, debts, obligations, demands, damages, losses, judgments, matters, issues, claims (including Unknown Claims as defined in paragraph 23 hereof) and causes of action of every nature and description whatsoever, in law or equity, and regardless of upon what legal theory based, whether arising under federal, state, local, statutory, common law, foreign law, or any other law, rule, or regulation, whether fixed, contingent or absolute, accrued or unaccrued, liquidated or un-liquidated, matured or un-matured, known or unknown, discoverable or undiscoverable, concealed or hidden, suspected or unsuspected, disclosed or undisclosed whether class and/or individual in nature that (a) Plaintiffs or any Class Member asserted, could have asserted, or in the future could or might have asserted in this Litigation against any of the Released Persons, or (b) that could have been asserted in this Litigation, or any other action, court, tribunal, proceeding or forum by Plaintiffs and/or any Class Member against any of the Released Persons arising out of or relating in any manner to the purchase of Healthways securities during the Class Period, and the facts, matters, allegations, transactions, events, disclosures, representations, statements, acts, or omissions or failures to act which were alleged or that could have been alleged in the Litigation.

20. “Released Persons” means each and all of the Defendants and each and all of their Related Parties.

21. “Settlement Fund” means the principal amount of Twenty-Three Million Six Hundred Thousand Dollars (\$23,600,000.00) in cash, to be paid pursuant to paragraph 2.1 of the Stipulation, plus all interest earned thereon.

22. “Settling Parties” means, collectively, each of the Defendants and the Plaintiffs on behalf of themselves and each of the Class Members.

23. “Unknown Claims” means any and all Released Claims which Plaintiffs or any Class Members do not know or suspect to exist in his, her, or its favor at the time of the release of the Released Persons which, if known by him, her, or it, might have affected his, her, or its settlement with and release of the Released Persons, or might have affected his, her, or its decision not to object to this settlement. With respect to any and all Released Claims, the Settling Parties stipulate and agree that, upon the Effective Date, Plaintiffs shall waive, and each of the Class Members shall be deemed to have waived, and by operation of the Judgment shall have waived, the provisions, rights, and benefits of California Civil Code §1542, which provides:

A GENERAL RELEASE DOES NOT EXTEND TO CLAIMS WHICH THE CREDITOR DOES NOT  
KNOW OR SUSPECT TO EXIST IN HIS OR HER FAVOR AT THE TIME OF EXECUTING THE RELEASE,  
WHICH IF KNOWN BY HIM OR HER MUST HAVE MATERIALLY AFFECTED HIS OR HER SETTLEMENT  
WITH THE DEBTOR.

Plaintiffs shall expressly waive, and each of the Class Members shall be deemed to have by operation of the Judgment expressly waived, any and all provisions, rights, and benefits conferred by any law of any state or territory of the United States, or principle of common law, which is similar, comparable or equivalent to California Civil Code §1542. Plaintiffs and the Class Members may hereafter discover facts in addition to or different from those which he, she, or it now knows or believes to be true with respect to the Released Claims, but Plaintiffs shall expressly fully, finally, and forever settle and release, and each Class Member, upon the Effective Date, shall be deemed to have, and by operation of the Judgment shall have, fully, finally, and forever settled and released, any and all Released Claims, known or unknown, suspected or unsuspected, contingent or non-contingent, whether or not concealed or hidden, which now exist, or have existed, upon any theory of law or equity now existing or coming into existence in the future, including, but not limited to, conduct which is negligent, intentional, with or without malice, or a breach of any duty, law or rule, without regard to the subsequent discovery or existence of such different or additional facts. Plaintiffs acknowledge, and the Class Members shall be deemed by operation of the Judgment to have acknowledged, that the foregoing waiver was separately bargained for and a key element of the settlement of which this release is a part.

### **III. THE LITIGATION**

Beginning in June 2008, the Company and certain of its present and former officers and directors were named as defendants in two class action shareholder complaints which were filed in the United States District Court for the Middle District of Tennessee, Nashville Division.

