

SYNBIOTICS CORP
Form 10-Q
November 06, 2001

U.S. SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

QUARTERLY REPORT UNDER SECTION 13 OR 15(d)
OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended September 30, 2001

OR

TRANSITION REPORT UNDER SECTION 13 OR 15(d)
OF THE SECURITIES EXCHANGE ACT OF 1934

Commission file number 0-11303

SYNBIOTICS CORPORATION

(Exact name of registrant as specified in its charter)

California
(State or other jurisdiction of
incorporation or organization)

95-3737816
(I.R.S. Employer
Identification No.)

11011 Via Frontera
San Diego, California
(Address of principal executive offices)

92127
(Zip Code)

Registrant's telephone number, including area code: (858) 451-3771

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

As of November 2, 2001, 9,610,979 shares of Common Stock were outstanding.

SYNBIOTICS CORPORATION

INDEX

	Page
Part I	
Item 1.	
Financial Statements:	
Condensed Consolidated Balance Sheet	
September 30, 2001 and December 31, 2000	1

Edgar Filing: SYNBIOTICS CORP - Form 10-Q

	Condensed Consolidated Statement of Operations and Comprehensive Income (Loss) Three and nine months ended September 30, 2001 and 2000	2
	Condensed Consolidated Statement of Cash Flows Nine months ended September 30, 2001 and 2000	3
	Notes to Condensed Consolidated Financial Statements	4
Item 2.	Management's Discussion and Analysis of Financial Condition and Results of Operations	8
Item 3.	Quantitative and Qualitative Disclosures About Market Risk	16
Part II	Item 1. Legal Proceedings	17
	Item 2. Changes in Securities	17
	Item 3. Defaults Upon Senior Securities	17
	Item 4. Submission of Matters to a Vote of Security Holders	17
	Item 5. Other Information	17
	Item 6. Exhibits and Reports on Form 8-K	17

PART I FINANCIAL INFORMATION

Item 1. Financial Statements

SYNBIOTICS CORPORATION CONDENSED CONSOLIDATED BALANCE SHEET

	September 30, 2001	December 31, 2000
	(unaudited)	(audited)
ASSETS		
Current assets:		
Cash and equivalents	\$ 1,133,000	\$ 951,000
Accounts receivable	2,966,000	3,490,000
Inventories	5,338,000	5,273,000
Other current assets	1,009,000	911,000
	10,446,000	10,625,000
Property and equipment, net	1,789,000	1,983,000
Goodwill	12,394,000	13,161,000
Deferred tax assets	117,000	122,000
Deferred debt issuance costs	13,000	33,000
Investment in W3 held for sale		2,713,000
Other assets	2,996,000	3,565,000
	\$27,755,000	\$32,202,000

LIABILITIES AND SHAREHOLDERS EQUITY

Edgar Filing: SYNBIOTICS CORP - Form 10-Q

Current Liabilities:

Accounts payable and accrued expenses	\$ 5,450,000	\$ 6,296,000
Current portion of long-term debt	7,532,000	8,432,000
Deferred revenue		242,000
Other current liabilities	300,000	1,000,000
	<u>13,282,000</u>	<u>15,970,000</u>
Long-term debt		2,813,000
Deferred revenue		727,000
Other liabilities	1,769,000	1,668,000
	<u>1,769,000</u>	<u>5,208,000</u>
Mandatorily redeemable common stock	3,107,000	3,027,000
Non-mandatorily redeemable common stock and other shareholders' equity:		
Common stock, no par value, 24,800,000 shares authorized, 8,990,000 and 8,752,000 shares issued and outstanding at September 30, 2001 and December 31, 2000	40,286,000	40,164,000
Common stock warrants	1,035,000	1,035,000
Accumulated other comprehensive loss	(1,251,000)	(1,085,000)
Accumulated deficit	(30,473,000)	(32,117,000)
Total non-mandatorily redeemable common stock and other shareholders' equity	<u>9,597,000</u>	<u>7,997,000</u>
	<u>\$27,755,000</u>	<u>\$32,202,000</u>

See accompanying notes to condensed consolidated financial statements.

