

NEIGHBORCARE INC
Form 10-Q
August 11, 2004

**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION**

Washington, DC 20549

FORM 10-Q

(Mark One)

**QUARTERLY REPORT PURSUANT TO SECTION 13 OR
15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the quarterly period ended June 30, 2004

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: 000-33217

NEIGHBORCARE, INC.

(Exact name of registrant as specified in its charter)

Pennsylvania

(State or other jurisdiction of incorporation or
organization)

06-1132947

(I.R.S. Employer Identification No.)

601 East Pratt Street, 3rd Floor

Baltimore, Maryland

(Address of principal executive offices)

21202

(Zip code)

(410) 528-7300

(Registrant's telephone number, including area code)

N/A

(Former name, former address and former fiscal year, if changed since last report)

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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 the registrant is an accelerated filer (as defined by Rule 12b-2 of the Act).

YES NO

As of August 12, 2004, 43,964,464 shares of the registrant's common stock were outstanding and 259,612 shares are to be issued in connection with the registrant's joint plan of reorganization confirmed by the Bankruptcy Court on September 20, 2001.

APPLICABLE ONLY TO ISSUERS INVOLVED IN BANKRUPTCY PROCEEDINGS DURING THE PRECEDING FIVE YEARS.

Indicate by check mark whether the registrant has filed all documents and reports required to be filed by Sections 12, 13 or 15(d) of the Securities Exchange Act of 1934 subsequent to the distribution of securities under a plan confirmed by a court.

YES NO

TABLE OF CONTENTS

CAUTIONARY STATEMENT REGARDING FORWARD-LOOKING STATEMENTS

Part I: FINANCIAL INFORMATION

Item 1. Financial Statements

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

Item 3. Quantitative and Qualitative Disclosures About Market Risk

Item 4. Controls and Procedures

Part II: OTHER INFORMATION

Item 1. Legal Proceedings

Item 2. Changes in Securities and Use of Proceeds

Item 3. Defaults Upon Senior Securities

Item 4. Submission of Matters to a Vote of Security Holders

Item 5. Other Information

Item 6. Exhibits and Reports on Form 8-K

SIGNATURES

CAUTIONARY STATEMENT REGARDING FORWARD-LOOKING STATEMENTS

As used herein, unless the context otherwise requires, NeighborCare, the Company, we, our or us refers to NeighborCare, Inc. and our subsidiaries.

Statements made in this report and in our other public filings and releases, which are not historical facts, contain forward-looking statements (as defined in the Private Securities Litigation Reform Act of 1995) that involve risks and uncertainties and are subject to change at any time. These forward-looking statements may include, but are not limited to:

certain statements in Management's Discussion and Analysis of Financial Condition and Results of Operations, and the notes to our unaudited condensed consolidated financial statements, such as our ability to meet our liquidity needs, scheduled debt and interest payments, and expected future capital expenditure requirements; the expected effects of government regulation on our business including the Medicare Prescription Drug, Improvement and Modernization Act of 2003; our ability to successfully implement our strategic objectives, including the effects of the spin-off of Genesis Healthcare Corporation (GHC) and the achievement of certain performance improvement initiatives within our institutional pharmacy segment, in order to improve current pharmacy profitability; costs associated with an unsolicited offer to acquire the Company; estimates in our significant accounting policies, including our allowance for doubtful accounts and the anticipated impact of long-lived asset impairments;

certain statements in Quantitative and Qualitative Disclosures About Market Risk; and

certain statements in Legal Proceedings regarding the effects of litigation.

The forward-looking statements involve known and unknown risks, uncertainties and other factors that are, in some cases, beyond our control. You are cautioned that these statements are not guarantees of future performance, and that actual results and trends in the future may differ materially.

