

METROPOLITAN HEALTH NETWORKS INC
Form 10-Q
November 04, 2008

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

FORM 10-Q

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

For the quarterly period ended September 30, 2008

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 number: 001-32361

METROPOLITAN HEALTH NETWORKS, INC.

(Exact name of registrant as specified in its charter)

Florida
(State or other jurisdiction of
incorporation or organization)

65-0635748
(I.R.S. Employer
Identification No.)

250 Australian Avenue, Suite 400
West Palm Beach, FL
(Address of principal executive offices)

33401
(Zip Code)

(561) 805-8500

(Registrant's telephone number, including area code)

None

(Former name, former address and former fiscal year, if changed since last report)

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 No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer

Accelerated filer

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

Smaller reporting company

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

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date.

Class	Outstanding at October 31, 2008
Common Stock, \$.001 par value per share	51,290,726 shares

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PART 1. FINANCIAL INFORMATION**Item 1. FINANCIAL STATEMENTS**

METROPOLITAN HEALTH NETWORKS, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED BALANCE SHEETS

	September 30, 2008 (unaudited)	December 31, 2007
<u>ASSETS</u>		
CURRENT ASSETS		
Cash and equivalents, including \$13.0 million in 2007 statutorily limited to use by the HMO	\$ 44,285,193	\$ 38,682,186
Accounts receivable, net	218,863	1,563,370
Inventory	214,602	196,154
Prepaid expenses	762,203	739,307
Deferred income taxes	1,171,716	2,905,755
Other current assets	133,170	676,980
TOTAL CURRENT ASSETS	46,785,747	44,763,752
PROPERTY AND EQUIPMENT, net	1,437,372	2,181,119
INVESTMENT	688,997	688,997
RESTRICTED CASH	1,400,000	-
GOODWILL, net	2,587,332	2,585,857
DEFERRED INCOME TAXES	600,000	1,403,082
OTHER INTANGIBLE ASSETS, net	1,277,850	1,588,498
OTHER ASSETS	90,150	599,742
TOTAL ASSETS	\$ 54,867,448	\$ 53,811,047
<u>LIABILITIES AND STOCKHOLDERS' EQUITY</u>		
CURRENT LIABILITIES		
Accounts payable	\$ 1,162,846	\$ 1,461,668
Due to Humana	881,939	753,466
Accrued payroll and payroll taxes	2,086,074	2,546,295
Income taxes payable	1,179,448	249,077
Accrued expenses	2,047,642	822,843
Estimated medical expenses payable	-	7,016,632
Due to Centers for Medicare and Medicaid Services	-	2,695,087
TOTAL CURRENT LIABILITIES	7,357,949	15,545,068
COMMITMENTS AND CONTINGENCIES		
STOCKHOLDERS' EQUITY		
Preferred stock, par value \$.001 per share; stated value \$100 per share; 10,000,000 shares authorized; 5,000 issued and outstanding, with a liquidation preference of \$554,167 and \$516,667 in 2008 and 2007, respectively	500,000	500,000
	52,309	51,557

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Common stock, par value \$.001 per share; 80,000,000 shares authorized;
52,308,526 and 51,556,732 issued and outstanding at September 30, 2008
and December 31, 2007, respectively

Additional paid-in capital	44,919,562	43,311,741
Retained earnings (deficit)	2,037,628	(5,597,319)
TOTAL STOCKHOLDERS' EQUITY	47,509,499	38,265,979
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	\$ 54,867,448	\$ 53,811,047

The accompanying notes are an integral part of the condensed consolidated financial statements.

METROPOLITAN HEALTH NETWORKS, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF INCOME

	Nine Months Ended September 30,		Three Months Ended September 30,					
	2008		2007					
	(unaudited)		(unaudited)					
REVENUE	\$	237,175,320	\$	207,660,167	\$	78,949,785	\$	69,622,067
MEDICAL EXPENSE								
Medical claims expense		200,522,906		173,525,324		68,072,724		57,715,133
Medical center costs		9,247,512		8,269,186		3,175,606		2,789,485
Total Medical Expense		209,770,418		181,794,510		71,248,330		60,504,618
GROSS PROFIT		27,404,902		25,865,657		7,701,455		9,117,449
OPERATING EXPENSES								
Payroll, payroll taxes and benefits		9,911,209		10,100,668		2,897,108		3,357,216
Stay bonuses and termination costs		1,597,674		-		1,597,674		-
Marketing and advertising		1,739,459		2,609,517		138,932		577,815
General and administrative		8,306,534		8,242,227		2,405,884		2,588,784
Restructuring expenses		-		583,000		-		583,000
Total Operating Expenses		21,554,876		21,535,412		7,039,598		7,106,815
OPERATING INCOME BEFORE GAIN ON SALE OF HMO								
		5,850,026		4,330,245		661,857		2,010,634
Gain on sale of HMO subsidiary		5,797,769		-		5,797,769		-
OPERATING INCOME		11,647,795		4,330,245		6,459,626		2,010,634
OTHER INCOME (EXPENSE):								
Investment income		254,547		1,083,978		28,630		376,732
Other income (expense)		(16,805)		(20,754)		(10,388)		(3,533)
Total other income (expense)		237,742		1,063,224		18,242		373,199
INCOME BEFORE INCOME TAX EXPENSE								
		11,885,537		5,393,469		6,477,868		2,383,833
INCOME TAX EXPENSE		4,250,590		2,037,000		2,209,542		786,600
NET INCOME	\$	7,634,947	\$	3,356,469	\$	4,268,326	\$	1,597,233
NET EARNINGS PER COMMON SHARE:								
Basic	\$	0.15	\$	0.07	\$	0.08	\$	0.03
Diluted	\$	0.14	\$	0.06	\$	0.08	\$	0.03

The accompanying notes are an integral part of the condensed consolidated financial statements.

METROPOLITAN HEALTH NETWORKS, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

	Nine Months Ended September 30,	
	2008	2007
	(unaudited)	(unaudited)
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	\$ 7,634,947	\$ 3,356,469
Adjustments to reconcile net income to net cash provided by/(used in) operating activities:		
Gain on sale of HMO subsidiary	(5,797,769)	-
Depreciation and amortization	875,369	645,835
Stock-based compensation expense	1,011,469	547,860
Shares issued for director fees	132,946	65,032
Excess tax benefits from stock-based compensation	(212,000)	(245,000)
Deferred income taxes	2,749,121	1,718,500
Loss on sale of fixed assets	10,224	72,000
Changes in operating assets and liabilities, net of the effects of the disposal of the HMO:		
Accounts receivable	1,344,507	1,133
Inventory	(18,448)	(87,266)
Prepaid expenses	(57,567)	(77,976)
Other current assets	(577,968)	397,328
Other assets	(35,695)	(4,716)
Accounts payable	(135,818)	(28,283)
Due to/from Humana	128,473	623,739
Accrued payroll and payroll taxes	(439,939)	784,532
Estimated medical expenses payable	(1,454,591)	1,632,962
Due to Centers for Medicare and Medicaid Services	261,636	1,807,020
Accrued expenses	1,403,021	769,542
Net cash provided by operating activities	6,821,918	11,978,711
CASH FLOWS FROM INVESTING ACTIVITIES:		
Net proceeds from sale of HMO subsidiary	78,439	-
Restricted cash from sale of HMO subsidiary	(1,400,000)	
Cash paid for physician practice acquisition	-	(591,205)
Capital expenditures	(361,508)	(616,624)
Net cash used in investing activities	(1,683,069)	(1,207,829)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Proceeds from exercise of stock options	252,158	