

OPTION CARE INC/DE  
Form 10-Q  
November 09, 2005

**UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION**

WASHINGTON, D.C. 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 0-19878

**OPTION CARE, INC.**

(Exact name of registrant as specified in its charter)

**Delaware**

(State or other jurisdiction of incorporation or  
organization)

**36-3791193**

(IRS Employer Identification No.)

**485 Half Day Road, Suite 300**

**Buffalo Grove, Illinois**

(Address of principal executive office)

**60089**

(zip code)

**(847) 465-2100**

(Registrant's telephone number, including area code)

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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 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

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date.

Class	Issued and Outstanding as of November 1, 2005
Common Stock - \$0.01 par value	32,765,262

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## PART I. FINANCIAL INFORMATION

## Item 1. Financial Statements

## Option Care, Inc. and Subsidiaries

## Condensed Consolidated Balance Sheets

(in thousands, except per share amounts)

	September 30, 2005 (Unaudited)	December 31, 2004 (Note 1)
<b>Assets</b>		
Current assets:		
Cash and cash equivalents	\$ 10,107	\$ 19,816
Short-term investments	53,644	75,370
Accounts receivable, net	73,744	69,930
Inventory	11,917	13,191
Deferred income tax benefit	2,894	3,098
Other current assets	8,995	5,459
<b>Total current assets</b>	<b>161,301</b>	<b>186,864</b>
Equipment and other fixed assets, net	18,677	13,709
Goodwill, net	106,507	65,356
Other assets	5,401	3,918
<b>Total assets</b>	<b>\$ 291,886</b>	<b>\$ 269,847</b>
<b>Liabilities and stockholders' equity</b>		
Current liabilities:		
Trade accounts payable	\$ 18,204	\$ 21,819
Current portion of long-term debt	47	19
Other current liabilities	7,015	6,573
<b>Total current liabilities</b>	<b>25,266</b>	<b>28,411</b>
Long-term debt, less current portion	86,319	86,306
Deferred income tax liability	8,645	7,468
Other liabilities	600	551
Minority interest	634	548
<b>Total liabilities</b>	<b>121,464</b>	<b>123,284</b>
<b>Stockholders' equity:</b>		
Common stock, \$.01 par value per share, 60,000 shares authorized, 32,708 and 32,183 shares issued and outstanding at September 30, 2005 and December 31, 2004, respectively	327	322
Common stock to be issued, 228 and 171 shares at September 30, 2005 and December 31, 2004, respectively	1,831	1,085
Additional paid-in capital	112,326	108,062
Retained earnings	55,938	41,612

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Less treasury stock, at cost, 474 shares at December 31, 2004			(4,518)
Total stockholders' equity		170,422	146,563
Total liabilities and stockholders' equity	\$	291,886	\$ 269,847

*See notes to condensed consolidated financial statements*

## Option Care, Inc. and Subsidiaries

## Condensed Consolidated Statements of Income

(Unaudited)

(in thousands, except per share amounts)

	Three months ended September 30,		Nine months ended September 30,	
	2005	2004	2005	2004
<b>Revenue:</b>				
Specialty pharmacy services	\$ 67,239	\$ 57,752	\$ 209,736	\$ 181,091
Infusion and related healthcare services	51,178	39,405	141,716	111,801
Other	3,476	2,794	10,687	8,859
<b>Total revenue</b>	<b>121,893</b>	<b>99,951</b>	<b>362,139</b>	<b>301,751</b>
<b>Cost of revenue:</b>				
Cost of goods sold	71,680	59,153	219,122	181,958
Cost of services provided	13,688	10,870	38,269	32,130
<b>Total cost of revenue</b>	<b>85,368</b>	<b>70,023</b>	<b>257,391</b>	<b>214,088</b>
<b>Gross profit</b>	<b>36,525</b>	<b>29,928</b>	<b>104,748</b>	<b>87,663</b>
<b>Selling, general and administrative expenses</b>				
Selling, general and administrative expenses	24,689	19,787	69,739	58,236
Provision for doubtful accounts	2,248	1,601	6,727	4,622
Depreciation and amortization	915	724	2,668	1,974
<b>Total operating expenses</b>	<b>27,852</b>	<b>22,112</b>	<b>79,134</b>	<b>64,832</b>
<b>Operating income</b>	<b>8,673</b>	<b>7,816</b>	<b>25,614</b>	<b>22,831</b>
Interest income, net	108	54	258	89
Other income (expense), net	(73)	(154)	(20)	(233)
<b>Income before income taxes</b>	<b>8,708</b>	<b>7,716</b>	<b>25,852</b>	<b>22,687</b>
Income tax provision	3,348	3,086	9,798	9,071
<b>Net income</b>	<b>\$ 5,360</b>	<b>\$ 4,630</b>	<b>\$ 16,054</b>	<b>\$ 13,616</b>
<b>Net income per common share:</b>				
Basic	\$ 0.16	\$ 0.14	\$ 0.49	\$ 0.43
Diluted	\$ 0.16	\$ 0.14	\$ 0.47	\$ 0.42
<b>Shares used in computing net income per share:</b>				
Basic	32,771	32,187	32,496	31,920
Diluted	34,566	33,075	34,163	32,667
<b>Cash dividends per share</b>	<b>\$ 0.0200</b>	<b>\$ 0.0133</b>	<b>\$ 0.0533</b>	<b>\$ 0.0267</b>