Factors that could cause actual results to differ materially include, but are not limited to the following:

our ability, and the ability of our customers, to comply with Medicare or Medicaid reimbursement regulations or other applicable laws;

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changes in the reimbursement rates or methods of payment from Medicare and Medicaid, or the implementation of other measures to reduce the reimbursement for our services;

changes in pharmacy legislation and payment formulas;

the impact of federal and state regulations;

regulations;
the impact of investigations and audits relating to alleged violations of federal and/or state

changes in the acuity of patients, payor mix and payment methodologies;

our ability, and the ability of our subsidiary guarantors, to fulfill debt obligations;

the ability of GHC, as our largest customer, to operate as a separate entity;

further consolidation of managed care organizations and other third party payors;

competition in our businesses;

stock;
the impact of Omnicare, Inc.'s unsolicited tender offer to acquire all of our outstanding common

the effect of the expiration or termination of certain service and supply contracts;

insurance; an increase in insurance costs and potential liability for losses not covered by, or in excess of, our

insurance;
competition for qualified management and pharmacy professionals;

our ability to control operating costs and generate sufficient cash flow to meet operational and financial requirements;

operate; an economic downturn or changes in the laws affecting our business in those markets in which we

products; the impact of our reliance on one supplier to provide a significant portion of our pharmacy

the impact of future acquisitions on our operations;

availability of financial and other resources to us after the spin-off of GHC;

federal income tax liabilities and indemnification obligations related to the spin-off of GHC;

conflicts of interest as a result of our continuing relationship with GHC after the spin-off;

the ability to implement and achieve certain strategic objectives; and

acts of God or public authorities, war, civil unrest, terrorism, fire, floods, earthquakes and other matters beyond our control.

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Certain of these risks are described in more detail in our Annual Report on Form 10-K for the fiscal year ended September 30, 2003, as reclassified in the Company's Current Report on Form 8-K filed with the Securities and Exchange Commission on May 3, 2004.

In addition to these factors and any risks and uncertainties specifically identified in the text surrounding forward-looking statements, any statements in this report or the reports and other documents filed by us with the SEC that warn of risks or uncertainties associated with future results, events or circumstances also identify factors that could cause actual results to differ materially from those expressed in or implied by the forward-looking statements.

All subsequent written and oral forward-looking statements attributable to us or any person acting on our behalf are expressly qualified in their entirety by the cautionary statements contained or referred to in this section. We do not undertake any obligation to release publicly any revisions to these forward-looking statements to reflect events or circumstances after the date of this report or to reflect the occurrence of unanticipated events, except as may be required under applicable securities law.

PART I: FINANCIAL INFORMATION

Item 1. Financial Statements

NEIGHBORCARE, INC.

CONDENSED CONSOLIDATED BALANCE SHEETS

(in thousands)

(unaudited)

	June 30, 2004		September 30, 2003	
ASSETS				
Current assets				
Cash and cash equivalents	\$	70,144	\$	132,726
Restricted investments in marketable securities				29,320
Accounts receivable, net of allowance of \$12.8 million and \$48.6 million, respectively		225,480		366,886
Inventories		66,170		66,747
Prepaid expenses and other current assets		36,355		89,918
Total current assets		398,149		685,597
Property, plant and equipment, net		80,251		751,996
Restricted investments in marketable securities				61,271
Notes receivable and other investments				19,252
Other long-term assets		21,272		62,052
Identifiable intangible assets, net		13,852		20,866
Goodwill		356,776		337,695
Total assets	\$	870,300	\$	1,938,729
LIABILITIES and SHAREHOLDERS' EQUITY				
Current liabilities				
Current portion of long-term debt	\$	4,275	\$	20,135
Accounts payable and accrued expenses		106,430		214,689
Income taxes payable				4,116
Total current liabilities		110,705		238,940
Long-term debt		258,921		591,484
Other long-term liabilities		31,742		134,952
Total liabilities		401,368		965,376
Minority interest		9,596		10,359
Redeemable preferred stock				46,831
SHAREHOLDERS' EQUITY		459,336		916,163
Total liabilities and shareholders' equity	\$	870,300	\$	1,938,729

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See accompanying Notes to Unaudited Condensed Consolidated Financial Statements.

NEIGHBORCARE, INC.