1

SYNBIOTICS CORPORATION

**CONDENSED CONSOLIDATED STATEMENT OF OPERATIONS AND
COMPREHENSIVE (LOSS) INCOME (UNAUDITED)**

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2001	2000	2001	2000
Revenues:				
Net sales	\$6,003,000	\$7,391,000	\$21,160,000	\$25,123,000
License fees		61,000	969,000	182,000
Royalties	1,000	3,000	5,000	6,000
	<u>6,004,000</u>	<u>7,455,000</u>	<u>22,134,000</u>	<u>25,311,000</u>

Edgar Filing: SYNBIOTICS CORP - Form 10-Q

Operating expenses:				
Cost of sales	2,504,000	3,781,000	8,964,000	12,443,000
Research and development	484,000	534,000	1,389,000	1,618,000
Selling and marketing	1,546,000	2,491,000	4,602,000	7,579,000
General and administrative	1,504,000	1,442,000	4,696,000	5,133,000
	<u>6,038,000</u>	<u>8,248,000</u>	<u>19,651,000</u>	<u>26,773,000</u>
(Loss) income from operations	(34,000)	(793,000)	2,483,000	(1,462,000)
Other income (expense):				
Interest, net	(217,000)	(308,000)	(744,000)	(913,000)
(Loss) income before income taxes	(251,000)	(1,101,000)	1,739,000	(2,375,000)
(Benefit from) provision for income taxes	(35,000)	(293,000)	15,000	58,000
(Loss) income before extraordinary item	(216,000)	(808,000)	1,724,000	(2,433,000)
Early extinguishment of debt, net of tax				(583,000)
Net (loss) income	(216,000)	(808,000)	1,724,000	(3,016,000)
Translation adjustment	405,000	(756,000)	(166,000)	(550,000)
Comprehensive (loss) income	<u>\$ 189,000</u>	<u>\$(1,564,000)</u>	<u>\$ 1,558,000</u>	<u>\$ (3,566,000)</u>
Basic and diluted (loss) income per share:				
(Loss) income from continuing operations	\$ (0.02)	\$ (0.09)	\$ 0.17	\$ (0.27)
Early extinguishment of debt, net of tax				(0.06)
Net (loss) income	<u>\$ (0.02)</u>	<u>\$ (0.09)</u>	<u>\$ 0.17</u>	<u>\$ (0.33)</u>

See accompanying notes to condensed consolidated financial statements.

2

SYNBIOTICS CORPORATION

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS (UNAUDITED)

	Nine Months Ended September 30,	
	2001	2000
Cash flows from operating activities:		
Net income (loss)	\$1,724,000	\$ (3,016,000)
Adjustments to reconcile net income (loss) to net cash provided by (used for) operating activities:		
Depreciation and amortization	1,716,000	2,083,000
Early extinguishment of debt		937,000
Changes in assets and liabilities (net of acquisitions and dispositions):		

Edgar Filing: SYNBIOTICS CORP - Form 10-Q

Accounts receivable	444,000	672,000
Inventories	(103,000)	(1,588,000)
Deferred taxes	(8,000)	(311,000)
Other assets	(150,000)	(302,000)
Accounts payable and accrued expenses	(753,000)	904,000
Deferred revenue	(969,000)	(161,000)
Other liabilities	(597,000)	89,000
	<u> </u>	<u> </u>
Net cash provided by (used for) operating activities	1,304,000	(693,000)
	<u> </u>	<u> </u>
Cash flows from investing activities:		
Acquisition of property and equipment	(219,000)	(460,000)
Proceeds from sale of investment in W3 held for sale	9,000	
Proceeds from sale of securities available for sale		2,826,000
Acquisition of KPL poultry product line		(3,554,000)
	<u> </u>	<u> </u>
Net cash used for investing activities	(210,000)	(1,188,000)
	<u> </u>	<u> </u>
Cash flows from financing activities:		
Proceeds from issuance of long-term debt		10,000,000
Payments of long-term debt	(900,000)	(8,250,000)
Proceeds from issuance of common stock, net		136,000
	<u> </u>	<u> </u>
Net cash (used for) provided by financing activities	(900,000)	1,886,000
	<u> </u>	<u> </u>
Net increase in cash and equivalents	194,000	5,000
Effect of exchange rates on cash	(12,000)	(550,000)
Cash and equivalents beginning of period	951,000	2,260,000
	<u> </u>	<u> </u>
Cash and equivalents end of period	\$1,133,000	\$ 1,715,000
	<u> </u>	<u> </u>

See accompanying notes to condensed consolidated financial statements.

