

PharMerica CORP
Form 10-Q
May 07, 2015

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, DC 20549

FORM 10-Q

(Mark One)

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended March 31, 2015

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 Number: 001-33380

PHARMERICA CORPORATION

(Exact name of registrant as specified in its charter)

Delaware

(State or Other Jurisdiction of Incorporation or Organization)

87-0792558

(I.R.S. Employer Identification No.)

1901 Campus Place

Louisville, KY

(Address of Principal Executive Offices)

40299

(Zip Code)

(502) 627-7000

(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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer Accelerated filer Non-accelerated filer

Smaller reporting company

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(Do not check if a smaller reporting company)

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes No

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

Class of Common Stock	Outstanding at May 1, 2015
Common stock, \$0.01 par value	30,387,961 shares

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PHARMERICA CORPORATION

CONDENSED CONSOLIDATED INCOME STATEMENTS

For the Three Months Ended March 31, 2014 and 2015

(Unaudited)

(In millions, except share and per share amounts)

	Three Months Ended March 31,	
	2014	2015
Revenues	\$452.2	\$511.6
Cost of goods sold	372.2	423.0
Gross profit	80.0	88.6
Selling, general and administrative expenses	57.2	59.0
Amortization expense	4.4	6.6
Merger, acquisition, integration costs and other charges	5.0	3.8
Settlement, litigation and other related charges	1.2	2.3
Restructuring and impairment charges	1.9	0.1
Operating income	10.3	16.8
Interest expense, net	2.5	1.4
Income before income taxes	7.8	15.4
Provision for income taxes	3.0	5.8
Net income	\$4.8	\$9.6
Earnings per common share:		
Basic	\$0.16	\$0.32
Diluted	\$0.16	\$0.31
Shares used in computing earnings per common share:		
Basic	29,753,024	30,185,230
Diluted	30,354,067	30,733,381

See accompanying Notes to Condensed Consolidated Financial Statements

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PHARMERICA CORPORATION

CONDENSED CONSOLIDATED BALANCE SHEETS

As of December 31, 2014 and March 31, 2015

(Unaudited)

(In millions, except share and per share amounts)

	(As Adjusted) December 31, 2014	March 31, 2015
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 33.3	\$ 25.2
Accounts receivable, net	195.8	199.5
Inventory	135.7	122.6
Deferred tax assets, net	42.2	39.9
Income taxes receivable	-	0.5
Prepays and other assets	90.4	62.0
	497.4	449.7
Equipment and leasehold improvements	196.4	198.6
Accumulated depreciation	(125.0)	(128.5)
	71.4	70.1
Goodwill	318.0	336.3
Intangible assets, net	177.6	179.2
Other	4.1	4.1
	\$ 1,068.5	\$ 1,039.4
 LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	\$ 96.0	\$ 81.6
Salaries, wages and other compensation	35.1	32.7
Current portion of long-term debt	6.4	8.9
Income taxes payable	2.3	-
Other accrued liabilities	36.4	31.6
	176.2	154.8
Long-term debt	344.9	317.1
Other long-term liabilities	57.7	68.6
Deferred tax liabilities	11.6	11.8
Commitments and contingencies (See Note 5)		
Stockholders' equity:		
Preferred stock, \$0.01 par value per share; 1,000,000 shares authorized and no shares issued, December 31, 2014 and March 31, 2015	-	-
Common stock, \$0.01 par value per share; 175,000,000 shares authorized; 32,725,786 and 33,137,201 shares issued as of December 31, 2014 and March 31, 2015, respectively	0.3	0.3
Capital in excess of par value	394.1	397.9
Retained earnings	117.0	126.6
	(33.3)	(37.7)

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Treasury stock at cost, 2,617,305 and 2,760,633 shares at December 31, 2014 and March 31, 2015, respectively

478.1	487.1
\$ 1,068.5	\$ 1,039.4

See accompanying Notes to Condensed Consolidated Financial Statements

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PHARMERICA CORPORATION

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

For the Three Months Ended March 31, 2014 and 2015

(Unaudited)

(In millions)

	Three Months Ended March 31,	
	2014	2015
Cash flows provided by (used in) operating activities:		
Net income	\$4.8	\$9.6
Adjustments to reconcile net income to net cash provided by (used in) operating activities:		
Depreciation	4.8	5.8
Amortization	4.4	6.6
Merger, acquisition, integration costs and other charges	2.5	-
Stock-based compensation and deferred compensation	2.1	2.0
Amortization of deferred financing fees	0.7	0.1
Deferred income taxes	4.0	2.3
(Gain) Loss on disposition of equipment	(0.1)	0.1
Gain on acquisition/disposition	(0.3)	-
Other	0.1	-
Change in operating assets and liabilities:		
Accounts receivable, net	13.1	(2.3)
Inventory	2.8	13.2
Prepays and other assets	(2.1)	27.4
Accounts payable	(21.8)	(14.1)
Salaries, wages and other compensation	(4.7)	(2.4)
Other accrued liabilities	(1.9)	(2.2)
Change in income taxes payable	(1.3)	0.1
Excess tax benefit from stock-based compensation	(2.7)	(1.9)
Net cash provided by operating activities	4.4	44.3
Cash flows provided by (used in) investing activities:		
Purchase of equipment and leasehold improvements	(6.0)	(4.6)
Acquisitions, net of cash acquired	(10.7)	(20.5)
Cash proceeds from dispositions	0.4	0.1
Net cash used in investing activities	(16.3)	(25.0)
Cash flows provided by (used in) financing activities:		
Repayments of long-term debt	(3.1)	-
Net activity of long-term revolving credit facility	2.8	(25.0)
Issuance of common stock	2.5	0.3
Treasury stock at cost	(4.5)	(4.4)
Excess tax benefit from stock-based compensation	2.7	1.9
Repayments of capital lease obligations	-	(0.2)
Net cash provided by (used in) financing activities	0.4	(27.4)
Change in cash and cash equivalents	(11.5)	(8.1)

