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INTEGRAMED AMERICA INC
Form 10-Q
May 14, 2001

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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 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 March 31, 2001

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 No. 0-20260
Commission File No. 1-11440

INTEGRAMED AMERICA, INC.
(Exact name of Registrant as specified in its charter)

Delaware 06-1150326
(State or other jurisdiction of (I.R.S. employer identification no.)
incorporation or organization)

One Manhattanville Road 10577
Purchase, New York (Zip code)
(Address of principal executive offices)

(914) 253-8000
(Registrant's telephone number, including area code)

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

The aggregate number of shares of the Registrant's Common Stock, \$.01 par value, outstanding on April 16, 2001 was 2,993,486.

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INTEGRAMED AMERICA, INC.
FORM 10-Q

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PART I -- FINANCIAL INFORMATION

Item 1. Consolidated Financial Statements

INTEGRAMED AMERICA, INC.
CONSOLIDATED BALANCE SHEETS
(all dollars in thousands, except per share amounts)

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INTEGRAMED AMERICA, INC.
CONSOLIDATED STATEMENTS OF OPERATIONS
(all amounts in thousands, except per share amounts)

| | For the three-month period ended March 31, | |
|--|--|-----------|
| | 2001 | 2000 |
| | (unaudited) | |
| Revenues, net | \$ 16,491 | \$ 13,608 |
| Cost of services incurred: | | |
| Employee compensation and related expenses | 6,200 | 5,097 |
| Direct materials | 3,818 | 2,481 |
| Occupancy costs | 999 | 812 |
| Depreciation | 274 | 334 |
| Other expenses | 2,853 | 2,914 |
| Total cost of services incurred | 14,144 | 11,638 |
| Contribution | 2,347 | 1,970 |
| General and administrative expenses | 1,689 | 1,349 |
| Amortization of intangible assets | 216 | 220 |
| Interest income | (54) | (50) |
| Interest expense | 86 | 116 |
| Total other expenses | 1,937 | 1,635 |
| Income before income taxes | 410 | 335 |
| Provision for income taxes | 51 | 45 |
| Net income | \$ 359 | \$ 290 |
| Less: Dividends paid and/or accrued on Preferred Stock | (33) | (33) |
| Net income applicable to Common Stock | \$ 326 | \$ 257 |
| Basic and diluted earnings per share of Common Stock . | \$ 0.10 | \$ 0.06 |
| Weighted average shares - basic | 3,223 | 4,376 |
| Weighted average shares - diluted | 3,231 | 4,446 |

See accompanying notes to the consolidated financial statements.

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INTEGRAMED AMERICA, INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS
(all amounts in thousands)

| | For three-mon ended M ----- 2001 ----- (unaud |
|---|---|
| Cash flows from operating activities: | |
| Net income | \$ 359 |
| Adjustments to reconcile net income to net cash provided by operating activities: | |
| Depreciation and amortization | 596 |
| Change in assets and liabilities -- Decrease (increase) in assets: | |
| Patient accounts receivable | (696) |
| Business Services fees receivable | 237 |
| Other current assets | 114 |
| Other assets | -- |
| (Decrease) increase in liabilities: | |
| Accounts payable | 34 |
| Accrued liabilities | (813) |
| Due to Medical Practices | (21) |
| Patient deposits | 1,470 |
| Net cash provided by operating activities | 1,280 |
| Cash flows used in investing activities: | |
| Purchase of fixed assets and leasehold improvements | (777) |
| Payment for exclusive business service rights | (203) |
| Proceeds from sale of fixed assets and leasehold improvements | -- |
| Net cash used in investing activities | (980) |
| Cash flows used in financing activities: | |
| Principal repayments on debt | (250) |
| Principal repayments under capital lease obligations | (32) |
| Repurchase of Common Stock | (2,029) |
| Proceeds from exercise of Common Stock warrants | 3 |
| Dividends paid on Convertible Preferred Stock | (33) |
| Net cash used in financing activities | (2,341) |
| Net increase (decrease) in cash | \$(2,041) |
| Cash at beginning of period | 5,306 |
| Cash at end of period | \$ 3,265 |

See accompanying notes to the consolidated financial statements.

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INTEGRAMED AMERICA, INC.
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
 (unaudited)

NOTE 1 -- INTERIM RESULTS:

The accompanying unaudited consolidated financial statements have been prepared in accordance with the instructions to Form 10-Q and, accordingly, do not include all of the information and footnotes required by generally accepted accounting principles for complete financial statements. In the opinion of management, the accompanying unaudited interim financial statements contain all adjustments (consisting only of normal recurring accruals) necessary to present fairly the financial position at March 31, 2001, and the results of operations and cash flows for the interim period presented. Operating results for the interim period are not necessarily indicative of results that may be expected for the year ending December 31, 2001. These 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 for the year ended December 31, 2000.

