SPECIALTY LABORATORIES INC Form 10-Q November 09, 2005

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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, DC 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, 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: 001-16217

SPECIALTY LABORATORIES, INC.

(Exact Name of Registrant as Specified in Its Charter)

California

95-2961036

(State or Other Jurisdiction

(IRS Employer Identification No.)

of Incorporation or Organization)

27027 Tourney Road

Valencia, California 91355

(Address of principal executive offices, including zip code) Registrant s Telephone Number, Including Area Code: (661) 799-6543 Not Applicable (Former name, former address and former fiscal year, if changed since last report) 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 ý No o Indicate by check mark whether registrant is an accelerated filer (as defined in Rule 12b-2 of the Exchange Act). Yes \acute{y} No o Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes O No ý As of November 2, 2005 there were approximately 23,910,329 shares of Common Stock outstanding, no par value.

Not Applicable 2

SPECIALTY LABORATORIES, INC.

FORM 10-Q QUARTERLY REPORT

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CAUTIONARY STATEMENT REGARDING FORWARD-LOOKING STATEMENTS

This Quarterly Report on Form 10-Q, including the information incorporated herein by reference, contains forward-looking statements within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934. These statements relate to expectations concerning matters that are not historical facts. Words such as projects, believes, anticipates, will, estimate, and similar words and expressions are intended to identify forward-looking statements. These forward-looking statements are based on the current expectations, assumptions, estimates and projections about Specialty Laboratories, Inc. and the clinical laboratory industry. Although we believe that such forward-looking statements are reasonable, we cannot assure you that such expectations will prove to be correct. All forward-looking statements attributable to Specialty Laboratories, Inc. are expressly qualified in their entirety by the cautionary statements of this Quarterly Report and by the discussion of Risk Factors included elsewhere in this Quarterly Report, and in other filings with the Securities and Exchange Commission made from time to time by Specialty Laboratories, Inc., including our periodic filings on Form 10-K, Form 10-Q and Form 8-K. If any of these risks actually occur, our business, financial condition, results of operations and future growth prospects could be materially adversely affected. Additional risks and uncertainties not presently known to us or that we currently believe to be immaterial also may impair our business. Any adverse effect on our business, financial condition or results of operations could result in a decline in the trading price of our common stock and the loss of all or part of your investment.

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PART I. FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

Specialty Laboratories, Inc.

Consolidated Balance Sheets

(Dollar amounts in thousands)

