

PharMerica CORP  
Form 10-Q  
October 30, 2008  
Table of Contents

**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, 2008

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

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

40299

Edgar Filing: PharMerica CORP - Form 10-Q

(Address of principal executive offices)

(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 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  (Do not check if a smaller reporting company)

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**  
Common stock, \$0.01 par value

**Outstanding at  
October 24, 2008**  
30,465,451 shares

**Table of Contents**

**PHARMERICA CORPORATION**

**FORM 10-Q**

**INDEX**

	<b>Page</b>
<b>PART I. FINANCIAL INFORMATION</b>	
Item 1.	Financial Statements
	<u>Condensed Consolidated Statements of Operations For the Three and Nine Months Ended September 30, 2007 and 2008</u>
	3
	<u>Condensed Consolidated Balance Sheets As of December 31, 2007 and September 30, 2008</u>
	4
	<u>Condensed Consolidated Statements of Cash Flows For the Three and Nine Months Ended September 30, 2007 and 2008</u>
	5
	<u>Condensed Consolidated Statements of Stockholders Equity For the Period Ended September 30, 2008</u>
	6
	<u>Notes to Condensed Consolidated Financial Statements</u>
	7
Item 2.	<u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u>
	37
Item 3.	<u>Quantitative and Qualitative Disclosures About Market Risk</u>
	75
Item 4.	<u>Controls and Procedures</u>
	75
<b>PART II. OTHER INFORMATION</b>	
Item 1A.	<u>Risk Factors</u>
	76
Item 4.	<u>Submission of Matters to a Vote of Security Holders</u>
	76
Item 6.	<u>Exhibits</u>
	77
<b><u>SIGNATURES</u></b>	78
<u>Exhibit Index</u>	79

**Table of Contents**

**PHARMERICA CORPORATION**  
**CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS**

**For the Three and Nine months Ended September 30, 2007 and 2008**

**(Unaudited)**

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2007	2008	2007	2008
Revenues	\$ 377.5	\$ 486.2	\$ 725.6	\$ 1,467.6
Cost of goods sold	321.1	415.9	626.9	1,254.0
Gross profit	56.4	70.3	98.7	213.6
Selling, general and administrative expenses	46.8	50.5	81.2	161.8
Amortization expense	1.4	1.6	3.4	4.8
Integration, merger related costs and other charges (See Note 8)	46.8	7.1	52.5	17.8
Operating income (loss)	(38.6)	11.1	(38.4)	29.2
Interest expense, net	3.1	3.4	3.1	10.6
Income (loss) before income taxes	(41.7)	7.7	(41.5)	18.6
Provision (benefit) for income taxes	(14.7)	3.4	(14.6)	8.1
Net income (loss)	\$ (27.0)	\$ 4.3	\$ (26.9)	\$ 10.5
Earnings (loss) per common share:				
Basic	\$ (1.07)	\$ 0.14	\$ (1.46)	\$ 0.35
Diluted	\$ (1.07)	\$ 0.14	\$ (1.46)	\$ 0.35
Shares used in computing earnings per common share:				
Basic	25,112,843	30,105,157	18,407,991	30,081,596
Diluted	25,112,843	30,391,484	18,407,991	30,195,009

