

PharMerica CORP
Form 10-Q
November 09, 2007
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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 September 30, 2007

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
Louisville, KY
(Address of principal executive offices)

87-0792558
(I.R.S. Employer
Identification No.)
40299
(Zip Code)

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(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 is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of accelerated filer and large accelerated filer in Rule 12b-2 of the Exchange Act (Check one).

Large accelerated filer Accelerated filer Non-accelerated filer

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 November 2, 2007
Common stock, \$0.01 par value	30,364,247 shares

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EXPLANATORY NOTE

PharMerica Corporation (the Corporation), formerly known as Safari Holding Corporation, was formed in October 2006 by Kindred Healthcare, Inc. (Kindred) and AmerisourceBergen Corporation (AmerisourceBergen) for the purpose of consummating the transactions contemplated by a Master Transaction Agreement dated October 25, 2006, as amended (the Master Agreement). Pursuant to the Master Agreement, Kindred and AmerisourceBergen, through a series of transactions (collectively, the Pharmacy Transaction), combined their respective institutional pharmacy businesses, Kindred Pharmacy Services, Inc. (KPS) and PharMerica Long-Term Care (PharMerica LTC), into a new, stand-alone, publicly traded company. The Pharmacy Transaction was consummated on July 31, 2007. On August 1, 2007, the Corporation began trading on the New York Stock Exchange under the symbol PMC.

For accounting purposes, the Pharmacy Transaction was treated as an acquisition by KPS of PharMerica LTC with KPS being considered the accounting acquirer based on the application of criteria specified in Statement of Financial Accounting Standards No. 141, Business Combinations. As a result, the historical financial statements of KPS became the historical financial statements of the Corporation.

The accompanying unaudited condensed consolidated financial statements of the Corporation included in this Quarterly Report on Form 10-Q as of September 30, 2007 and December 31, 2006 and for the three and nine month periods ended September 30, 2007 and 2006 reflect the financial position, results of operations and cash flows of KPS on a stand-alone basis prior to August 1, 2007. Beginning August 1, 2007, KPS was no longer a wholly-owned subsidiary of Kindred. Both KPS and PharMerica LTC became wholly owned subsidiaries of the Corporation on July 31, 2007. All historical financial information prior to August 1, 2007 is that of KPS on a stand-alone basis. The financial position, results of operations and cash flows of PharMerica LTC are included in the results of operations of the Corporation beginning August 1, 2007.

Prior to consummation of the Pharmacy Transaction, the Corporation had no assets or liabilities and conducted no business activity.

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	Three Months Ended		Nine Months Ended	
	September 30, 2007	September 30, 2006	September 30, 2007	September 30, 2006
Revenues	\$ 377,533	\$ 169,142	\$ 725,644	\$ 483,383
Cost of goods sold	324,157	142,658	629,984	406,916
Effect of change in estimate on cost of goods sold	(3,102)		(3,102)	
Total cost of goods sold	321,055	142,658	626,882	406,916
Gross profit	56,478	26,484	98,762	76,467
Selling, general and administrative expenses (excluding items shown below)	46,867	16,880	81,249	48,698
Amortization expense	1,399	874	3,425	2,462
Integration, merger related costs and other charges	46,828	1,086	52,523	1,086
Operating income (loss)	(38,616)	7,644	(38,435)	24,221
Interest expense (income), net	3,064	(22)	3,056	(90)
Income (loss) before income taxes	(41,680)	7,666	(41,491)	24,311
Provision (benefit) for income taxes	(14,686)	3,028	(14,609)	9,603
Net income (loss)	\$ (26,994)	\$ 4,638	\$ (26,882)	\$ 14,708
Earnings (loss) per common share:				
Basic	\$ (1.07)	NM	\$ (1.46)	NM
Diluted	\$ (1.07)	NM	\$ (1.46)	NM
Shares used in computing earnings (loss) per common share:				
Basic	25,112,843	NM	18,407,991	NM
Diluted	25,112,843	NM	18,407,991	NM

