

HealthSpring, Inc.  
Form 10-Q  
November 09, 2006

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**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, 2006**

**Commission File Number: 001-32739**

**HealthSpring, Inc.**

(Exact Name of Registrant as Specified in Its Charter)

**Delaware**

(State or Other Jurisdiction of Incorporation or  
Organization)

**20-1821898**

(I.R.S. Employer Identification No.)

**44 Vantage Way, Suite 300**

**Nashville, Tennessee**

(Address of Principal Executive Offices)

**37228**

(Zip Code)

**(615) 291-7000**

(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 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, or a non-accelerated filer. See definition of "accelerated filer and large accelerated filer" in Rule 12b-2 of the Exchange Act.

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

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

**Outstanding at November 7, 2006**

**Common Stock, Par Value \$0.01 Per Share**

**57,234,112 Shares**

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**HEALTHSPRING, INC. AND SUBSIDIARIES**  
**CONDENSED CONSOLIDATED BALANCE SHEETS**  
(in thousands, except share data)  
(unaudited)

	<b>September 30, 2006</b>	<b>December 31, 2005</b>
<b>Assets</b>		
Current assets:		
Cash and cash equivalents	\$ 267,061	\$ 110,085
Accounts receivable, net of allowance for doubtful accounts of \$2,953 and \$1,165 at September 30, 2006 and December 31, 2005, respectively	29,464	7,248
Investment securities available for sale	8,138	8,646
Current portion of investment securities held to maturity	12,065	14,313
Deferred income tax asset	5,809	5,778
Prepaid expenses and other assets	2,922	3,148
<b>Total current assets</b>	<b>325,459</b>	<b>149,218</b>
Investment securities held to maturity, less current portion	21,767	22,993
Property and equipment, net	6,075	4,287
Goodwill	341,619	315,057
Other intangible assets, net	83,059	87,675
Investment in and receivable from unconsolidated affiliate	1,384	1,469
Deferred financing costs	849	5,487
Restricted investments	7,210	5,652
<b>Total assets</b>	<b>\$ 787,422</b>	<b>\$ 591,838</b>
<b>Liabilities and Stockholders Equity</b>		
Current liabilities:		
Medical claims liability	\$ 107,375	\$ 82,645
Current portion of long-term debt		16,500
Accounts payable and accrued expenses	19,538	17,408
Deferred revenue	202	365
Funds held for the benefit of members	76,793	
Other current liabilities	870	362
<b>Total current liabilities</b>	<b>204,778</b>	<b>117,280</b>
Long-term debt, less current portion		172,026
Deferred income tax liability	29,097	29,782
Other long-term liabilities	283	316
<b>Total liabilities</b>	<b>234,158</b>	<b>319,404</b>

Minority interest		11,890
Stockholders' equity:		
Redeemable convertible preferred stock, \$0.01 par value, 1,000,000 shares authorized, 227,154 shares issued and outstanding at December 31, 2005		2
Preferred stock, \$0.01 par value, 5,000,000 shares authorized and no shares outstanding		
Common stock, \$0.01 par value, 180,000,000 shares authorized, 57,490,299 shares issued and 57,234,008 outstanding at September 30, 2006, and 74,000,000 shares authorized, 32,283,950 shares issued and 32,083,950 outstanding at December 31, 2005	573	322
Additional paid in capital	483,087	249,317
Retained earnings	69,657	10,943
Treasury stock, at cost, 256,000 shares at September 30, 2006 and 200,000 shares at December 31, 2005	(53)	(40)
Total stockholders' equity	553,264	260,544
Total liabilities and stockholders' equity	\$ 787,422	\$ 591,838

See accompanying notes to condensed consolidated financial statements.