Current assets: Cash and cash equivalents \$ 18,283 \$ 17,040 Accounts receivable, less allowance for doubtful accounts of \$3,132 as of December 31, 2004 and \$3,541 as of September 30,2005 26,517 \$ 28,699 2004 and \$3,541 as of September 30,2005 3,500 \$ 3,500 Deferred income taxes 1,155 \$ 11,55 Inventory 3,207 \$ 3,884 Prepaid expenses and other assets 2,683 \$ 3,406 Total current assets 55,345 \$ 56,529 Property and equipment, net 32,843 \$ 32,077 Long-term investments 21,822 \$ 21,592 Deferred income taxes 4,700 Goodwill, net 5,655 \$ 5,655 Other assets 8,929 \$ 7,321 Current liabilities 3,730 Accounts payable 8,929 \$ 7,321 Income taxes payable 8,929 \$ 7,321 Income taxes payable 4,27 Income taxes payable 4,27 Income taxes payable 3,144 Income taxes payable 3,14			December 31, 2004		September 30, 2005 (Unaudited)		
Cash and cash equivalents \$ 18,283 \$ 17,040 Accounts receivable, less allowance for doubtful accounts of \$3,132 as of December 31, 2005 26,517 28,699 Receivable from sale of property 3,500 3,500 Deferred income taxes 1,155 1,155 Inventory 3,207 3,884 Prepaid expenses and other assets 2,683 3,406 Total current assets 55,345 56,529 Property and equipment, net 32,843 32,077 Long-term investments 21,822 21,592 Deferred income taxes 4,709 2 Goodwill, net 5,555 5,555 Other assets 5,768 5,434 Corrent liabilities 4,709 2 Liabilities and shareholders equity Current liabilities 387 Accounts payable 387 Facility exit costs accrual 4,297 7,088 Total current liabilities 4,297 7,088 Total current liabilities 14,447 14,409 Long-term liabilities 1,261 3,144	Assets						
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Receivable from sale of property 3,500 3,500 Deferred income taxes 1,155 1,155 Inventory 3,207 3,884 Prepaid expenses and other assets 2,683 3,406 Total current assets 55,345 56,529 Property and equipment, net 32,843 32,077 Long-term investments 21,822 21,592 Deferred income taxes 4,709 4,709 Goodwill, net 5,655 5,655 Other assets 5,768 5,434 Liabilities and shareholders equity Current liabilities 387 Accounts payable \$ 9,292 \$ 7,321 Receive taxes payable 387 Facility exit costs accrual 471 Accrued liabilities 4,297 7,088 Total current liabilities 14,447 14,409 Long-term liabilities 14,447 14,409 Composition for payable 5 15,508 Composition for payab			06.517		20,700		
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Inventory 3,207 3,884 Prepaid expenses and other assets 2,683 3,406 Total current assets 55,345 56,529 Property and equipment, net 22,822 21,892 Long-term investments 21,822 21,592 Deferred income taxes 4,709 4,709 Goodwill, net 5,655 5,655 Other assets 5,655 5,655 Other assets 9,261 8,242 Current liabilities 8,262 8,243 Accounts payable 8,9,292 8,7,321 Income taxes payable 8,9,292 8,7,321 Accrued liabilities 4,297 7,088 Total current liabilities 4,297 7,088 Total current liabilities 14,447 14,409 Long-term liabilities 2,161 3,144 Shareholders equity: 8 4,297 3,144 Common stock, no par value: 8 1,247 1,409 Long-term liabilities 1,000,000 1,000 1,000 1,0					3,500		
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Total current assets 55,345 56,529 Property and equipment, net 32,843 32,077 Long-term investments 21,822 21,592 Deferred income taxes 4,709	•				- ,		
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Deferred income taxes	Total current assets		55,345		56,529		
Deferred income taxes 4,709 Goodwill, net 5,655 5,655 Other assets 5,768 5,434 \$ 126,142 \$ 121,287 Liabilities and shareholders equity Current liabilities: Accounts payable \$ 9,292 \$ 7,321 Income taxes payable 387 * 7,211 Facility exit costs accrual 471 * 7,088 Accrued liabilities 4,297 7,088 Total current liabilities 14,447 14,409 Long-term liabilities 14,447 14,409 Long-term liabilities 2,161 3,144 Shareholders equity: Preferred stock, no par value: Authorized shares 10,000,000 18sued and outstanding shares none 10,000,000 Issued and outstanding shares 23,022,644 as of December 31, 2004 and 23,907,113 as of 105,224 111,743 Retained earnings (accumulated deficit) 4,486 (7,603) Accumulated other comprehensive loss (176) (406) Total shareholders equity 109,734 103,734 <td>Property and equipment, net</td> <td></td> <td>32,843</td> <td></td> <td>32,077</td>	Property and equipment, net		32,843		32,077		
