MAXICARE HEALTH PLANS INC
Form 10-Q
August 17, 2001
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SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

Form 10-Q

[X] Quarterly report pursuant to Section 13 or 15(d) of the Securities Act of 1934 for the quarterly period ended June 30, 2001 or [ ] Transition report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934

Commission file number: 0-12024

MAXICARE HEALTH PLANS, INC.

(Exact name of registrant as specified in its charter)

Delaware	95-9615709
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

1149 South Broadway Street, Los Angeles, California

90015

(Address of principal executive offices)

(Zip 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 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes [X] No [ ]

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 [X] No [ ]

Common Stock, $.01 par value 9,741,926 shares outstanding as of August 15, 2001.

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PART I: FINANCIAL INFORMATION

Item 1: Financial Statements.

MAXICARE HEALTH PLANS, INC. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
(Amounts in thousands except par value)

	June 30, 2001	December 31, 2000
CURRENT ASSETS		
Cash and cash equivalents	$47,489	$80,693
Marketable securities	375	3,400
Accounts receivable, net	18,338	35,428
Other current assets	3,601	1,883
TOTAL CURRENT ASSETS	69,803	121,404

PROPERTY AND EQUIPMENT		
Leasehold improvements	5,436	5,488
Furniture and equipment	18,209	20,243
	23,645	25,731
Less accumulated depreciation and amortization	20,334	20,854
NET PROPERTY AND EQUIPMENT	3,311	4,877
LONG-TERM ASSETS		
Restricted investments	1,026	6,118
Long-term receivables	476	497
Capitalized Computer Software net	314	475
TOTAL LONG-TERM ASSETS	1,816	7,090
TOTAL ASSETS	$74,930	$133,371
CURRENT LIABILITIES		
Estimated claims and other health care costs payable	$67,529	$98,998
Accounts payable	7,161	978
Deferred income	784	8,049
Accrued salary expense	1,416	2,535
Other current liabilities	9,763	10,589
TOTAL CURRENT LIABILITIES	86,653	121,149
LONG-TERM LIABILITIES	4,433	5,081
TOTAL LIABILITIES	91,086	126,230

SHAREHOLDERS
EQUITY Common stock, $.01 par value 80,000 shares authorized, 9,742 shares issued and outstanding 98 98 Additional paid-in capital 283,466 283,442 Note receivable from shareholder (2,887) (2,842) Accumulated deficit (296,834) (273,558) Accumulated other comprehensive income (loss) 1 1

TOTAL SHAREHOLDERS EQUITY (16,156) 7,141

TOTAL LIABILITIES AND SHAREHOLDERS EQUITY $74,930 $133,371

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MAXICARE HEALTH PLANS, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF OPERATIONS
(Amounts in thousands except per share data)
(Unaudited)

	For the three months ended June 30,		For the six months ended June 30,	
	2001	2000	2001	2000

REVENUES
Commercial premiums $73,066 $109,033 $179,474 $217,218 Medicaid premiums 26,245 45,632 53,880 91,655 Medicare premiums 21,565 31,082 43,400 60,347

TOTAL
PREMIUMS 120,876 185,747 276,754 369,220 Investment
income 494 1,333 1,674 2,532 Other
income 398 107 584 354

TOTAL
REVENUES 121,768 187,187 279,012 372,106

EXPENSES Physician
services 46,782 70,064 108,432 138,286 Hospital
services 41,950 67,138 99,135 134,298 Outpatient
services 17,424 28,742 47,055 56,682 Other health care
expense 5,086 5,701 10,822 10,163

TOTAL HEALTH CARE
EXPENSES 111,242 171,645 265,444 339,429 Marketing
general and administrative
expenses 23,919 17,892 44,741 34,658 Depreciation
and amortization 629 330 1,209 649 Excess of
rehabilitated subsidiaries consolidated losses over amount of
parent s investment Note 5 (9,106) (9,106) Charges for
capitated provider contracts Note 5 2,000 2,000

LOSS FROM
OPERATIONS (4,916) (4,680) (23,276) (4,630)

NET LOSS $(4,916) $(4,680) $(23,276) $(4,630)

Basic: Basic Earnings (Loss) Per Common Share $(.50) $(1.30) $(2.39) $(1.29)

Weighted average number of common shares outstanding 9,742 3,590 9,742 3,589

Diluted: Diluted Earnings (Loss) Per Common Share $(.50) $(1.30) $(2.39) $(1.29)

Weighted average number of common and common dilutive potential shares outstanding 9,748 3,590 9,748 3,589

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MAXICARE HEALTH PLANS, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
(Amounts in thousands)
(Unaudited)

