

SIERRA HEALTH SERVICES INC
Form 10-Q
July 26, 2005

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, 2005

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 1-8865

Sierra Health Services, Inc.

(Exact name of registrant as specified in its charter)

Nevada

(State or other jurisdiction of incorporation or organization)

88-0200415

(I.R.S. Employer Identification Number)

2724 North Tenaya Way
Las Vegas, Nevada 89128

(Address of principal executive offices including zip code)

(702) 242-7000

(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 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 an accelerated filer (as defined in Rule 12b-2 of the Act). Yes

No

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As of July 25, 2005, there were 28,502,000 shares of common stock outstanding.

SIERRA HEALTH SERVICES, INC.
Quarterly Report on Form 10-Q
For the period ended June 30, 2005

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ITEM 1. FINANCIAL STATEMENTS

SIERRA HEALTH SERVICES, INC. AND SUBSIDIARIES**CONDENSED CONSOLIDATED BALANCE SHEETS**

(In thousands, except per share data)

(Unaudited)

	June 30, 2005	December 31, 2004
	<u> </u>	<u> </u>
ASSETS		
Current Assets:		
Cash and cash equivalents	\$ 112,422	\$ 207,619
Investments	234,488	147,575
Accounts receivable (less allowance for doubtful accounts: 2005 - \$5,794; 2004 - \$5,380)	13,597	15,150
Military accounts receivable (less allowance for doubtful accounts: 2005 - \$400; 2004 - \$100)	3,976	25,452
Current portion of deferred tax asset	21,363	17,555
Prepaid expenses and other current assets	29,524	36,123
	<u> </u>	<u> </u>
Total Current Assets	415,370	449,474
Property and equipment, net	69,302	71,152
Restricted cash and investments	17,309	21,853
Goodwill (less accumulated amortization: 2005 and 2004 - \$6,972)	14,782	14,782
Deferred tax asset (less current portion)	12,472	13,275
Note receivable (less valuation allowance: 2005 and 2004 - \$15,000)	47,000	47,000
Other assets	73,883	72,244
	<u> </u>	<u> </u>
Total Assets	\$ 650,118	\$ 689,780
	<u> </u>	<u> </u>
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current Liabilities:		
Accrued and other current liabilities	\$ 56,875	\$ 76,256
Trade accounts payable	6,733	7,123
Accrued payroll and taxes	27,382	27,668
Medical claims payable	121,521	119,337
Unearned premium revenue	16,201	50,763
Military health care payable		17,061
Current portion of long-term debt	97	100
	<u> </u>	<u> </u>
Total Current Liabilities	228,809	298,308
Long-term debt (less current portion)	81,368	125,395
Other liabilities	60,957	64,380
	<u> </u>	<u> </u>
Total Liabilities	371,134	488,083

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Commitments and contingencies		
Stockholders' Equity:		
Preferred stock, \$.01 par value, 1,000 shares authorized; none issued or outstanding		
Common stock, \$.005 par value, 60,000 shares authorized; 2005 - 38,218; 2004 - 35,573 shares issued	191	178
Treasury stock: 2005 - 9,765; 2004 - 9,192 common stock shares	(282,742)	(237,876)
Additional paid-in capital	352,645	286,571
Deferred compensation	(3,628)	(288)
Accumulated other comprehensive loss	(395)	(245)
Retained earnings	212,913	153,357
Total Stockholders' Equity	278,984	201,697
Total Liabilities And Stockholders' Equity	\$ 650,118	\$ 689,780

See accompanying notes to condensed consolidated financial statements.

