

SYNCOR INTERNATIONAL CORP /DE/

Form 10-Q

November 14, 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 SEPTEMBER 30, 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 X No

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date. As of September 30, 2001, 24,761,491 shares of \$.05 par value common stock were outstanding.

Edgar Filing: SYNCOR INTERNATIONAL CORP /DE/ - Form 10-Q

=====

SYNCOR INTERNATIONAL CORPORATION AND SUBSIDIARIES

INDEX

	Page
Part I. Financial Information	
Item 1. Condensed Consolidated Financial Statements	
Balance Sheets as of September 30, 2001 and December 31, 2000.....	3
Statements of Income for Three Months Ended September 30, 2001 and 2000.....	4
Statements of Income for Nine Months Ended September 30, 2001 and 2000.....	5
Statements of Cash Flows for Nine Months Ended September 30, 2001 and 2000.....	6
Notes to Condensed Consolidated Financial Statements.....	7
Item 2. Management's Discussion and Analysis of Financial Condition.....	12
Item 3. Quantitative and Qualitative Disclosures about Market Risk.....	14
Part II. Other Information.....	15
SIGNATURE.....	16

ITEM 1.

SYNCOR INTERNATIONAL CORPORATION AND SUBSIDIARIES

Condensed Consolidated Balance Sheets
(in thousands)

	September 30, 2001	December 31, 2000
	(Unaudited)	
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 25,607	\$ 24,330
Short-term investments	11,381	4,156
Trade receivables, net	108,032	81,716
Patient receivables, net	50,362	37,686
Inventory	22,828	59,926

Edgar Filing: SYNCOR INTERNATIONAL CORP /DE/ - Form 10-Q

Prepays and other current assets	30,372	16,023
	<hr/>	<hr/>
Total current assets	248,582	223,837
Marketable investment securities	1,209	1,190
Property and equipment, net	168,697	114,286
Excess of purchase price over net assets acquired, net	133,846	108,530
Other assets	18,468	22,728
	<hr/>	<hr/>
	\$570,802	\$470,571
	=====	=====
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	\$ 59,312	\$ 83,683
Accrued liabilities	24,156	22,371
Accrued wages and related costs	15,315	19,796
Federal and state taxes payable	6,560	5,543
Current maturities of long-term debt	10,753	12,091
	<hr/>	<hr/>
Total current liabilities	116,096	143,484
Long-term debt, net of current maturities	220,163	137,886
Deferred taxes	6,243	3,321
Stockholders' equity:		
Common stock, \$.05 par value	1,412	1,376
Additional paid-in capital	123,444	107,268
Notes receivable-related parties	(6,998)	(16,796)
Employee stock ownership loan guarantee	(421)	(1,685)
Accumulated other comprehensive income	(1,195)	(1,245)
Retained earnings	143,042	114,019
Treasury stock, at cost; 3,483 shares at September 30, 2001 and 3,072 shares at December 31, 2000	(30,984)	(17,057)
	<hr/>	<hr/>
Net stockholders' equity	228,300	185,880
	<hr/>	<hr/>
	\$570,802	\$470,571
	=====	=====

SEE NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS.

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

THREE MONTHS ENDED SEPTEMBER 30,
2001 2000

Edgar Filing: SYNCOR INTERNATIONAL CORP /DE/ - Form 10-Q

Net sales	\$193,794	\$155,462
Cost of sales	121,005	100,044
Gross profit	72,789	55,418
Operating, selling and administrative expenses	47,100	36,191
Depreciation and amortization	10,317	6,951
Operating income	15,372	12,276
Other expense, net	(2,527)	(1,857)
Income before taxes	12,845	10,419
Provision for income taxes	5,011	4,161
Net income	\$ 7,834	\$ 6,258
Net income per share - Basic	\$.32	\$.26
Weighted average shares outstanding - Basic	24,603	24,091
Net income per share - Diluted	\$.29	\$.23
Weighted average shares outstanding - Diluted	27,024	27,374

SEE NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS.

