

MAGELLAN HEALTH SERVICES INC
Form 10-Q
July 27, 2012

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

FORM 10-Q

(Mark One)

**QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES
EXCHANGE ACT OF 1934**

For the Quarterly Period Ended June 30, 2012

Or

**TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES
EXCHANGE ACT OF 1934**

**For the transition period from _____ to _____
Commission File No. 1-6639**

MAGELLAN HEALTH SERVICES, INC.

(Exact name of registrant as specified in its charter)

Delaware

(State or other jurisdiction of
incorporation or organization)

58-1076937

(IRS Employer
Identification No.)

55 Nod Road, Avon, Connecticut
(Address of principal executive offices)

06001
(Zip code)

(860) 507-1900

(Registrant's telephone number, including area code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding twelve months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes No

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Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of "accelerated filer and large accelerated filer" in Rule 12b-2 of the Exchange Act. (Check one):

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

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes No

The number of shares of the registrant's Ordinary Common Stock outstanding as of June 30, 2012 was 27,359,021.

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MAGELLAN HEALTH SERVICES, INC. AND SUBSIDIARIES

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Table of Contents**PART I FINANCIAL INFORMATION****Item 1. Financial Statements.****MAGELLAN HEALTH SERVICES, INC. AND SUBSIDIARIES****CONSOLIDATED BALANCE SHEETS****(In thousands, except per share amounts)**

	December 31, 2011	June 30, 2012 (unaudited)
ASSETS		
Current Assets:		
Cash and cash equivalents	\$ 119,862	\$ 168,020
Restricted cash	185,794	208,639
Accounts receivable, less allowance for doubtful accounts of \$3,336 and \$3,877 at December 31, 2011 and June 30, 2012, respectively	121,606	120,178
Short-term investments (restricted investments of \$129,599 and \$109,119 at December 31, 2011 and June 30, 2012, respectively)	192,947	180,630
Deferred income taxes	35,138	34,926
Pharmaceutical inventory	39,567	38,354
Other current assets (restricted deposits of \$20,453 and \$22,055 at December 31, 2011 and June 30, 2012, respectively)	37,795	42,804
Total Current Assets	732,709	793,551
Property and equipment, net	118,022	129,800
Restricted long-term investments	7,956	8,962
Other long-term assets	10,952	9,738
Goodwill	426,939	426,939
Other intangible assets, net	44,589	39,714
Total Assets	\$ 1,341,167	\$ 1,408,704
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current Liabilities:		
Accounts payable	\$ 18,690	\$ 17,564
Accrued liabilities	106,809	87,913
Medical claims payable	137,973	181,791
Other medical liabilities	106,078	82,468
Total Current Liabilities	369,550	369,736
Deferred income taxes	18,509	24,399
Tax contingencies	102,919	105,259
Deferred credits and other long-term liabilities	4,915	4,602
Total Liabilities	495,893	503,996
Preferred stock, par value \$.01 per share		
Authorized 10,000 shares Issued and outstanding none		
Ordinary common stock, par value \$.01 per share		
Authorized 100,000 shares at December 31, 2011 and June 30, 2012 Issued and outstanding 45,285 shares and 27,173 shares at December 31, 2011, respectively, and 45,471 and 27,359 shares at June 30, 2012, respectively	453	455
Multi-Vote common stock, par value \$.01 per share		
Authorized 40,000 shares Issued and outstanding none		
Other Stockholders' Equity:		
Additional paid-in capital	804,035	815,616
Retained earnings	824,205	871,968

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Accumulated other comprehensive loss	(150)	(62)
Ordinary common stock in treasury, at cost, 18,112 shares and 18,112 shares at December 31, 2011 and June 30, 2012, respectively	(783,269)	(783,269)
Total Stockholders' Equity	845,274	904,708
Total Liabilities and Stockholders' Equity	\$ 1,341,167	\$ 1,408,704

See accompanying notes to consolidated financial statements.

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MAGELLAN HEALTH SERVICES, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(Unaudited)

(In thousands, except per share amounts)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2011	2012	2011	2012
Net revenue	\$ 698,338	\$ 805,473	\$ 1,391,093	\$ 1,578,686
Cost and expenses:				
Cost of care	441,446	521,830	875,146	1,027,123
Cost of goods sold	53,404	82,855	109,923	163,893
Direct service costs and other operating expenses(1)	131,779	140,333	263,346	276,922
Depreciation and amortization	14,267	15,152	28,219	29,933
Interest expense	494	576	965	1,176
Interest income	(858)	(857)	(1,673)	(1,269)
	640,532	759,889	1,275,926	1,497,778
Income before income taxes	57,806	45,584	115,167	80,908
Provision for income taxes	23,575	18,611	46,638	33,145
Net income	34,231	26,973	68,529	47,763
Net income per common share basic (See Note B)	\$ 1.09	\$ 0.99	\$ 2.13	\$ 1.75
Net income per common share diluted (See Note B)	\$ 1.07	\$ 0.97	\$ 2.09	\$ 1.72
Other comprehensive income				
Unrealized (losses) gains on available-for-sale securities(2)	(19)	(85)	78	88
Comprehensive income	\$ 34,212	\$ 26,888	\$ 68,607	\$ 47,851

(1) Includes stock compensation expense of \$4,205 and \$4,365 for the three months ended June 30, 2011 and 2012, respectively, and \$8,983 and \$9,467 for the six months ended June 30, 2011 and 2012, respectively.