Goodwill, net 5,655 5,655 Other assets 5,768 5,434 Liabilities and shareholders equity Urrent liabilities: Accounts payable \$ 9,292 \$ 7,321 Income taxes payable 387 Facility exit costs accrual 471 Accrued liabilities 4,297 7,088 Total current liabilities 14,447 14,409 14,449	Long-term investments		21,822		21,592		
Other assets 5,768 5,434 Liabilities and shareholders equity Current liabilities: Accounts payable \$ 9,292 \$ 7,321 Income taxes payable 387 * 7,321 Facility exit costs accrual 471 * 4,297 7,088 Accrued liabilities 4,297 7,088 7,044 * 14,447 14,409 Long-term liabilities 14,447 14,409 * 3,144 * 3,144 Shareholders equity: Preferred stock, no par value: Authorized shares 10,000,000 * 5,244 * 1,1447 * 1,449 * 1,4447 * 1,449 * 1,4447 * 1,449 * 1,4449 * 1,4447 * 1,449 * 1,44	Deferred income taxes		4,709				
\$ 126,142 \$ 121,287	Goodwill, net		5,655		5,655		
Liabilities and shareholders equity Current liabilities: \$ 9,292 \$ 7,321 Accounts payable \$ 87 Income taxes payable 387 Facility exit costs accrual 471 Accrued liabilities 4,297 7,088 Total current liabilities 14,447 14,409 Long-term liabilities 2,161 3,144 Shareholders equity: Preferred stock, no par value: 4,447 4,449 Authorized shares 10,000,000 Issued and outstanding shares none 5,224 111,743 Common stock, no par value: 4,486 7,603) Accumulated earnings (accumulated deficit) 4,486 7,603) Accumulated other comprehensive loss (176) (406) Total shareholders equity 109,534 103,734	Other assets		5,768		5,434		
Current liabilities: Current liabilities: Accounts payable \$ 9,292 \$ 7,321 Income taxes payable 387 Facility exit costs accrual 471 Accrued liabilities 4,297 7,088 Total current liabilities 14,447 14,409 Long-term liabilities 2,161 3,144 Shareholders equity: **** Preferred stock, no par value: **** Authorized shares 10,000,000 **** Issued and outstanding shares none Common stock, no par value: **** Authorized shares 100,000,000 shares **** Issued and outstanding shares 23,022,644 as of December 31, 2004 and 23,907,113 as of September 30, 2005 **** Interval of the comprehensive loss of t		\$	126,142	\$	121,287		
Accounts payable \$ 9,292 \$ 7,321 Income taxes payable 387 Facility exit costs accrual 471 Accrued liabilities 4,297 7,088 Total current liabilities 14,447 14,409 Long-term liabilities 2,161 3,144 Shareholders equity: **** ***** Preferred stock, no par value: ***** ***** Authorized shares 10,000,000 ***** ***** Issued and outstanding shares none ***** ***** Common stock, no par value: ***** ***** Authorized shares 100,000,000 shares ***** ***** Issued and outstanding shares 23,022,644 as of December 31, 2004 and 23,907,113 as of ***** ***** September 30, 2005 105,224 111,743 Retained earnings (accumulated deficit) 4,486 (7,603) Accumulated other comprehensive loss (176) (406) Total shareholders equity 109,534 103,734	Liabilities and shareholders equity						
Income taxes payable 387 Facility exit costs accrual 471 Accrued liabilities 4,297 7,088 Total current liabilities 14,447 14,409 Long-term liabilities 2,161 3,144 Shareholders equity: Preferred stock, no par value: Authorized shares 10,000,000 10,000,000 Issued and outstanding shares none 2 Common stock, no par value: 4 Authorized shares 100,000,000 shares 105,024 111,743 Issued and outstanding shares 23,022,644 as of December 31, 2004 and 23,907,113 as of 5 105,224 111,743 Retained earnings (accumulated deficit) 4,486 (7,603) Accumulated other comprehensive loss (176) (406) Total shareholders equity 109,534 103,734	Current liabilities:						