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

NINE MONTHS ENDED SEPTEMBER 30,
 2001 2000

Edgar Filing: SYNCOR INTERNATIONAL CORP /DE/ - Form 10-Q

Net sales	\$562,902	\$458,786
Cost of sales	349,245	296,931
	<u> </u>	<u> </u>
Gross profit	213,657	161,855
Operating, selling and administrative expenses	127,918	101,144
Depreciation and amortization	28,017	18,721
	<u> </u>	<u> </u>
Operating income	57,722	41,990
Other expense, net	(10,143)	(3,965)
	<u> </u>	<u> </u>
Income before taxes	47,579	38,025
Provision for income taxes	18,556	15,209
	<u> </u>	<u> </u>
Net income	\$ 29,023	\$ 22,816
	=====	=====
Net income per share - Basic	\$ 1.18	\$.96
	=====	=====
Weighted average shares outstanding - Basic	24,494	23,864
	=====	=====
Net income per share - Diluted	\$ 1.07	\$.86
	=====	=====
Weighted average shares outstanding - Diluted	27,047	26,543
	=====	=====

SEE NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS.

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

NINE MONTHS ENDED SEPTEMBER 30,
2001 2000

Cash flows from operating activities:

Edgar Filing: SYNCOR INTERNATIONAL CORP /DE/ - Form 10-Q

Net income	\$29,023	\$22,816
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	28,017	18,721
Provision for losses on receivables	6,283	4,307
Amortization of ESSOP loan guarantee	1,264	1,263
Decrease (increase) in:		
Accounts receivable, trade	(24,016)	(8,014)
Accounts receivable, patient	(12,676)	(13,901)
Inventory	43,815	(15,139)
Other current assets	(12,133)	(5,631)
Other assets	7,517	(3,443)
Increase (decrease) in:		
Accounts payable	(27,123)	20,157
Accrued liabilities	1,291	3,257
Accrued wages and related costs	(4,639)	(536)
Federal and state taxes payable	5,604	(1,496)
	<hr/>	<hr/>
Net cash provided by operating activities	42,227	22,361
	<hr/>	<hr/>
Cash flows from investing activities:		
Purchase of property and equipment, net	(46,332)	(18,461)
Acquisitions of businesses, net of cash acquired	(52,015)	(42,535)
Net increase in short-term investments	(7,225)	(3,080)
Net increase (decrease) in long-term investments	(19)	1
Unrealized gain on investments	20	133
	<hr/>	<hr/>
Net cash used in investing activities	(105,571)	(63,942)
	<hr/>	<hr/>
Cash flow from financing activities:		
Proceeds from long-term debt	65,337	37,279
Repayment of long-term debt	(8,212)	(3,174)
Note receivable-related parties	9,798	1,341
Issuance of common stock	11,625	14,362
Reacquisition of common stock for treasury	(13,927)	(3,451)
	<hr/>	<hr/>
Net cash provided by financing activities	64,621	46,357
	<hr/>	<hr/>
Net increase in cash and cash equivalents	1,277	4,776
Effect of exchange rate on cash	-	(85)
Cash and cash equivalents at beginning of period	24,330	13,352
	<hr/>	<hr/>
Cash and cash equivalents at end of period	\$25,607	\$18,043
	=====	=====

SEE NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS.

Edgar Filing: SYNCOR INTERNATIONAL CORP /DE/ - Form 10-Q

SYNCOR INTERNATIONAL CORPORATION AND SUBSIDIARIES Notes to Condensed Consolidated Financial Statements

1. GENERAL. The accompanying unaudited condensed consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America 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 accounting principles generally accepted in the United States of America 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 for the nine months ended September 30, 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 our Annual Report on Form 10-K for the year ended December 31, 2000. Certain line items in the prior year's consolidated condensed financial statements have been reclassified to conform to the current year's presentation.
2. NEW ACCOUNTING STANDARDS. In July 2001, the FASB issued Statement No. 141, Business Combinations, and Statement No. 142, Goodwill and Other Intangible Assets. Statement 141 requires that the purchase method of accounting be used for all business combinations initiated after June 30, 2001 as well as all purchase method business combinations completed after June 30, 2001. Statement 141 also specifies criteria intangible assets acquired in a purchase method business combination must meet to be recognized and reported apart from goodwill, noting that any purchase price allocable to an assembled workforce may not be accounted for separately. Statement 142 will require that goodwill and intangible assets with indefinite useful lives no longer be amortized, but instead tested for impairment at least annually in accordance with the provisions of Statement 142. Statement 142 will also require that intangible assets with definite useful lives be amortized over their respective estimated useful lives to their estimated residual values, and reviewed for impairment in accordance with SFAS No. 121, Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to Be Disposed Of.

