MAXICARE HEALTH PLANS INC
Form 10-Q
May 13, 2005

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SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

Form 10-Q

R **Quarterly report pursuant to Section 13 or 15(d) of the Securities Act of 1934 for the quarterly period ended March 31, 2005**

Or

o **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 **(State or other jurisdiction of incorporation or organization)**	**95-3615709** **(I.R.S. Employer Identification No.)**
14241 East Firestone Boulevard, La Mirada, California **(Address of principal executive offices)**	**90638** **(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 R No o

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 R No o

Indicate by check mark whether the registrant is an accelerated filer (as defined in Rule 12b-2 of the Securities Exchange Act of 1934).
o **Yes R No**

Common Stock, $.01 par value - 9,991,926 shares outstanding as of May 12, 2005.

MAXICARE HEALTH PLANS, INC.

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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)

	March 31, 2005 (Unaudited)	December 31, 2004
Current Assets		
Cash and cash equivalents	$ 3,062	$ 3,345
Other current assets	11	22
Total Assets	$ 3,073	$ 3,367
Current Liabilities		
Accounts payable	$ 154	$ 154
Accrued salary expense	34	86
Other current liabilities	6,003	5,978
Total Current Liabilities	6,191	6,218
Long-Term Liabilities	1,837	1,837
Total Liabilities	8,028	8,055
Shareholders Equity		
Common stock, $.01 par value - 80,000 shares authorized, 9,992 shares issued and outstanding	100	100
Additional paid-in capital	283,464	283,464
Accumulated deficit	(288,519)	(288,252)
Total Shareholders Equity (Deficit)	(4,955)	(4,688)
Total Liabilities and Shareholders Equity	$ 3,073	$ 3,367

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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 March 31, 2005	For the three months ended March 31, 2004
Revenues		
Investment income	$ 17	$ 8
Total Revenues	17	8
Expenses		
Salary, general and administrative expenses	284	329
Total Expenses	284	329
Loss before income taxes	(267)	(321)
Income tax provision		
Net loss	$ (267)	$ (321)
Net loss per common share:		
Basic loss per common share:		
Basic loss per common share	$ (.03)	$ (.03)
Weighted average number of common shares outstanding	9,992	9,992
Diluted loss per common share:		
Diluted loss per common share	$ (.03)	$ (.03)
Weighted average number of common and common dilutive potential shares outstanding	9,992	9,992

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MAXICARE HEALTH PLANS, INC.

CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS EQUITY (DEFICIT)
(Amounts in thousands)

	Number of Common Shares	Common Stock	Additional Paid-in Capital	Accumulated Deficit	Total
Balances at December 31, 2004	9,992	$ 100	$ 283,464	$ (288,252)	$ (4,688)
Net loss (unaudited)				(267)	(267)
Balances at March 31, 2005 (unaudited)	9,992	$ 100	$ 283,464	$ (288,519)	$ (4,955)

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MAXICARE HEALTH PLANS, INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS
(Amounts in thousands)
(Unaudited)

	For the three months ended March 31, 2005	For the three months ended March 31, 2004
Cash Flows from Operating Activities:		
Net loss	$ (267)	$ (321)
Adjustments to reconcile net loss to net cash used for operating activities:		
Changes in assets and liabilities:		
Changes in other miscellaneous assets and liabilities	(16)	(754)
Net cash used for operating activities	(283)	(1,075)
Net decrease in cash and cash equivalents	(283)	(1,075)
Cash and cash equivalents at beginning of period	3,345	5,361
Cash and cash equivalents at end of period	$ 3,062	$ 4,286

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MAXICARE HEALTH PLANS, INC. AND SUBSIDIARIES

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

Note 1 Business Description

Maxicare Health Plans, Inc., a Delaware corporation (MHP), is a holding company that formerly operated health maintenance organizations and other subsidiaries, primarily in the field of managed healthcare. As of March 15, 2002 all operations of MHP and its subsidiaries were terminated. MHP and its subsidiaries have not engaged in any business activities since that date. At March 31, 2005 we had negative net worth of $5.0 million and a working capital deficiency of $3.1 million. See Note 2 below.

All significant subsidiaries formally operated by MHP (the California and Indiana HMOs and Maxicare Life and Health Insurance Company, Inc.) were placed into bankruptcy, rehabilitation and administrative supervision, respectively, in May of 2001 and are currently in liquidation. Accordingly, these former subsidiaries were no longer included in our consolidated financial statements after May 2001. We will receive no distribution of assets from the California HMO, are very unlikely to receive any distribution of assets from the Indiana HMO, and cannot determine whether or not we will receive a distribution of assets from Maxicare Life and Health Insurance Company, Inc. Any distribution from Maxicare Life and Health Insurance Company, Inc., if assets ultimately are available for distribution, will require regulatory approval.