On August 8, 2008, Magistrate Judge Griffin issued an Order consolidating the actions, appointing West Palm Beach Firefighters’ Pension Fund (“West Palm”) as Lead Plaintiff and approving the Lead Plaintiff’s selection of Lead and Liaison Counsel.

On September 22, 2008, West Palm filed its Consolidated Class Action Complaint for Violations of Federal Securities Laws (the “Complaint”). The Complaint alleged that Defendants violated the securities laws, specifically Sections 10(b), 20(a), and 20A of the Securities Exchange Act of 1934, by causing Healthways to issue materially false and misleading statements during the Class Period.

Defendants moved to dismiss the Complaint on November 12, 2008. On March 9, 2009, the Court denied Defendants’ motion to dismiss in its entirety. Defendants answered the Complaint on April 17, 2009.

On June 15, 2009, West Palm moved for class certification. Defendants conducted discovery related to class certification, and opposed the motion. On October 5, 2009, the Court denied the motion for class certification on typicality grounds. On October 20, 2009, Central Laborers’ Pension Fund (“Central Laborers”) moved to intervene in the Litigation, and filed a motion for class certification, seeking to be appointed as the class representative. Magistrate Judge Griffin granted the motion to intervene, and Defendants thereafter conducted discovery on Central Laborers and opposed the motion for class certification. On April 2, 2010, the Court issued an Order certifying the Class and appointing Central Laborers as the Class Representative.

On February 3, 2010, Plaintiffs and Defendants met with the Honorable Daniel Weinstein (Ret.) in an attempt to settle the Litigation. No agreement was reached during that full-day mediation, and the Litigation continued. Following additional

negotiations through Judge Weinstein, Judge Weinstein made a mediator's proposal on April 26, 2010, which was accepted by Plaintiffs and Defendants.

#### **IV. CLAIMS OF THE PLAINTIFFS AND BENEFITS OF SETTLEMENT**

Plaintiffs believe that the claims asserted in the Litigation have merit and that the evidence developed to date supports those claims. However, Plaintiffs recognize and acknowledge the expense and length of continued proceedings necessary to prosecute the Litigation against Defendants through trial and through appeals. Plaintiffs also have taken into account the uncertain outcome and the risk of any litigation, especially in complex actions such as this Litigation, as well as the difficulties and delays inherent in such litigation. Plaintiffs are also mindful of the inherent difficulties of proof under and possible defenses to the securities law violations asserted in the Litigation. Plaintiffs believe that the settlement set forth in the Stipulation of Settlement dated May 21, 2010 (the "Stipulation") confers substantial benefits upon the Class. Based on their evaluation, Plaintiffs and Plaintiffs' Counsel have determined that the settlement set forth in the Stipulation is in the best interests of Plaintiffs and the Class, and that the settlement provided for therein is fair, reasonable, and adequate.

#### **V. THE DEFENDANTS' STATEMENT AND DENIALS OF WRONGDOING AND LIABILITY**

Defendants have denied and continue to deny each and all of the claims and contentions alleged by Plaintiffs in the Litigation and Defendants believe that the evidence developed to date fails to support Plaintiffs' claims. Defendants also have denied and continue to deny all charges of wrongdoing or liability against them arising out of any of the conduct, statements, acts, or omissions alleged, or that could have been alleged, in the Litigation.

Defendants further deny that Plaintiffs and the Class have suffered damages and that the price of Healthways securities was artificially inflated during the Class Period as the result of any alleged misrepresentations, omissions, or otherwise by Defendants. Nonetheless, Defendants have concluded that further conduct of the Litigation would be protracted and expensive and that it is desirable that the Litigation be fully and finally settled in the manner and upon the terms and conditions set forth in the Stipulation, in order to limit further expense, inconvenience and distraction, and to dispose of the burden of protracted litigation. Defendants also have taken into account the uncertainty and risks inherent in any litigation, especially in complex cases such as this Litigation and have, therefore, determined that it is desirable and beneficial to them that the Litigation be settled in the manner and upon the terms and conditions set forth in the Stipulation.