The Company is required to adopt the provisions of Statement 141 immediately, except with regard to business combinations initiated prior to July 1, 2001, which it expects to account for using the pooling-of-interests method, and Statement 142 effective January 1, 2002.* Furthermore, any goodwill and any intangible asset determined to have an indefinite useful life that are acquired in a purchase business combination completed after June 30, 2001 will not be amortized, but will continue to be evaluated for impairment in accordance with the appropriate pre-Statement 142 accounting literature. Goodwill and intangible assets acquired in business combinations completed before July 1, 2001 will continue to be amortized prior to the adoption of Statement 142.

Statement 141 will require upon adoption of Statement 142, that the Company evaluate its existing intangible assets and goodwill that were acquired in a prior purchase business combination, and to make any necessary reclassifications in order to conform with the new criteria in Statement 141 for recognition apart from goodwill. Upon adoption of Statement 142, the Company will be required to reassess the useful lives and residual values of all intangible assets acquired in purchase business combinations, and make any necessary amortization period

Edgar Filing: SYNCOR INTERNATIONAL CORP /DE/ - Form 10-Q

adjustments by the end of the first interim period after adoption. In addition, to the extent an intangible asset is identified as having an indefinite useful life, the Company will be required to test the intangible asset for impairment in accordance with the provisions of Statement 142 within the first interim period. Any impairment loss will be measured as of the date of adoption and recognized as the cumulative effect of a change in accounting principle in the first interim period.

In connection with the transitional goodwill impairment evaluation, Statement 142 will require the Company to perform an assessment of whether there is an indication that goodwill is impaired as of the date of adoption. To accomplish this the Company must identify its reporting units and determine the carrying value of each reporting unit by assigning the assets and liabilities, including the existing goodwill and intangible assets, to those reporting units as of the date of adoption. The Company will then have up to six months from the date of adoption to determine the fair value of each reporting unit and compare it to the reporting unit's carrying amount. To the extent a reporting unit's carrying amount exceeds its fair value, an indication exists that the reporting unit's goodwill may be impaired and the Company must perform the second step of the transitional impairment test.

* Companies with fiscal year ends beginning after March 15, 2001, who have not yet issued financial statements for their first interim period, may early adopt Statement 142.

In the second step, the Company must compare the implied fair value of the reporting unit's goodwill, determined by allocating the reporting unit's fair value to all of its assets (recognized and unrecognized) and liabilities in a manner similar to a purchase price allocation in accordance with Statement 141, to its carrying amount, both of which would be measured as of the date of adoption. This second step is required to be completed as soon as possible, but no later than the end of the year of adoption. Any transitional impairment loss will be recognized as the cumulative effect of a change in accounting principle in the Company's statement of earnings.

As of the date of adoption, the Company expects to have unamortized goodwill in the amount of \$132,472, unamortized identifiable intangible assets in the amount of \$7,112, all of which will be subject to the transition provisions of Statements 141 and 142. Amortization expense related to goodwill was \$3,793 and \$4,456 for the year ended December 31, 2000 and the nine months ended September 30, 2001, respectively. Because of the extensive effort needed to comply with adopting Statements 141 and 142, it is not practicable to reasonably estimate the impact of adopting these Statements on the Company's financial statements at the date of this report, including whether any transitional impairment losses will be required to be recognized as the cumulative effect of a change in accounting principle.

In August 2001, the Financial Accounting Standards Board issued FASB Statement No. 144, Accounting for the Impairment or Disposal of Long-Lived Assets (Statement 144), which supersedes both FASB Statement No. 121, Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to Be Disposed Of (Statement 121) and the accounting and reporting provisions of APB Opinion No. 30, Reporting the Results of Operations—Reporting the Effects of Disposal of a Segment of a Business, and Extraordinary, Unusual and Infrequently Occurring Events and Transactions (Opinion 30), for the disposal of a segment of a

Edgar Filing: SYNCOR INTERNATIONAL CORP /DE/ - Form 10-Q

business (as previously defined in that Opinion). Statement 144 retains the fundamental provisions in Statement 121 for recognizing and measuring impairment losses on long-lived assets held for use and long-lived assets to be disposed of by sale, while also resolving significant implementation issues associated with Statement 121. Statement 144 retains the basic provisions of Opinion 30 on how to present discontinued operations in the income statement but broadens that presentation to include a component of an entity (rather than a segment of a business). Unlike Statement 121, an impairment assessment under Statement 144 will never result in a write-down of goodwill. Rather, goodwill is evaluated for impairment under Statement No. 142, Goodwill and Other Intangible Assets.