We own Health Care Assurance Company, Ltd. (HCAC), a captive insurer that provided certain insurance coverage to MHP and its subsidiaries. Effective January 31, 2002, all policies underwritten by Health Care Assurance Company, Ltd., have terminated or expired.

Note 2 Liquidity and Going Concern Issues

At March 31, 2005, MHP and subsidiaries (collectively we or the Company) had a consolidated working capital deficiency of approximately $3.1 million, and a deficiency in shareholders equity of approximately $5.0 million. Furthermore, of our total cash and cash equivalents of $3.1 million at March 31, 2005, $1.2 million was held at HCAC. The transfer of cash to MHP from HCAC requires the approval of regulatory authorities.

As noted above, we had no continuing business activities after March 15, 2002. We have no access to cash that is held at HCAC except to the extent regulatory authorities approve the transfer of cash to MHP. As set forth below in Note 4, substantial claims have been or may be asserted against us. Such claims, when resolved, may be far in excess of liabilities reported in the Consolidated Balance Sheets.

These conditions raise substantial doubt about our ability to continue as a going concern. The financial statements do not include any adjustments to reflect the possible future effects on the recoverability and classification of assets or the amounts and classifications of liabilities that may result from the outcome of these uncertainties.

Management is exploring possible strategies to realize any possible value remaining in the Company; however, given our financial condition, our stock price and the claims against us, it is very possible that management will not be successful in these efforts, and we may seek protection under the Bankruptcy Code.

Note 3 Significant Accounting Policies

The accompanying unaudited condensed consolidated financial statements have been prepared in accordance with U.S. generally accepted accounting principles 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.

Basis of Consolidation

The accompanying unaudited condensed consolidated financial statements include the accounts of the Company and its subsidiaries. The accounts of the California HMO, the Indiana HMO and Maxicare Life and Health Insurance Company, Inc. are not consolidated. All significant intercompany balances and transactions have been eliminated.

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Accounting Policies

For further information on the Company and our 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, 2004.

Earnings per Share

The denominator used in calculating both basic and diluted earnings per share in the Consolidated Statements of Operations is the weighted average number of shares outstanding for each period indicated. All potentially dilutive securities, consisting solely of employee stock options, were antidilutive for each of the periods presented in the Consolidated Statements of Operations.

Stock-Based Compensation

We account for stock-based compensation under the recognition and measurement principles (the intrinsic-value method) prescribed in Accounting Principles Board (APB) Opinion No. 25, *Accounting for Stock Issued to Employees,* and related interpretations. Compensation cost for stock options is reflected in net income and is measured as the excess of the market price of the Company s stock at the date of grant over the amount an employee must pay to acquire the stock.

We have adopted the disclosure provisions required by Statement of Financial Accounting Standards (SFAS) No. 148, *Accounting for Stock-Based Compensation Transition and Disclosure*.

No compensation expense was recorded under the intrinsic value method for the three months ended March 31, 2005 and 2004. Additionally, no expense would have been recognized under the fair value method for the three months ended March 31, 2005 and 2004.

In December 2004, the Financial Accounting Standards Board issued SFAS No. 123R, *Share-Based Payment*. SFAS No. 123R is a revision of SFAS No. 123, *Accounting for Stock Based Compensation*, and supersedes APB 25. Among other items, SFAS 123R eliminates the use of APB 25 and the intrinsic value method of accounting, and requires companies to recognize the cost of employee services received in exchange for awards of equity instruments, based on the grant date fair value of those awards, in the financial statements. The effective date of SFAS 123R is the beginning of our next fiscal year, which means we do not need to adopt it until the first quarter of 2006, although early adoption is allowed. SFAS 123R permits companies to adopt its requirements using either a modified prospective method, or a modified retrospective method. Under the modified prospective method, compensation cost is recognized in the financial statements beginning with the effective date, based on the requirements of SFAS 123R for all share-based payments granted after that date, and based on the requirements of SFAS 123 for all unvested awards granted prior to the effective date of SFAS 123R. Under the modified retrospective method, the requirements are the same as under the modified prospective method, but also permits entities to restate financial statements of previous periods based on proforma disclosures made in accordance with SFAS 123.

While SFAS 123R permits us to continue to use the Black-Scholes model, the standard also permits the use of a lattice model. We have not yet determined which model we will use to measure the fair value of employee stock options upon the adoption of SFAS 123R; however, we do not expect the adoption of SFAS 123R to have a significant effect on our operations as we do not anticipate granting significant share-based payments in the future and do not have unvested share based payments outstanding.

