

SYNCOR INTERNATIONAL CORP /DE/
Form 10-Q
May 15, 2001

SECURITIES AND EXCHANGE COMMISSION
Washington, DC 20549

FORM 10-Q

Quarterly Report Under Section 13 or 15(d)
of the Securities Exchange Act of 1934

For Quarter Ended March 31, 2001

Commission File Number 0-8640

SYNCOR INTERNATIONAL CORPORATION
(Exact name of registrant as specified in its charter)

Delaware
State or other jurisdiction of
incorporation or organization)

85-0229124
(I.R.S. Employer Identification No.)

6464 Canoga Avenue, Woodland Hills, California
(Address of principal executive offices)

91367
(Zip Code)

(818) 737-4000
(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

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Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date. As of March 31, 2001, 24,449,788 shares of \$.05 par value common stock were outstanding.

SYNCOR INTERNATIONAL CORPORATION AND SUBSIDIARIES

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SYNCOR INTERNATIONAL CORPORATION AND SUBSIDIARIES
Condensed Consolidated Balance Sheets
(in thousands)

	March 31, 2001	December 31, 2000
	-----	-----
	(Unaudited)	
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 19,487	\$ 24,330
Short-term investments	5,722	4,156
Trade receivables, net	89,826	81,716

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Patient receivables, net	48,990	37,686
Inventory	22,715	59,926
Prepays and other current assets	20,007	16,023
Total current assets	206,747	223,837
Marketable investment securities	1,192	1,190
Property and equipment, net	126,840	114,286
Excess of purchase price over net assets acquired, net	115,249	108,530
Other assets	21,896	22,728
	\$471,924	\$470,571
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	\$ 30,629	\$ 83,683
Accrued liabilities	22,061	22,371
Accrued wages and related costs	13,353	19,796
Federal and state taxes payable	9,323	5,543
Current maturities of long-term debt	10,435	12,091
Total current liabilities	85,801	143,484
Long-term debt, net of current maturities	181,559	137,886
Deferred Taxes	4,423	3,321
Stockholders' equity:		
Common stock, \$.05 par value	1,386	1,376
Additional paid-in capital	111,431	107,268
Notes receivable-related parties	(11,307)	(16,796)
Employee savings and stock ownership loan guarantee	(1,264)	(1,685)
Accumulated other comprehensive income (loss)	(1,381)	(1,245)
Retained earnings	124,226	114,019
Treasury stock, at cost; 3,248 shares at March 31, 2001 and 3,072 shares at December 31, 2000	(22,950)	(17,057)
Net stockholders' equity	200,141	185,880
	\$471,924	\$470,571

See notes to condensed consolidated financial statements.

SYNCOR INTERNATIONAL CORPORATION AND SUBSIDIARIES
Condensed Consolidated Statements of Income
(in thousands, except per share data)

Three Months Ended March 31,

2001	2000
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(Unaudited)

Net sales	\$181,416	\$148,958
Cost of sales	112,727	98,000
	<hr/>	<hr/>
Gross profit	68,689	50,958
Operating, selling and administrative expenses	39,011	32,008
Depreciation and amortization	8,659	5,282
	<hr/>	<hr/>
Operating income	21,019	13,668
Other expense, net	(4,008)	(1,197)
	<hr/>	<hr/>
Income before taxes	17,011	12,471
Provision for income taxes	6,804	4,991
	<hr/>	<hr/>
Net income	\$10,207	\$ 7,480
	=====	=====
Net income per share - Basic	\$0.42	\$0.32
	=====	=====
Weighted average shares outstanding - Basic	24,473	23,726
	=====	=====
Net income per share - Diluted	\$0.38	\$0.30
	=====	=====
Weighted average shares outstanding - Diluted	27,101	25,190
	=====	=====

See notes to condensed consolidated financial statements.