The Company is required to adopt Statement 144 no later than the year beginning after December 15, 2001. Accordingly, the Company will adopt Statement 144 in the first quarter of 2002. Management does not expect the adoption of Statement 144 for long-lived assets held for use to have a material impact on the Company's financial statements because the impairment assessment under Statement 144 is largely unchanged from Statement 121. The provisions of the Statement for assets held for sale or other disposal generally are required to be applied prospectively after the adoption date to newly initiated disposal activities. Therefore, management cannot determine the potential effects that adoption of Statement 144 will have on the Company's financial statements.

3. COMPREHENSIVE INCOME. 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					
	September 30, 2001			September 30, 2000		
	Before-tax Amount	Tax Expense	Net-of-Tax Amount	Before-Tax Amount	Tax Expense	Net-of-Tax Amount
Foreign currency translation adjustments	87	-	87	260	-	260
Unrealized gains (losses) on investments:						
Unrealized holding gains (losses) arising during period	28	(11)	17	-	-	-
Other comprehensive income	115	(11)	104	260	-	260
Net income	12,845	(5,011)	7,834	10,419	(4,161)	6,258
Total comprehensive income	<u>\$12,960</u>	<u>\$ (5,022)</u>	<u>\$7,938</u>	<u>\$10,679</u>	<u>\$ (4,161)</u>	<u>\$6,518</u>

Edgar Filing: SYNCOR INTERNATIONAL CORP /DE/ - Form 10-Q

NINE MONTHS ENDED

	September 30, 2001			September 30, 2000		
	Before-tax Amount	Tax Expense	Net-of-Tax Amount	Before-Tax Amount	Tax Expense	Net-of-Tax Amount
Foreign currency translation adjustments	30	-	30	351	-	351
Unrealized gains (losses) on investments:						
Unrealized holding gains (losses) arising during period	32	(12)	20	222	(89)	133
Other comprehensive income	62	(12)	50	573	(89)	484
Net income	47,579	(18,556)	29,023	38,025	(15,209)	22,816
Total comprehensive income	<u>\$47,641</u> =====	<u>\$(18,568)</u> =====	<u>\$29,073</u> =====	<u>\$38,598</u> =====	<u>\$(15,298)</u> =====	<u>\$23,300</u> =====

4. 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 process by which these operations are managed and evaluated, the availability of separate financial results, and materiality considerations. Segment detail is summarized as follows:

THREE MONTHS ENDED

U.S. Pharmacy Services Business	September 30, 2001	September 30, 2000
Revenues	\$142,284	\$120,858
Operating Income	\$ 15,358	\$ 12,997
U.S. Medical Imaging Business		
Revenues	\$ 39,432	\$ 26,475
Operating Income	\$ 4,228	\$ 3,251
International Operations		
Revenues	\$ 12,078	\$ 8,129
Operating Income	\$ 342	\$ 388
Unallocated Corporate		

Edgar Filing: SYNCOR INTERNATIONAL CORP /DE/ - Form 10-Q

Operating Loss	\$ (4,556)	\$ (4,360)
NINE MONTHS ENDED		
U.S. Pharmacy Services Business	September 30, 2001	September 30, 2000
Revenues	\$413,308	\$366,791
Operating Income	\$ 55,525	\$ 44,482
U.S. Medical Imaging Business		
Revenues	\$116,243	\$ 66,943
Operating Income	\$ 12,518	\$ 8,062
International Operations		
Revenues	\$ 33,351	\$ 25,052
Operating Income	\$ 1,554	\$ 1,615
Unallocated Corporate		
Operating Loss	\$ (11,875)	\$ (12,169)

5. NET INCOME PER SHARE. Basic earnings per share (EPS) amounts are computed by dividing earnings applicable to common stockholders by the weighted 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 of 2,309 and zero for the three months and 2,307 and 779 for the nine months ended September 30, 2001 and 2000 have been excluded from the diluted calculation, respectively.