Note 4 Commitments and Contingencies

Litigation and Contract Terminations

On or about June 25, 2001, the Commissioner of the Indiana Department of Insurance (the Commissioner), as the rehabilitator of Maxicare Indiana, Inc., our Indiana HMO, filed a complaint (the Complaint) in the Marion County Circuit Court of Indiana against us and the five directors of the Indiana HMO, one of whom was a director

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of the Company. The Commissioner amended the Complaint on February 1, 2002. The Complaint, as amended, alleges, in substance, that: (1) the directors of the Indiana HMO breached their fiduciary duty by failing to maintain a plan providing for continuation of care benefits in the event that the Indiana HMO was placed in receivership, and that the Company is also liable for such failure; (2) the Company fraudulently concealed the financial condition of the Indiana HMO; (3) the Company manipulated the finances of the Indiana HMO for the Company s own benefit; and (4) the Company received preferential and/or fraudulent transfers of money from the Indiana HMO. While the amended Complaint requests money damages in largely unspecified amounts, we understand the Commissioner s claims against us to be in excess of $48.0 million. All defendants answered the amended Complaint on April 5, 2002. Pre-trial discovery has not been completed. We believe that the claims against us are without merit and intend to vigorously defend the suit. The amounts sought by the Commissioner are significantly in excess of liabilities recorded on our Consolidated Balance Sheets. The ultimate resolution of this matter, if unfavorable, could materially affect our consolidated financial position, results of operations and cash flows.

Effective January 1, 2001, we entered into a Pharmacy Benefits Management Agreement (the PBM Agreement) with Medimpact Healthcare Systems, Inc. (Medimpact). The PBM Agreement called for Medimpact to process and fill within its network of contracting pharmacies prescriptions for members of Maxicare Life and Health Insurance Company, Inc., the California HMO and the Indiana HMO. The PBM Agreement called for the Company to reimburse Medimpact for the cost of drugs dispensed and to pay per transaction administrative fees on a bi-weekly basis. As a result of the Indiana HMO being placed in rehabilitation and the California HMO s bankruptcy, Medimpact allegedly has not received reimbursement for certain prescriptions filled on behalf of the members of those subsidiaries. Although it has yet to do so, Medimpact may seek reimbursement from us for such costs in an amount not presently known. We, in turn, believe that we have claims against Medimpact for rebates due to us.

By order dated March 9, 2001, the Missouri Department of Insurance approved the transfer of all of the outstanding shares of Maxicare Life and Health Insurance Company, Inc. (MLH) from us to Maxicare Indiana, Inc. (Indiana HMO), on the condition that control of MLH remains with us. We believe that this condition has not been complied with and that, accordingly, the transfer of the MLH shares by us to Maxicare Indiana, Inc. is null and void. We intend to present our position to the Missouri Department of Insurance at the appropriate time.

In or about December 2004, three alleged former employees of our Indiana HMO commenced an action against us in which they claim that we breached a severance agreement with each of them. Plaintiffs claim aggregate compensatory damages for breach of contract of at least $250,000, plus additional damages of $250,000 for alleged violations of California and Indiana statutes respecting payment of employee wages, together with unspecified punitive damages and attorneys fees. We answered the complaint in February 2005. Pre-trial discovery has been commenced but is not yet completed. We believe that the claims against us are without merit and intend to vigorously defend the suit.

Other than those noted above, no claims have been filed against us by the creditors of Maxicare Life and Health Insurance Company, Inc., the California HMO or the Indiana HMO. However, such creditors may file claims against us in the future.

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Item 2: Management s Discussion and Analysis of Financial Condition and Results of Operations.

Results of Operations, Rehabilitation and Bankruptcy

Current Status

We have had no active business since March 15, 2002 and have no reasonable prospects of obtaining or generating any active business. We have no means of generating additional cash.

We are exploring possible strategies to realize any possible value remaining in the Company. Any such strategy may include the ultimate liquidation of Health Care Assurance Company, Ltd.; however, because of our financial condition and the claims of our creditors, we may seek protection under the Bankruptcy Code.

Liquidity and Working Capital Deficiency

As noted above, we have terminated all operations. At March 31, 2005, we had a consolidated working capital deficiency of approximately $3.1 million and a deficiency in shareholders equity of approximately $5.0 million. Furthermore, of our total cash and cash equivalents of $3.1 million at March 31, 2005, $1.2 million was held at Health Care Assurance Company, Ltd. The transfer of cash to MHP from Health Care Assurance Company, Ltd. requires the approval of regulatory authorities.

