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SSI SURGICAL SERVICES INC
Form 10-K
April 02, 2001

SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-K

- Annual report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 for the fiscal year ended December 31, 2000
- 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 2-85008-NY

SSI Surgical Services, Inc.
(Exact name of registrant as specified in its charter)

New York
(State or other jurisdiction of
incorporation or organization)

11-2621408
(I.R.S. Employer
Identification No.)

5776 Hoffner Avenue, Suite 200, Orlando Florida
(Address of principal executive offices)

32822
(Zip Code)

(407) 249-1946
(Registrant's telephone number, including area code)

Securities registered pursuant to Section 12(b) of the Act: None

Securities registered pursuant to Section 12(g) of the Act: None

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 if disclosure of delinquent filers pursuant to Item 405 of Regulation K is not contained herein, and will not be contained, to the best of the registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

As of March 16, 2001, the aggregate market value of voting stock held by non-affiliates of the registrant was approximately \$825,383, based on the average bid and asked price of the registrant's Common Stock on March 16, 2001 as reported on the Nasdaq Bulletin Board System.

The registrant had 19,491,216 Common Shares outstanding as of March 16, 2001.

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Item 1. Description of Business

Overview

SSI Surgical Services, Inc. ("Surgical Services" or the "Company") is a healthcare services company focused on providing surgical support services to hospitals and surgery centers throughout the United States. SSI Surgical Services, Inc. (OTCBB, SGSI.OB) is approximately 84.5% owned by TFX Equities Incorporated (TFX), a wholly owned subsidiary of Teleflex Incorporated (Teleflex), a Fortune 1000 company with headquarters in Plymouth Meeting, Pennsylvania.

The Company was founded in May 1982 as Medical Sterilization, Inc., a New York Corporation. Effective May 28, 1999, the Company changed its name to SSI Surgical Services, Inc.

On January 11, 1999, the Company acquired all of the issued and outstanding shares of Endoscopy Specialists, Incorporated ("ESI"), a Florida-based surgical instrument management services firm, and all of the issued and outstanding shares not already held by the Company of SSI Surgical Services, Inc. ("SSI"), a Joint Venture with TFX. Both businesses were acquired from TFX in exchange for 13,400,000 shares of Common Stock and warrants to purchase an aggregate of 1,500,000 shares of Common Stock. As a result of the transaction, TFX now owns a majority of the outstanding common stock of the Company.

Beginning in the mid-1990's, TFX brought together several medical services operations that made up ESI and SSI. Each of these operations brought its own healthcare knowledge, specialties and expertise to the new company, resulting in a comprehensive package of service offerings. Running through the history of the company is a dedication to high-quality, reusable products offered to its customers on a per procedure basis.

In late 1995, TFX purchased ESI. ESI was founded in 1992 to provide on-site speciality instrument management programs, primarily for minimally invasive surgical procedures. This component of the Company provides surgical instruments, video equipment, and on-site, trained technicians for each contracted laproscopic procedure performed in a hospital.

During 1997, ESI acquired three other companies to complement the services already offered: United Endoscopy and Medco, which provided services similar to ESI; and Morse Technologies, providing surgical and endoscopic instrument repair.

SSI was formed in 1997 as a joint venture between TFX and the Company. SSI was established to provide general and specialty instrument sets, basins and surgical gowns and towels to hospitals and other facilities. In August 1998, SSI acquired Sterilization Management Group ("SMG") which owned and managed five surgical instrument and linen reprocessing facilities located in Chicago, Detroit, Tampa, Houston, and Baltimore/Washington.

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Today the Company offers a comprehensive menu of services to hospitals and surgery centers, with a primary focus on the operating room (OR). Company headquarters are located in Orlando, Florida and the Company's employees are based in hospitals, medical centers and sterilization facilities in numerous locations around the country.

On Site Services

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The Company provides customers specialty instrument management programs that focus on minimally invasive surgical procedures (endoscopic services). The Company has a variety of service programs to meet customer demand. Surgical Services assigns trained service technicians to each customer hospital. The service technician is responsible for assisting with the operating room set-up prior to the start of the designated case, and remains on-site to serve as a technical expert available to respond to questions from the surgical staff regarding the proper use of the products and video systems supplied by the Company. At the completion of the case, the technician decontaminates and reprocesses the company's instruments and performs quality assurance checks on the instruments to validate their readiness for the next procedure. The Company manages all repairs, refurbishing, reprocessing and replacement costs associated with the provided products.

The Company offers services for general surgery, gynecology, urology, ENT, orthopedics, plastic surgery, thoracic surgery and cardiovascular surgery. The related instrument sets can be basic, containing only instrumentation, or increasingly complex, to include scopes, video equipment and other accessories. By using high quality reusable instruments that are properly managed by trained technicians and a selection of disposable products, the Company delivers higher quality products billed on a per procedure basis, thus providing a basis for potentially reducing hospital costs.

In addition to the specialty instrument management program, Surgical Services provides professional management to train and direct the sterile processing departments in hospitals. The Company provides the customer with trained and certified technicians to increase productivity and assumes responsibility for management of the instrument inventory that includes the establishment of an inventory tracking system, repair and maintenance, replacement and purchase of new instruments. This service is billed to the customer on a contractual basis.

Off Site Services

The Company provides off-site cleaning, decontamination and sterilization processing of its standard containerized reprocessable surgical instrument sets as well as sterilized items for healthcare providers such as hospitals and ambulatory surgery centers within the United States. The Company contracts with healthcare providers to provide instruments that are reprocessed and reusable surgical products consisting of gowns, towels, mayo-stand and back table covers and basins.

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This business currently operates six industrial reprocessing facilities that can sterilize, package, reassemble, decontaminate and deliver to customers on a daily basis. The Company provides Instrument Sets for operating room and labor and delivery room procedures, such as gall bladder, tonsillectomy and adenoidectomy, open heart, vascular, orthopedic, endoscopy, cesarean sections, newborn delivery, hysterectomy and dilation and curettage.

The Company also packages its reusable textiles (surgical gowns and towels) in a variety of packs to meet customers' needs. The reusable textiles are cleaned, inspected, sterilized, and delivered to the hospital. The Company offers a reprocessing service that utilizes state-of-the-art products such as GORE(R) Surgical Barrier Fabric (GORE is a trademark of W.L. Gore & Associates, Inc.), a surgical barrier fabric for gowns that is liquidproof and a series of one-ply and two-ply gowns that are liquid resistant. All of the gown materials are technologically advanced for comfort.

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The Company's services are designed to replace or supplement the existing in-house sterilization facilities of healthcare providers. Many hospitals have less efficient sterilization facilities, staff their facilities with nurses whose skills could be more effectively used elsewhere and underutilize their sterilization facilities by operating their equipment only once per day. Because of the relatively low volume of sterilization activities undertaken at many of these facilities, worker productivity may not be as high as in other areas of the healthcare organization, causing concern for administrators. In addition, as hospitals continue to evaluate ways in which to utilize their available space better, many hospitals are seeking to replace their in-house sterilization facilities with profit generating centers such as operating rooms. Many hospitals are also looking for ways in which to improve operating room efficiency by eliminating the sterilization processing delays and shortages sometimes experienced with their in-house sterilization facilities.

By utilizing state of the art equipment, modern sterilization technology, trained technicians, and handling larger volumes, the Company believes that it offers a cost-effective, high quality alternative to in-house sterilization. The Company has installed modern, industrial size sterilization equipment at its facilities, including ultrasonic cleaning systems, tunnel washers, steam sterilizers and ETO sterilizers.

The Company believes that it is able to offer improved sterility assurance levels than those maintained at many hospitals. The Company has established rigorous testing measures and procedures, such as sterilization process monitors (including temperature and pressure recording), chemical indicators and bacteriological spore and culture testing. See "Government Regulation."

Competition

The Company's principal competition with respect to its off-site management programs comes from the in-house sterilization facilities of hospitals and ambulatory surgi-centers. Most hospitals have in-house sterilization capabilities and many have invested significant capital

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in their sterilization facilities. Also, healthcare facilities with in-house sterilization departments may be committed to maintaining their sterilization capabilities and their current staffing levels. As a result, healthcare providers may be reluctant to shift their sterilization activities from in-house to an off-site contractor. Furthermore, some hospitals have union agreements that preclude or mitigate a hospital's ability to outsource. In today's managed care driven, consolidating environment, hospitals and hospital networks are renegotiating these agreements with yet to be determined success.

The Company has competition for its off-site reprocessing facilities in most of its markets. Surgical Express, previously Sterile Recoveries, Inc. and Angelica Corporation now compete with the Company. Substantial know-how and capital intensive barriers continue to limit competitive interest.