#### **VI. TERMS OF THE PROPOSED SETTLEMENT**

The amount of \$23,600,000 has been transferred to an interest-bearing escrow account under the control of the Escrow Agent. This principal amount of \$23,600,000 in cash, plus any accrued interest, shall constitute the Settlement Fund. A portion of the settlement proceeds will be used for certain administrative expenses, including costs of printing and mailing this Notice, the cost of publishing notice, payment of any taxes assessed against the Settlement Fund, and costs associated with the processing of claims submitted. In addition, as explained below, a portion of the Settlement Fund may be awarded by the Court to Plaintiffs' Counsel as attorneys' fees and for expenses incurred in reaching the settlement. In addition, Plaintiffs may seek reimbursement of their expenses including lost wages, in an amount not to exceed \$15,000 in the aggregate, incurred in representing the Class. The balance of the Settlement Fund (the "Net Settlement Fund") will be distributed according to the Plan of Allocation described below to Class Members who submit valid and timely Proof of Claim and Release forms.

#### **VII. PLAN OF ALLOCATION**

The Net Settlement Fund will be distributed to Class Members who submit valid, timely Proof of Claim and Release forms under the Plan of Allocation described below. The Plan of Allocation provides that you will be eligible to participate in the distribution of the Net Settlement Fund only if you have a net loss on all transactions in Healthways securities during the Class Period.

For purposes of determining the amount an Authorized Claimant may recover under the Plan of Allocation, Lead Counsel have consulted with their damage consultants. The Plan of Allocation reflects an assessment of the damages that may have been recovered under the Securities Exchange Act of 1934.

To the extent there are sufficient funds in the Net Settlement Fund, each Authorized Claimant will receive an amount equal to the Authorized Claimant's claim, as defined below. If, however, the amount in the Net Settlement Fund is not sufficient to permit payment of the total claim of each Authorized Claimant, then each Authorized Claimant shall be paid the percentage of the Net Settlement Fund that each Authorized Claimant's claim bears to the total of the claims of all Authorized Claimants. Payment in this manner shall be deemed conclusive against all Authorized Claimants.

The total of all profits shall be subtracted from the total of all losses from transactions during the Class Period to determine if a Class Member has a claim. Only if a Class Member had a net loss, after all profits from transactions in Healthways securities during the Class Period are subtracted from all losses, will such Class Member be eligible to receive a distribution from the Net Settlement Fund.

A claim shall be calculated as follows:

July 5, 2007 – August 25, 2008

The allocation below is based on the following estimated inflation per share amounts for Class Period common stock purchases and sales as well as the statutory PSLRA 90-day look-back amount of \$13.35:

| <b>Inflation Period</b>              | <b>Inflation Per Share</b> |
|--------------------------------------|----------------------------|
| July 5, 2007 – October 17, 2007      | \$8.27                     |
| October 18, 2007 – December 19, 2007 | \$12.60                    |
| December 20, 2007 – January 6, 2008  | \$17.08                    |
| January 7, 2008                      | \$23.11                    |

| Inflation Period                      | Inflation Per Share |
|---------------------------------------|---------------------|
| January 8, 2008 – January 29, 2008    | \$25.82             |
| January 30, 2008 – February 11, 2008  | \$17.93             |
| February 12, 2008 – February 25, 2008 | \$14.22             |
| February 26, 2008 – August 22, 2008   | \$4.16              |
| August 23, 2008 – August 25, 2008     | \$0.00              |

For shares of Healthways common stock ***purchased on or between July 5, 2007 and August 25, 2008***, the recovery per share shall be as follows:

a) If sold on or between July 5, 2007 and August 25, 2008, the recovery per share shall be the lesser of: (i) the inflation per share at the time of purchase less the inflation per share at the time of sale; and (ii) the difference between the purchase price per share and the sales price per share.