(2) Net of income tax provision (benefit) of \$(12) and \$(55) for the three months ended June 30, 2011 and 2012, respectively, and \$49 and \$56 for the six months ended June 30, 2011 and 2012, respectively.

See accompanying notes to consolidated financial statements.

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MAGELLAN HEALTH SERVICES, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

FOR THE SIX MONTHS ENDED JUNE 30,

(Unaudited)

(In thousands)

	2011	2012
Cash flows from operating activities:		
Net income	\$ 68,529	\$ 47,763
Adjustments to reconcile net income to net cash (used in) provided by operating activities:		
Depreciation and amortization	28,219	29,933
Non-cash interest expense	213	360
Non-cash stock compensation expense	8,983	9,467
Non-cash income tax expense	6,885	7,143
Non-cash amortization on investments	6,648	3,720
Cash flows from changes in assets and liabilities, net of effects from acquisitions of businesses:		
Restricted cash	13,697	(22,845)
Accounts receivable, net	(77,031)	1,428
Pharmaceutical inventory	(17,117)	1,213
Other assets	(4,024)	(3,066)
Accounts payable and accrued liabilities	(27,098)	(20,022)
Medical claims payable and other medical liabilities	(12,390)	20,208
Other	2,598	(270)
Net cash (used in) provided by operating activities	(1,888)	75,032
Cash flows from investing activities:		
Capital expenditures	(26,693)	(36,877)
Acquisitions and investments in businesses, net of cash acquired	(274)	
Purchase of investments	(187,807)	(143,155)
Maturity of investments	123,043	150,890
Net cash used in investing activities	(91,731)	(29,142)
Cash flows from financing activities:		
Payments to acquire treasury stock	(211,451)	
Proceeds from issuance of equity	20,000	
Proceeds from exercise of stock options and warrants	28,842	3,003
Other	391	(735)
Net cash (used in) provided by financing activities	(162,218)	2,268
Net (decrease) increase in cash and cash equivalents	(255,837)	48,158
Cash and cash equivalents at beginning of period	337,179	119,862
Cash and cash equivalents at end of period	\$ 81,342	\$ 168,020

See accompanying notes to consolidated financial statements.

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MAGELLAN HEALTH SERVICES, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

June 30, 2012

(Unaudited)

NOTE A General

Basis of Presentation

The accompanying unaudited consolidated financial statements of Magellan Health Services, Inc., a Delaware corporation ("Magellan"), include the accounts of Magellan, its majority owned subsidiaries, and all variable interest entities ("VIEs") for which Magellan is the primary beneficiary (together with Magellan, the "Company"). The financial statements have been prepared in accordance with accounting principles generally accepted in the United States for interim financial information and with the Securities and Exchange Commission's (the "SEC") instructions to Form 10-Q. Accordingly, the financial statements do not include all of the information and footnotes required by accounting principles generally accepted in the United States for complete financial statements. In the opinion of management, all adjustments, consisting of normal recurring adjustments considered necessary for a fair presentation, have been included. The results of operations for the three months and six months ended June 30, 2012 are not necessarily indicative of the results to be expected for the full year. All significant intercompany accounts and transactions have been eliminated in consolidation.

The Company has evaluated subsequent events for recognition or disclosure in our consolidated financial statements filed on this Form 10-Q and no events have occurred that require disclosure.

These unaudited consolidated financial statements should be read in conjunction with the Company's audited consolidated financial statements for the year ended December 31, 2011 and the notes thereto, which are included in the Company's Annual Report on Form 10-K filed with the SEC on February 28, 2012.

Business Overview

The Company is engaged in the specialty managed healthcare business. Through 2005, the Company predominantly operated in the managed behavioral healthcare business. As a result of certain acquisitions, the Company expanded into radiology benefits management and specialty pharmaceutical management during 2006, and into Medicaid administration during 2009. The Company provides services to health plans, insurance companies, employers, labor unions and various governmental agencies. The Company's business is divided into the following six segments, based on the services it provides and/or the customers that it serves, as described below.

Managed Behavioral Healthcare

Two of the Company's segments are in the managed behavioral healthcare business. This line of business generally reflects the Company's coordination and management of the delivery of behavioral healthcare treatment services that are provided through its contracted network of third-party treatment providers, which includes psychiatrists, psychologists, other behavioral health professionals, psychiatric hospitals, general medical facilities with psychiatric beds, residential treatment centers and other treatment facilities. The treatment services provided through the Company's provider network include outpatient programs (such as counseling or therapy), intermediate care programs (such as intensive outpatient programs and partial hospitalization services), inpatient treatment and crisis intervention services. The Company generally does not directly provide or own any provider of treatment services.

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MAGELLAN HEALTH SERVICES, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

June 30, 2012

(Unaudited)

NOTE A General (Continued)

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