SYNBIOTICS CORPORATION

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

Note 1 Interim Financial Statements:

The accompanying condensed consolidated balance sheet as of September 30, 2001 and the condensed consolidated statement of operations and comprehensive (loss) income for the three and nine months ended September 30, 2001 and 2000 and the condensed consolidated statement of cash flows for the nine months ended September 30, 2001 and 2000 have been prepared by Synbiotics Corporation (the Company) and have not been audited. The condensed consolidated financial statements of the Company include the accounts of its wholly-owned subsidiary Synbiotics Europe SAS. All significant intercompany transactions and accounts have been eliminated in consolidation. These financial statements, in the opinion of management, include all adjustments (consisting only of normal recurring accruals) necessary for a fair

Edgar Filing: SYNBIOTICS CORP - Form 10-Q

presentation of the financial position, results of operations and cash flows for all periods presented. The financial statements should be read in conjunction with the financial statements and notes thereto included in the Company's Annual Report on Form 10-K filed for the year ended December 31, 2000. Interim operating results are not necessarily indicative of operating results for the full year.

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Certain prior period amounts have been reclassified to conform to the current period presentation.

Note 2 Liquidity:

The Company believes that its present capital resources, which included negative working capital of \$2,836,000 at September 30, 2001, are insufficient to meet its working capital needs and service its debt for the next twelve months. Additionally, pursuant to the Company's debt agreement with Imperial Bank, it is required to maintain certain financial ratios and levels of tangible net worth and it is also restricted in its ability to make capital expenditures or investments without Imperial Bank's consent. As of September 30, 2001, the Company had outstanding principal balances on its Imperial Bank debt of \$7,532,000. As of September 30, 2001, the Company was not in compliance with some of its financial covenants, and it had not obtained a waiver from Imperial Bank. In any event, the debt matures on March 29, 2002. The Company does not have enough capital resources to repay the debt.

Note 3 Assignment of Distribution Agreement:

On June 1, 2001, the Company assigned its feline leukemia virus vaccine distribution agreement with Intervet, Inc. to Merial Limited, Merial S.A.S. and Merial, Inc. (collectively "Merial"). In exchange, Merial waived its right to sell to the Company 621,000 shares of the Company's common stock at \$5.00 per share (the "Put Right"). Merial also agreed to allow the Company to pay accrued royalties totalling \$613,000 under a separate agreement (\$175,000 of which was due in May 2001 and the remainder was due in October 2001) in ten monthly installments of \$61,300 which began in July 2001. If the Company fails to meet its royalty payment obligation, the Put Right will revert to Merial. When the final royalty payment has been made in April 2002, and the Put Right is extinguished, the Company will reclassify the mandatorily redeemable common stock to equity.

In March 1999, the Company amended its U.S. feline leukemia virus vaccine supply agreement with Merial, and the Company received \$1,453,000 which it was recognizing as license fee revenue ratably over the remaining life of the supply agreement. As the Company has assigned its distribution agreement with Intervet, Inc. to Merial, the Company has no further contractual obligations under the supply agreement and recognized, in June 2001, the remaining \$868,000 of deferred license fee revenue.

4

Note 4 Inventories:

Inventories consist of the following:

	September 30, 2001	December 31, 2000
	(unaudited)	(audited)
Inventories:		
Raw materials	\$2,335,000	\$2,293,000
Work in process	398,000	409,000
Finished goods	2,605,000	2,571,000
	<u>\$5,338,000</u>	<u>\$5,273,000</u>

Note 5 (Loss) Income per Share:

The following is a reconciliation of net (loss) income and share amounts used in the computations of (loss) income per share:

Edgar Filing: SYNBIOTICS CORP - Form 10-Q

**Three Months Ended
September 30,**

**Nine Months Ended
September 30,**
