

AMERISOURCEBERGEN CORP
Form 10-Q
May 05, 2016
[Table of Contents](#)

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

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

FOR THE QUARTERLY PERIOD ENDED March 31, 2016

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 1-16671

AMERISOURCEBERGEN CORPORATION

(Exact name of registrant as specified in its charter)

Edgar Filing: AMERISOURCEBERGEN CORP - Form 10-Q

Delaware
(State or other jurisdiction of
incorporation or organization)

1300 Morris Drive, Chesterbrook, PA
(Address of principal executive offices)

23-3079390
(I.R.S. Employer
Identification No.)

19087-5594
(Zip Code)

(610) 727-7000

(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 (as defined in Rule 12b-2 of the Exchange Act).

Large accelerated filer Accelerated filer Non-accelerated filer 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

The number of shares of common stock of AmerisourceBergen Corporation outstanding as of April 30, 2016 was 215,854,745.

Table of Contents

AMERISOURCEBERGEN CORPORATION

TABLE OF CONTENTS

| | Page No. |
|---|-----------------|
| <u>Part I. FINANCIAL INFORMATION</u> | |
| <u>Item 1. Financial Statements (Unaudited)</u> | |
| <u>Consolidated Balance Sheets, March 31, 2016 and September 30, 2015</u> | 2 |
| <u>Consolidated Statements of Operations for the three and six months ended March 31, 2016 and 2015</u> | 3 |
| <u>Consolidated Statements of Comprehensive Income for the three and six months ended March 31, 2016 and 2015</u> | 4 |
| <u>Consolidated Statements of Cash Flows for the six months ended March 31, 2016 and 2015</u> | 5 |
| <u>Notes to Consolidated Financial Statements</u> | 6 |
| <u>Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations</u> | 18 |
| <u>Item 3. Quantitative and Qualitative Disclosures About Market Risk</u> | 33 |
| <u>Item 4. Controls and Procedures</u> | 33 |
| <u>Part II. OTHER INFORMATION</u> | |
| <u>Item 1. Legal Proceedings</u> | 34 |
| <u>Item 1A. Risk Factors</u> | 34 |
| <u>Item 2. Unregistered Sales of Equity Securities and Use of Proceeds</u> | 34 |
| <u>Item 3. Defaults Upon Senior Securities</u> | 34 |
| <u>Item 4. Mine Safety Disclosures</u> | 34 |
| <u>Item 5. Other Information</u> | 34 |
| <u>Item 6. Exhibits</u> | 35 |
| <u>SIGNATURES</u> | 36 |

Table of Contents**PART I. FINANCIAL INFORMATION****ITEM I. Financial Statements (Unaudited)****AMERISOURCEBERGEN CORPORATION AND SUBSIDIARIES****CONSOLIDATED BALANCE SHEETS**

| (in thousands, except share and per share data) | March 31, 2016 (Unaudited) | September 30, 2015 |
|--|----------------------------------|-----------------------|
| ASSETS | | |
| Current assets: | | |
| Cash and cash equivalents | \$ 2,525,287 | \$ 2,167,442 |
| Accounts receivable, less allowances for returns and doubtful accounts: \$891,370 at March 31, 2016 and \$899,764 at September 30, 2015 | 8,766,994 | 8,222,951 |
| Merchandise inventories | 10,644,586 | 9,755,094 |
| Prepaid expenses and other | 133,201 | 189,001 |
| Total current assets | 22,070,068 | 20,334,488 |
| Property and equipment, at cost: | | |
| Land | 40,328 | 39,499 |
| Buildings and improvements | 469,231 | 413,854 |
| Machinery, equipment and other | 1,603,278 | 1,449,545 |
| Total property and equipment | 2,112,837 | 1,902,898 |
| Less accumulated depreciation | (1,018,126) | (923,647) |
| Property and equipment, net | 1,094,711 | 979,251 |
| Goodwill and other intangible assets | 9,028,488 | 6,123,944 |
| Other assets | 302,088 | 298,474 |
| TOTAL ASSETS | \$ 32,495,355 | \$ 27,736,157 |
| LIABILITIES AND STOCKHOLDERS EQUITY | | |
| Current liabilities: | | |
| Accounts payable | \$ 22,986,172 | \$ 20,886,439 |
| Accrued expenses and other | 665,185 | 679,309 |
| Short-term debt | 119,553 | |
| Total current liabilities | 23,770,910 | 21,565,748 |
| Long-term debt | 4,368,586 | 3,493,048 |
| Deferred income taxes | 2,041,191 | 1,954,205 |
| Other liabilities | 123,506 | 89,636 |
| Stockholders' equity: | | |

