

PharMerica CORP  
Form 10-Q  
May 07, 2010  
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**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, 2010

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)

**1901 Campus Place**

**87-0792558**  
(I.R.S. Employer  
Identification No.)

**40299**

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**Louisville, KY**  
(Address of Principal Executive Offices)

**(502) 627-7000**

(Zip Code)

**(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   
(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.

<b>Class of Common Stock</b>	<b>Outstanding at April 30, 2010</b>
Common stock, \$0.01 par value	30,645,169 shares

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**CONDENSED CONSOLIDATED INCOME STATEMENTS**

**For the Three Months Ended March 31, 2009 and 2010**

**(Unaudited)**

**(In millions, except share and per share amounts)**

	Three Months Ended March 31,	
	2009	2010
Revenues	\$ 468.2	\$ 462.2
Cost of goods sold	396.8	399.5
Gross profit	71.4	62.7
Selling, general and administrative expenses	50.9	44.2
Amortization expense	1.8	2.3
Integration, merger and acquisition related costs and other charges	2.0	1.2
Operating income	16.7	15.0
Interest expense, net	3.2	0.9
Income before income taxes	13.5	14.1
Provision for income taxes	5.3	5.7
Net income	\$ 8.2	\$ 8.4
Earnings per common share:		
Basic	\$ 0.27	\$ 0.28
Diluted	\$ 0.27	\$ 0.27
Shares used in computing earnings per common share:		
Basic	30,211,699	30,396,520
Diluted	30,311,930	30,571,049

See accompanying Notes to Condensed Consolidated Financial Statements

**Table of Contents****PHARMERICA CORPORATION****CONDENSED CONSOLIDATED BALANCE SHEETS**

As of December 31, 2009 and March 31, 2010

(Unaudited)

(In millions, except share and per share amounts)

	December 31, 2009	March 31, 2010
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	\$ 51.2	\$ 73.5
Accounts receivable, net	215.3	204.2
Inventory	79.8	77.1
Deferred tax assets	39.8	41.4
Prepays and other assets	23.6	19.8
	409.7	416.0
Equipment and leasehold improvements	119.6	122.0
Accumulated depreciation	(59.0)	(63.5)
	60.6	58.5
Deferred tax assets, net	21.0	14.6
Goodwill	140.1	140.6
Intangible assets, net	90.8	88.8
Other	2.1	1.8
	\$ 724.3	\$ 720.3
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
Current liabilities:		
Accounts payable	\$ 59.6	\$ 48.5
Salaries, wages and other compensation	30.9	29.5
Other accrued liabilities	6.4	6.7
	96.9	84.7
Long-term debt	240.0	240.0
Other long-term liabilities	16.5	15.4
Commitments and contingencies (See Note 6)		
Stockholders' equity:		
Preferred stock, \$0.01 par value per share; 1,000,000 shares authorized and no shares issued, December 31, 2009 and March 31, 2010	-	-
Common stock, \$0.01 par value per share; 175,000,000 shares authorized; 30,619,830 shares and 30,632,218 shares issued and outstanding as of December 31, 2009 and March 31, 2010, respectively	0.3	0.3
Capital in excess of par value	344.8	345.7
Retained earnings	25.8	34.2

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	370.9	380.2
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	\$ 724.3	\$ 720.3
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See accompanying Notes to Condensed Consolidated Financial Statements

**Table of Contents****PHARMERICA CORPORATION****CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS****For the Three Months Ended March 31, 2009 and 2010****(Unaudited)****(In millions)**

	<b>Three Months Ended March 31,</b>	
	<b>2009</b>	<b>2010</b>
Cash flows provided by operating activities:		
Net income	\$ 8.2	\$ 8.4
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	4.7	4.6
Amortization	1.8	2.3
Integration, merger and acquisition related costs and other charges	0.2	0.1
Stock-based compensation	0.6	0.8
Amortization of deferred financing fees	0.1	0.2
Deferred income taxes	4.8	4.8
Loss on disposition of equipment	0.1	-
Other	(0.1)	0.1
Change in operating assets and liabilities:		
Accounts receivable, net	0.6	11.1
Inventory and other assets	1.4	2.6
Prepays and other assets	3.1	3.8
Accounts payable	(8.0)	(11.5)
Salaries, wages and other compensation	(5.0)	(2.8)
Other accrued liabilities	1.4	0.2
<b>Net cash provided by operating activities</b>	<b>13.9</b>	<b>24.7</b>
Cash flows used in investing activities:		
Purchases of equipment and leasehold improvements	(3.2)	(2.2)
Other	-	(0.1)
<b>Net cash used in investing activities</b>	<b>(3.2)</b>	<b>(2.3)</b>
Cash flows provided by (used in) financing activities:		
Repayments of capital lease obligations	(0.1)	(0.2)
Issuance of common stock	0.1	0.1
Tax benefit from stock-based compensation	0.1	-
<b>Net cash provided by (used in) financing activities</b>	<b>0.1</b>	<b>(0.1)</b>
<b>Change in cash and cash equivalents</b>	<b>10.8</b>	<b>22.3</b>
Cash and cash equivalents at beginning of period	41.3	51.2
<b>Cash and cash equivalents at end of period</b>	<b>\$ 52.1</b>	<b>\$ 73.5</b>
Supplemental information:		
Cash paid for interest	\$ 3.3	\$ 0.8

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Cash paid (refund) for taxes	\$ 0.3	\$ (0.2)
Supplemental schedule of non-cash activities:		
Capital lease obligations	\$ 1.8	\$ 0.4
Integrity Working Capital Adjustment (Note 2)	\$ -	\$ 0.5

See accompanying Notes to Condensed Consolidated Financial Statements



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**PHARMERICA CORPORATION**  
**CONDENSED CONSOLIDATED STATEMENTS OF STOCKHOLDERS EQUITY**

**For the Three Months Ended March 31, 2010**

**(Unaudited)**

**(In millions, except share amounts)**

	Common Stock		Capital in Excess of Par Value	Retained Earnings	Total
	Shares	Amount			
Balance at December 31, 2009	30,619,830	\$ 0.3	\$ 344.8	\$ 25.8	\$ 370.9
Comprehensive income:					
Net income				8.4	8.4
Total comprehensive income				8.4	8.4
Grant and forfeiture of non-vested restricted stock	4,695	-	-	-	-
Exercise of stock options	7,693	-	0.1	-	0.1
Stock-based compensation - restricted stock	-	-	0.4	-	0.4
Stock-based compensation - stock options	-	-	0.4	-	0.4
Balance at March 31, 2010	30,632,218	\$ 0.3	\$ 345.7	\$ 34.2	\$ 380.2

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 (the Corporation) is an institutional pharmacy services company that services healthcare facilities and provides pharmacy management services to hospitals. The Corporation is the second largest institutional pharmacy services company in the United States, operating 91 institutional pharmacies in 41 states. The Corporation's customers are typically institutional healthcare providers, such as nursing centers, assisted living facilities, hospitals and other long-term alternative care settings and generally the primary source of supply of pharmaceuticals to its customers. The Corporation also provides pharmacy management services to 86 hospitals in the United States.

*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 compl