b) If retained at the end of August 25, 2008 and sold before November 21, 2008, the recovery per share shall be the lesser of: (i) the inflation per share at the time of purchase; (ii) the difference between the purchase price per share and the sales price per share; and (iii) the difference between the purchase price per share and the average closing price per share up to the date of sale as set forth in the table below.

c) If retained on November 21, 2008, or sold thereafter, the recovery per share shall be the lesser of: (i) the inflation per share at the time of purchase; and (ii) the difference between the purchase price per share and \$13.35 per share.

| Date      | Closing Price | Average Closing Price |
|-----------|---------------|-----------------------|
| 26-Aug-08 | \$19.63       | \$19.63               |
| 27-Aug-08 | \$19.52       | \$19.58               |
| 28-Aug-08 | \$19.59       | \$19.58               |
| 29-Aug-08 | \$19.05       | \$19.45               |
| 2-Sep-08  | \$19.21       | \$19.40               |
| 3-Sep-08  | \$19.49       | \$19.42               |
| 4-Sep-08  | \$18.70       | \$19.31               |
| 5-Sep-08  | \$18.90       | \$19.26               |
| 8-Sep-08  | \$19.46       | \$19.28               |
| 9-Sep-08  | \$19.18       | \$19.27               |
| 10-Sep-08 | \$19.31       | \$19.28               |
| 11-Sep-08 | \$18.39       | \$19.20               |
| 12-Sep-08 | \$18.96       | \$19.18               |
| 15-Sep-08 | \$18.63       | \$19.14               |
| 16-Sep-08 | \$18.45       | \$19.10               |
| 17-Sep-08 | \$17.96       | \$19.03               |
| 18-Sep-08 | \$17.07       | \$18.91               |
| 19-Sep-08 | \$16.82       | \$18.80               |
| 22-Sep-08 | \$17.00       | \$18.70               |
| 23-Sep-08 | \$16.90       | \$18.61               |
| 24-Sep-08 | \$17.15       | \$18.54               |
| 25-Sep-08 | \$16.56       | \$18.45               |
| 26-Sep-08 | \$16.45       | \$18.36               |
| 29-Sep-08 | \$15.10       | \$18.23               |
| 30-Sep-08 | \$16.17       | \$18.15               |
| 1-Oct-08  | \$16.74       | \$18.09               |
| 2-Oct-08  | \$15.97       | \$18.01               |
| 3-Oct-08  | \$15.20       | \$17.91               |
| 6-Oct-08  | \$13.09       | \$17.75               |
| 7-Oct-08  | \$12.05       | \$17.56               |
| 8-Oct-08  | \$11.15       | \$17.35               |
| 9-Oct-08  | \$9.26        | \$17.10               |
| 10-Oct-08 | \$10.46       | \$16.90               |
| 13-Oct-08 | \$12.36       | \$16.76               |
| 14-Oct-08 | \$12.11       | \$16.63               |
| 15-Oct-08 | \$11.34       | \$16.48               |
| 16-Oct-08 | \$11.52       | \$16.35               |

| <u>Date</u> | <u>Closing Price</u> | <u>Average Closing Price</u> |
|-------------|----------------------|------------------------------|
| 17-Oct-08   | \$10.39              | \$16.19                      |
| 20-Oct-08   | \$10.95              | \$16.06                      |
| 21-Oct-08   | \$10.65              | \$15.92                      |
| 22-Oct-08   | \$9.74               | \$15.77                      |
| 23-Oct-08   | \$8.72               | \$15.60                      |
| 24-Oct-08   | \$8.41               | \$15.44                      |
| 27-Oct-08   | \$7.91               | \$15.27                      |
| 28-Oct-08   | \$8.34               | \$15.11                      |
| 29-Oct-08   | \$8.91               | \$14.98                      |
| 30-Oct-08   | \$9.53               | \$14.86                      |
| 31-Oct-08   | \$10.10              | \$14.76                      |
| 3-Nov-08    | \$11.06              | \$14.69                      |
| 4-Nov-08    | \$10.58              | \$14.60                      |
| 5-Nov-08    | \$10.90              | \$14.53                      |
| 6-Nov-08    | \$10.37              | \$14.45                      |
| 7-Nov-08    | \$10.28              | \$14.37                      |
| 10-Nov-08   | \$9.78               | \$14.29                      |
| 11-Nov-08   | \$9.29               | \$14.20                      |
| 12-Nov-08   | \$8.16               | \$14.09                      |
| 13-Nov-08   | \$9.06               | \$14.00                      |
| 14-Nov-08   | \$8.19               | \$13.90                      |
| 17-Nov-08   | \$8.08               | \$13.80                      |
| 18-Nov-08   | \$7.75               | \$13.70                      |
| 19-Nov-08   | \$6.99               | \$13.59                      |
| 20-Nov-08   | \$6.23               | \$13.47                      |
| 21-Nov-08   | \$5.92               | \$13.35                      |