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**HEALTHSPRING, INC. AND SUBSIDIARIES**  
**CONDENSED CONSOLIDATED STATEMENTS OF INCOME**  
(in thousands, except share data)  
(unaudited)

	<b>Three Months Ended</b>	
	<b>September 30,</b>	
	<b>2006</b>	<b>2005</b>
Revenue:		
Premium:		
Medicare	\$ 302,261	\$ 194,630
Commercial	30,037	32,150
Total premium revenue	332,298	226,780
Management and other fees	8,249	5,156
Investment income	3,314	1,185
Total revenue	343,861	233,121
Operating expenses:		
Medicare	228,829	149,369
Commercial	27,610	29,858
Total medical expense	256,439	179,227
Selling, general and administrative	37,839	31,909
Depreciation and amortization	2,541	2,207
Interest expense	119	4,376
Total operating expenses	296,938	217,719
Income before equity in earnings of unconsolidated affiliate, minority interest and income taxes	46,923	15,402
Equity in earnings of unconsolidated affiliate	93	30
Income before minority interest and income taxes	47,016	15,432
Minority interest		(794)
Income before income taxes	47,016	14,638
Income tax expense	(15,963)	(5,823)
Net income	31,053	8,815
Preferred dividends		(4,702)
Net income available to common stockholders	\$ 31,053	\$ 4,113
Net income per common share available to common stockholders:		
Basic	\$ 0.54	\$ 0.13
Diluted	\$ 0.54	\$ 0.13

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Weighted average common shares outstanding:

Basic	57,218,805	32,283,969
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Diluted	57,319,221	32,283,969
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See accompanying notes to condensed consolidated financial statements.

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**HEALTHSPRING, INC. AND SUBSIDIARIES**  
**CONDENSED CONSOLIDATED STATEMENTS OF INCOME**  
(in thousands, except share and unit data)  
(unaudited)

	<b>Nine-Month Period Ended September 30, 2006</b>	<b>Seven-Month Period Ended September 30, 2005</b>	<b>Predecessor Two-Month Period Ended February 28, 2005</b>
Revenue:			
Premium:			
Medicare	\$ 851,295	\$ 403,212	\$ 94,764
Commercial	94,123	73,857	20,704
Total premium revenue	945,418	477,069	115,468
Management and other fees	19,995	12,018	3,461
Investment income	7,872	2,224	461
Total revenue	973,285	491,311	119,390
Operating expenses:			
Medicare	670,713	315,776	74,531
Commercial	83,955	65,437	16,312
Total medical expense	754,668	381,213	90,843
Selling, general and administrative	108,410	63,277	21,608
Depreciation and amortization	7,408	4,782	315
Interest expense	8,576	10,150	42
Total operating expenses	879,062	459,422	112,808
Income before equity in earnings of unconsolidated affiliate, minority interest and income taxes	94,223	31,889	6,582
Equity in earnings of unconsolidated affiliate	264	30	
Income before minority interest and income taxes	94,487	31,919	6,582
Minority interest	(303)	(1,218)	(1,248)
Income before income taxes	94,184	30,701	5,334
Income tax expense	(33,449)	(12,139)	(2,628)
Net income	60,735	18,562	2,706
Preferred dividends	(2,021)	(10,759)	
Net income available to common stockholders and members	\$ 58,714	\$ 7,803	\$ 2,706



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Net income per common share available to  
common stockholders:

Basic	\$	1.09	\$	0.24
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Diluted	\$	1.09	\$	0.24
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Weighted average common shares outstanding:

Basic		53,741,536		32,161,574
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Diluted		53,840,646		32,161,574
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Net income per member unit:

Basic			\$	0.55
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Diluted			\$	0.55
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Weighted average member units outstanding:

Basic				4,884,196
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Diluted				4,884,196
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See accompanying notes to condensed consolidated financial statements.

