SYNCOR INTERNATIONAL CORP /DE/
Form 10-Q
August 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 JUNE 30, 2001 COMMISSION FILE NUMBER 0-8640

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

DELAWARE	85-0229124
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
6464 CANOGA AVENUE, WOODLAND HILLS, CALIFORNIA	91367
(Address of principal executive offices)	(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 June 30, 2001, 24,410,743 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
(UNAUDITED)
(in thousands)

	JUNE 30, 2001	DECEMBER 31, 2000
ASSETS		
Current assets:		
Cash and cash equivalents	$ 28,907	$ 24,330
Short-term investments	11,855	4,156
Trade receivables, net	96,949	81,716
Patient receivables, net	48,362	37,686
Inventory	17,848	59,926
Prepaids and other current assets	29,644	16,023

Total current assets	233,565	223,837
Marketable investment securities	1,193	1,190
Property and equipment, net	144,843	114,286
Excess of purchase price over net assets acquired, net	114,162	108,530
Other assets	19,416	22,728
	$513,179	$470,571
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	$ 58,374	$ 83,683
Accrued liabilities	22,873	22,371
Accrued wages and related costs	13,279	19,796
Federal and state taxes payable	4,107	5,543
Current maturities of long-term debt	10,816	12,091
Total current liabilities	109,449	143,484
Long-term debt, net of current maturities	184,452	137,886
Deferred taxes	5,456	3,321
Stockholders' equity:		
Common stock, $.05 par value	1,396	1,376
Additional paid-in capital	115,671	107,268
Notes receivable-related parties	(5,327)	(16,796)
Employee stock ownership loan guarantee	(843)	(1,685)
Accumulated other comprehensive income	(1,299)	(1,245)
Retained earnings	135,208	114,019
Treasury stock, at cost; 3,483 shares at June 30, 2001 and 3,072 shares at December 31, 2000	(30,984)	(17,057)
Net stockholders' equity	213,822	185,880
	$513,179	$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 JUNE 30,	
	2001	2000

Net sales	$187,692	$154,366
Cost of sales	115,513	98,887
Gross profit	72,179	55,479
Operating, selling and administrative expenses	41,807	32,944
Depreciation and amortization	9,041	6,489
Operating income	21,331	16,046
Other expense, net	(3,608)	(911)
Income before taxes	17,723	15,135
Provision for income taxes	6,741	6,057
Net income	$ 10,982	$ 9,078
Net income per share - Basic	$ .45	$ .38
Weighted average shares outstanding - Basic	24,405	23,772
Net income per share - Diluted	$ .41	$ .34
Weighted average shares outstanding - Diluted	26,936	26,328

See notes to condensed consolidated financial statements.

SYNCOR INTERNATIONAL CORPORATION AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF INCOME
(UNAUDITED)
(in thousands, except per share data)

	SIX MONTHS ENDED JUNE 30,	
	2001	2000
Net sales	$369,108	$303,324
Cost of sales	228,240	196,887
Gross profit	140,868	106,437

Operating, selling and administrative expenses	80,818	64,952
Depreciation and amortization	17,700	11,771
Operating income	42,350	29,714
Other expense, net	(7,616)	(2,108)
Income before taxes	34,734	27,606
Provision for income taxes	13,545	11,048
Net income	$ 21,189	$ 16,558
Net income per share - Basic	$ 0.87	$ 70
Weighted average shares outstanding - Basic	24,439	23,748
Net income per share - Diluted	$ 0.78	$ .64
Weighted average shares outstanding - Diluted	27,008	25,838

See notes to condensed consolidated financial statements.

SYNCOR INTERNATIONAL CORPORATION AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(UNAUDITED)
(in thousands)

	SIX MONTHS ENDED JUNE 30,	
	2001	2000
Cash flows from operating activities:		
Net income	$21,189	$16,558
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	17,700	11,771
Provision for losses on receivables	4,085	3,023
Amortization of ESSOP loan guarantee	842	843
Decrease (increase) in:		
Accounts receivable, trade	(15,723)	(8,773)
Accounts receivable, patient	(11,844)	(9,366)

Inventory	42,151	4,653
Other current assets	(11,771)	(3,314)
Other assets	3,374	994
Increase (decrease) in:		
Accounts payable	(25,327)	1,041
Accrued liabilities	2,495	(676)
Accrued wages and related costs	(6,543)	(2,602)
Federal and state taxes payable	1,678	(1,877)
Net cash provided by operating activities	22,306	12,275
Cash flows from investing activities:		
Purchase of property and equipment, net	(27,477)	(12,885)
Acquisitions of businesses, net of cash acquired	(18,132)	(11,471)
Net increase in short-term investments	(7,672)	(2,075)
Net increase in long-term investments	(3)	1
Unrealized gain on investments	3	133
Net cash used in investing activities	(53,281)	(26,297)
Cash flow from financing activities:		
Proceeds from long-term debt	39,362	9,884
Repayment of long-term debt	(6,622)	(1,140)
Note receivable-related parties	11,469	1,453
Issuance of common stock	5,320	9,373
Reacquisition of common stock for treasury	(13,927)	(3,431)
Net cash provided by financing activities	35,602	16,139
Net increase in cash and cash equivalents	4,627	2,117
Effect of exchange rate on cash	(50)	(89)
Cash and cash equivalents at beginning of period	24,330	13,352
Cash and cash equivalents at end of period	$28,907	$15,380

See notes to condensed consolidated financial statements.

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 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 six months ended June 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 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 unit's 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