The Company's principal competition for its on-site management programs is the hospitals' in-house departments. In addition, on-site services are offered by several local and regional service companies as well as large corporations such as Allegiance, who now competes with several on-site service offerings that include: instrument processing, consulting, department management, staffing, training, and endoscopy services. The Company is recognized as one of the the only service providers to offer the full service continuum and a flexible service offering. It provides customized solutions that includes both on-site

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and off-site management programs for individual hospitals and healthcare delivery networks.

Customers

The Company markets and sells services to acute care hospitals, and stand-alone surgery centers in 17 states domestically. Customers have been attracted to the Company because of its quality of service, comprehensive service offering and cost reduction opportunities. The Company provides services directly to the customer, thereby eliminating a third party to intervene on its behalf. Customers become interested in the Company's service menu due to the following:

- 1.) Savings from reusable versus disposable products
- 2.) Savings on reduced inventory requirements
- 3.) Savings from outside management of processes
- 4.) Added efficiencies by having trained technicians on site
- 5.) Upgrade to premium equipment and instruments
- 6.) Improved staff and physician satisfaction
- 7.) Capital avoidance
- 8.) The ability to convert non-productive space to revenue generating space
- 9.) Elimination of repair and maintenance costs

Hospitals have continued to embrace the idea of outsourcing support functions that are not core competencies. Outsourcing those areas that have significant staff requirements demanding specialized knowledge, large upfront capital demands, & space constraints has

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become increasingly more universal. The idea of outsourcing is consistent with the customer's focus on improved efficiency, cost reduction, improved patient care and staff and physician satisfaction. The Company allows hospitals to focus on these initiatives by outsourcing the ownership of instrumentation, surgical linen, and equipment.

The Company's sales cycle for new customers is typically between three to twelve months from the first contact. The sales cycle entails significant lead times in most institutions due to existing agreements with suppliers, Group Purchasing Organizations and cost reviews from hospital management. The Company believes that once an agreement is signed with a new customer, the customer is unlikely to move away from the service due to its premium service level, quality of products provided, quantified cost savings and knowledgeable technical personnel.

Contracts are generally executed with terms of three years or more. Termination with cause by either party for a breach of the agreement with ninety days written notice is a standard provision of the contract. Surgical Services' sales strategy is to expand its regional agreements. The majority of the Company's service agreements are with single hospitals. It is the Company's belief that the trend toward the increased development of the Integrated Delivery Network's (IDN's) will continue well into the future. The IDN's and regional buying groups have been able to negotiate for products and services in many cases better than Group Purchasing Organizations. Surgical Services continues to maximize its exposure to the individual hospital while intensifying sales efforts at the regional or IDN level. Management feels the need for hospitals to reduce operating costs and improve efficiencies provides opportunities for continued sales growth.

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The Company plans to target existing markets in an effort to maximize existing assets and infrastructure. Additionally, suppliers that provide products to Surgical Services provide a valuable network in which the sales force are able to identify new customers. The future performance of the Company is dependent upon its ability to attract new customers and expand services in existing facilities.

As of March 16, 2001, the Company provided services pursuant to service contracts with 175 hospitals and ambulatory surgi-centers. For the fiscal year ended December 31, 2000, one customer accounted for 10% or more of the Company's total revenues and 10 customers represented approximately 50% of the accounts receivable balance. The loss of any one customer could have a significant impact on the Company's financial position or results of operations.

Suppliers

The Company purchases surgical instruments, sterilization containers, surgeon's gowns and surgical towels from several vendors including Pilling Weck, a wholly-owned subsidiary of Teleflex. The Company believes that such products are readily available at market prices.

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Sales and Marketing

Surgical Services' sales and marketing strategy is to develop new accounts and grow existing accounts by service expansion: for example, if the Company is serving the labor and delivery department of a hospital it will attempt to leverage its services into the general operating room of the hospital after a period of successful product performance in the labor and delivery area. The Company has expanded its portfolio of reprocessing services to include new service offerings such as consulting, on-site management services and EtO sterilization. The Company's sales and marketing efforts are coordinated with several manufacturer alliances and their sales forces to maximize growth opportunities.

Intellectual Property

The Company does not rely on any patents for the conduct of its business. The Company does rely upon the know-how of its employees.

Government Regulation

Significant aspects of the Company's business are subject to state and federal statutes or regulations. Additionally, some products sold by the company are regulated as medical devices by the US Food and Drug Administration (FDA) or other state and federal agencies. The Company's facilities are subject to regular inspection by the FDA which has the power to seize adulterated products, require the manufacturer to remove non-compliant products from the market, or administer other remedies deemed appropriate. Although the Company believes it is in substantial compliance with applicable federal and state statutes and regulations, additional restrictions could be imposed that could materially affect the Company.

Employees

As of December 31, 2000, the Company had 431 full-time and 22 part-time employees. None of its employees are covered by any collective bargaining agreement.

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Item 2. Description of Property

Surgical Services leases six reprocessing and sterilization facilities located in Baltimore, Chicago, Detroit, Houston, Long Island, and Tampa. These facilities are used for decontamination, sterilization, and packaging of reusable surgical instruments and surgical linens. The Company owns substantial leasehold improvements and equipment located in each of the facilities. The Company also maintains its corporate headquarters and an instrument repair facility in leased offices in Orlando, Florida.

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The table below sets forth information on the Company's properties:

Location -----	Approximate Size -----	Owned/Leased -----	Lease Expiration -----
Baltimore, MD	40,000 sq. ft.	Leased	December 30, 2002
McGaw Park, IL	26,000 sq. ft.	Leased	September 7, 2010
Livonia, MI	32,000 sq. ft.	Leased	July 31, 2003
Houston, TX	46,500 sq. ft.	Leased	April 30, 2003
Syosset, NY	103,000 sq. ft. (1)	Leased	March 31, 2010
Tampa, FL	47,000 sq. ft.	Leased	November 30, 2002
Orlando, FL	8,500 sq. ft.	Leased	December 31, 2004

Note:

- (1) The short-term lease agreement providing for sublease of approximately 50,000 square feet of the premises expired February 28, 2001. The Company is currently renegotiating this sublease agreement.

The company conducts a substantial portion of its business in facilities (primarily hospitals and surgery centers) owned or operated by the customer. The Company has no obligation for rent, utilities, or maintenance of those facilities.

The Company believes that its facilities are suitable for its operations as presently conducted and for its foreseeable future operations. Equipment owned or leased by the company is believed adequate for the Company's present and foreseeable operations, however, they will require capacity enhancements as business continues to expand. The Company believes that additional facilities and equipment can be acquired as necessary, although there can be no assurance the additional facilities or equipment will be available upon reasonable or acceptable terms, if at all.

Item 3. Legal Proceedings

In management's opinion, there are no pending claims or litigation, the adverse determination of which would have a material adverse effect on the financial position, cash flows or results of operations of the Company.

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

No matters were submitted for a vote of security-holders during the Company's fiscal quarter ended December 31, 2000.

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PART II

Item 5. Market for Registrant's Common Equity and Related Stockholder Matters

The Company's Common Stock, \$.01 par value per share, is quoted on the Nasdaq Bulletin Board (under the symbol "SGSI"). Such quotations reflect inter-dealer prices, without retail mark-up, mark-down, or commission and may not necessarily represent actual transactions. The approximate number of record holders of the Company's Common Stock as of March 16, 2001 was 251.

The following table sets forth the high and low bid prices for a share of the Company's Common Stock as reported on the Nasdaq Bulletin Board for each fiscal quarter in the last two fiscal years and for the first fiscal quarter of 2001 (through March 16, 2001):

2001	High Bid	Low Bid
-----	-----	-----
First Quarter (through March 16, 2001)	\$0.438	\$0.250
2000		
Fourth Quarter	0.438	0.125
Third Quarter	0.813	0.313
Second Quarter	1.250	0.500
First Quarter	1.500	0.125
1999		
Fourth Quarter	0.469	0.156
Third Quarter	0.688	0.375
Second Quarter	0.875	0.500
First Quarter	1.125	0.531

The Company has never paid cash dividends with respect to its shares of Common Stock. The Company currently intends to retain earnings, if any, for use in its business and does not anticipate paying cash dividends on its shares of Common Stock in the foreseeable future.

Item 6. Selected Financial Data

Not applicable.

Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations

Overview

The Company's revenues are generated from a comprehensive menu of services to hospitals and surgery centers, with a primary focus on the operating room. These services

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include specialty instrument management programs that focus on minimally invasive surgical procedures, professional management and staffing of sterile processing departments in hospitals, off-site cleaning, decontamination and sterilization processing of containerized surgical instrument sets and reusable surgical gowns and towels.