#### CALL OPTIONS

1. For call options on Healthways common stock ***purchased from July 5, 2007 through August 25, 2008***, and
  - a) ***held*** at the end of any of the following days: January 29, 2008, February 11, 2008, February 25, 2008 and/or August 22, 2008, the claim per call option is the difference between the price paid for the call option less the proceeds received upon the settlement of the call option contract;
  - b) ***not held*** at the end of any of the following days: January 29, 2008, February 11, 2008, February 25, 2008 and/or August 22, 2008, the claim per call option is \$0.
2. For call options on Healthways common stock ***written from July 5, 2007 through August 25, 2008***, and
  - a) ***held*** at the end of any of the following days: October 17, 2007, December 19, 2007, January 6, 2008 and/or January 7, 2008, the claim per call option is the difference between the price paid upon settlement of the call option contract less the initial proceeds received upon the sale of the call option contract;
  - b) ***not held*** at the end of any of the following days: October 17, 2007, December 19, 2007, January 6, 2008 and/or January 7, 2008, the claim per call option is \$0.

#### PUT OPTIONS

1. For put options on Healthways common stock ***written from July 5, 2007 through August 25, 2008***, and
  - a) ***held*** at the end of any of the following days: January 29, 2008, February 11, 2008, February 25, 2008 and/or August 22, 2008, the claim per put option is the difference between the price paid upon settlement of the put option contract less the initial proceeds received upon the sale of the put option contract;
  - b) ***not held*** at the end of any of the following days: January 29, 2008, February 11, 2008, February 25, 2008 and/or August 22, 2008, the claim per put option is \$0.
2. For put options on Healthways common stock ***purchased from July 5, 2007 through August 25, 2008***, and
  - a) ***held*** at the end of any of the following days: October 17, 2007, December 19, 2007, January 6, 2008 and/or January 7, 2008, the claim per put option is the difference between the price paid for the put option less the proceeds received upon the settlement of the put option contract;
  - b) ***not held*** at the end of any of the following days: October 17, 2007, December 19, 2007, January 6, 2008 and/or January 7, 2008, the claim per put option is \$0.

Note: In the case the option was exercised for Healthways common stock, the amount paid, or proceeds received, upon the settlement of the option contract equals the intrinsic value of the option using Healthways common stock's closing price on the date the option was exercised.

Note: The combined recovery for the put/call options shall not exceed 3% of the Net Settlement Fund.

The date of purchase or sale is the "contract" or "trade" date as distinguished from the "settlement" date. The determination of the price paid per share and the price received per share, shall be exclusive of all commissions, taxes, fees, and charges.

For Class Members who made multiple purchases or sales during the Class Period, the first-in, first-out ("FIFO") method will be applied to such holdings, purchases, and sales for purposes of calculating a claim. Under the FIFO method, sales of shares during the Class Period will be matched, in chronological order, against shares purchased during the Class Period.

A Class Member will be eligible to receive a distribution from the Net Settlement Fund only if such Class Member had a net loss, after all profits from transactions in Healthways securities during the Class Period are subtracted from all losses.