We have certain contractual undertakings for which we may be liable and there are various alleged claims that may be asserted against us, including, among others, undertakings to and/or purported claims against us by vendors and former employees of our subsidiaries who have provided goods or services to those subsidiaries.

We are involved in certain litigation, and claims have been made against us, in the normal course of business. In some instances the amounts sought exceed those accrued in our Consolidated Balance Sheets. The ultimate liability for these legal actions cannot be determined and could materially affect our consolidated financial position, results of operations or cash flows, if resolved unfavorably. See Note 4 Commitments and Contingencies to our Unaudited Condensed Consolidated Financial Statements.

Disposition of Subsidiaries

The California and Indiana HMOs and Maxicare Life and Health Insurance Company, Inc. are currently in liquidation. We will receive no distribution of assets from the California HMO, are very unlikely to receive any distribution from the Indiana HMO, and may or may not receive a distribution from Maxicare Life and Health Insurance Company, Inc. Any distribution from Maxicare Life and Health Insurance Company, Inc. if assets ultimately are available for distribution, will require regulatory approval.

Results of Operations

The Quarter Ended March 31, 2005 Compared to the Quarter Ended March 31, 2004

We reported losses of approximately $267,000 for the quarter ended March 31, 2005 and $321,000 for the comparable quarter of 2004. The loss per share (basic and diluted) for both periods was $.03 per share. We had no revenue other than insignificant amounts of interest income in either of the quarters ended March 31, 2005 and 2004. All expenses in the quarters ended March 31, 2005 and 2004 were salary, general and administrative expenses.

Contractual Obligations

In our annual report on Form 10-K for the year ended December 31, 2004, we reported on our contractual obligations as of that date. Through March 31, 2005 there were no material changes to that information.

Forward Looking Statements

The statements in this Form 10-Q may be forward-looking statements that are subject to risks and uncertainties.

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In particular, statements in this Form 10-Q that state our intentions, beliefs, expectations, strategies, predictions or any other statements relating to our future activities or other future events or conditions are forward-looking statements. Forward-looking statements are subject to risks, uncertainties and other factors, many of which are beyond our control, including, but not limited to, those identified under Risk Factors and Management s Discussion and Analysis of Financial Conditions and Results of Operations in our Form 10-K for the year ended December 31, 2004 and Management s Discussion and Analysis of Financial Conditions and Results of Operations in this Form 10-Q, as well as those described in any other filings by us with the Securities and Exchange Commission, as well as general economic conditions, any one or more of which could cause actual results to differ materially from those stated in such statements.

Item 3. Quantitative and Qualitative Disclosures About Market Risk.

As of March 31, 2005, we had approximately $3.1 million in cash, no marketable securities and no restricted investments. Our investment policies emphasize return of principal and liquidity and are focused on fixed returns that limit volatility and risk of principal. Because of our investment policies, the primary market risk associated with our portfolio is interest rate risk. As of March 31, 2005, we did not have any outstanding bank borrowings or debt obligations.

Item 4. Controls and Procedures

Our chief executive officer and chief financial officer have supervised and participated in an evaluation of the effectiveness of our disclosure controls and procedures as of the end of the period covered by this report, and, based on their evaluations, they have concluded that our disclosure controls and procedures (as defined in Rule 13a-15(e) of the Securities Exchange Act of 1934, as amended) are (i) designed to ensure that information required to be disclosed by us in the reports that we file or submit under the Securities Exchange Act of 1934 is recorded, processed, summarized and reported, within the time periods specified in the Commission s rules and forms and (ii) designed to ensure that information required to be disclosed by us in the reports that we file or submit under the Securities Exchange Act of 1934, as amended, is accumulated and communicated to our management, including our principal executive and principal financial officers, or persons performing similar functions, as appropriate to allow timely decisions relating to required disclosure. As a result of the evaluation by the chief executive and chief financial officers, there were no changes in our internal control over financial reporting that occurred during our last fiscal quarter that have materially affected, or are reasonably likely to affect, our internal control over financial reporting.

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PART II OTHER INFORMATION

Item 6. Exhibits

(a) Exhibits

31.1 Certificate of Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.

31.2 Certificate of Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.

32.1 Certificate of Chief Executive Officer and Chief Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

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SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

	MAXICARE HEALTH PLANS, INC (Registrant)
Date May 13, 2005	/s/ PAUL R. DUPEE, JR.
	Paul R. Dupee, Jr., Chief Executive Officer
Date May 13, 2005	/s/ JOSEPH W. WHITE
	Joseph W. White Chief Financial Officer