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**HEALTHSPRING, INC. AND SUBSIDIARIES**  
**CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS**  
(in thousands)  
(unaudited)

	<b>Nine-Month Period Ended September 30, 2006</b>	<b>Seven-Month Period Ended September 30, 2005</b>	<b>Predecessor Two-Month Period Ended February 28, 2005</b>
Cash from operating activities:			
Net income	\$ 60,735	\$ 18,562	\$ 2,706
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization expense	7,408	4,782	315
Amortization of accrued loss on assumed lease			(97)
Stock-based compensation expense	3,772	288	
Amortization of deferred financing cost	195	605	
Paid-in-kind (PIK) interest on subordinated notes	116	628	
Equity in earnings of unconsolidated affiliate	(264)	(30)	
Minority interest	303	1,218	1,248
Deferred tax (benefit) expense	(717)	(3,447)	93
Write-off of deferred financing costs on debt repayment	5,375		
Increase (decrease) in cash equivalents due to change in:			
Accounts receivable	(22,216)	8,345	(2,470)
Prepaid expenses and other current assets	226	519	1,240
Medical claims liability	24,730	10,007	5,829
Accounts payable, accrued expenses, and other current liabilities	2,638	(9,895)	6,202
Other long-term liabilities	(33)		11
Deferred revenue	(163)	67,609	(113)
Net cash provided by operating activities	82,105	99,191	14,964
Cash flows from investing activities:			
Purchase of property and equipment	(3,559)	(2,024)	(149)
Purchase of investment securities, held-to-maturity	(8,334)	(17,861)	(5,942)
Sale/maturity of investment securities	12,279	11,813	836
Purchase of restricted investments	(1,558)	(134)	(214)
Distributions from affiliates	226		
Purchase of minority interest		(44,358)	
Acquisitions, net of cash acquired		(218,467)	
Net cash used in investing activities	(946)	(271,031)	(5,469)

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Cash flows from financing activities:			
Proceeds from issuance of long-term debt		200,000	
Payments on long-term debt	(188,642)	(13,608)	(117)
Deferred financing costs	(932)	(6,366)	
Proceeds from issuance of common and preferred stock	188,611	139,977	
Proceeds from sale of units in consolidated subsidiary		7,875	
Funds received for the benefit of the members, net	76,793		
Purchase of treasury stock	(13)		
Distributions to minority stockholders			(1,771)
Cash (applied) advanced in recapitalization		(5,630)	1,000
Net cash provided by (used in) financing activities	75,817	322,248	(888)
Net increase in cash and cash equivalents	156,976	150,408	8,607
Cash and cash equivalents at beginning of period	110,085		67,834
Cash and cash equivalents at end of period	\$ 267,061	\$ 150,408	\$ 76,441

See accompanying notes to condensed consolidated financial statements.

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**HEALTHSPRING, INC. AND SUBSIDIARIES**  
**CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS (cont.)**  
(in thousands)  
(unaudited)

	<b>Nine-Month Period Ended September 30, 2006</b>	<b>Seven-Month Period Ended September 30, 2005</b>	<b>Predecessor Two-Month Period Ended February 28, 2005</b>
Supplemental disclosures:			
Cash paid for interest	\$ 2,958	\$ 8,834	\$ 42
Cash paid for taxes	\$ 27,124	\$ 14,540	\$ 279
Non-cash transaction:			
Issuance of common shares in exchange for all preferred stock and cumulative dividends	\$ 244,782		
Issuance of common shares in conjunction with recapitalization		\$ 93,877	
Unearned compensation related to issuance of stock options and restricted common stock		\$ 2,262	
Effect of acquisitions:			
Net assets acquired	\$ (27,590)	\$ (437,085)	\$
Preferred stock issued		91,082	
Common stock issued	39,783	2,442	
Purchase of minority interest	(12,193)	44,358	
Capitalized transaction costs		5,295	
Cash acquired		75,441	
Acquisitions, net of cash acquired	\$	\$ (218,467)	\$

See accompanying notes to condensed consolidated financial statements.

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**HEALTHSPRING, INC. AND SUBSIDIARIES**