The reconciliation of the numerator and denominators of the basic and diluted earnings per share computations are as follows for the three and nine months ended September 30, 2001 and 2000:

	THREE MONTHS ENDED					
	September 30, 2001			September 30, 2000		
	Income (Numerator)	Shares (Denominator)	Per Share Amount	Income (Numerator)	Shares (Denominator)	Per Share Amount
Net income	\$7,834			\$6,258		

Edgar Filing: SYNCOR INTERNATIONAL CORP /DE/ - Form 10-Q

Basic EPS	\$7,834	24,603	\$.32	\$6,258	24,091	\$.26
Effect of Dilutive Stock Options		2,421			3,283	
Diluted EPS	\$7,834	27,024	\$.29	\$6,258	27,374	\$.23

NINE MONTHS ENDED

September 30, 2001

September 30, 2000

	Income (Numerator)	Shares (Denominator)	Per Share Amount	Income (Numerator)	Shares (Denominator)	Per Share Amount
Net income	\$29,023			\$22,816		
Basic EPS	\$29,023	24,494	\$1.18	\$22,816	23,864	\$.96
Effect of Dilutive Stock Options		2,553			2,679	
Diluted EPS	\$29,023	27,047	\$1.07	\$22,816	26,543	\$.86

6. NOTES RECEIVABLE-RELATED PARTIES. We initiated a Senior Management Stock Purchase Plan effective June 16, 1998, pursuant to which our officers and key employees purchased shares of Syncor stock. The shares were paid with a five-year interest bearing promissory note payable to us. Interest on each note is payable on each anniversary date, with the entire outstanding principal and unpaid interest due on the fifth anniversary date.

7. ACQUISITION OF BUSINESSES. During the third quarter of 2001, we made four acquisition investments. We acquired a company that provides cardiovascular services through three sites in North Carolina and Virginia for a purchase price of \$13.8 million. For the second acquisition, we acquired two domestic companies that design, manufacture and sell radiation detection and measurement equipment for the medical and nuclear power plant industry for a purchase price of \$10.8 million. In addition, our medical imaging business acquired three centers via two acquisitions in the quarter. The first of these was a multi-MRI site in Ft. Lauderdale, Florida for a purchase price of \$5.1 million plus the assumption of \$1.5 million of debt. Secondly, we acquired two MRI centers in El Paso, Texas for a purchase price of \$4.3 million plus the assumption of \$3.6 million of debt.

ITEM 2.

Edgar Filing: SYNCOR INTERNATIONAL CORP /DE/ - Form 10-Q

SYNCOR INTERNATIONAL CORPORATION AND SUBSIDIARIES
MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION
AND RESULTS OF OPERATIONS
FOR THE THREE AND NINE MONTHS ENDED SEPTEMBER 30, 2001 AND 2000

NET SALES

Consolidated net sales for the three months ended September 30, 2001 increased 24.7% or \$38.3 million to \$193.8 million versus \$155.5 million for the third quarter of 2000. Consolidated net sales for the nine months ended September 30, 2001 increased 22.7% or \$104.1 million to \$562.9 million versus \$458.8 million for the same period of the prior year.

U.S. PHARMACY SERVICES BUSINESS

Our Pharmacy Services business grew year-over-year 17.7% to \$142.3 million for the current quarter and 12.7% year-to-date to \$413.3 million. This increase is primarily the result of continued growth in both the overall marketplace and the Cardiology sector of the Company's business. In addition, our acquisitions accounted for \$5.7 million or 4.7% of the increase for the quarter. Our overall year-over-year growth rate for the Cardiology sector was approximately 12% for the quarter and year-to-date. Unit dose sales of Cardiolite(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 for both the quarter and year-to-date. We implemented price increases of approximately 3.5% in both 2000 and 2001, which contributed to the sales growth.

U.S. MEDICAL IMAGING BUSINESS

Our Medical Imaging business continues to grow both as a result of the acquisition of sites and growth at existing sites. Overall, sales have increased year-over-year 48.9% to \$39.4 million for the current quarter and 73.6% year-to-date to \$116.2 million. Same-store sales growth for the three months ended September 30, 2001 was approximately 8% or \$1.9 million and represented 14.7% of the increase. Same store sales growth year to date was approximately 13% and represented 13.0% of the increase. Sales associated with prior acquisitions were responsible for the remainder of the growth. At quarter end, we had 65 domestic imaging centers compared to 55 for the comparable quarter in 2000. We expect to continue to grow this business through a combination of growth in existing sites and acquisitions in certain strategic geographic regions. In order to accomplish these goals, we continue to devote capital for key strategic systems initiatives, equipment upgrades and replacements at imaging centers, and the purchase of new imaging equipment such as PET scanners.