SYNCOR INTERNATIONAL CORPORATION AND SUBSIDIARIES
 Condensed Consolidated Statements of Cash Flows
 (in thousands)

Three Months Ended March 31,

<hr/>	<hr/>
2001	2000
<hr/>	<hr/>

(Unaudited)

Cash flows from operating activities:

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Net income	\$ 10,207	\$ 7,480
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	8,659	5,282
Provision for losses on receivables	1,882	1,124
Amortization of ESSOP loan guarantee	421	421
Deferred taxes	1,102	-
Decrease (increase) in:		
Accounts receivable, trade	(8,180)	(9,036)
Accounts receivable, patient	(10,630)	(4,412)
Inventory	37,225	10,807
Other current assets	(4,279)	(453)
Other assets	619	185
Increase (decrease) in:		
Accounts payable	(53,025)	(1,724)
Accrued liabilities	(265)	1,056
Accrued wages and related costs	(6,480)	(1,184)
Federal and state taxes payable	5,651	4,735
Net cash provided by (used in) operating activities	(17,093)	14,281
Cash flows from investing activities:		
Purchase of property and equipment, net	(10,219)	(5,727)
Acquisitions of businesses, net of cash acquired	(15,678)	(2,738)
Net increase in short-term investments	(1,569)	(3,257)
Net decrease in long-term investments	1	69
Net cash used in investing activities	(27,465)	(11,653)
Cash flow from financing activities:		
Proceeds from long-term debt	38,682	5,591
Repayment of long-term debt	(1,098)	(2,460)
Notes receivable-related parties	5,489	-
Issuance of common stock	2,288	1,354
Reacquisition of common stock for treasury	(5,893)	(3,431)
Net cash provided by financing activities	39,468	1,054
Net increase (decrease) in cash and cash equivalents	(5,090)	3,682
Effect of changes in exchange rates on cash	247	(1)
Cash and cash equivalents at beginning of period	24,330	13,352
Cash and cash equivalents at end of period	\$19,487	\$17,033
	=====	=====

See notes to condensed consolidated financial statements.

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SYNCOR INTERNATIONAL CORPORATION AND SUBSIDIARIES Notes to Condensed Consolidated Financial Statements

GENERAL

The accompanying unaudited condensed consolidated financial statements have been prepared in accordance with generally accepted accounting principles for interim financial information and with the instructions to Form 10-Q. Accordingly, they do not include all of the information and footnotes required by generally accepted accounting principles for complete financial statements. In the opinion of management, all adjustments (consisting only of normal recurring accruals) considered necessary for a fair presentation have been included. The results of the three months ended March 31, 2001, are not necessarily indicative of the results to be expected for the full year. For further information, refer to the consolidated financial statements and footnotes thereto included in the Company's Annual Report on Form 10-K for the year ended December 31, 2000. Certain line items in the prior year's condensed consolidated financial statements have been reclassified to conform to the current year's presentation.

COMPREHENSIVE INCOME (LOSS)

Other comprehensive income includes foreign currency translation adjustments and net unrealized gains and losses on investments in equity securities. Such amounts are as follows:

	Three Months Ended					
	March 31, 2001			March 31, 2000		
	Before-Tax Amount	Tax (expense) or benefit	Net of Tax Amount	Before-Tax Amount	Tax (expense) or benefit	Net of Tax Amount
Foreign currency translation Adjustments	(139)	-	(139)	(74)	-	(74)
Unrealized gains (losses) on investments:						
Unrealized holding gains (losses) arising during period	4	(1)	3	112	(45)	67
Other comprehensive income (loss)	(135)	(1)	(136)	38	(45)	(7)
Net income (loss)	17,011	(6,804)	10,207	12,471	(4,991)	7,480
Total comprehensive income	\$16,876	\$(6,805)	\$10,071	\$12,509	\$(5,036)	\$7,473

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SEGMENT INFORMATION

Syncor has identified three primary operating segments: U.S. Pharmacy Services, U.S. Medical Imaging and International Operations. Segment selection was based upon internal organizational structures, the way these operations are managed and evaluated, the availability of separate financial results, and materiality considerations. Segment detail is summarized as follows:

	<u>Three Months Ended</u>	
	<u>March 31, 2001</u>	<u>March 31, 2000</u>
<u>Pharmacy Services Business</u>		
Revenues	\$133,309	\$122,210
Operating Income	\$ 19,811	\$ 15,131
<u>Medical Imaging Business</u>		
Revenues	\$ 37,642	\$ 17,927
Operating Income	\$ 4,217	\$ 1,686
<u>International Operations</u>		
Revenues	\$ 10,465	\$ 8,821
Operating Income	\$ 353	\$ 783
<u>Unallocated Corporat</u>		
Operating Loss	\$ (3,362)	\$ (3,932)

NET INCOME PER SHARE

Basic earnings per share (EPS) amounts are computed by dividing earnings applicable to common stockholders by the average number of shares outstanding. Diluted EPS amounts assume the issuance of common stock for all potentially dilutive equivalents outstanding. Anti-dilutive outstanding stock options have been excluded from the diluted calculation.