NOTE 2 -- EARNINGS PER SHARE:

The reconciliation of the numerators and denominators of the basic and diluted EPS from continuing operations computations for the three-month periods ended March 31, 2001 and 2000 is as follows (000's omitted, except for per share amounts):

| | 2001 | | | 2000 | |
|---|-----------------------|-------------------------|---------------------|-----------------------|-------------------------|
| | Income (Numerator) | Shares (Denominator) | Per-Share Amount | Income (Numerator) | Shares (Denominator) |
| Net income..... | \$359 | | | \$290 | |
| Less: Preferred stock dividends paid or accrued..... | (33) | | | (33) | |
| | ---- | | | ---- | |
| Basic EPS | | | | | |
| Net income available to Common stockholders..... | \$326 | 3,223 | \$0.10 | \$257 | 4,376 |
| | ==== | ===== | ===== | ==== | ===== |
| Effect of Dilutive Securities | | | | | |
| Options..... | -- | 8 | | -- | 11 |
| Warrants..... | -- | -- | | -- | 59 |
| | ---- | ----- | | ---- | ----- |
| Diluted EPS | | | | | |
| Net income available to Common stockholders..... | \$326 | 3,231 | \$0.10 | \$257 | 4,446 |
| | ==== | ===== | ===== | ==== | ===== |

For the three-month period ended March 31, 2001, the effect of the assumed exercise of options to purchase approximately 489,000 shares of Common Stock at exercise prices ranging from \$3.00 to \$5.00 per share and warrants to purchase approximately 103,000 shares of Common Stock at exercise prices ranging from \$4.12 to \$8.54 per share were excluded in computing the diluted per share amount

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because the exercise prices of the options and warrants were greater than the average market price of the shares of Common Stock, therefore causing these options and warrants to be antidilutive.

For the three-month periods ended March 31, 2001 and 2000, approximately 133,000 shares of Common Stock from the assumed conversion of Preferred Stock were excluded in computing the diluted per share amount as they were antidilutive.

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INTEGRAMED AMERICA, INC. NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (unaudited)

NOTE 3 -- SEGMENT INFORMATION:

The Company is principally engaged in providing products and services to the fertility market. For disclosure purposes, the Company recognizes Business Services offered to its network of Reproductive Science Centers and its pharmaceutical distribution operations as separate reporting segments as follows (000's omitted):

| | Corporate ----- | Business Services ----- | Pharmaceutical Distribution ----- | Consolidated ----- |
|---|--------------------|-------------------------------|---|-----------------------|
| For the three months ended March 31, 2001 | | | | |
| Revenues | \$ -- | \$13,030 | \$3,461 | \$16,491 |
| Cost of Services | -- | 10,821 | 3,323 | 14,144 |
| | ----- | ----- | ----- | ----- |
| Contribution | -- | \$ 2,209 | \$ 138 | \$ 2,347 |
| Other costs | 1,689 | -- | -- | 1,689 |
| Amortization of intangibles | 1 | 213 | 2 | 216 |
| Interest, net | 44 | (11) | (1) | 32 |
| | ----- | ----- | ----- | ----- |
| Income before income taxes | \$(1,734) | \$ 2,007 | \$ 137 | \$ 410 |
| | ===== | ===== | ===== | ===== |
| Depreciation expense included above | \$ 106 | \$ 274 | \$ -- | \$ 380 |
| Capital expenditures | 57 | 720 | -- | 777 |
| Total assets | (868) | 39,376 | 1,708 | 40,216 |
| For the three months ended March 31, 2000 | | | | |
| Revenues | \$ -- | \$11,738 | \$1,870 | \$13,608 |
| Cost of Services | -- | 9,833 | 1,805 | 11,638 |
| | ----- | ----- | ----- | ----- |
| Contribution | -- | 1,905 | 65 | 1,970 |
| Other costs | 1,349 | -- | -- | 1,349 |
| Amortization of intangibles | 11 | 207 | 2 | 220 |
| Interest, net | 59 | 9 | (2) | 66 |

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| | | | | |
|--------------------------------------|------------|----------|-------|--------|
| Income before income taxes | \$ (1,419) | \$ 1,689 | \$ 65 | \$ 335 |
| | ===== | ===== | ===== | ===== |
| Depreciation expense included above | \$ 119 | \$ 333 | \$ -- | \$ 452 |
| Capital expenditures | 22 | 344 | -- | 366 |
| Total assets at December 31, 2000... | 3,335 | 36,688 | 1,272 | 41,295 |

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

The following discussion and analysis should be read in conjunction with the consolidated financial statements and notes thereto included in this quarterly report and with the Company's Annual Report on Form 10-K for the year ended December 31, 2000.