INTERNATIONAL OPERATIONS

Our international operations continue to grow and sales increased year-over-year 48.6% to \$12.1 million for the current quarter and 33.6% year-to-date to \$33.4 million. Same-store growth was 3.4% for the quarter and was again impacted by Taiwan sites, which continued to report lower sales due to a slowdown in government healthcare funding. Excluding Taiwan, same-store sales growth was 6.8% for the quarter. We generated \$9.2 million of additional revenues for the nine months ended September 30, 2001 from sites that we opened ourselves and acquired. We look for the continued expansion of this segment as our existing operations mature and we complete further strategic acquisitions.

Edgar Filing: SYNCOR INTERNATIONAL CORP /DE/ - Form 10-Q

GROSS PROFIT

Gross profit for the three months ended September 30, 2001 increased year-over-year 31.3% or \$17.4 million to \$72.8 million. Year-to-date gross profit increased year-over-year by 32.0% or \$51.8 million to \$213.7 million. As a percentage of net sales, gross margins reached 37.6% for the third quarter ended September 30, 2001 and 38.0% year-to-date compared to 35.6% and 35.3% for the respective periods in 2000.

U.S. PHARMACY SERVICES BUSINESS

The gross profit for the pharmacy services business continues to improve. Our margin increased from 27.9% or \$33.8 million in the third quarter of 2000 to 29.0% or \$41.2 million in the third quarter of 2001. Year to date, this margin increased from 28.4% or \$104.4 million in 2000 to 29.4% or \$121.4 million in 2001. These improvements are due to price increases on products, the shift from lower margin products to Cardiolite(R) and continued leverage of our labor and material resources.

U.S. MEDICAL IMAGING BUSINESS

The gross profit margin for this group decreased from 69.6% or \$18.4 million to 66.6% or \$26.2 million in the third quarter of 2001 as compared to the third quarter of 2000. Year to date, this margin decreased from 70.5% or \$47.2 million in 2000 to 66.7% or \$77.6 million in 2001. This decline is principally from two factors. The first is the increase in the number of multi-modality sites as compared to the previous year. We increased the number of multi-modality sites from twelve at June 30, 2000 to twenty-five at September 30, 2001 because many local insurance groups prefer to contract with imaging centers that offer all modalities. Consequently, insurance groups do not have to enter into multiple contracts. Our multi-modality sites generally have a lower gross profit margin due to lower average scan fees and higher operating costs. The second reason for the margin decline is that we experienced an increase in reading fees that we pay to our contracted radiologists.

INTERNATIONAL OPERATIONS

The gross profit margin for this segment increased from 40.5% or \$3.3 million to 44.5% or \$5.4 million in the third quarter of 2000 as compared to the third quarter of 2001. Year to date, this margin increased from 41.6% or \$10.4 million in 2000 to 44.3% or \$14.8 million in 2001. These margins have improved as volumes increase and efficiencies improve at our pharmacy sites. Our overall mix of revenues from imaging centers has also contributed to higher margins, as imaging margins are traditionally higher than pharmacy margins.

OPERATING, SELLING AND ADMINISTRATIVE EXPENSES

Operating, Selling and Administrative costs increased 30.1% or \$10.9 million for the third quarter of 2001 as compared to the third quarter of 2000. These costs increased 26.5% or \$26.8 million on a year-to-date basis. The ratio of these expenses to sales increased slightly to 24.3% from 23.3% in the comparative quarter in 2000. Year-to-date, these costs increased from 22.0% in 2000 to 22.7% in 2001. The primary reason this percentage remained relatively flat in the quarter and year-to-date was that we accrued bonuses, which are linked to reaching certain stock price and earnings levels at a higher rate during 2000 than in 2001. These

Edgar Filing: SYNCOR INTERNATIONAL CORP /DE/ - Form 10-Q

smaller accrued bonus amounts were offset in the current year by increased headcount, yearly wage increases, and increases in other expenses.

DEPRECIATION AND AMORTIZATION

Depreciation and amortization increased by 48.4% or \$3.4 million to \$10.3 million for the third quarter 2001 as compared to the third quarter of 2000. These costs increased 49.7% or \$9.3 million to \$28.0 million on a year-to-date basis. These increases were primarily the result of depreciation, goodwill and non-compete costs associated with our imaging business acquisitions, which accounts for \$2.1 million of this increase for the quarter and \$6.5 million year-to-date. Additionally, we have invested capital in international sites (primarily imaging equipment), which contributed about \$1.2 million of this increase on a year-to-date basis.