The reconciliation of the numerator and denominators of the basic and diluted

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earnings per share computations are as follows for the three months ended March 31, 2001 and 2000:

	Three Months Ended					
	March 31, 2001			March 31, 2000		
	Income (Numerator)	Shares (Denominator)	Per Share Amount	Income (Numerator)	Shares (Denominator)	Per Share Amount
Net income	\$10,207			\$7,480		
Basic EPS	\$10,207	24,473	\$.42	\$7,480	23,726	\$.32
Effect of Dilutive Stock Options		2,628			1,464	
Diluted EPS	\$10,207	27,101	\$.38	\$7,480	25,190	\$.30

SYNCOR INTERNATIONAL CORPORATION AND SUBSIDIARIES
 Management's Discussion and Analysis of Financial Condition
 and Results of Operations
 For the Three Months Ended March 31, 2001 and 2000

NET SALES

Consolidated net sales for the three months ended March 31, 2001 increased 21.8% or \$32.4 million to \$181.4 million versus \$149.0 million for the first quarter of 2000.

U.S. PHARMACY SERVICES BUSINESS

The Pharmacy Services business grew at a pace of 9.1% for the current quarter, which is a result of continued growth in both the overall radiopharmacy market and the Cardiology sector of the Company's business. The overall year-over-year growth rate for the quarter for the Cardiology sector was approximately 12%. Sales of Cardiolute(R), a proprietary technetium-based heart imaging agent to which the Company has preferential U.S. distribution rights, led the growth in Cardiology with approximately a 15% growth rate over the corresponding period. Sales of Cardiolute(R) increased by approximately 12% in volume coupled with a 3.5% price increase.

U.S. MEDICAL IMAGING BUSINESS

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The Company continues to grow the medical imaging business both as a result of the acquisition of sites and growth at existing sites. Overall, sales have increased year-over-year 110% for the first quarter. Growth in this segment of the business has been driven primarily by the US Diagnostic, Inc. acquisition that took place after the first quarter of 2000. Same store sales growth for the quarter was 16.7% or \$2.6 million and represented 15% of the increase. At quarter end the Company had 58 domestic imaging centers compared to 42 for the comparable quarter in 2000. The Company expects to continue to grow this business through a combination of growth in existing sites and strategic acquisitions in areas of the country that fit within the Company's overall strategy of becoming a significant provider in certain geographic regions. In order to accomplish these goals, the Company continues to devote additional resources for certain sales and operations positions and consolidation of the billing and collection functions on one platform.

INTERNATIONAL OPERATIONS

The Company's international operations continue to grow, with sales for the quarter increasing 18.6% as compared to the prior year. Same store growth was flat for the quarter and was impacted by lower sales in the Taiwan sites due to a temporary slowdown in government health care spending. Excluding Taiwan, same store sales growth was 5.4% for the quarter. A number of acquired and start-up sites completed in 2000 generated \$3.2 million in additional sales in the quarter. We look for the continued expansion of this segment as these operations mature, and through further strategic acquisitions.

GROSS PROFIT

Gross profit for the first quarter increased \$17.7 million to \$68.7 million. As a percentage of net sales, gross margins reached 37.9% for the first quarter compared to 34.2% for the respective period in 2000.

U.S. PHARMACY SERVICES BUSINESS

The gross profit from this group continues to increase (from 28.5% in the first quarter of 2000 to 29.4% in the first quarter of 2001) due to the shift from lower margin products to Cardiolite(R) and increased leverage of labor and delivery dollars. Material costs, as a percentage of sales, decreased by 0.2% due to the continued product mix shift to Cardiolite(R) and a price increase that was instituted in January, 2001. Direct labor costs as a percent of sales were reduced in this quarter as compared to the first quarter of 2000 by 0.3% as a result of the continued commitment to staffing controls at the pharmacy locations.

U.S. MEDICAL IMAGING BUSINESS

The gross profit margin for this group decreased from 69.7% to 66.5% for the first quarter in 2001 as compared to the prior year. This decline is principally from two factors. The first is the conversion of sites from managed sites and the resultant loss

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of "management fee income" which does not have any "cost of goods sold component" to owned sites. At present, the Company has converted the majority of sites to owned sites so this trend should dissipate in future quarters. The second is an increase in reading fees paid to contracted radiologists.