IntegraMed America, Inc. (the "Company") offers products and services to patients, providers, payors and pharmaceutical manufacturers in the fertility industry. The IntegraMed Network is comprised of twenty-two fertility centers in major markets across the United States, a pharmaceutical distribution subsidiary, a financing subsidiary, the Council of Physicians and Scientists, and a leading fertility portal (www.integrated.com). Seventeen of these fertility centers have access to the Company's FertilityDirect Program. Five of the fertility centers are designated as "Reproductive Science Centers(R)" and as such, have access to the Company's FertilityDirect Program in addition to being provided with a full range of services including: (i) administrative services, including accounting and finance, human resource functions, and purchasing of supplies and equipment; (ii) access to capital; (iii) marketing and sales; (iv) integrated information systems; (v) assistance in identifying best clinical practices; and (vi) laboratory services (collectively, "Business Services").

The Company's strategy is to align information, technology and finance for the benefit of fertility patients, providers, payors and pharmaceutical manufacturers. The primary elements of the Company's strategy include: (i) selling additional FertilityDirect contracts to leading fertility centers in major markets; (ii) selling Shared Risk Refund Treatment Packages to patients of contracted fertility centers and managing the risk associated with the programs; (iii) selling additional Reproductive Science Center Business Service contracts; (iv) increasing revenues at Reproductive Science Centers; (v) increasing sales of pharmaceutical products and services; (vi) expanding clinical research opportunities; and (vii) establishing Internet-based access to patient-specific information on treatment process and outcomes.

In December 2000, the Company's agreement with the medical center based Reproductive Science Center was terminated early. The Company received \$1.44 million in liquidated damages pursuant to an early termination agreement. The amount received was recorded as deferred revenue at December 31, 2000, as the Company has certain transition obligations through December 2001, and accordingly is being amortized ratably into income in 2001. It is anticipated that the cost of the transition obligations to be incurred will be minor.

The Company is under pressure to reduce the fees it charges to the Reproductive Science Centers for Business Services and may be forced to reduce

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such fees. Cost containment measures which the Company may implement may not be enough to offset these fee reductions. In addition, as the Company implements its change in strategy to become more of a marketing-oriented rather than a service-based company, costs of implementation may be incurred prior to achieving the related revenues. As a result of these two issues, future income levels may be reduced and the Company may not achieve the earnings level experienced in 2000 or first quarter of 2001.

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Results of Operations

The following table shows the percentage of revenues represented by various expense and other income items reflected in the Company's Consolidated Statement of Operations.

| | For the three-month period ended March 31, | |
|---|--|--------|
| | 2001 | 2000 |
| | ----- (unaudited) | |
| Revenues, net..... | 100% | 100% |
| Costs of services incurred: | | |
| Employee compensation and related expenses..... | 37.6% | 37.5% |
| Direct materials..... | 23.1% | 18.1% |
| Occupancy costs..... | 6.1% | 6.0% |
| Depreciation..... | 1.7% | 2.5% |
| Other expenses..... | 17.3% | 21.4% |
| | ----- | ----- |
| Total costs of services..... | 85.8% | 85.5% |
| Contribution..... | 14.2% | 14.5% |
| General and administrative expenses..... | 10.2% | 9.9% |
| Amortization of intangible assets..... | 1.3% | 1.6% |
| Interest income..... | (0.3%) | (0.4%) |
| Interest expense..... | 0.5% | 0.9% |
| | ----- | ----- |
| Total other expenses..... | 11.7% | 12.0% |
| | ----- | ----- |
| Income before income taxes..... | 2.5% | 2.5% |
| Provision for income taxes..... | 0.3% | 0.3% |
| | ----- | ----- |
| Net income..... | 2.2% | 2.2% |
| | ===== | ===== |

Three Months Ended March 31, 2001 Compared to Three Months Ended March 31, 2000

Revenues for the three months ended March 31, 2001 (the first quarter of 2001) were approximately \$16.5 million as compared to approximately \$13.6 million for the three months ended March 31, 2000, an increase of 21.3%. Approximately 45% of the increase in revenues is attributable to same market growth in reimbursed costs and business service fees in the Reproductive Science Centers. Approximately 55% of the increase in revenues is attributable to sales increases in the Company's pharmaceutical distribution division.

Total costs of services as a percentage of revenues were 85.8% in the first quarter of 2001, compared to 85.5% in the first quarter of 2000. Direct materials increased as a percentage of revenues, primarily due to the cost of

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products sold at the pharmaceutical distribution division. Depreciation expense decreased as a percentage of revenues due to a large group of assets having reached fully depreciated status during 2000. Other expenses decreased as a percentage of revenue, due to decreases in contract termination costs and non-payroll marketing and consulting expenses.