	For the six months ended June 30,	
	2001	2000

CASH FLOWS FROM OPERATING ACTIVITIES:
Net
loss $(23,276) $(4,630)Adjustments
to reconcile net loss to net cash
provided by (used for) operating
activities: Depreciation and
amortization 1,209 649 Benefit
from deferred income
taxes (19) Contract
renegotiation and management
settlement
charges 3,971 (259) Charges
for capitated provider
contracts 2,000 Changes in
assets and
liabilities: (Increase)
decrease in accounts
receivable 17,090 (3,647) Increase
(decrease) in estimated claims
and other health care costs
payable (31,469) 17,952 Increase
(decrease) in deferred
income (7,265) 621 Changes
in other miscellaneous assets and
liabilities 5,663 3,423

Net cash provided by (used for)
operating
activities (34,077) 16,090

CASH FLOWS FROM
INVESTING
ACTIVITIES: Purchases of
property and
equipment (5,159) (513) Decrease
in restricted
investments 5,092 564 (Increase)

decrease in long term receivables 21 (486) Proceeds from sales and maturities of marketable securities 1,553 1,307 Purchases of marketable securities (299) (3,530)

Net cash provided by (used for) investing activities 1,208 (2,658)

CASH FLOWS FROM FINANCING ACTIVITIES: Payments on capital lease obligations (335) (180) Issuance of common stock 1,000

Net cash provided by (used for) financing activities (335) 820

Net increase in cash and cash equivalents (33,204) 14,252 Cash and cash equivalents at beginning of period 80,693 69,117

Cash and cash equivalents at end of period $47,489 $83,369

Supplemental disclosures of cash flow information: Cash paid during the year for - Interest $100 $60

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MAXICARE HEALTH PLANS, INC.
CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS EQUITY

(Amounts in thousands)

	Number of Common Shares	Common Stock	Additional Paid-in Capital	Other	Accumulated Deficit	Accumulated Other Comprehensive Income (Loss)	Total
Balances at December 31, 2000	9,742	$ 98	$ 283,442	$ (2,842)	$ (273,558)	$ 1	$ 7,141
Comprehensive income (loss)							
Net loss					(23,276)		(23,276)
Other comprehensive income, net of tax, related to unrealized gains on marketable securities							
Comprehensive loss							(23,276)
Warrants issued in connection with professional services contract			24				24
Note receivable from shareholder				(45)			(45)
Balances at June 30, 2001	9,742	$98	$283,466	$(2,887)	$(296,834)	$1	$(16,156)

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MAXICARE HEALTH PLANS, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1 SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation

Maxicare Health Plans, Inc., a Delaware corporation (MHP), is a holding company that owns various subsidiaries, primarily in the field of managed care. MHP owns and operates an HMO in California (the California HMO). Prior to May 4, 2001, MHP operated an HMO in Indiana (the Indiana HMO). The Indiana subsidiary owns Maxicare Life and Health Insurance Company (MLH), the indemnity provider underwriting the preferred provider organization (PPO), point of service (POS) and life insurance products offered by both our Indiana (PPO only) and California HMOs. The Indiana HMO is incorporated under the laws of the state of Indiana and is primarily regulated by the Indiana Department of Insurance (the IDOI). The California HMO is incorporated under the laws of the state of California and is primarily regulated by the California Department of Managed Health Care (the DMHC). MLH is incorporated under the laws of the state of Missouri and is primarily regulated by the Missouri Department of Insurance (the MDOI). On May 4, 2001, the IDOI placed the Indiana HMO into rehabilitation, effectively relieving MHP of all authority over the assets, liabilities and operations of the Indiana HMO and MLH. On May 25, 2001 the California HMO filed for bankruptcy under Chapter 11 of the Federal Bankruptcy Act. Effective August 31, 2001 the California HMO will cease offering Medicare products. We have signed agreements to assign the California HMO s Medi-Cal contracts to other health plans, although there can be no assurance that the agreements will be consummated (see NOTE 4 LIQUIDITY AND GOING CONCERN ISSUES). We are considering various options for the disposition of our commercial California operations.

The accompanying unaudited consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States for interim financial information. In the opinion of management, all adjustments considered necessary for a fair presentation, which consist solely of normal recurring adjustments, have been included. All significant intercompany balances and transactions have been eliminated. The consolidated financial statements include the operations of the Indiana HMO and MLH through May 3, 2001. The Consolidated Statements of Operations for the quarter and six months ended June 30, 2001 include a gain of $9.1 million realized by MHP upon the IDOI s placement of the Indiana HMO and its wholly-owned subsidiary, MLH, into rehabilitation. This gain represents the extent to which consolidated losses of those entities through May 3, 2001 exceeded MHP s investment in those subsidiaries and was recorded since MHP has no obligation to fund those losses.