The Company's sales cycle for new customers is typically between three to twelve months from the first contact. Contracts are generally executed with terms of three years or more providing a multi-year revenue stream.

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In fiscal 2000, the Company's instrument and linen sterilization services, endoscopic services and management of sterile processing departments within hospitals accounted for approximately 50%, 41% and 9%, respectively, of the Company's revenues, compared to 50%, 42% and 8% in 1999. These sources of revenue reflect the Company's strategy to provide a complete service offering to hospitals and surgery centers.

In December 2000, the Company renewed a revolving credit facility with Teleflex. The agreement provides the Company up to \$27,500,000 of unsecured financing. The outstanding principal on this credit facility is due and payable on April 30, 2003. Interest under this agreement is payable at the prevailing Prime rate of PNC Bank, plus 1.25 percent, remaining unchanged from fiscal 2000.

Results of Operations

2000 Compared with 1999

Revenues

Revenues increased \$1,143,000, or 4%, from \$30,792,000 in fiscal 1999 to \$31,935,000 in fiscal 2000. This increase is attributable to the partial year impact of new multi-year instrument and linen sterilization contracts signed in fiscal 2000, and the impact of 53 operating weeks in fiscal 2000 compared to 52 operating weeks in fiscal 1999.

Operating Expenses

Operating expenses increased \$1,505,000 or 6% from \$23,888,000 in fiscal 1999 to \$25,393,000 in fiscal 2000. This increase was principally the result of higher depreciation expense on fiscal 1999 and fiscal 2000 instrument and linen purchases. These purchases were made to support new and expanded multi-year signed contracts.

Distribution Costs

Distribution costs increased \$321,000 or 22% from \$1,447,000 in fiscal 1999 to \$1,768,000 in fiscal 2000. The increase in distribution costs from reprocessing facilities resulted

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from an increase in volumes delivered, extended geographic delivery areas and an increase in fuel and maintenance costs.

Selling, General and Administrative Expenses

Selling, general and administrative expenses increased by \$2,641,000 from \$3,691,000 in 1999 to \$6,332,000 in fiscal 2000. The increase was primarily the result of investments in sales force development and infrastructure. During early 2000, sales personnel and management were added to implement the Company's sales and marketing strategies with a focus on the areas surrounding existing reprocessing facilities. Investments in internal infrastructure, including upgrades to financial and operational computer systems, were made to service and support revenue growth. The Company expects the current level of selling, general and administrative expenses to remain relatively stable during 2001.

Interest Expense

Interest expense increased by \$790,000 from \$1,048,000 in fiscal 1999 to

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\$1,838,000 in fiscal 2000. The increase is attributed to interest on existing and additional borrowings from Teleflex used in connection with continued capital spending on surgical instruments and linens to support the growth of the hospital business.

Net Income (Loss)

Net loss in fiscal 2000 was \$2,072,000, a decrease of \$2,593,000 from net income of \$521,000 in fiscal 1999.

Net (Loss) Income Applicable to Common Shareholders

Diluted earnings (loss) per share in fiscal 2000 represented a net loss per share of \$0.11, compared to net income per share of \$0.03 in fiscal 1999. Basic earnings (loss) per share in fiscal 2000 also represented a net loss per share of \$0.11, compared to net income per share of \$0.03 in fiscal 1999.

Results of Operations

1999 Compared with 1998

Revenues

Revenues increased \$23,232,000, or 307%, from \$7,560,000 in fiscal 1998 to \$30,792,000 in fiscal 1999. The increase was principally the result of the acquisition of ESI and SSI. Had the acquisition occurred at the beginning of fiscal 1998, revenues would have increased approximately \$1,824,000 from the proforma amount of \$28,968,000 in fiscal 1998. This increase is attributable to the realization of the full year impact of revenues derived from multi-

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year surgical instrument sterilization contracts signed in fiscal 1998, partially offset by some weakness in other off-site operations.

Operating Expenses

Operating expenses increased \$18,946,000 or 383.4% from \$4,942,000 in fiscal 1998 to \$23,888,000 in fiscal 1999. This increase was principally the result of the acquisition of ESI and SSI. On a proportionate basis, the acquired operations have higher direct expenses and lower selling, general and administrative expenses than historical operations.

Distribution Costs

Distribution costs increased \$692,000 or 91.7% from \$755,000 in fiscal 1998 to \$1,447,000 in fiscal 1999. The increase is directly related to increased sales volume with the acquisition of ESI and SSI. Distribution costs as a percentage of revenue generated from instrument and linen sterilization services, remained relatively stable.

Selling, General and Administrative Expenses

Selling, general and administrative expenses increased by \$954,000 from \$2,737,000 in 1998 to \$3,691,000 in fiscal 1999. The increase resulted from the acquisition of ESI and SSI, including amortization expense of \$406,000 in fiscal 1999. In addition, fiscal 1998 was negatively impacted by additional unexpected one-time costs related to the disposal of the electron beam business and other nonrecurring expenditures including severance and termination expenses related to the elimination of several senior management positions.

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Interest Expense

Interest expense increased by \$620,000 from \$428,000 in fiscal 1998 to \$1,048,000 in fiscal 1999. The increase is attributed to borrowings from Teleflex assumed in connection with the acquisition of ESI and SSI and continued capital spending on surgical instruments and linens to support the growth of the hospital business.

Net Income (Loss)

Net income in fiscal 1999 was \$521,000, an increase of \$1,823,000 from a net loss of \$1,302,000 in fiscal 1998.

Net (Loss) Income Applicable to Common Shareholders

Diluted earnings per share in fiscal 1999 represented net income per share of \$0.03, compared to a net loss per share of \$0.46 in fiscal 1998. Basic earnings per share in fiscal 1999 also represented net income per share of \$0.03, compared to a net loss per share of \$0.46 in fiscal

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1998. Excluding the effect of preferred dividends in 1998, diluted earnings per share for fiscal 1998 were a net loss per share of \$0.41.

Liquidity and Capital Resources

The Company generated cash flows from operations of \$1,575,000 in fiscal 2000 compared to \$2,230,000 in fiscal 1999. The decrease in cash flows resulted from a net loss offset by higher depreciation expense and a reduction in working capital growth in relation to fiscal 1999.

Capital expenditures totaled \$7,534,000 in 2000 compared with \$5,656,000 in 1999. These purchases were principally surgical instruments and linen products made to support the Company's new sales contracts entered into during fiscal 2000 and fiscal 1999. In addition, approximately \$1,600,000 was invested in leasehold improvements and equipment relating to the relocation of the McGaw Park, IL reprocessing and sterilization facility.

The Company plans to purchase additional surgical instruments and linens, as and if required to support the Company's growth objectives. The Company believes that additional borrowing capacity under the existing loan agreement with Teleflex and cash flows from operating activities will provide support for these expenditures.

The Company had \$939,000 in obligations under capital leases for equipment and surgical instruments at December 31, 2000. In addition, the Company had borrowings of \$20,500,000 outstanding at December 31, 2000 under a \$27,500,000 unsecured revolving loan agreement with Teleflex, its majority shareholder. The additional borrowings under this agreement of \$6,840,000 during fiscal 2000 were used to support capital expenditures, working capital, growth and net third party debt repayment of \$1,064,000. The outstanding principal on this credit facility is due and payable on April 30, 2003. Interest under this agreement is payable at the prevailing Prime rate of PNC Bank, plus 1.25 percent.

The Company believes that the anticipated future cash flow from operations, along with its cash on hand and available funding from its major shareholder will be sufficient to meet working capital requirements during 2001. There can be no assurance, however, that the Company will not require additional

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working capital and, if it does require such capital, that such capital will be available to the Company on acceptable terms, if at all.

Inflation

The Company believes that inflation has not had, and will not have in the future, a material effect on its results of operations.

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Certain Factors That May Affect Future Results

From time to time, information provided by the Company, statements made by its employees or information included in its filings with the Securities Exchange Commission (including this Form 10-K) may contain statements which are not historical facts, so-called "forward-looking statements," which involve risks and uncertainties. Forward-looking statements are made pursuant to the safe harbor provisions of the Private Securities Litigation Reform Act of 1995; in particular, statements made relating to the suitability of the Company's facilities and equipment for future operations and the availability of additional facilities and equipment in the future; the sufficiency of funds for the Company's working capital requirements during 2001 may be forward-looking statements. The Company's actual future results may differ significantly from those stated in any forward-looking statements. Factors that may cause such differences include, but are not limited to, the factors discussed below. Each of these factors, and others, are discussed from time to time in the Company's filings with the Securities and Exchange Commission.