See accompanying Notes to Condensed Consolidated Financial Statements

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

As of September 30, 2007 and December 31, 2006

Unaudited

(Dollars in thousands, except share amounts)

	September 30,	December 31,
ASSETS	2007	2006
Current assets:		
Cash and cash equivalents	\$ 29,666	\$ 3,730
Accounts receivable, net	217,500	70,364
Inventories	79,221	27,975
Deferred tax assets	48,631	7,484
Prepays and other assets	22,578	2,896
	397,596	112,449
Equipment and leasehold improvements	86,270	38,692
Accumulated depreciation	(23,833)	(14,316)
	62,437	24,376
Goodwill	158,369	45,239
Intangible assets, net	79,083	38,008
Other	4,445	16,712
	\$ 701,930	\$ 236,784
LIABILITIES AND STOCKHOLDERS EQUITY		
Current liabilities:		
Accounts payable	\$ 55,915	\$ 15,811
Salaries, wages and other compensation	38,825	14,943
Other accrued liabilities	14,644	2,547
	109,384	33,301
Long-term debt and capital lease obligations	265,016	
Deferred tax liabilities	8,577	1,359
Other long term liabilities	7,666	215
Commitments and contingencies (See Note 6)		
Minority interest	4,397	3,608
Stockholders' equity:		
Preferred stock, \$.01 par value; 1,000,000 shares authorized and no shares issued, September 30, 2007 and December 31, 2006		

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Common stock, \$.01 par value; 175,000,000 shares authorized; 30,364,247 shares issued and outstanding, September 30, 2007 and \$100 par value; 10 shares issued and outstanding, December 31, 2006	304	1
Capital in excess of par value	307,773	133,683
Accumulated other comprehensive loss	(1,187)	
Retained earnings		64,617
	306,890	198,301
	\$ 701,930	\$ 236,784

See accompanying Notes to Condensed Consolidated Financial Statements

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	Three Months Ended		Nine Months Ended	
	September 30, 2007	September 30, 2006	September 30, 2007	September 30, 2006
Cash flows from operating activities:				
Net income (loss)	\$ (26,994)	\$ 4,638	\$ (26,882)	\$ 14,708
Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities:				
Depreciation	4,480	1,720	8,029	3,786
Amortization	1,399	874	3,426	2,462
Provision for bad debt	6,264	1,919	10,652	6,708
Integration, merger related costs and other charges	34,730		34,730	
Stock-based compensation	437	152	656	502
Amortization of deferred financing fees	67		67	
Deferred income taxes	(19,608)	50	(22,691)	(1,118)
Loss (gain) on sales of property plant and equipment	787	(3)	930	502
Other	435	(654)	(525)	(2,341)
Change in operating assets and liabilities:				
Accounts receivable	(7,532)	(8,639)	(28,301)	(21,169)
Inventories and other assets	(1,750)	(3,334)	(394)	(3,313)
Prepays and other assets	(7,139)	(3,089)	(8,197)	(958)
Accounts payable	21,695	(492)	27,287	81
Salaries, wages and other compensation	6,404	2,818	7,539	3,883
Other accrued liabilities	6,392	255	6,733	101
Net cash provided by (used in) operating activities	20,067	(3,785)	13,059	3,834
Cash flows from investing activities:				
Purchase of equipment and leasehold improvements	(11,177)	(2,581)	(14,502)	(6,857)
Acquisitions, net of cash acquired	(3,945)	(13,000)	(4,846)	(13,000)
Other	26	122	343	1,827
Net cash used in investing activities	(15,096)	(15,459)	(19,005)	(18,030)
Cash flows from financing activities:				
Net contributions from (to) Former Parent	8,028	15,791	17,279	11,517
Proceeds from long-term revolving credit facility	20,000		20,000	
Repayments of long-term revolving credit facility	(20,000)		(20,000)	
Proceeds from long-term debt	275,000			