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

AND COMPREHENSIVE INCOME (LOSS)

(unaudited, in thousands except per share amounts)

	Three Months Ended June 30,	
	2004	2003
Net revenues	\$ 371,094	\$ 318,886
Cost of revenues	294,061	246,360
Gross profit	77,033	72,526
Selling, general and administrative	48,807	54,600
Depreciation and amortization	7,107	7,785
Strategic planning, severance and other operating items	792	11,474
Takeover defense expenses	16,751	
Operating income (loss)	3,576	(1,333)
Interest expense, net	4,492	3,419
Other expense	1,137	1,151
Loss before income tax provision (benefit)	(2,053)	(5,903)
Income tax provision (benefit)	4,720	(11,851)
Income (loss) from continuing operations	(6,773)	5,948
Income from discontinued operations, net of taxes		1,184
Net income (loss)	(6,773)	7,132
Preferred stock dividends		660
Net income (loss) available to common shareholders	\$ (6,773)	\$ 6,472
Other comprehensive income:		
Unrealized gain on marketable securities		240
Fair value change of derivative instruments, net		(1,869)
Comprehensive income (loss)	\$ (6,773)	\$ 4,843
Per common share data		
Basic		
Income (loss) from continuing operations	\$ (0.16)	\$ 0.13
Income from discontinued operations	\$	\$ 0.03
Net income (loss) available to common shareholders	\$ (0.16)	\$ 0.16
Weighted average shares outstanding	43,682	40,097
Diluted		
Income (loss) from continuing operations	\$ (0.16)	\$ 0.13
Income from discontinued operations	\$	\$ 0.03
Net income (loss) available to common shareholders	\$ (0.16)	\$ 0.16
Weighted average shares outstanding	43,682	40,097

See accompanying Notes to Unaudited Condensed Consolidated Financial Statements.

NEIGHBORCARE, INC.

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

AND COMPREHENSIVE INCOME (LOSS)

(unaudited, in thousands except per share amounts)

	Nine Months Ended June 30,	
	2004	2003
Net revenues	\$ 1,066,134	\$ 920,924
Cost of revenues	838,317	710,817
Gross profit	227,817	210,107
Selling, general and administrative	145,286	163,507
Depreciation and amortization	19,263	23,048
Strategic planning, severance and other operating items	43,494	9,603
Takeover defense expenses	16,751	
Operating income	3,023	13,949
Interest expense, net	14,699	10,636
Other expense	3,454	3,281
Income (loss) before income tax benefit	(15,130)	32
Income tax benefit	(2,423)	(4,404)
Income (loss) from continuing operations	(12,707)	4,436
Income from discontinued operations, net of taxes	8,435	20,646
Net income (loss)	(4,272)	25,082
Preferred stock dividends		2,009
Net income (loss) available to common shareholders	\$ (4,272)	\$ 23,073
Other comprehensive income (loss):		
Unrealized gain on marketable securities		211
Fair value change of derivative instruments, net		(3,430)
Comprehensive income (loss)	\$ (4,272)	\$ 19,854
Per common share data		
Basic		
Income (loss) from continuing operations	\$ (0.30)	\$ 0.06
Income from discontinued operations	\$ 0.20	\$ 0.50
Net income (loss) available to common shareholders	\$ (0.10)	\$ 0.56
Weighted average shares outstanding	42,565	41,135
Diluted		
Income (loss) from continuing operations	\$ (0.30)	\$ 0.06
Income from discontinued operations	\$ 0.20	\$ 0.50
Net income (loss) available to common shareholders	\$ (0.10)	\$ 0.56
Weighted average shares outstanding	42,565	41,135

See accompanying Notes to Unaudited Condensed Consolidated Financial Statements.

NEIGHBORCARE, INC

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(unaudited, in thousands)

	Nine Months Ended	
	June 30,	
	2004	2003
Cash flows from operating activities		
Net income (loss) available to common shareholders	\$ (4,271)	\$ 23,073
Net charges included in operations not requiring funds	40,408	