The Company's future results are subject to risks and uncertainties. The Company has operated at a loss or small profit for its entire history and there can be no assurance of its ever achieving consistent profitability. The Company may require additional working capital in the future and there can be no assurance that such working capital will be available on acceptable terms, if at all. The failure of the Company to continue to compete effectively with existing or new competitors could result in price erosion, decreased margins and decreased revenues, any or all of which could have a material adverse effect on the Company's business, results of operations and financial condition. Approximately 64% of the Company's healthcare provider customers are currently concentrated in the Northeast Corridor. Any factors affecting this market generally could have a material adverse effect on the Company's business, results of operations and financial condition. The Company is subject to government regulation in certain aspects of its operations. Changes in such regulations could have a material adverse effect on the Company's business, results of operations and financial condition.

Future results of the Company will depend significantly on its ability to successfully convince hospitals and other healthcare providers to utilize the Company's instrument and linen sterilization services, endoscopic services and sterile processing department management services as opposed to their own resources. Hospitals may resist this change for a number of reasons, including the preferences of hospital staffs which may wish to preserve their existing staffing, labor unions which may resist any staffing reductions and the ongoing consolidation of hospitals which may impact the willingness of hospital administrators to make operational decisions on a timely basis and which may affect a hospital's decision to outsource sterile processing services as opposed to retaining one or more of the consolidated hospital group's central sterilization facilities to provide services for the entire group.

The Company's quarterly and annual operating results are affected by a wide variety of factors that could materially and adversely affect revenues and

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profitability, including: competitive pressures on selling prices and margins; the timing and cancellation of customer

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orders; the lengthy sales cycle of the Company's services to healthcare organizations; the Company's ability to maintain state-of-the-art sterilization facilities and the corresponding timing and amount of capital expenditures, particularly if the Company executes its plan for growth; and the introduction of new services by the Company's competitors. As a result of the foregoing and other factors, the Company may experience material fluctuations in future operating results on a quarterly or annual basis which could materially and adversely effect its business, operating results and stock price.

Item 7A. Quantitative and Qualitative Disclosures about Market Risk

The Company does not have any material market risk sensitive financial instruments.

Item 8. Financial Statements

For the following financial information required by this Item, see Index on Page F-1.

Item 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure

Not applicable.

PART III

Item 10. Directors and Executive Officers of the Registrant

The following table sets forth certain information regarding the individuals who are directors and executive officers as of March 16, 2001 and the positions currently held by each such person with the Company.

Name ----	Age ---	Position -----
Todd Riddell	41	Director, President, Chief Executive Officer
John J. Sickler (1)	59	Director, Chairman of the Board
Steven K. Chance (2)	55	Director, Secretary
D. Michael Deignan (2)	57	Director
Douglas P. Gill	52	Director
Michael S. Irwin	53	Vice President Off Site Operations
Paul A. D'Alesio	43	Treasurer, Chief Financial Officer

(1) Member of Compensation Committee

(2) Member of Audit Committee

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Directors

Todd Riddell was elected a Director, President and Chief Executive Officer on August 3, 2000. From March 1999 to August 2000 he was Senior Vice President and from September 1999 to August 2000 he was Chief Operating Officer. From

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July, 1997 to March 1999 he was Executive Vice President of SSI Surgical Services, Inc. which was acquired by the Company, then Medical Sterilization, Inc., in January 1999. For five years prior thereto he was Vice President of Endoscopy Specialists, Incorporated ("ESI") which was acquired by the Company in January 1999.

Steven K. Chance was elected a Director on January 8, 1999. He is and has been since 1993 Vice President, Secretary and General Counsel of Teleflex.

D. Michael Deignan was elected President, Chief Operating Officer and Director of the Company on September 8, 1995 and Chief Executive Officer on December 31, 1995. He resigned as President and Chief Executive Officer on January 8, 1999. Since January 6, 2000 he has been President and Chief Executive Officer of Vasomedical, Inc., a provider of noninvasive vascular device and therapies to treat angina.

John J. Sickler has been a Director since January 8, 1997. Since December 2000, he has been Vice Chairman of Teleflex. He is and has been since 1990 the President of TFX, a subsidiary of Teleflex engaged in business development.

Douglas P. Gill was elected Director of the Company on March 8, 2001. Since March 5, 2001 he has been Senior Vice President - Business Design of Teleflex Medical Group, a business segment of Teleflex. From 1998 to 2000 he was President and Chief Executive Officer of Docucon, Inc., a document imaging company. He is currently a Director of Docucon, Inc. From 1994 to 1998 he was General Partner for Foster Management, a venture capital firm.

Executive Officers

Michael S. Irwin was elected Vice President of Services and Solutions on February 24, 2000. Prior thereto he was Vice President-Off Site Operations from March 2, 1999. For two years prior to March 2, 1999 he was General Manager of Sterilization Management Group ("SMG") which was acquired by SSI in August 1998. SMG owned and managed five surgical instrument and linen reprocessing facilities. From 1994 to 1997 he was a plant manager and division director of operations for the Interwoven Division of Baxter Healthcare, Inc., a manufacturer and distributor of medical supplies and equipment.

Paul A. D'Alesio was elected Treasurer and Chief Financial Officer on March 2, 1999. For more than five years prior thereto he was Controller of Meyer International, Inc., a holding company for distributors of building materials and its subsidiaries.

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Item 11. Executive Compensation

SUMMARY COMPENSATION TABLE

Name and Principal Position	Annual Compensation			Long-Term Compensation Awards	
	Year	Salary (\$)	Bonus (\$)	Securities Underlying Options	All Oth Compensatio

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Todd Riddell, Pres. & CEO	2000	179,231	15,000		2,688 (3)
Michael S. Irwin, VP	2000	125,000	10,000		1,927 (3)
Paul A. D'Alesio, Treas. & CFO	2000	115,000	10,000		1,854 (3)
Michael T. Spagnuolo, VP(5)	2000	128,846	10,000	25,000	1,184 (3)
Michael D. Klein, Pres. & CEO	2000	107,692		400,000 (1)	1,755 (3)
D. Michael Deignan, Pres. & CEO(5)	2000	8,115	--		--
Todd Riddell, Senior VP & COO	1999	143,439	99,974	50,000	2,222 (3)
Michael T. Spagnuolo, VP(5)	1999	119,077	36,414	25,000	1,799 (3)
Michael S. Irwin, VP	1999	115,391	8,000	15,000	1,074 (3)
Paul A. D'Alesio, Treas. & CFO	1999	89,779	--		1,240 (3)
Scott A. Bartos, Pres. & CEO	1999	115,946	90,973	100,000 (2)	1,779 (3)
D. Michael Deignan, Pres. & CEO(5)	1999	160,718	--		2,329 (3)
D. Michael Deignan, Pres. & CEO	1998	165,000	42,600		3,712 (4)

- (1) These options were terminated pursuant to the option agreement on October 27, 2000 because of Michael Klein's resignation on July 28, 2000.
- (2) These options were terminated pursuant to the option agreement on November 18, 1999 because of Scott Bartos' resignation on August 11, 1999.
- (3) Represents the Company's matching contributions to the 401K Plan.
- (4) Includes \$2,062 in contributions by the Company to vested and un-vested defined contribution plans for Mr. Deignan's benefit.
- (5) See "Severance Agreements".

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Option Grants in Last Fiscal Year

Name	Individual Grants				Expiration Date
	Number of Securities Underlying Options Granted (#)	Percent of Total Options Granted to Employees in Fiscal Year	Exercise or Base Price (\$/Sh)		
Todd Riddell	--	--	--		--
Michael S. Irwin	--	--	--		--
Paul A. D'Alesio	--	--	--		--
Michael T. Spagnuolo	--	--	--		--
Michael D. Klein	200,000 (1)	44.20%	1.06		--
Michael D. Klein	200,000 (1)	44.20%	2.00		--

- (1) These options were terminated pursuant to the option agreement October 27, 2000 because of Michael Klein's resignation on July 28, 2000.
- (2) The weighted average fair value of each option has been estimated on the date of grant using the Black-Scholes options pricing model with the following weighted average assumptions used for grants in 1999; no dividend yield; expected volatility of 90%; risk-free interest rate of 5.65% to 6.61%; and expected lives ranging from approximately 4.5 to 5

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years. Weighted averages are used because of varying assumed exercise dates.