See notes to condensed consolidated financial statements



## Option Care, Inc. and Subsidiaries

## Condensed Consolidated Statements of Cash Flows

(Unaudited)

(in thousands)

	Nine Months Ended September 30,	
	2005	2004
Cash flows from operating activities:		
Net income	\$ 16,054	\$ 13,616
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	4,607	3,542
Provision for doubtful accounts	6,727	4,622
Deferred income taxes	1,244	1,719
Income tax benefit from exercise of stock options	1,973	1,318
Changes in assets and liabilities, net of acquisitions:		
Accounts and notes receivable	(8,450)	(3,746)
Inventory	2,974	1,860
Accounts payable	(4,971)	(2,414)
Income taxes receivable/payable	(273)	3,243
Change in other assets and liabilities	(1,995)	(3,640)
Net cash provided by operating activities	17,890	20,120
Cash flows from investing activities:		
Purchases of short-term investments	(170,840)	
Sales of short-term investments	192,566	
Purchases of equipment and other, net	(7,094)	(4,147)
Payments for acquisitions, net of cash acquired	(46,367)	(3,130)
Net cash used in investing activities	(31,735)	(7,277)
Cash flows from financing activities:		
Increase in financing costs	(166)	
Payments on capital leases and other debt	(30)	(393)
Proceeds from issuance of stock	6,060	3,088
Payments of cash dividends to common shareholders	(1,728)	(855)
Payments for purchase of treasury stock		(944)
Net cash provided by financing activities	4,136	896
Net increase (decrease) in cash and cash equivalents	(9,709)	13,739
Cash and cash equivalents, beginning of period	19,816	3,961
Cash and cash equivalents, end of period	\$ 10,107	\$ 17,700

See notes to condensed consolidated financial statements





**Option Care, Inc. and Subsidiaries**

**Notes to Condensed Consolidated Financial Statements**

**September 30, 2005**

(Unaudited)

**1. Basis of Presentation**

The accompanying unaudited condensed consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States for interim financial information and with the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by accounting principles generally accepted in the United States for complete financial statements. In the opinion of management, all adjustments (consisting of normal recurring accruals) considered necessary for a fair presentation have been included. Operating results for the three and nine months ended September 30, 2005 are not necessarily indicative of the results that may be expected for the year ending December 31, 2005.

The balance sheet at December 31, 2004 has been derived from the audited financial statements at that date but does not include all of the information and footnotes required by accounting principles generally accepted in the United States for complete financial statements.

We completed a 3-for-2 split of our common stock on March 31, 2005 for shareholders of record as of March 17, 2005. All share and per share amounts in this Quarterly Report on Form 10-Q have been adjusted to reflect the pro forma effects of this stock split.

For further information, refer to the consolidated financial statements and footnotes thereto included in Option Care's Annual Report on Form 10-K for the year ended December 31, 2004.

**2. Long-Term Debt**

On November 2, 2004, we completed a \$75 million offering of 2.25% convertible senior notes due 2024 in a private placement to qualified institutional buyers. The initial purchasers were granted the option to purchase up to an additional \$11.3 million principal amount of notes and exercised this option in full on November 9, 2004. We filed a Registration Statement on Form S-3 with the Securities and Exchange Commission on January 24, 2005 registering the notes and the common stock issuable upon conversion of the notes for resale to the public.