The Court has reserved jurisdiction to allow, disallow, or adjust the claim of any Class Member on equitable grounds.

#### **VIII. ORDER CERTIFYING A CLASS FOR PURPOSES OF SETTLEMENT**

On April 2, 2010, the Court certified the Class, as defined above.

#### **IX. PARTICIPATION IN THE CLASS**

If you fall within the definition of the Class, you are a Class Member unless you elect to be excluded from the Class pursuant to this Notice. If you do not request to be excluded from the Class, you will be bound by any judgment entered with respect to the settlement in the Litigation against Defendants whether or not you file a Proof of Claim and Release form.

***If you are a Class Member, you need do nothing (other than timely file a Proof of Claim and Release form if you wish to participate in the distribution of the Net Settlement Fund). Your interests will be represented by Lead Counsel.*** If you choose, you may enter an appearance individually or through your own counsel at your own expense.

TO PARTICIPATE IN THE DISTRIBUTION OF THE NET SETTLEMENT FUND, YOU MUST TIMELY COMPLETE AND RETURN THE PROOF OF CLAIM AND RELEASE FORM THAT ACCOMPANIES THIS NOTICE. The Proof of Claim and Release must be postmarked on or before October 25, 2010, and delivered to the Claims Administrator at the address below. Unless the Court orders otherwise, if you do not timely submit a valid Proof of Claim and Release form, you will be barred from receiving any payments from the Net Settlement Fund, but will in all other respects be bound by the provisions of the Stipulation and the Judgment.

#### **X. EXCLUSION FROM THE CLASS**

You may request to be excluded from the Class. To do so, you must mail a written request stating that you wish to be excluded from the Class to:

*Healthways Securities Litigation*  
EXCLUSIONS  
Claims Administrator  
c/o Gilardi & Co. LLC  
P.O. Box 8040  
San Rafael, CA 94912-8040

The request for exclusion must state: (1) your name, address, and telephone number; and (2) all purchases of Healthways securities made during the Class Period, including the date of each purchase and the number of shares purchased. YOUR EXCLUSION REQUEST MUST BE POSTMARKED ON OR BEFORE SEPTEMBER 10, 2010. If you submit a valid and timely request for exclusion, you shall have no rights under the settlement, shall not share in the distribution of the Net Settlement Fund, and shall not be bound by the Stipulation or the Judgment.

#### **XI. DISMISSAL AND RELEASES**

If the proposed settlement is approved, the Court will enter a Final Judgment and Order of Dismissal with Prejudice. The Judgment will dismiss the Released Claims with prejudice as to all Defendants.

The Judgment will provide that all Class Members who have not validly and timely requested to be excluded from the Class shall be deemed to have released and forever discharged all Released Claims (to the extent members of the Class have such claims) against all Released Persons.

#### **XII. APPLICATION FOR ATTORNEYS' FEES AND EXPENSES**

At the Settlement Hearing, Lead Counsel will request the Court to award attorneys' fees not to exceed 30% of the Settlement Fund, plus expenses, not to exceed \$900,000, which were advanced in connection with the Litigation, plus interest thereon. Class Members are not personally liable for any such fees or expenses. In addition, Plaintiffs may seek reimbursement of their time and expenses, including lost wages, incurred in representing the Class. This amount will not exceed \$15,000 in the aggregate.

To date, Plaintiffs' Counsel have not received any payment for their services in conducting this Litigation on behalf of the Plaintiffs and the members of the Class, nor have counsel been reimbursed for their expenses. The fee requested by Plaintiffs' Counsel would compensate counsel for their efforts in achieving the Settlement Fund for the benefit of the Class, and for their risk in undertaking this representation on a contingency basis. The fee requested is within the range of fees awarded to plaintiffs' counsel under similar circumstances in litigation of this type.