OTHER EXPENSE, NET

The increase in Other Expense, Net of \$6.2 million to \$10.1 million on a year-to-date basis was primarily the result of increased interest expense for acquisition debt incurred since the prior year offset by lower interest rates on the variable portion of the debt.

ACQUISITION OF BUSINESSES

During the third quarter of 2001, we made four acquisition investments. We acquired a company that provides cardiovascular services through three sites in North Carolina and Virginia for a purchase price of \$13.8 million. We also acquired a domestic company that designs, manufactures and sells radiation detection and measurement equipment for the medical and nuclear power plant industry for a purchase price of \$10.8 million. In addition, our medical imaging business acquired three centers via two acquisitions in the quarter. The first of these was a multi-MRI site in Ft. Lauderdale, Florida for a purchase price of \$5.1 million plus the assumption of \$1.5 million of debt. Secondly we acquired two MRI centers in El Paso, Texas for a purchase price of \$4.3 million plus the assumption of \$3.6 million of debt.

LIQUIDITY AND CAPITAL RESOURCES

We had cash, cash equivalents and investments of \$38.1 million at September 30, 2001 compared with \$42.0 million at December 31, 2000. Our total debt of \$230.9 million at September 30, 2001 reflects an increase of \$80.9 million when compared to the balance of \$150.0 million at December 31, 2000. The increase for the nine months ended September 30, 2001 results primarily from the financing of acquisitions, which required approximately \$52.0 million and capital additions, which exceeded cash provided by operations by \$4.1 million. In addition, since December 31, 2000, we repurchased 411,000 shares of our stock at a value of \$13.9 million for treasury stock. Working capital increased by \$52.1 million to \$132.5 million at September 30, 2001 compared to \$80.4 million at December 31, 2000. We believe that sufficient internal and external sources exist to fund operations and future expansion plans. We have \$21.3 million in available credit on the \$200 million credit line at September 30, 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 reimbursement for our services by governmental or private payers; our 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 our stock price; our ability to attract and retain key personnel; currency risks; dependence on certain suppliers; our 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 our 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.

ITEM 3.

QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISKS

Interest income earned on our investment portfolio is affected by changes in the general level of U.S. interest rates. Our line of credit borrowings effectively bear interest at variable rates and therefore, changes in U.S. interest rates affect interest expense incurred thereon. Changes in interest rates do not affect interest expense incurred on our fixed rate debt. There have been no significant changes in the debt instruments from the table as filed on December 31, 2000.

SYNCOR INTERNATIONAL CORPORATION AND SUBSIDIARIES

Part II. OTHER INFORMATION

Item 6. Exhibits and Reports on Form 8-K

(a) Exhibits

10. Material Contracts

- 10.1 First Amendment to First Amended and Restated Credit Agreement dated as of September 13, 2001, among Bank One, NA as Lender, The Bank of Nova Scotia as Document Agent, the Company and Syncor Management Corporation
- 10.2 Severance Agreement dated August 24, 2001 between Haig Bagerdjian and the Company
- 10.3 Severance Agreement dated August 24, 2001 between John S. Baumann and the Company
- 10.4 Severance Agreement dated August 24, 2001 between Rodney Boone and the Company
- 10.5 Severance Agreement dated August 24, 2001 between Jack Coffey

Edgar Filing: SYNCOR INTERNATIONAL CORP /DE/ - Form 10-Q

- and the Company
- 10.6 Severance Agreement dated August 24, 2001 between Sheila Coop and the Company
 - 10.7 Severance Agreement dated August 24, 2001 between William Forster and the Company
 - 10.8 Severance Agreement dated August 24, 2001 between Monty Fu and the Company
 - 10.9 Severance Agreement dated August 24, 2001 between Robert Funari and the Company
 - 10.10 Severance Agreement dated August 24, 2001 between Lewis William Terry, Jr. and the Company
 - 10.11 Severance Agreement dated August 24, 2001 between David Ward and the Company
 - 10.12 Syncor International Corporation Special Severance Plan
11. Statement re: Computation of Per Share Earnings
- Computation can be clearly determined from the material contained in Part I of this Form 10-Q.

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)

November 14, 2001

By: /s/ William P. Forster

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