

MAGELLAN HEALTH SERVICES INC
Form 10-Q
July 28, 2006

**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, 2006

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 of other jurisdiction of
incorporation or organization)
55 Nod Road, Avon, Connecticut
(Address of principal executive offices)

58-1076937
(IRS Employer
Identification No.)
06001
(Zip code)

(860) 507-1900

(Registrant's telephone number, including area code)

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or 15(d) of the Act. Yes No

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

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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

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

APPLICABLE ONLY TO ISSUERS INVOLVED IN BANKRUPTCY
PROCEEDINGS DURING THE PRECEDING FIVE YEARS:

Indicate by check mark whether the registrant has filed all documents and reports required to be filed by Sections 12, 13 or 15(d) of the Securities Exchange Act of 1934 subsequent to the distribution of securities under a plan confirmed by a court. Yes No

The number of shares of the registrant's Ordinary Common Stock outstanding as of June 30, 2006 was 37,148,742.

FORM 10-Q

MAGELLAN HEALTH SERVICES, INC. AND SUBSIDIARIES

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

	December 31, 2005	June 30, 2006 (unaudited)
ASSETS		
Current Assets:		
Cash and cash equivalents	\$ 81,039	\$ 224,573
Restricted cash	149,723	161,600
Accounts receivable, less allowance for doubtful accounts of \$2,442 and \$1,454 at December 31, 2005 and June 30, 2006, respectively	42,428	34,519
Short-term investments (restricted investments of \$42,976 and \$36,441 at December 31, 2005 and June 30, 2006, respectively)	236,153	52,925
Other current assets (restricted deposits of \$16,498 and \$20,542 at December 31, 2005 and June 30, 2006, respectively)	31,434	35,609
Total Current Assets	540,777	509,226
Property and equipment, net	102,898	100,669
Long-term investments (restricted investments of \$2,897 and \$3,512 at December 31, 2005 and June 30, 2006, respectively)	2,897	3,512
Investments in unconsolidated subsidiaries	15,339	
Deferred income taxes	76,023	80,065
Other long-term assets	10,948	7,065
Goodwill	290,192	366,822
Other intangible assets, net	30,412	39,021
Total Assets	\$ 1,069,486	\$ 1,106,380
LIABILITIES AND STOCKHOLDERS EQUITY		
Current Liabilities:		
Accounts payable	\$ 14,834	\$ 10,320
Accrued liabilities	62,327	51,526
Medical claims payable	164,013	142,639
Other medical liabilities	45,557	64,961
Current maturities of long-term debt and capital lease obligations	25,194	25,196
Total Current Liabilities	311,925	294,642
Long-term debt and capital lease obligations	37,890	25,231
Deferred credits and other long-term liabilities	84,832	90,408
Minority interest	1,762	242
Total Liabilities	436,409	410,523
Preferred stock, par value \$.01 per share		
Authorized 10,000 shares at December 31, 2005 and June 30, 2006 Issued and outstanding none at December 31, 2005 and June 30, 2006		
Ordinary common stock, par value \$.01 per share		
Authorized 100,000 shares at December 31, 2005 and June 30, 2006 Issued and outstanding 36,584 shares and 37,149 shares at December 31, 2005 and June 30, 2006, respectively	366	372
Multi-Vote common stock, par value \$.01 per share		
Authorized 40,000 shares at December 31, 2005 and June 30, 2006 Issued and outstanding none at December 31, 2005 and June 30, 2006, respectively		
Other Stockholders Equity:		
Additional paid-in capital	429,933	452,897
Retained earnings	194,904	237,443
Warrants outstanding	8,489	5,384
Accumulated other comprehensive loss	(615)	(239)
Total Stockholders Equity	633,077	695,857
Total Liabilities and Stockholders Equity	\$ 1,069,486	\$ 1,106,380

See accompanying notes to condensed consolidated financial statements.

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

(Unaudited)

(In thousands, except per share amounts)

	Three Months Ended		Six Months Ended	
	June 30, 2005 (restated)	2006	June 30, 2005 (restated)	2006
Net revenue	\$ 464,544	\$ 398,933	\$ 917,298	\$ 799,529
Cost and expenses:				
Cost of care	316,921	262,706	621,129	532,541
Direct service costs and other operating expenses	90,201	86,104	178,922	168,072
Equity in earnings of unconsolidated subsidiaries	(1,503)		(2,952)	(390)
Depreciation and amortization	13,573	11,333	24,791	21,990
Interest expense	8,611	1,721	17,250	3,690
Interest income	(3,899)	(4,921)	(6,932)	(9,138)
Stock compensation expense	4,419	6,594	8,169	12,094
Gain on sale of assets		(403)		(5,148)
	428,323	363,134	840,377	723,711
Income from continuing operations before income taxes and minority interest	36,221	35,799	76,921	75,818
Provision for income taxes	15,316	15,575	32,868	33,279
Income from continuing operations before minority interest	20,905	20,224	44,053	42,539
Minority interest, net	4		72	
Income from continuing operations	20,901	20,224	43,981	42,539
Income from discontinued operations (1)	816		830	
Net income	21,717	20,224	44,811	42,539
Other comprehensive (loss) income	(458)	166	(472)	376
Comprehensive income	\$ 21,259	\$ 20,390	\$ 44,339	\$ 42,915
Weighted average number of common shares outstanding basic (See Note D)	35,567	36,999	35,475	36,852
Weighted average number of common shares outstanding diluted (See Note D)	36,980	38,599	36,899	38,384
Income per common share basic:				
Income from continuing operations	\$ 0.59	\$ 0.55	\$ 1.24	\$ 1.15
Income from discontinued operations	\$ 0.02	\$ 0.00	\$ 0.02	\$ 0.00
Net income	\$ 0.61	\$ 0.55	\$ 1.26	\$ 1.15
Income per common share diluted:				
Income from continuing operations	\$ 0.57	\$ 0.52	\$ 1.19	\$ 1.11
Income from discontinued operations	\$ 0.02	\$ 0.00	\$ 0.02	\$ 0.00
Net income	\$ 0.59	\$ 0.52	\$ 1.21	\$ 1.11

(1) Net of income tax provision of \$940 and \$1,045 for the three months and six months ended June 30, 2005, respectively.

See accompanying notes to condensed consolidated financial statements.

MAGELLAN HEALTH SERVICES, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE SIX MONTHS ENDED JUNE 30,

(Unaudited)

(In thousands)

	2005 (restated)	2006
Cash flows from operating activities:		
Net income	\$ 44,811	\$ 42,539
Adjustments to reconcile net income to net cash from operating activities:		
Gain on sale of assets		(5,148)
Depreciation and amortization	24,791	21,990
Equity in earnings of unconsolidated subsidiaries	(2,952)	(390)
Non-cash interest expense	694	694
Non-cash stock compensation expense	8,169	12,094
Non-cash income tax expense	30,754	30,116
Cash flows from changes in assets and liabilities, net of effects from acquisitions of businesses:		
Restricted cash	(46,030)	(11,627)
Accounts receivable, net	12,578	6,878
Other assets	169	(3,336)
Accounts payable and accrued liabilities	(3,281)	(20,481