#### **XIII. CONDITIONS FOR SETTLEMENT**

The settlement is conditioned upon the occurrence of certain events described in the Stipulation. Those events include, among other things: (1) entry of the Judgment by the Court, as provided for in the Stipulation; and (2) expiration of the time to appeal from or alter or amend the Judgment. If, for any reason, any one of the conditions described in the Stipulation is not met, the Stipulation might be terminated and, if terminated, will become null and void, and the parties to the Stipulation will be restored to their respective positions as of April 27, 2010.

#### **XIV. THE RIGHT TO BE HEARD AT THE HEARING**

Any Class Member who has not validly and timely requested to be excluded from the Class, and who objects to any aspect of the settlement, the Plan of Allocation, or the application for attorneys' fees and expenses and Plaintiffs' expenses may appear and be heard at the Settlement Hearing. Any such Person must submit and serve a written notice of objection, to be received on or before September 10, 2010, by each of the following:

CLERK OF THE COURT  
UNITED STATES DISTRICT COURT  
MIDDLE DISTRICT OF TENNESSEE  
NASHVILLE DIVISION  
Estes Kefauver Federal Building and  
United States Courthouse  
801 Broadway, Room 800  
Nashville, TN 37203

Counsel for Plaintiffs:

ELLEN GUSIKOFF STEWART  
ROBBINS GELLER RUDMAN  
& DOWD LLP  
655 West Broadway, Suite 1900  
San Diego, CA 92101

Counsel for Defendants:

JOHN L. LATHAM  
ALSTON & BIRD, LLP  
One Atlantic Center  
1201 West Peachtree Street  
Atlanta, GA 30309

The notice of objection must demonstrate the objecting Person's membership in the Class, including the number of shares of Healthways securities purchased during the Class Period, and contain a statement of the reasons for objection. Only Class Members who have submitted written notices of objection in this manner will be entitled to be heard at the Settlement Hearing unless the Court orders otherwise.

#### **XV. SPECIAL NOTICE TO NOMINEES**

If you hold or held any Healthways securities during the Class Period as nominee for a beneficial owner, then, within ten (10) calendar days after you receive this Notice, you must either: (1) send a copy of this Notice and the Proof of Claim and Release form by First-Class Mail to all such Persons; or (2) provide a list of the names and addresses of such Persons to the Claims Administrator:

*Healthways Securities Litigation*  
Claims Administrator  
c/o Gilardi & Co. LLC  
P.O. Box 8040  
San Rafael, CA 94912-8040

If you choose to mail the Notice and Proof of Claim and Release form yourself, you may obtain from the Claims Administrator (without cost to you) as many additional copies of these documents as you will need to complete the mailing.

Regardless of whether you choose to complete the mailing yourself or elect to have the mailing performed for you, you may obtain reimbursement for, or advancement of, reasonable administrative costs actually incurred or expected to be incurred in connection with forwarding the Notice and Proof of Claim and Release form and which would not have been incurred but for the obligation to forward the Notice and Proof of Claim and Release form, upon submission of appropriate documentation to the Claims Administrator.

#### **XVI. EXAMINATION OF PAPERS**

This Notice is a summary and does not describe all of the details of the Stipulation. For full details of the matters discussed in this Notice, you may review the Stipulation filed with the Court, which may be inspected during business hours, at the office of the Clerk of the Court, United States District Court for the Middle District of Tennessee, Nashville Division, Estes Kefauver Federal Building and United States Courthouse, 801 Broadway, Nashville, Tennessee 37203.

If you have any questions about the settlement of the Litigation, you may contact a representative of Lead Counsel: Robbins Geller Rudman & Dowd LLP, Rick Nelson, c/o Shareholder Relations, 655 West Broadway, Suite 1900, San Diego, CA 92101, 1-800-449-4900.

**PLEASE DO NOT TELEPHONE THE COURT REGARDING THIS NOTICE**

DATED: June 2, 2010

BY ORDER OF THE COURT  
UNITED STATES DISTRICT COURT  
MIDDLE DISTRICT OF TENNESSEE  
NASHVILLE DIVISION