See accompanying Notes to Condensed Consolidated Financial Statements

**Table of Contents**

**PHARMERICA CORPORATION**  
**CONDENSED CONSOLIDATED BALANCE SHEETS**

**As of December 31, 2007 and September 30, 2008**

**(Unaudited)**

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

	December 31, 2007	September 30, 2008
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	\$ 32.0	\$ 42.6
Accounts receivable, net	213.0	220.8
Inventories	77.9	77.9
Deferred tax assets	27.1	28.2
Prepays and other assets	19.5	14.6
	369.5	384.1
Equipment and leasehold improvements	87.4	99.9
Accumulated depreciation	(30.0)	(42.1)
	57.4	57.8
Deferred tax assets	58.8	51.9
Goodwill	111.3	110.7
Intangible assets, net	77.5	72.7
Other	5.6	6.9
	\$ 680.1	\$ 684.1
<b>LIABILITIES AND STOCKHOLDERS EQUITY</b>		
Current liabilities:		
Accounts payable	\$ 51.5	\$ 54.2
Salaries, wages and other compensation	40.5	37.3
Other accrued liabilities	8.9	11.5
	100.9	103.0
Long-term debt	250.0	240.0
Other long term liabilities	15.6	16.8
Commitments and contingencies (See Note 6)		
Minority interest	4.4	-
Stockholders' equity:		
Preferred stock, \$0.01 par value per share; 1,000,000 shares authorized and no shares issued, December 31, 2007 and September 30, 2008	-	-
Common stock, \$0.01 par value per share; 175,000,000 shares authorized; 30,360,612 shares issued and outstanding, December 31, 2007 and 30,462,251 shares issued and outstanding, September 30, 2008	0.3	0.3
Capital in excess of par value	332.9	337.1
Accumulated other comprehensive loss	(2.6)	(2.2)
Retained deficit	(21.4)	(10.9)
	309.2	324.3

See accompanying Notes to Condensed Consolidated Financial Statements

**Table of Contents****PHARMERICA CORPORATION****CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS****For the Three and Nine Months Ended September 30, 2007 and 2008****(Unaudited)****(In millions)**

	<b>Three Months Ended September 30,</b>		<b>Nine Months Ended September 30,</b>	
	<b>2007</b>	<b>2008</b>	<b>2007</b>	<b>2008</b>
<b>Cash flows provided by operating activities:</b>				
Net income (loss)	\$ (27.0)	\$ 4.3	\$ (26.9)	\$ 10.5
<b>Adjustments to reconcile net income (loss) to net cash provided by operating activities:</b>				
Depreciation	4.5	5.3	8.0	16.8
Amortization	1.4	1.6	3.4	4.8
Provision for bad debt	6.3	7.2	10.7	17.9
Integration, merger related costs and other charges	34.7	0.6	34.7	1.5
Stock-based compensation	0.4	1.4	0.6	3.5
Amortization of deferred financing fees	0.1	0.1	0.1	0.3
Deferred income taxes	(19.6)	2.8	(22.7)	6.9
Loss on disposition of equipment	0.8	0.2	0.9	0.8
Other	0.4	(0.3)	(0.4)	(0.3)
<b>Change in operating assets and liabilities:</b>				
Accounts receivable	(7.5)	(12.0)	(28.3)	(26.6)
Inventories and other assets	(1.8)	(1.6)	(0.4)	-
Prepays and other assets	(7.1)	0.1	(8.2)	4.5
Accounts payable	21.7	8.1	27.3	1.9
Salaries, wages and other compensation	6.4	0.9	7.5	(1.6)
Other accrued liabilities	6.4	(1.2)	6.8	0.8
<b>Net cash provided by operating activities</b>	<b>20.1</b>	<b>17.5</b>	<b>13.1</b>	<b>41.7</b>
<b>Cash flows used in investing activities:</b>				
Purchase of equipment and leasehold improvements	(11.2)	(6.0)	(14.5)	(17.8)
Acquisitions	(3.9)	(4.4)	(4.8)	(4.4)
Cash proceeds from sale of assets	-	0.1	-	0.3
Other	-	-	0.3	-
<b>Net cash used in investing activities</b>	<b>(15.1)</b>	<b>(10.3)</b>	<b>(19.0)</b>	<b>(21.9)</b>
<b>Cash flows provided by (used in) financing activities:</b>				
Proceeds from long-term revolving credit facility	20.0	-	20.0	-
Repayments of long-term revolving credit facility	(20.0)	-	(20.0)	-
Proceeds from long-term debt	275.0	-	275.0	-
Repayments of long-term debt	(10.0)	-	(10.0)	(10.0)
Proceeds from spin-co loan	125.0	-	125.0	-
Repayment of spin-co loan	(250.0)	-	(250.0)	-
Payment of debt issuance costs	(2.0)	-	(2.0)	-
Dividends	(125.0)	-	(125.0)	-
Net contributions from Former Parent	8.0	-	17.3	-