The convertible notes are senior unsecured obligations of Option Care and will be convertible into cash and, if applicable, shares of our common stock based on an initial conversion rate of 55.5278 shares per \$1,000 principal amount of notes, which represents an initial conversion price of \$18.01 per share, subject to adjustment in certain circumstances. The conversion rate and conversion price were subsequently adjusted to 83.3763 and \$11.99 per share, respectively, pursuant to the terms of the notes as a result of our 3-for-2 common stock split on March 31, 2005 and \$0.02 per share dividends paid on June 10, 2005 and September 2, 2005. Note holders may convert their notes into cash and, if applicable,

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shares of our common stock prior to the stated maturity only under the following circumstances: (1) during any calendar quarter beginning after December 31, 2004, if the closing sale price of our common stock for each of 20 or more consecutive trading days in a period of 30 consecutive trading days ending on the last trading day of the immediately preceding calendar quarter exceeds 120% of the conversion price in effect on the last trading day of the immediately preceding calendar quarter; (2) during the five business day period after any five consecutive trading day period in which the average trading price per \$1,000 principal amount of notes was equal to or less than 97% of the average conversion value of the notes during the note measurement period; (3) upon the occurrence of specified corporate transactions; or (4) if we have called the notes for redemption. As of September 30, 2005, no triggering event has occurred that would result in the potential conversion of our notes. In general, upon conversion, the holder of each note will receive the conversion value of the note payable in cash, up to the principal amount of the note, and common stock for the notes' conversion value in excess of such principal amount (plus an additional cash payout in lieu of fractional shares). If the notes are surrendered for conversion in connection with certain fundamental changes that occur before November 1, 2009, holders will in certain circumstances also receive a make-whole premium in addition to the cash and shares that holders are otherwise entitled to receive upon conversion. The convertible senior notes will mature on November 1, 2024 and will not be redeemable by us prior to November 1, 2009. Holders of the convertible notes may require us to repurchase all or a portion of the convertible notes for cash on November 1, 2009, 2014 and 2019. Interest will be paid at 2.25% per annum, payable semi-annually in arrears on May 1 and November 1 of each year to the holders of record at the close of business on the preceding April 15 and October 15, respectively. The notes are senior unsecured obligations and will rank equally with all of our existing and future senior unsecured indebtedness.

### 3. Earnings Per Share Data

The following table sets forth the computation of basic and diluted earnings per share for the periods indicated. All share and per share amounts reflect the 3-for-2 stock split effective March 31, 2005 for shareholders of record on March 17, 2005. (in thousands, except per share amounts):

	Three months ended September 30,		Nine months ended September 30,	
	2005	2004	2005	2004
<b>Basic:</b>				
Net income	\$ 5,360	\$ 4,630	\$ 16,054	\$ 13,616
Average shares outstanding	32,771	32,187	32,496	31,920
Basic earnings per share	\$ 0.16	\$ 0.14	\$ 0.49	\$ 0.43
<b>Diluted:</b>				
Net income	\$ 5,360	\$ 4,630	\$ 16,054	\$ 13,616
Average shares outstanding	32,771	32,187	32,496	31,920
Net effect of dilutive stock options Based on the treasury stock method	960	888	1,002	747
Net dilutive effect of contingently convertible debt	835		665	
Total diluted shares	34,566	33,075	34,163	32,667
Diluted earnings per share	\$ 0.16	\$ 0.14	\$ 0.47	\$ 0.42

### 4. Operating Segments

We have one identifiable business segment, with three service lines: specialty pharmacy services; infusion and related healthcare services; and other.

**Specialty pharmacy services** involve the distribution of injectible and infused pharmaceuticals to treat a wide range of chronic health conditions. The pharmaceuticals can be directly distributed to the patient's home or to their physician's office for in-office administration. These pharmaceuticals may require refrigeration during shipping as well as special handling to prevent potency degradation. Patients receiving treatment usually require special counseling and education regarding their condition and treatment program.

**Infusion and related healthcare services** primarily involve the intravenous administration of medications at the patient's home or other non-hospital sites such as one of our infusion suites. Infusion pharmacy services treat a wide range of acute and chronic health conditions, including infections, dehydration, cancer, pain and nutritional deficiencies. All of our company-owned pharmacies provide infusion pharmacy services. Some of these pharmacies

also provide related healthcare services, such as home health nursing, home hospice services, respiratory therapy services and durable medical equipment.

**Other revenue** consists of royalties and other fees generated from our franchised pharmacy network, software licensing and support revenue generated by our subsidiary, Management by Information, Inc. ( MBI ) and other miscellaneous revenue.

## 5. Significant Customers and Concentration of Credit Risk

We generate the majority of our revenue from managed care contracts and other agreements with commercial third party payors by providing health care services to their members. Our principal managed care contract is with Blue Cross and Blue Shield of Florida, to whose members we provide infusion pharmacy services and specialty pharmacy services. The contract may be terminated by either party on 90 days notice and, unless terminated, renews annually each September for an additional one-year term. We also generate revenue from government healthcare programs such as Medicare and Medicaid.

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The following table sets forth information regarding revenue and accounts receivable related to our most significant payors as of the dates and for the periods presented:

	Revenue		Revenue		Accounts Receivable	
	Three months ended September 30, 2005	2004	Nine months ended September 30, 2005	2004	September 30, 2005	December 31, 2004
Blue Cross and Blue Shield of Florida	14					