Aggregated Option Exercises in Last Fiscal Year And Fiscal Year End Option Values

Name	Shares Acquired on Exercise	Value Realized	Number of Securities Underlying Unexercised Options at Fiscal Year End (#)		Value of Unexe in-the-money o at Fiscal Year (#) (1)
			Exercisable	Unexercisable	Exercisable Une
Todd Riddell	0	0	25,000	25,000	0
Michael S. Irwin	0	0	7,500	7,500	0
Paul A. D'Alesio	0	0	3,750	11,250	0
Michael T. Spagnuolo	0	0	12,500	12,500	0
Michael D. Klein	0	0	0	0	0
D. Michael Deignan	0	0	247,170	0	0

(1) Market value of underlying securities at year end minus the exercise price.

Severance Agreements

The Company had a severance agreement with Mr. Deignan who resigned as President and Chief Executive Officer on January 8, 1999. The agreement called for payment of his base salary and benefits for a period of one year ending January 7, 2000. Pursuant to the agreement, the Company paid \$160,718 and \$8,115 to Mr. Deignan in 2000 and 1999, respectively, and contributed \$2,329 to the 401K Plan in 1999.

The Company had a severance agreement with Mr. Spagnuolo whose position was eliminated on August 7, 2000. The agreement called for payment of his base salary and benefits for a period of six months ended February 9, 2001. Pursuant to the agreement, the Company paid \$51,377 to Mr. Spagnuolo in 2000.

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Compensation of Directors

Messrs. Deignan and Whittaker were the only Directors in 2000 who were not employees of the Company or TFX. Mr. Whittaker resigned as Director in February 2001. Outside Directors are paid an annual fee of \$3,000 plus a meeting fee of \$500.

Item 12. Security Ownership of Certain Beneficial Owners and Management

The following table sets forth, as of March 16, 2001, the beneficial ownership of the Company's voting securities by (i) each person who, to the knowledge of the Company, beneficially owned more than 5% of the Company's voting securities outstanding at such date, (ii) each current Director of the Company, (iii) each executive officer of the Company and (iv) all current Directors and executive officers as a group:

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Name and Address (1) -----	Number of Shares Beneficially Owned (2) -----	Percentage of Total Voting Securities (3) -----
John J. Sickler (4) c/o TFX Equities Incorporated ("TFX") 630 West Germantown Pike Suite 450 Plymouth Meeting, PA 19462	17,970,720	85.61%
D. Michael Deignan (5)	310,470	1.57%
Steven K. Chance	--	*
Douglas P. Gill	--	*
Todd Riddell (6)	25,000	*
Michael S. Irwin (7)	17,500	*
Paul A. D'Alesio (8)	16,250 -----	* -----
All Executive Officers and Directors as a group (9)	18,339,940	86.21%

(1) Pursuant to the rules of the SEC, addresses are provided only for 5% beneficial owners.

(2) Except as otherwise noted in the footnotes to this table, each person or entity named in the table has sole voting and investment power with respect to all shares shown as owned,

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based on information provided to the Company by the persons and entities named in the table.

(3) Total Voting Securities are 19,491,296 shares of Common Stock. Pursuant to the rules of the SEC, all outstanding options and warrants which are exercisable within 60 days of March 16, 2001 ("Presently Exercisable Securities") held by the relevant person or entity are included as outstanding Total Voting Securities for purposes of determining that person's or entity's Percentage of Total Voting Securities, but are not included for purposes of determining any other person's or entity's Percentage of Total Voting Securities.

(4) Consists of 16,385,720 shares of Common Stock and 1,500,000 Presently Exercisable Securities held by TFX. Mr. Sickler is President of TFX and has voting and investment power over the shares held by TFX. Mr. Sickler disclaims beneficial ownership of the shares held by TFX.

(5) Consists of 63,300 shares of Common Stock owned and 247,170 Presently Exercisable Securities.

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- (6) Consists of 25,000 Presently Exercisable Securities.
- (7) Consists of 10,000 shares of Common Stock and 7,500 Presently Exercisable Securities.
- (8) Consists of 12,500 shares of Common Stock and 3,750 Presently Exercisable Securities.
- (9) Consists of 16,556,520 shares of Common Stock and 1,783,420 Presently Exercisable Securities.

Item 13. Certain Relationships and Related Transactions

John J. Sickler, a Director of the Company, is Vice Chairman of Teleflex and President of TFX, a subsidiary of Teleflex. TFX owns 84.5% of the outstanding voting securities of SSI.

Steven K. Chance, a Director and Secretary of the Company, is Vice President, Secretary and General Counsel of Teleflex.

Douglas P. Gill, a Director of the Company, is Senior Vice President - Business Design of TFX Medical Group, a business segment of Teleflex.

Transactions with Management and Others

On January 11, 1999, the Company consummated a transaction, pursuant to which it exchanged 13,400,000 shares of Common Stock and warrants to purchase an aggregate of 1,500,000 shares of Common Stock for all of the issued and outstanding shares of ESI and all of

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the issued and outstanding shares of Common Stock and Preferred Stock, not already held by the Company, of SSI, a joint venture with TFX.

In connection with the Company's January 1999 acquisition of ESI and SSI from TFX, the Company assumed approximately \$6,500,000 of financing from Teleflex. In addition, the Company entered into a revolving credit facility with Teleflex. The agreement as amended, provides the Company up to \$27,500,000 of unsecured financing. The outstanding principal on this credit facility is due and payable on April 30, 2003. Interest under this agreement is payable at the prevailing Prime rate of PNC Bank, plus 1.25 percent. Interest was charged on the unpaid principal balance during 2000 at a weighted average of 10.5 percent and at a fixed rate of 8 percent during 1999. Interest charged by TFX amounted to \$1,684,000, \$649,000 and \$29,000 for the years ended December 31, 2000, December 26, 1999 and December 31, 1998, respectively.

The Company purchases from surgical instrument manufacturers the surgical instruments included in instrument sets that are utilized in providing the Company's services. Pilling Weck, a national surgical instrument manufacturer and a subsidiary of Teleflex, has agreed to supply surgical instruments to the Company. Purchases from Pilling Weck are made on commercial terms. Instrument purchases from Pilling Weck, including instruments financed under capital lease obligations, for the years ended December 31, 2000, December 26, 1999 and December 31, 1998, were approximately \$1,308,000, \$969,000, and \$556,000, respectively.

Teleflex also charged the Company fees for executive management, legal, treasury, tax and other financial services. Fees of \$350,000 were charged for the year ended December 31, 2000.

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The response to this item is incorporated by reference from the Section titled "Certain Relationships and Related Transactions" in the Registrant's Proxy Statement for its 2001 Annual Meeting of Shareholders.

Item 14. Exhibits, Financial Statement Schedules and Reports on Form 8-K

(a) Exhibits

(3) (i) (1) Restated Certificate of Incorporation filed May 21, 1999.

(3) (ii) (1) Amended and Restated By-Laws dated June 2, 1987 - filed as Exhibit (3) (4) to Annual Report for the year ended December 31, 1995 on Form 10-KSB and incorporated herein by reference.

(10) (1) 1994 Stock Option Plan - filed as Exhibit (10) (a) (1) to Annual Report for the year ended December 31, 1993 on Form 10-K and incorporated herein by reference.

(10) (2) 1996 Stock Option Plan - filed as Exhibit (10) (2) to the Annual Report for the year ended December 31, 1995 on Form 10-KSB and incorporated herein by reference.

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(10) (3) Lease dated November 20, 1995 with Barlich Realty, Inc. - filed as Exhibit (10) (4) to Annual Report for the year ended December 31, 1995 on Form 10-KSB and incorporated herein by reference.

(10) (4) Acquisition Agreement dated November 19, 1998 between the Company and TFX Equities Incorporated - filed as Exhibit (1) to Form 8-K dated January 26, 1999 and incorporated herein by reference. Incorporated.

(10) (5) Revolving Loan Account Agreement dated December 26, 1999 between the Company and Teleflex Incorporated.

(10) (6) Revolving Loan Account Agreement dated December 29, 2000 between the Company and Teleflex Incorporated.

27.1 Financial Data Schedule

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SIGNATURES

In accordance with Section 13 of 15(d) of the Securities Exchange Act of 1934, the registrant caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

March 30, 2001

SSI SURGICAL SERVICES, INC.

