ANMR to sell imaging services to USDL to avert impending financial crisis

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Vendor's future hinges on rehab and MR breast imaging services

Faced with the possibility of losing imaging centers that were collateral for an $11.9 million loan, Advanced NMR announced last month that it has agreed to sell its wholly owned subsidiary Medical Diagnostics to imaging services giant U.S. Diagnostic.

USDL, of West Palm Beach, FL, will pay $22 million for 10 mobile MR routes and three mobile nuclear medicine routes operated by MDI in Massachusetts, New York, Virginia, West Virginia, and Tennessee. Pending federal antitrust review, USDL will also get two full-service imaging centers in Massachusetts and rights to the MDI name and trademark.

USDL officials were elated about the acquisition.

"From our standpoint, MDI is one of the last large entities left available for acquisition in the imaging services sector," said USDL chief executive Jeffrey Goffman.

The MDI imaging services businesses that would be merged into USDL generated $4.5 million in pretax profits from revenues of $21.5 million in the fiscal year ending Sept. 30, 1996, Goffman said. The entire MDI business—including rehabilitation services—contributed $26.1 million in revenue, while ANMR in its recent financial results stated that MDI had pretax profit of $817,000. USDL expects to boost that figure to $4.5 million based on synergies achieved through the acquisition.

MDI has been particularly successful in securing mobile MR contracts that face little local competition because of document-of-need restrictions in Massachusetts and certificate-of-need barriers in New York, Tennessee, Virginia, and West Virginia. Its mobile MR routes serve 43 hospital customers, and its mobile SPECT services are contracted by 10 hospitals and clinics, according to ANMR financial disclosures. Goffman envisions especially strong synergies between MDI and USDL services in New York and West Virginia.

The value of the cash and rehabilitation services properties retained by ANMR roughly equals the $28 million that the company paid for MDI two years ago, Goffman said.

After paying off debts, ANMR will be left with $10 million in cash, a 48% interest in Advanced Mammography Systems[developer of the Aurora MR breast scanner]and a majority interest in MVA Rehabilitation Associates. MVA operates two head-trauma rehabilitation facilities and a satellite office in Massachusetts.

Wilmington, MA-based ANMR also assumed responsibility for possible costs arising from pending lawsuits against MDI filed by the company's founder, John Lynch, as well as by Raytel Medical, an imaging and cardiac services company in San Mateo, CA. Lynch sued MDI last year after he was fired from his position as chief executive in 1995 (SCAN 12/13/95). Raytel sued MDI in November 1994, alleging irregularities in MDI's defense against Raytel's tender offer, which was withdrawn after ANMR bought MDI in a white-knight rescue (SCAN 5/10/95).

ANMR's credit woes. ANMR made the decision to sell most of MDI to alleviate a credit crunch that imperiled the company (SCAN 1/22/97). If the deal goes through, about $12 million of USDL's payment for MDI will retire a problem ANMR loan taken out as part of the MDI acquisition.

According to ANMR's 10-K report with the Securities and Exchange Commission, a $500,000 payment on that loan—which was originally due last year but which was deferred in agreement with ANMR's lender—comes due on March 31. The company was also out of compliance with several restrictive covenants that were waived by the lender only through March 31, according to the SEC filing. The 10-K concluded that ANMR would be unable to fulfill its financial obligations if it couldn't sell off assets to raise cash.

USDL officials were aware of the unflattering 10-K report and rushed to complete a due diligence analysis of the MDI acquisition before ANMR was required by law to submit the report for public dissemination, according to Goffman.
"We tried to get them to delay their 10-K filing, but their attorneys were uncomfortable with that request," he said.

ANMR chairman Jack Nelson was unavailable for interview. In a written statement, he noted that the action is being taken in combination with cost reduction efforts to give the company financial security and liquidity to invest in its rehabilitation business.

Still, the buyout raises questions about ANMR's future. Nelson announced a new strategic direction for the company in August 1996 (SCAN 8/28/96). The plan featured a halt to production of its InstaScan MR echo-planar imaging gradient coil and an end to R&D of other imaging devices. Resources were redirected to developing MR breast imaging services performed by AMS Aurora scanners and conventional MR imaging and rehabilitation services through MDI.

The new mission left untouched ANMR's ultra-high-field MRI system supply relationship with GE Medical Systems. ANMR is contracted as GE's exclusive integrator of investigational 3-tesla and 4-tesla scanners through mid-1999. Two of the $3 million devices were shipped to Japanese customers in 1996.

Lynch's written statement on the USDL acquisition noted that continuing losses incurred by ANMR's technology operation did not allow the company to invest in the imaging services business or in MDI's other businesses to the degree envisioned when the original acquisition was made.

USDL owns 118 diagnostic imaging centers and four radiation therapy facilities in 17 states, according to Goffman. In addition to the MDI merger, deals that would add another 29 mobile and fixed-site services to its network are pending.

One of those deals is the acquisition of American Shared Hospital Services of San Francisco (SCAN 12/18/96). Last month, American Shared announced a revision in the terms of the deal that is designed to allow USDL to account for the transaction as a pooling of interests rather than as a purchase. Under the revised terms, USDL proposes to acquire all of the 4.8 million shares of American Shared for $2.40 per share, slightly higher than the $2.25 previously agreed upon. USDL also proposed to pay $2.40 a share for the 2.2 million outstanding American Shared options and warrants.

The revision will require additional concessions from GE Medical Systems, which holds some of American Shared's leasing-related debt. American Shared said that GE and USDL have reached a preliminary agreement on those additional concessions. The negotiations over the debt have enabled USDL and GE to start talks about developing a longer term relationship, according to USDL's Goffman.

Finally, USDL announced last week that it has severed its relationship with Keith Greenberg, a mergers and acquisitions consultant who had helped identify many of the centers purchased by USDL. Revelations late last year about a fraud conviction in Greenberg's past prompted shareholder litigation against USDL (SCAN 1/8/97).

Disclosures:

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