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Cash and cash equivalents at beginning of period	24.2	33.3
Cash and cash equivalents at end of period	\$12.7	\$25.2
Supplemental information:		
Cash paid for interest	\$1.8	\$2.1
Cash paid for taxes	\$0.4	\$4.7

See accompanying Notes to Condensed Consolidated Financial Statements

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PHARMERICA CORPORATION

CONDENSED CONSOLIDATED STATEMENT OF STOCKHOLDERS' EQUITY

For the Three Months Ended March 31, 2015

(Unaudited)

(In millions, except share amounts)

	Common Stock		Capital in Excess of Par	Retained Earnings	Treasury Stock	Total
	Shares	Amount	Value			
Balance at December 31, 2014	30,108,481	\$ 0.3	\$ 394.1	\$ 117.0	\$ (33.3)	\$ 478.1
Net income				9.6		9.6
Exercise of stock options and tax components of stock-based awards, net	105,314	-	2.1	-	-	2.1
Vested restricted stock units	163,281	-	-	-	-	-
Vested performance stock units	142,820	-	-	-	-	-
Treasury stock at cost	(143,328)	-	-	-	(4.4)	(4.4)
Stock-based compensation - non-vested restricted stock	-	-	1.6	-	-	1.6
Stock-based compensation - stock options	-	-	0.1	-	-	0.1
Balance at March 31, 2015	30,376,568	\$ 0.3	\$ 397.9	\$ 126.6	\$ (37.7)	\$ 487.1

See accompanying Notes to Condensed Consolidated Financial Statements

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PHARMERICA CORPORATION

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

NOTE 1—ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Business

PharMerica Corporation together with its subsidiaries (the "Corporation"), is a leading provider of pharmacy services. The Corporation serves the long-term care, hospital pharmacy management services, specialty home infusion and specialty oncology pharmacy markets. The Corporation operates 97 institutional pharmacies, 15 specialty home infusion pharmacies, and 5 specialty oncology pharmacies in 45 states. The Corporation's customers are institutional healthcare providers, such as skilled nursing facilities, assisted living facilities, hospitals, individuals receiving in-home care and patients with cancer.

Operating Segments

The Corporation consists of three operating segments: institutional pharmacy, specialty infusion services and specialty oncology pharmacy. Management believes the nature of the products and services are similar, the payers for the products and services are common among the segments and all segments operate in the healthcare regulatory environment. In addition, the segments are economically similar. Accordingly, management has aggregated the three operating segments into one reporting segment.

Principles of Consolidation

All intercompany transactions have been eliminated.

Basis of Presentation

The accompanying condensed consolidated financial statements have been prepared in accordance with the instructions to Form 10-Q and Article 10 of Regulation S-X and do not include all of the information and disclosures required by generally accepted accounting principles in the United States ("U.S. GAAP") for complete financial statements. Accordingly, the accompanying condensed consolidated financial statements should be read in conjunction with the consolidated financial statements of the Corporation and related footnotes for the year ended December 31, 2014, included in the Corporation's Annual Report on Form 10-K. The balance sheet as of December 31, 2014 has been derived from the audited consolidated financial statements adjusted for acquisition related measurement period adjustments.

The results of operations for the interim periods are not necessarily indicative of results of operations for a full year. It is the opinion of management that all necessary adjustments for a fair presentation of the condensed consolidated financial statements for the interim periods have been made and are of a normal recurring nature.

Use of Estimates

The accompanying condensed consolidated financial statements have been prepared in accordance with U.S. GAAP which requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities and disclosure of contingent liabilities as of the date of the condensed consolidated financial statements and the reported amounts of revenues and expenses during the reporting periods. Significant estimates are involved in

collectability of accounts receivable, revenue recognition, inventory valuation, supplier rebates, the valuation of long-lived assets and goodwill, and accounting for income taxes. Actual amounts may differ from these estimates.

Fair Value of Financial Instruments

Fair value is an exit price, representing the amount that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants. As such, fair value is a market-based measurement that should be determined based upon assumptions that market participants would use in pricing an asset or liability. As a basis for considering such assumptions, the Corporation follows a three-tier fair value hierarchy, which prioritizes the inputs used in measuring fair value as follows:

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PHARMERICA CORPORATION

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

(Unaudited)

NOTE 1—ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Level 1: Observable inputs such as quoted prices in active markets;

Level 2: Inputs, other than quoted prices in active markets, that are observable either directly or indirectly; and

Level 3: Unobservable inputs for which there is little or no market data, which require the Corporation to develop its own assumptions.

Assets and liabilities measured at fair value are based on one or more of the following three valuation techniques:

A. Market approach: Prices and other relevant information generated by market transactions involving identical or comparable assets or liabilities.

B. Cost approach: Amount that would be required to replace the service capacity of an asset (replacement cost).

C. Income approach: Techniques to convert future amounts to a single present amount based upon market expectations (including present value techniques, option-pricing and excess earnings models).

The financial liabilities recorded at fair value at December 31, 2014 and March 31, 2015 are set forth in the tables below (dollars in millions):

As of December 31, 2014	Asset (Liability)	Level 1	Level 2	Level 3	Valuation Technique
Financial Liability					
Deferred Compensation Plan	\$ (8.0)	\$ -	\$ (8.0)	\$-	A
Contingent Consideration	(1.1)	-	-	(1.1)	C
Mandatorily Redeemable Interest	(8.3)	-	-	(8.3)	C

As of March 31, 2015