By: /s/ Todd Riddell

Name: Todd Riddell
Title: President and Chief Executive
Officer

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In accordance with the Securities Exchange Act of 1934, this report was signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

Name and Signature	Title(s)	Date
/s/ Todd Riddell ----- Todd Riddell	President, Chief Executive Officer (principal executive)	March 30, 2001
/s/ Paul A. D'Alesio ----- Paul A. D'Alesio	Treasurer, Chief Financial Officer (principal accounting officer)	March 30, 2001
/s/ John J. Sickler ----- John J. Sickler	Director, Chairman of the Board	March 30, 2001
/s/ Steven K. Chance ----- Steven K. Chance	Director and Secretary	March 30, 2001
/s/ D. Michael Deignan ----- D. Michael Deignan	Director	March 30, 2001
/s/ Douglas P. Gill ----- Douglas P. Gill	Director	March 30, 2001

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SSI Surgical Services, Inc.
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December 31, 2000

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Report of Independent Accountants

To the Board of Directors
of SSI Surgical Services, Inc.

In our opinion, the consolidated financial statements listed in the accompanying index present fairly, in all material respects, the financial position of SSI Surgical Services, Inc. at December 31, 2000 and December 26, 1999, and the results of their operations and their cash flows for the years ended December 31, 2000, December 26, 1999 and December 31, 1998, in conformity with accounting principles generally accepted in the United States of America. These financial statements are the responsibility of the Company's management; our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits of these statements in accordance with auditing standards generally accepted in the United States of America, which require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

PricewaterhouseCoopers LLP
Philadelphia, Pennsylvania
March 6, 2001

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SSI Surgical Services, Inc.
Consolidated Balance Sheets
December 31, 2000 and December 26, 1999
(Dollars in Thousands)

	Assets	2000	1999

Current assets:			
Cash and cash equivalents		\$ 71	\$ 254
Accounts receivable, net of allowance for doubtful accounts of \$470 and \$407		7,831	7,470
Prepaid expenses and other assets		1,512	1,143
		-----	-----
Total current assets		9,414	8,867
		-----	-----
Property and equipment, net		22,795	19,231
Intangibles, net		5,043	5,449
Other assets		158	140
		-----	-----
		\$ 37,410	\$ 33,687
		=====	=====

Liabilities and Shareholders' Equity

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Current liabilities:		
Accounts payable and accrued expenses	\$ 3,481	\$ 3,462
Obligations under capital leases	465	919
Total current liabilities	3,946	4,381
Obligations under capital leases	474	1,084
Payable to affiliates	20,590	13,750
Total liabilities	25,010	19,215
Preferred stock:		
Convertible redeemable cumulative preferred stock, par value \$.01 per share; Series B - authorized 1,000,000 shares, issued and outstanding 0 shares in 2000 and 1999	--	--
Shareholders' equity:		
Convertible preferred stock, par value \$.01 per share Series C - authorized 3,000,000 shares, issued and outstanding 0 shares in 2000 and 1999	--	--
Common stock, par value \$.01 per share, authorized 30,000,000 shares, issued and outstanding 19,491,216 shares	195	195
Additional paid-in capital	23,019	23,019
Accumulated deficit	(10,814)	(8,742)
Total shareholders' equity	12,400	14,472
Total liabilities and shareholders' equity	\$ 37,410	\$ 33,687

The accompanying notes are an integral part of these financial statements.

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SSI Surgical Services, Inc.
Consolidated Statements of Operations
For the Years Ended December 31, 2000, December 26, 1999
and December 31, 1998
(Dollars in Thousands, except per share)

	2000	1999	1998
Net revenues	\$ 31,935	\$ 30,792	\$ 7,560
Cost and expenses:			
Operating	25,393	23,888	4,942
Distribution	1,768	1,447	755
Selling, general and administrative	6,332	3,691	2,737
Interest	1,838	1,048	428
Total costs and expenses	35,331	30,074	8,862
Income (loss) before income taxes	(3,396)	718	(1,302)
Income taxes	(1,324)	197	--

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Net income (loss)	(2,072)	521	(1,302)
Preferred stock dividends	--	--	(168)
Net income (loss) applicable to common shareholders	\$ (2,072)	\$ 521	\$ (1,470)
Earnings (loss) per common share - basic	\$ (.11)	\$.03	\$ (.46)
Earnings (loss) per common share - diluted	\$ (.11)	\$.03	\$ (.46)
Weighted average common shares	19,491,216	19,491,216	3,170,496
Weighted average dilutive common shares	19,491,216	19,491,216	3,170,496

The accompanying notes are an integral part of these financial statements.

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SSI Surgical Services, Inc.
 Consolidated Statements of Shareholders' Equity
 For the Years Ended December 31, 2000 and December 26, 1999
 (Dollars in Thousands, except per share)

	Common stock		Preferred stock		Addition paid-in capita
	Shares	Amount	Shares	Amount	
Balance at December 31, 1998	3,170,496	\$ 32	1,945,625	\$ 1,946	\$ 7,56
Issuance of common stock	13,400,000	134			11,59
Preferred stock conversion	2,920,720	29	(1,945,625)	(1,946)	3,86
Net income for the year					
Balance at December 26, 1999	19,491,216	195	--	--	23,01
Net (loss) for year					
Balance at December 31, 2000	19,491,216	\$195	--	--	\$23,01

The accompanying notes are an integral part of these financial statements.

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SSI Surgical Services, Inc.
 Consolidated Statements of Cash Flow
 For the Years Ended December 31, 2000, December 26, 1999
 and December 31, 1998
 (Dollars in Thousands)

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	2000	1999	1998
Cash flows from operating activities:			
Net income (loss)	\$ (2,072)	\$ 521	\$ (1,302)
Adjustments to reconcile net income to net cash provided by (used in) operating activities:			
Depreciation and amortization	4,376	3,346	705
Doubtful debt expense	120	166	146
Loss on asset sales	--	--	71
Changes in operating assets and liabilities:			
Accounts receivable	(481)	(1,327)	279
Prepaid expenses and other assets	(387)	(400)	(131)
Accounts payable and accrued liabilities	19	(76)	681
	-----	-----	-----
Net cash provided by operating activities	1,575	2,230	449
	-----	-----	-----
Cash flows for investing activities:			
Net purchase of property and equipment	(7,534)	(5,656)	(1,809)
Proceeds from asset sales	--	--	1,181
	-----	-----	-----
Net cash used in investing activities	(7,534)	(5,656)	(628)
	-----	-----	-----
Cash flows from financing activities:			
Net repayments of revolving line of credit	--	(1,182)	(218)
Repayments of long-term debt	--	(50)	(902)
Net repayments under capital lease obligations	(1,064)	(877)	(226)
Proceeds from long-term debt	--	--	1,550
Net borrowings from affiliates	6,840	5,732	--
	-----	-----	-----
Net cash provided by financing activities	5,776	3,623	204
	-----	-----	-----
Increase/(decrease) in cash and cash equivalents	(183)	197	25
Cash and cash equivalents at beginning of period	254	57	32
	-----	-----	-----
Cash and cash equivalents at end of period	\$ 71	\$ 254	\$ 57
	=====	=====	=====

The accompanying notes are an integral part of these financial statements.

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SSI Surgical Services, Inc.
Notes to the Consolidated Financial Statements
December 31, 2000
(Dollars in Thousands, except per share)

1. Basis of Presentation and Nature of Business

The Company was incorporated in New York State on May 27, 1982, as Medical Sterilization, Inc ("MSI"). Effective January 8, 1999, the Company's headquarters and principal place of business was moved to Orlando, Florida. Effective May 28, 1999, the Company changed its name to SSI Surgical Services, Inc.

The Company provides both off-site and on-site reprocessing and sterilization of surgical instrument sets, gowns and towels, as well as certain other items requiring sterilization for healthcare providers,

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hospitals and other medical facilities. In addition the Company provides a broad range of surgical instrument management services that includes provision of endoscopic instrument sets and other specialty products to hospitals and other medical facilities, as well as on-site department management, staffing and other consulting services.

2. Acquisitions and Divestitures

1999 Acquisitions

In January, 1999, the Company acquired Endoscopy Specialists, Incorporated ("ESI"), a Florida-based surgical instrument management services firm, and the remaining 62.5% of the shares of SSI Surgical Services, Inc. ("SSI"), a joint venture in which the Company had held a 37.5% interest. Both businesses were acquired from TFX Equities, Incorporated ("TFX"), a wholly owned subsidiary of Teleflex Incorporated, a diversified publicly held company, in exchange for 13.4 million common shares of the Company and warrants for an additional 1.5 million common shares. TFX also converted the preferred shares it owned into common shares. As a result of this transaction, TFX now owns a majority of the outstanding common stock of the Company.

The acquisition was accounted for as a purchase. Net assets of the acquired businesses amounted to \$13,000 and the acquisition was financed through a combination of the equity transactions noted above and the assumption of approximately \$6,500 of intercompany financing from TFX. The excess purchase price over the fair market value of the assets acquired, approximately \$5,200 was recorded as goodwill and is being amortized to expense over 15 years.