Facility exit costs accrual 471 Accrued liabilities 4,297 7,088 Total current liabilities 14,447 14,409 Long-term liabilities 2,161 3,144 Shareholders equity: Preferred stock, no par value: Authorized shares 10,000,000 Issued and outstanding shares none Common stock, no par value: Authorized shares 100,000,000 shares Issued and outstanding shares 23,022,644 as of December 31, 2004 and 23,907,113 as of September 30, 2005 105,224 111,743 Retained earnings (accumulated deficit) 4,486 (7,603) Accumulated other comprehensive loss (176) (406) Total shareholders equity 109,534 103,734	Accounts payable	\$	9,292	\$	7,321		
Accrued liabilities 4,297 7,088 Total current liabilities 14,447 14,409 Long-term liabilities 2,161 3,144 Shareholders equity: Preferred stock, no par value: Authorized shares 10,000,000 Issued and outstanding shares none Common stock, no par value: Authorized shares 100,000,000 shares Issued and outstanding shares 23,022,644 as of December 31, 2004 and 23,907,113 as of September 30, 2005 105,224 111,743 Retained earnings (accumulated deficit) 4,486 (7,603) Accumulated other comprehensive loss (176) (406) Total shareholders equity 109,534 103,734	Income taxes payable		387				
Total current liabilities 14,447 14,409 Long-term liabilities 2,161 3,144 Shareholders equity: Preferred stock, no par value: Authorized shares 10,000,000 Issued and outstanding shares none Common stock, no par value: Authorized shares 100,000,000 shares Issued and outstanding shares 23,022,644 as of December 31, 2004 and 23,907,113 as of September 30, 2005 105,224 111,743 Retained earnings (accumulated deficit) 4,486 (7,603) Accumulated other comprehensive loss (176) (406) Total shareholders equity 109,534 103,734	Facility exit costs accrual		471				
Long-term liabilities 2,161 3,144 Shareholders equity: Preferred stock, no par value: Authorized shares 10,000,000 Issued and outstanding shares none Common stock, no par value: Authorized shares 100,000,000 shares Issued and outstanding shares 23,022,644 as of December 31, 2004 and 23,907,113 as of September 30, 2005 105,224 111,743 Retained earnings (accumulated deficit) 4,486 (7,603) Accumulated other comprehensive loss (176) (406) Total shareholders equity 109,534 103,734	Accrued liabilities		4,297		7,088		
Shareholders equity: Preferred stock, no par value: Authorized shares 10,000,000 Issued and outstanding shares none Common stock, no par value: Authorized shares 100,000,000 shares Issued and outstanding shares 23,022,644 as of December 31, 2004 and 23,907,113 as of September 30, 2005 105,224 111,743 Retained earnings (accumulated deficit) 4,486 (7,603) Accumulated other comprehensive loss (176) (406) Total shareholders equity 109,534 103,734	Total current liabilities		14,447		14,409		
Preferred stock, no par value: Authorized shares 10,000,000 Issued and outstanding shares none Common stock, no par value: Authorized shares 100,000,000 shares Issued and outstanding shares 23,022,644 as of December 31, 2004 and 23,907,113 as of September 30, 2005 105,224 111,743 Retained earnings (accumulated deficit) 4,486 (7,603) Accumulated other comprehensive loss (176) (406) Total shareholders equity 109,534 103,734	Long-term liabilities		2,161		3,144		
Preferred stock, no par value: Authorized shares 10,000,000 Issued and outstanding shares none Common stock, no par value: Authorized shares 100,000,000 shares Issued and outstanding shares 23,022,644 as of December 31, 2004 and 23,907,113 as of September 30, 2005 105,224 111,743 Retained earnings (accumulated deficit) 4,486 (7,603) Accumulated other comprehensive loss (176) (406) Total shareholders equity 109,534 103,734	Shareholders equity:						
Authorized shares 10,000,000 Issued and outstanding shares none Issued and outstanding shares none Common stock, no par value: Issued and outstanding shares 100,000,000 shares Issued and outstanding shares 23,022,644 as of December 31, 2004 and 23,907,113 as of Incompare the stock of the stoc							
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Accumulated other comprehensive loss (176) (406) Total shareholders equity 109,534 103,734							
Total shareholders equity 109,534 103,734							
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		\$		\$	121,287		