For further information on MHP and subsidiaries (collectively we or the Company) and its accounting policies refer to the consolidated financial statements and accompanying footnotes included in our annual report on Form 10-K for the year ended December 31, 2000.

NOTE 2 REVERSE STOCK SPLIT

On March 27, 2001, we effected a one-for-five reverse split of our common stock. All share and per share information included in this quarterly report on Form 10-Q have been retroactively adjusted to reflect the reverse stock split.

NOTE 3 REGULATORY ACTIONS/ BANKRUPTCY OF SUBSIDIARY

On May 4, 2001, the Commissioner of the Indiana Department of Insurance petitioned the Marion County Circuit Court to place our Indiana HMO into rehabilitation. This action was the result of claims that were substantially in excess of our estimates during the fourth quarter of 2000 and the first quarter of 2001. On May 24, 2001 the MDOI placed MLH under an Order of Administrative Supervision. On July 20, 2001, the California Department of Insurance (the CDOI) placed MLH into conservatorship. MLH has been ordered to cease writing new business by the MDOI, CDOI and the IDOI. The result of these regulatory actions has been that MHP has effectively lost control of MLH and the Indiana HMO and that control of the operations, assets and liabilities of the Indiana HMO and MLH is now with various regulatory agencies.

On May 25, 2001 the DMHC issued an order appointing a conservator for the California HMO. Also on that date, the California HMO filed for Chapter 11 bankruptcy protection. Effective June 5, 2001, the California HMO and the DMHC reached an agreement allowing the California HMO s bankruptcy filing to remain in effect with the recently appointed conservator relinquishing that position in order to act as Examiner of the Debtor (the Examiner). The agreement calls for any disputes between the California HMO and the Examiner to be resolved in Bankruptcy Court.

NOTE 4 LIQUIDITY AND GOING CONCERN ISSUES

The significant operating losses we experienced in 2000 and in the three prior years have continued in the first six months of 2001 and resulted in the placement of our Indiana HMO and MLH into rehabilitation and the bankruptcy of our California HMO. As a result of those continuing losses we had at June 30, 2001 a consolidated working capital deficiency of approximately $16.9 million, and a deficiency in stockholders equity of approximately $16.2 million. Our losses are likely to continue beyond the second quarter of 2001.

Effective August 31, 2001 we will cease offering our Medicare product in California and all of our Medicare membership will be transferred to other carriers effective September 1, 2001. We have signed an agreement with Care 1st Health Plan (Care 1st) to assign our Los Angeles County Medi-Cal contracts to Care 1st in exchange for $15.0 million. We have also signed an agreement with Molina Healthcare of California (Molina) to assign our Medi-Cal Sacramento Geographic Managed Care contract to Molina in exchange for $900,000. Both of these agreements are subject to approval from various regulatory agencies as well as the United States Bankruptcy Court, and there can be no assurance that all necessary approvals will be given. We are considering various options for the disposition of our commercial California operations. We cannot assure you that we will be successful in selling any of our operations or that any sale will generate sufficient liquidity to allow a transfer of funds to MHP.

The California HMO is subject to state regulations that require compliance with certain statutory deposit, dividend distribution and net worth requirements. Recent developments (see NOTE 3 REGULATORY ACTONS/BANKRUPTCY OF SUBSIDIARY) make it highly unlikely that the California HMO will be able to transfer funds to MHP, if at all, before the consummation of a sale of all or part of its operations and the resolution of the California HMO s bankruptcy action. MHP had approximately $1.4 million in cash, cash equivalents and marketable securities at June 30, 2001. It is unlikely that any funds were available for transfer to MHP from any operating subsidiary at that date. MHP has certain contractual undertakings for which it may be liable and there are various alleged claims that may be asserted against it, including, among others, undertakings to and/or purported claims against it by vendors to and former employees of its subsidiaries who have provided goods or services to those subsidiaries.

At April 1, 2001 a note held by MHP in the approximate amount of $2.9 million became due. The note, issued by a shareholder and former executive officer of MHP, had not been paid as of August 14, 2001. MHP has moved for summary judgment on this note and a hearing has been set for August 23, 2001. This note is presented as a reduction in shareholders equity on the consolidated balance sheets. MHP also holds certain claims against the United States Office of Personnel Management in regards to the underpayment of amounts due closed subsidiaries of MHP for health care coverage provided to Federal Employees. We have fully reserved for any of these potential recoveries due MHP in our consolidated balance sheet.

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NOTE 5 GAIN ON REHABILATATION OF SUBSIDIARIES AND CHARGES FOR CAPITATED PROVIDER CONTRACTS

As noted above (see NOTE 1 SIGNIFICANT ACCOUNTING POLICIES) the Consolidated Statements of Operations for the quarter and six months ended June 30, 2001 include a gain of $9.1&nb