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SSI Surgical Services, Inc.
Notes to the Consolidated Financial Statements
December 31, 2000
(Dollars in Thousands, except per share)

A summary of the net assets acquired follows:

Current assets	\$ 5,073
Current liabilities	(2,273)

Working capital	2,800

Property and equipment	10,640
Capital lease obligations	(401)

Net assets acquired	13,039

Affiliate borrowings assumed	6,508
Issuance of common stock	11,725

Purchase price	18,233

Excess purchase price (goodwill)	\$ 5,194
	=====

The following represents the unaudited pro forma results of operations as

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if the above noted acquisition had occurred at the beginning of the years presented:

	1998
Revenues	\$ 28,968
Net income (loss)	(1,402)
Net income (loss) per common share	\$ (0.07)

1998 Divestitures

On April 30, 1998, the Company completed divestiture of its electron beam accelerator and related equipment for the approximate sum of \$1,250. The proceeds of the sale were immediately used by the Company to repay the entire balance of a bank note against the beam for approximately \$402, and the residual monies were applied against the Company's financing agreement with its commercial lender.

3. Summary of Significant Accounting Policies

Fiscal Year

The Company's fiscal year now ends the last Sunday in December. There were 53 weeks in fiscal 2000 and 52 weeks in fiscal 1999, and 1998.

Cash and Cash Equivalents

All highly liquid investments with maturities of three months or less when purchased are classified as cash equivalents.

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SSI Surgical Services, Inc.
Notes to the Consolidated Financial Statements
December 31, 2000
(Dollars in Thousands, except per share)

Property and Equipment

Depreciation and amortization are computed using the straight-line method over the estimated useful lives of the related assets (ranging from 5 to 15 years) and, for leasehold improvements, over the shorter of the useful life of the improvement or the term of the lease. Shrinkage-loss of surgical instruments and containers is provided based upon incurred losses. Maintenance and repairs are charged to expense in the year incurred. Expenditures which significantly improve or extend the life of the assets are capitalized. Upon disposal, the cost and related accumulated depreciation are removed from the respective accounts and any resulting gain or loss is included in income.

Intangibles

Intangible assets consist principally of goodwill, which is the excess purchase price over the fair value of the assets of businesses acquired. Intangible assets are amortized on a straight-line basis over their estimated useful lives, not exceeding 15 years. Intangibles are stated net of accumulated amortization of \$1,052 and \$646 as of December 31, 2000 and December 26, 1999, respectively.

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Accounting for Long-Lived Assets

On a periodic basis or whenever changes in circumstances indicate that the carrying amount of an asset may not be recoverable, impairment is evaluated by comparing future cash flows (undiscounted and without interest charges) expected to result from the use or sale of the asset and its eventual disposition, to the carrying amount of the asset.

Earnings Per Share Calculation

In February 1997, the Financial Accounting Standards Board issued Statements of Financial Accounting Standards No. 128, "Earnings per Share" ("SFAS No. 128"), which establishes standards for computing and presenting earnings per share. SFAS No. 128 requires presentation of both basic and diluted earnings per share. Basic earnings per share is computed by dividing net income by the weighted average number of common shares outstanding during the period. Diluted earnings per share is computed in a similar manner except that the weighted average number of common shares is increased for dilutive securities. Potentially dilutive securities have been excluded from the 1999 and 1998 computations of diluted earnings per share since the result would be anti-dilutive.

Revenue Recognition

The Company records revenue for hospital services in accordance with contractual terms. Revenues for other sterilization services are recorded upon the completion of processing and/or shipment.

Concentration of Credit Risk

Trade receivables arise from long-term and short-term contracts with healthcare providers. To reduce credit risk, the Company performs credit evaluations of its customers but does not generally require collateral. Credit risk is affected by conditions within the economy and the healthcare industry. The Company establishes an allowance for doubtful accounts based upon factors surrounding the credit risk of specific customers, historical trends and other information.

For the fiscal years ended December 31, 2000 and December 26, 1999, 10 customers represented approximately 50% of the accounts receivable balance. The loss of any one customer could have a significant impact on the Company's financial position or results of operations.

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SSI Surgical Services, Inc.
Notes to the Consolidated Financial Statements
December 31, 2000
(Dollars in Thousands, except per share)

Income Taxes

The Company accounts for income taxes in accordance with Statement of Financial Accounting Standards ("SFAS") No. 109, "Accounting for Income Taxes", which requires that deferred income taxes be recognized for the tax consequences in future years of differences between the tax basis of assets and liabilities and their financial reporting amounts at each year-end based on enacted tax laws and statutory rates applicable to the periods in which the differences are expected to affect taxable income.

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Valuation allowances are established when necessary to reduce deferred tax assets to the amount expected to be realized.

Following the Company's acquisition of SSI and ESI from TFX in January 1999, the Company's taxable income is included in the consolidated tax returns of TFX under a tax sharing arrangement. For purposes of these financial statements, income taxes have been determined and allocated to the Company on a separate return basis.

Use of Estimates

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, 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.

Reclassifications

Certain items in the 1999 and 1998 financial statements have been reclassified to conform with the 2000 presentation of the financial statements.

4. Prepaid Expenses and Other Assets

The composition of prepaids and other assets is as follows:

	2000	1999
Consumables and supplies	\$1,180	\$ 807
Receivables	29	204
Other	303	132
	-----	-----
Total	\$1,512	\$1,143
	=====	=====

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SSI Surgical Services, Inc.
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5. Property and Equipment

The composition of property and equipment is as follows:

	2000	1999
Surgical instruments and gowns	\$23,213	\$18,133
Containers	1,973	1,764
Machinery and equipment	5,606	5,341
Leasehold improvements	3,441	1,802
Furniture and fixtures	790	685
	-----	-----
	35,023	27,725
Accumulated depreciation and amortization	12,228	8,494

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-----	-----
\$22,795	\$19,231
=====	=====

Depreciation and amortization expense for the years ended December 31, 2000, December 26, 1999 and December 31, 1998 was \$3,970 , \$2,940 and \$705, respectively.

The composition of assets recorded under capital leases is as follows:

	2000	1999
Surgical instruments	\$3,232	\$3,232
Machinery and equipment	685	685
Containers	335	335
	-----	-----
	4,252	4,252
Accumulated amortization	2,019	1,118
	-----	-----
	\$2,233	\$3,134
	=====	=====

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SSI Surgical Services, Inc.
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6. Accounts Payable and Accrued Expenses

The composition of accounts payable and accrued expenses is as follows:

	2000	1999
Trade accounts payable	\$2,098	\$1,614
Salary and other compensation benefits	563	848
Sales and other taxes	356	475
Professional fees	147	246
Other	317	279
	-----	-----
Total	\$3,481	\$3,462
	=====	=====

7. Employee Benefit Plans

The Company has historically maintained a 401(k) defined contribution plan which allows participants to make contributions based on a percentage of their earnings. During the year employees of the Company became eligible to participate in a successor 401(k) plan with TFX. The TFX plan allows participants to make pretax contributions which are matched on a proportionate basis. The Company's contributions for the fiscal years ended December 31, 2000, December 26, 1999 and December 31, 1998 were approximately \$105, \$81 and \$26, respectively.

8. Income Taxes

The provision for income taxes for the years ended December 31, 2000, December 26, 1999 and December 31, 1998, consisted of the following:

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	2000	1999	1998
Current:			
Federal	\$ (1,189)	\$ 176	\$ --
State	(135)	21	--
	-----	-----	-----
	\$ (1,324)	\$ 197	\$ --
	=====	=====	=====

Reconciliation between the statutory income tax rate and effective tax rate is summarized below:

	2000	1999	1998
Expected federal statutory tax rate (benefit)	(35)%	35%	(35)%
State and local taxes, net	(4)%	4%	(6)%
Limitation (utilization) of net operating losses	--	(12)%	41%
	---	---	---
Effective tax rate	(39)%	27%	--
	===	===	===

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SSI Surgical Services, Inc.
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Following the Company's acquisition of SSI and ESI from TFX in January 1999, the Company's taxable income is included in the consolidated tax returns of TFX under a tax sharing arrangement. For purposes of these financial statements, income taxes have been determined and allocated to the Company on a separate return basis.

The use of net operating loss carryforwards generated by the Company prior to the 1999 acquisitions of approximately \$9 million are subject to annual limitations imposed by the Internal Revenue Code. Accordingly, a significant portion of the net operating loss carryforwards generated in prior years will not be available to the Company because of changes in ownership occurring during 1999. Realization of the remaining deferred tax assets associated with the net operating loss carryforward is dependent upon generating sufficient taxable income prior to their expiration. Management believes that there is risk that these operating loss carryforwards may expire unused, and, accordingly, has continued to maintain a valuation allowance equal to the net deferred tax asset amount.