See accompanying notes.

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Specialty Laboratories, Inc.

Condensed Consolidated Statements of Operations

(Unaudited)

(Dollar amounts in thousands except per share data)

	2	Three Mon Septemb	 2005	Nine Mont Septem 2004	 2005
Net revenue	\$	34,632	\$ 38,664 \$	99,153	\$ 114,342
Costs and expenses:					
Costs of services		23,919	25,143	68,775	77,745
Selling, general and administrative (exclusive of provision for doubtful accounts and stock-based					
compensation)		11,001	11,564	31,381	38,438
Provision for doubtful accounts		2,008	1,172	4,274	3,432
Stock-based compensation		1	360	147	674
Facility exit costs		496		496	556
Total costs and expenses		37,425	38,239	105,073	120,845
Operating (loss)/income		(2,793)	425	(5,920)	(6,503)
Interest income		(190)	(208)	(429)	(603)
Interest expense		101	114	101	325
(Loss)/income before income taxes		(2,704)	519	(5,592)	(6,225)
Provision (benefit) for income taxes		(501)		(501)	5,864
Net (loss)/income	\$	(2,203)	\$ 519 \$	(5,091)	\$ (12,089)
Basic (loss)/ income per common share	\$	(.10)	\$.02 \$	(.22)	\$ (.52)
Diluted (loss)/income per common share	\$	(.10)	\$.02 \$	(.22)	\$ (.52)

See accompanying notes.

Specialty Laboratories, Inc.

Condensed Consolidated Statements of Cash Flows

(Unaudited)

(Dollar amounts in thousands)

	2		Nine Months Ended September 30, 2005		
Operating activities					
Net loss	\$	(5,091)	\$	(12,089)	
Adjustments to reconcile net loss to net cash used in operating activities:					
Depreciation and amortization		4,669		4,342	
Loss on disposal of property and equipment		117		1,560	
Write-off of deferred income taxes				5,864	
Stock-based compensation		147		674	
Changes in assets and liabilities:					
Accounts receivable, net		(3,496)		(2,182)	
Inventory, prepaid expenses and other assets		190		(1,439)	
Accounts payable		(1,919)		(1,971)	
Facility exit costs accrual				(471)	
Accrued liabilities		(1,727)		2,791	
Income taxes refundable/payable		(504)		(387)	
Long-term liabilities		(429)		983	
Net cash used in operating activities		(8,043)		(2,325)	
Investing activities					
Purchases of property and equipment		(22,759)		(4,765)	
Proceeds from sale of property and equipment		43,500		2	
Purchase of investments, net		(11,012)			
Net cash provided by (used in) investing activities		9,729		(4,763)	
Financing activities					
Repayments under bank loan, net		(5,019)			
Increase in deferred financing cost		(1,685)			
Proceeds from exercise of stock options		831		5,551	
Sale of common stock to employees		333		294	
Net cash (used in) provided by financing activities		(5,540)		5,845	
Net decrease in cash and cash equivalents		(3,854)		(1,243)	
Cash and cash equivalents at beginning of period		27,563		18,283	
Cash and cash equivalents at end of period	\$	23,709	\$	17,040	
Supplemental disclosure of cash flow information:					
Receivable from sale of property	\$	3,500	\$		
Change in unrealized losses on investments	\$	(206)	\$	(230)	
Deferred income taxes					
Net change in unrealized losses	\$	(206)	\$	(230)	
Interest paid	\$	200	\$	189	

See accompanying notes.

SPECIALTY LABORATORIES, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

September 30, 2005

(Unaudited)

NOTE 1. BASIS OF PRESENTATION

Financial Statement Preparation

The accompanying consolidated financial statements of Specialty Laboratories, Inc. (the Company) have been prepared, without audit, in accordance with U.S. generally accepted accounting principles for interim financial reporting and the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, the consolidated financial statements do not include all of the information and notes required by U.S. generally accepted accounting principles for complete financial statements. In the opinion of management, such interim financial statements contain all adjustments (consisting of normal recurring items) considered necessary for a fair presentation of our financial position, results of operations and cash flows for the interim periods presented. The results of operations and cash flows for any interim period are not necessarily indicative of results that may be reported for the full fiscal year, nor predictive of results of operations, cash flow or company performance in future periods.

The accompanying consolidated financial statements should be read in conjunction with the audited c