

SPECIALTY LABORATORIES INC

Form 10-Q

November 09, 2005

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, DC 20549

FORM 10-Q

ý **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

o **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)

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California
(State or Other Jurisdiction)

95-2961036
(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 No

Indicate by check mark whether registrant is an accelerated filer (as defined in Rule 12b-2 of the Exchange Act). Yes No

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes No

As of November 2, 2005 there were approximately 23,910,329 shares of Common Stock outstanding, no par value.

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, plans, expects 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.

PART I. FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

Specialty Laboratories, Inc.

Consolidated Balance Sheets

(Dollar amounts in thousands)

	December 31, 2004	September 30, 2005 (Unaudited)
Assets		
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
Receivable from sale of property	3,500	3,500
Deferred income taxes	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	
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	
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
	\$ 126,142	\$ 121,287

See accompanying notes.

Specialty Laboratories, Inc.

Condensed Consolidated Statements of Operations

(Unaudited)

(Dollar amounts in thousands except per share data)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2004	2005	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)

	Nine Months Ended September 30,	
	2004	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