The Company's federal net operating loss carryforwards will expire in varying amounts from 2000 through 2013.

9. Obligations Under Capital Leases

Future minimum payments as of December 31, 2000 under capital leases for property and equipment, including surgical instruments, are as follows:

2001	\$ 523
2002	455
2003	36

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Total minimum lease payments	1,014
Less amount representing interest	75

Present value of minimum lease payment	939
Less current portion	465

	\$ 474
	=====

10. Common and Preferred Stock

On January 8, 1997, TFX, a wholly owned subsidiary of Teleflex, a diversified publicly held company, purchased the Series B and Series C Convertible Preferred Stock from the previous owners of such stock. This Series B Convertible Preferred Stock was convertible at the option of the holder into Common Stock or cash, at \$2.00 per share maturing December 31, 1999. Dividends accrued on the Series B Convertible Preferred Stock at the rate of 8% per year. These dividends were paid in cash or accrued at the option of the Company. If not paid, accrued dividends were added to the face amount of the Series B Convertible Preferred Stock at the time of conversion. In January 1999, TFX converted the face amount of the Series B Convertible Preferred Stock into 975,095 shares of Common Stock.

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SSI Surgical Services, Inc.
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The Series C Convertible Preferred Stock was automatically convertible at \$1.00 per share into 1,945,625 shares of Common Stock on December 30, 2004, or earlier at the option of the holder. There were no dividends payable nor accrued on the Series C Convertible Preferred Stock. In January 1999, TFX converted the Series C Convertible Preferred Stock into 1,945,625 shares of Common Stock.

In January 1999, the Company increased the number of shares of authorized Common Stock, par value \$.01 per share from 10,000,000 shares to 30,000,000 shares, and issued 13,400,000 shares of Common Stock to TFX in connection with an acquisition. See Note 2.

11. Common Stock Warrants

From time to time, the Company has issued Common Stock warrants to directors, lending institutions, and other third parties. At December 31, 2000, the Company had aggregate warrants outstanding to purchase 1,525,000 shares of Common Stock at a price between \$1.38 and \$2.00 per share with expiration dates through December 2005.

12. Stock Option Plans

On September 29, 1994, the Board of Directors approved the 1994 Stock Option Plan and authorized the issuance of up to 1,000,000 shares of Common Stock of the Company upon the exercise of Incentive and Non-Qualified Stock Options which may be granted pursuant to the Plan. The Plan was approved by the shareholders at a meeting held on July 20, 1995. In 1996, the Board of Directors authorized another 500,000 shares of Common Stock to be issued under the 1996 Plan, which was approved by

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shareholders on May 25, 1996. On February 24, 2000, the Board of Directors authorized 500,000 shares of common stock to be issued under the 2000 Stock Plan, which was approved by shareholders on May 22, 2000.

Incentive Stock Options may be granted only to key employees, including officers or directors who are employees of the Company, and are exercisable immediately or in installments following a period of two (2) years after grant but within ten (10) years from the date of grant (five (5) years in the case of options granted to holders of more than 10% of the Company's voting stock). The exercise price must be at least equal to the fair market value of the Company's Common Stock on the date granted (110% in the case of 10% shareholders). At December 31, 2000, Incentive Stock Options for an aggregate of 340,670 shares of Common Stock at exercise prices ranging from \$0.56 to \$1.28 were outstanding.

Non-Qualified Stock Options may be granted under the Plans or otherwise to officers, directors, consultants and key employees. The exercise price is not limited and may be below the fair market value of the Company's Common Stock on the date of grant. At December 31, 2000, Non-Qualified Stock Options for an aggregate of 675,000 shares of Common Stock at exercise prices ranging from \$0.56 to \$1.50 were outstanding.

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The Company applies the disclosure-only provisions of SFAS 123 "Accounting for Stock-Based Compensation," continuing to measure compensation cost in accordance with APB 25 "Accounting for Stock Issued to Employees." Had compensation cost been determined based on the fair value at the grant date consistent with the provisions of SFAS 123, the Company's pro forma net income (loss) and earnings per share for the years ended December 31, 2000, December 26, 1999 and December 31, 1998 would have been:

	2000	1999	1998
Net income (loss) attributable to common shareholders as reported	\$(2,072)	\$ 521	\$(1,470)
Pro forma income (loss)	\$(2,086)	\$ 400	\$(1,491)
Earnings per Common share as reported - Diluted	\$ (0.11)	\$0.02	\$ (0.46)
Pro forma Earnings per share - Diluted	\$ (0.11)	\$0.02	\$ (0.46)

The weighted average fair value of each option has been estimated on the date of grant using the Black-Scholes options pricing model with the following weighted average assumptions used for grants in 2000, 1999 and 1998, respectively; no dividend yield; expected volatility of 90%; risk-free interest rate of 5.65% to 6.61%; and expected lives ranging from approximately 4.5 to 5 years. Weighted averages are used because of varying assumed exercise dates.

A summary of the status of the Company's stock option plans as of December 31, 2000 and December 26, 1999, and changes during the years ended on those dates is presented below.

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	2000		1999	
	Options	Weighted Average Exercise Price	Options	Weighted Average Exercise Price
Outstanding at beginning of year	1,129,670	\$.85	1,155,670	\$.87
Granted	452,500	1.43	385,000	.91
Exercised	--	--	--	--
Canceled/Expired	(566,500)	1.36	(411,000)	.96
	-----		-----	
Outstanding at end of year	1,015,670	.83	1,129,670	.85
	=====		=====	
Options exercisable at end of year	817,170		847,670	
	=====		=====	
Weighted average fair value of options granted during the year	\$.52		\$.51	

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SSI Surgical Services, Inc.
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The following table summarizes information about stock options outstanding at December 31, 2000:

Options Outstanding	Weighted Average Remaining Contractual Life	Options Exercisable	Weighted Average Exercise Prices
27,500	10	--	\$0.56
118,000	9	29,500	0.69
608,000	4	608,000	0.74
30,000	8	30,000	1.00
162,170	7	79,670	1.06
40,000	7	40,000	1.28
30,000	7	30,000	1.50
-----		-----	
1,015,670		817,170	

13. Related Party Transactions

The Company purchases from surgical instrument manufacturers the surgical instruments included in instrument sets that are utilized in providing certain of the Company's services. Pilling Weck, a national surgical instrument manufacturer and a subsidiary of Teleflex, has agreed to supply

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surgical instruments to the Company. Purchases from Pilling Weck are made on commercial terms. Instrument purchases from Pilling Weck, including instruments financed under capital lease obligations, for the years ended December 31, 2000, December 26, 1999 and December 31, 1998, were approximately \$1,308, \$969, and \$556, respectively.

In connection with the Company's January 1999 acquisition of ESI and SSI from TFX, the Company assumed approximately \$6,500 of financing from Teleflex. In addition, the Company entered into a revolving credit facility with Teleflex. The agreement as amended, provides the Company up to \$27,500 of unsecured financing. The outstanding principal on this credit facility is due and payable on April 30, 2003. Interest under this agreement is payable at the prevailing Prime rate of PNC Bank, plus 1.25 percent. Interest was charged on the unpaid principal balance during 2000 at a weighted average of 10.5% and at a fixed rate of 8% during 1999. Interest charged by TFX amounted to \$1,684, \$649 and \$29 for the years ended December 31, 2000, December 26, 1999 and December 31, 1998, respectively.

Teleflex also charged the Company fees for executive management, legal, treasury, tax and other financial services. Fees of \$350 were charged for each of the years ended December 31, 2000 and December 26, 1999, respectively.

See Notes 8 and 10 for other related party transactions.

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SSI Surgical Services, Inc.
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14. Commitments and Contingencies:

Minimum annual rental commitments for non-cancelable operating leases, principally for the Company's off-site sterilization facilities, at December 31, 2000 are as follows:

2001	\$ 2,026
2002	1,839
2003	1,151
2004	984
2005	874
Thereafter	3,753

	\$10,627
	=====

Rent expense, net of sublease income of approximately \$263, \$293 and \$86, was approximately \$1,564, \$1,521 and \$389 for the years ended December 31, 2000, December 26, 1999 and December 31, 1998, respectively.

The operating lease commitments summarized above do not include any amounts with respect to the Company's commitments to make certain repairs at its Syosset, NY facility.

The Company is subject to a variety of claims and suits that arise from time to time out of the ordinary course of its business. The Company does

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not believe that these actions will have a material impact on the Company's business, financial condition or results of operations.

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