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SIERRA HEALTH SERVICES, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

(In thousands, except per share data)

(Unaudited)

**Three Months Ended
June 30,**

**Six Months Ended
June 30,**

2005

2004

2005

2004

Operating Revenues:

Medical premiums

\$320,395 \$280,661 \$631,750 \$546,099

Military contract revenues

9,952 140,705 16,311 268,329

Professional fees

10,116 8,085 19,969 17,563

Investment and other revenues

7,564 11,838 15,856 17,524

Total

348,027 441,289 683,886 849,515

Operating Expenses:

Medical expenses

251,233 218,413 496,188 426,303

Military contract expenses

(1,734) 116,420 2,373 237,217

General and administrative expenses

42,158 45,289 83,631 82,321

Total

291,657 380,122 582,192 745,841

Operating Income From Continuing Operations

56,370 61,167 101,694 103,674

Interest expense

(4,349) (1,175) (5,980) (2,340)

Other income (expense), net

30241 401 90

Income From Continuing Operations Before Income Taxes

52,323 60,033 96,115 101,424

Provision for income taxes

(18,487) (21,812) (32,874) (36,692)

Income From Continuing Operations

33,836 38,221 63,241 64,732

Loss from discontinued operations (net of income tax benefit of \$839)

(682)

Net Income

\$33,836 \$38,221 \$63,241 \$64,050

Earnings Per Common Share:

Income from continuing operations

\$1.24 \$1.43 \$2.35 \$2.41

Loss from discontinued operations

(0.03)

Net Income

\$1.24 \$1.43 \$2.35 \$2.38

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SIERRA HEALTH SERVICES, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(In thousands)

(Unaudited)

Six Months Ended
June 30,

2005

2004

Cash Flows From Operating Activities:

Net income

\$63,241 \$64,050

Adjustments To Reconcile Net Income To Net Cash Provided By Operating Activities:

Loss from discontinued operations

682

Depreciation

7,496 8,274

Stock based compensation expense

3,169 951

Provision for doubtful accounts

1,286 750

Loss (gain) on property and equipment dispositions

325 (13)

Change In Operating Assets And Liabilities:

Military accounts receivable

21,176 9,929

Deferred tax asset

11,658 23,949

Other current assets

7,558 (375

)

Other assets

(2,730) (2,027

)

Accrued payroll and taxes

(286) 15,199

Medical claims payable

2,184 9,267

Military health care payable

(17,061) (11,239)

Other current liabilities

(18,441) (15,470)

Unearned premium revenue

(34,562) (25,686)

Other liabilities

(3,423) 548

Net Cash Provided By Operating Activities Of Continuing Operations

41,590 78,789

Cash Flows From Investing Activities:

Capital expenditures, net of dispositions

(5,952) (7,892)

(Purchase of) proceeds from investments, net

(83,232) 51,931

Net Cash (Used For) Provided By Investing Activities Of Continuing Operations

(89,184) 44,039

Cash Flows From Financing Activities:

Payments on debt and capital leases

(10,049) (1,524)

Purchase of treasury stock

(50,864) (82,759)

Exercise of stock in connection with stock plans

13,310 16,920

Net Cash Used For Financing Activities Of Continuing Operations

(47,603) (67,363)

Net cash provided by discontinued operations

3,720

Net (Decrease) Increase In Cash And Cash Equivalents

(95,197) 59,185

Cash And Cash Equivalents At Beginning Of Period

207,619 118,520

Cash And Cash Equivalents At End Of Period

\$112,422 \$177,705

Supplemental Condensed Consolidated Continuing Operations Statement Of Cash Flows Information:

Cash paid during the period for interest (net of amount capitalized)

\$6,294 \$1,463

Net cash paid during the period for income taxes

23,908 1,569

Non-Cash Investing And Financing Activities:

Assets and liabilities recorded in conjunction with the sale of the workers' compensation operations

54,060

Stock issued for exercise of options and related tax benefits

14,580 17,591

Additions to capital leases

1947

See accompanying notes to condensed consolidated financial statements.

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**SIERRA HEALTH SERVICES, INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)**

1. BASIS OF PRESENTATION

The accompanying unaudited condensed consolidated financial statements include the consolidated accounts of Sierra Health Services, Inc. and its subsidiaries (collectively referred to herein as Sierra or the Company). All material intercompany balances and transactions have been eliminated. These statements and the Company's annual audited con