Contribution was approximately \$2.3 million in the first quarter of 2001 as compared to \$2.0 million in the first quarter of 2000, an increase of approximately 15.0%. This increase is the result of (i) increased volume at various Reproductive Science Centers, primarily the result of planned infrastructure improvements, (ii) improving margins in the pharmaceutical distribution division, and (iii) elimination of operating losses at the Kansas City based Reproductive Science Center which was closed during the first quarter 2000.

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General and administrative expenses for the first quarter of 2001 were approximately \$1.7 million as compared to approximately \$1.3 million in the first quarter of 2000, an increase of 30.1%. The increase was largely due to increases in staffing and compensation attributable to implementation of initiatives related to the Company's web development strategy. As a percentage of revenues, general and administrative expenses increased to approximately 10.2% in the first quarter of 2001 from approximately 9.9% in the first quarter of 2000.

Amortization of intangible assets was \$216,000 in the first quarter of 2001 as compared to \$220,000 in the first quarter of 2000, a decrease of 1.8%. This decrease was attributable to completion of amortization of certain intangibles related to the company's trademark.

Interest income for the first quarter of 2001 increased to \$54,000 from \$50,000 for the first quarter of 2000, due to a higher cash balance and financing proceeds from Reproductive Science Center build-outs. Interest expense for the first quarter of 2001 decreased to \$86,000 from \$116,000 in the first quarter of 2000, due to scheduled payments of debt on the Company's line of credit.

The provision for income taxes primarily related to state taxes. The provision for income taxes increased to \$51,000 in the first quarter of 2001 from \$45,000 in the first quarter of 2000 in line with increased earnings at network site locations.

Net income was \$359,000 in the first quarter of 2001 as compared to \$290,000 in the first quarter of 2000, an increase of 24%. The increase was primarily due to (i) improving margins at the Reproductive Science Centers and the Company's pharmaceutical distribution division, offset by increases in general and administrative expenses at the Company's headquarters, (ii) decreases in interest expense related to the pay-down of debt, and (iii) the elimination of operational expenses related to the wind down of the Kansas City Reproductive Science Center operations.

Liquidity and Capital Resources

Historically, the Company has financed its operations primarily through cash flow, sales of equity securities and bank financings. As of March 31, 2001, the Company had working capital of approximately \$2.3 million, approximately \$3.3 million of which consisted of cash and cash equivalents, compared to working capital of approximately \$4.9 million at December 31, 2000, approximately \$5.3 million of which consisted of cash and cash equivalents. The net decrease in working capital at March 31, 2001 was principally due to the

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repurchase of 880,072 shares of the Company's Common Stock for an aggregate purchase price of \$2.0 million.

The Company expects its cash flows from operating activities and bank financing capacity to be sufficient to fund its needs for asset acquisition, debt repayments, the Common Stock repurchase program and new service initiatives for the next year.

Forward Looking Statements

This Form 10-Q and discussions and/or announcements made by or on behalf of the Company, contain certain forward-looking statements regarding events and/or anticipated results within the meaning of the safe harbor provisions of the Private Securities Litigation Reform Act of 1995, the attainment of which involve various risks and uncertainties. Forward-looking statements may be identified by the use of forward-looking terminology such as, may, will, expect, believe, estimate, anticipate, continue, or similar terms, variations of those terms or the negative of those terms. The Company's actual results may differ materially from those described in these forward-looking statements due to the following factors: the Company's ability to acquire additional business service agreements, including the Company's ability to raise additional debt and/or equity capital to finance future growth, the loss of significant business service agreement(s), the profitability or lack thereof at Reproductive Science Centers serviced by the Company, increases in overhead due to expansion, the exclusion of infertility and ART services from insurance coverage, government laws and regulations regarding health care, changes in managed care contracting, the timely development of and acceptance of new infertility, ART and/or genetic technologies and techniques.

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Item 3. Quantitative and Qualitative Disclosures About Market Risk

Not applicable.

Part II - OTHER INFORMATION

- Item 1. Legal Proceedings.
None; no material developments in previously reported matters.
- Item 2. Changes in Securities.
None.
- Item 3. Defaults Upon Senior Securities.
None.
- Item 4. Submission of Matters to Vote of Security Holders.
None.
- Item 5. Other Information.
None.
- Item 6. Exhibits and Reports on Form 8-K.
None.

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SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

INTEGRAMED AMERICA, INC.
(Registrant)

Date: May 14, 2001

By: /s/ John W. Hlywak, Jr.

John W. Hlywak, Jr.
Senior Vice President and
Chief Financial Officer
(Principal Financial and
Accounting Officer)

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