INTERNATIONAL OPERATIONS

The gross profit margin for this segment increased from 41.2% in the first quarter of 2000 to 43.0% in the first quarter of 2001. These margins have improved as volumes have increased and efficiencies have improved at the pharmacy sites. The increasing share of revenues generated from owning and managing imaging centers also increased these margins as imaging centers traditionally have lower cost of materials.

OPERATING, SELLING AND ADMINISTRATIVE EXPENSES

Operating, Selling and Administration costs showed a year-over-year increase for the quarter ended March 31, 2001 of approximately 21.9% or \$7.0 million. The ratio of these expenses to sales was flat at 21.5% for the comparative quarters. The primary reason this percentage remained flat in the quarter was that the Company accrued certain performance bonuses at a higher rate during the first quarter of 2000 than in the first quarter of 2001, which offset increased expenses associated with the CMI sales growth and acquisitions.

DEPRECIATION AND AMORTIZATION

Depreciation and amortization increased by \$3.4 million for the first quarter of 2001, compared to the first quarter of 2000. The increase is primarily the result of depreciation, goodwill and non-compete costs associated with the Medical Imaging business acquisitions, which accounts for \$2.5 million of this increase. In addition, the Company has invested capital in international sites (primarily imaging equipment), which contributed about \$0.5 million additionally of this increase.

OTHER EXPENSE, NET

The change in Other Expense, Net was primarily the result of increased borrowings and the resultant interest for acquisition debt incurred since the first quarter of 2000.

ACQUISITION OF BUSINESSES

During the first quarter of 2001, the Company made three acquisitions, two of which were outside of the U.S. The first of these was by CMI, which acquired three sites in California at a purchase price of \$13.4 million. This completed a series of previously announced acquisitions from US Diagnostic, Inc. The second acquisition was in Brazil for a purchase price of \$2.0

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million. The third was in New Zealand for a purchase price of \$0.3 million.

LIQUIDITY AND CAPITAL RESOURCES

The Company had cash, cash equivalents and investments of \$26.4 million at March 31, 2001 compared with \$29.7 million at December 31, 2000. The Company's total debt of \$192.0 million at March 31, 2001 reflects an increase of \$42.0 million when compared to the balance of \$150.0 million at December 31, 2000. The increase for the three months ended March 31, 2001 resulted primarily from the financing of acquisitions which required approximately \$16 million and the advance purchase payment of Cardiolite(R) inventory which required approximately \$19 million in short-term financing. Working capital increased by \$40.6 million to \$120.9 million at March 31, 2001 compared to \$80.3 million at December 31, 2000.

The Company believes that sufficient internal and external sources exist to fund operations and future expansion plans. The Company increased its credit line facility to \$190 million on May 10, 2001. Of the original \$150 million credit line facility, \$1.2 million was available on March 31, 2001.

FORWARD LOOKING STATEMENTS

Except for the historical information and discussions contained herein, statements contained in this Report on Form 10-Q may constitute "forward looking statements" within the meaning of the Private Securities Litigation Reform Act of 1995. These statements involve a number of risks, uncertainties and other factors that could cause actual results to differ materially, including: changes in the regulation of the healthcare industry at either or both of the federal and state levels; changes or delays in the Company's reimbursement for services by governmental or private payers; the Company's failure to continue to develop and market new products and services and to keep pace with technological change; competitive pressures; failure to obtain or protect intellectual property rights; quarterly fluctuations in revenues and volatility of the Company's stock price; the Company's ability to attract and retain key personnel; currency risks; dependence on certain suppliers; the Company's ability to successfully manage acquisitions and alliances; legal, political and economic changes; and other risks, uncertainties and factors discussed in the "Risk Factors" section in the Annual Report on Form 10-K and elsewhere herein, in the Company's other filings with the SEC or in materials incorporated by reference. Given these uncertainties, undue reliance should not be placed on such forward-looking statements.

SYNCOR INTERNATIONAL CORPORATION AND SUBSIDIARIES

PART II. OTHER INFORMATION

ITEM 6. EXHIBITS AND REPORTS ON FORM 8-K

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- (a) Exhibits
None
- (b) Reports on Form 8-K
None

SIGNATURE

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.

SYNCOR INTERNATIONAL CORPORATION
(Registrant)

May 15, 2001

/s/ William P. Forster
By: _____
William P. Forster
Senior Vice President and
Chief Financial Officer
(Principal Financial/Accounting Officer)