Edgar Filing: AMERISOURCEBERGEN CORP - Form 10-Q

| | | |
|---|----------------------|----------------------|
| Common stock, \$0.01 par value - authorized: 600,000,000 shares; issued and outstanding: 276,520,775 shares and 224,001,276 shares at March 31, 2016, respectively, and 274,991,824 shares and 206,891,873 shares at September 30, 2015, respectively | 2,765 | 2,750 |
| Additional paid-in capital | 4,079,676 | 3,736,477 |
| Retained earnings | 1,974,306 | 1,181,623 |
| Accumulated other comprehensive loss | (102,184) | (136,333) |
| Treasury stock, at cost: 52,519,499 shares at March 31, 2016 and 68,099,951 shares at September 30, 2015 | (3,763,401) | (4,150,997) |
| Total stockholders' equity | 2,191,162 | 633,520 |
| TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY | \$ 32,495,355 | \$ 27,736,157 |

See notes to consolidated financial statements.

Table of Contents

AMERISOURCEBERGEN CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF OPERATIONS

(Unaudited)

| (in thousands, except per share data) | Three months ended March 31, | | Six months ended March 31, | |
|---|---------------------------------|---------------|-------------------------------|---------------|
| | 2016 | 2015 | 2016 | 2015 |
| Revenue | \$ 35,698,357 | \$ 32,669,267 | \$ 72,407,403 | \$ 66,257,869 |
| Cost of goods sold | 34,623,026 | 31,757,291 | 70,367,195 | 64,593,594 |
| Gross profit | 1,075,331 | 911,976 | 2,040,208 | 1,664,275 |
| Operating expenses: | | | | |
| Distribution, selling and administrative | 522,760 | 442,443 | 1,051,056 | 858,934 |
| Depreciation | 51,471 | 45,699 | 100,813 | 89,472 |
| Amortization | 39,841 | 10,506 | 71,937 | 16,030 |
| Warrants | (503,946) | 752,706 | (36,571) | 1,124,111 |
| Employee severance, litigation and other | 17,617 | 24,871 | 36,485 | 28,374 |
| Pension settlement | (1,124) | | 47,607 | |
| Operating income (loss) | 948,712 | (364,249) | 768,881 | (452,646) |
| Other (income) loss | (756) | 11,405 | (1,066) | 12,719 |
| Interest expense, net | 33,113 | 22,946 | 63,992 | 40,288 |
| Income (loss) from operations before income taxes | 916,355 | (398,600) | 705,955 | (505,653) |
| Income tax expense (benefit) | 312,220 | 114,790 | (228,557) | 207,684 |
| Net income (loss) | \$ 604,135 | \$ (513,390) | \$ 934,512 | \$ (713,337) |
| Earnings per share: | | | | |
| Basic | \$ 2.91 | \$ (2.33) | \$ 4.51 | \$ (3.24) |
| Diluted | \$ 2.68 | \$ (2.33) | \$ 4.13 | \$ (3.24) |
| Weighted average common shares outstanding: | | | | |
| Basic | 207,858 | 220,243 | 207,017 | 219,854 |
| Diluted | 225,450 | 220,243 | 226,082 | 219,854 |
| Cash dividends declared per share of common stock | \$ 0.34 | \$ 0.29 | \$ 0.68 | \$ 0.58 |

See notes to consolidated financial statements.

Table of Contents**AMERISOURCEBERGEN CORPORATION AND SUBSIDIARIES****CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME****(Unaudited)**

| (in thousands) | Three months ended March 31, | | Six months ended March 31, | |
|--|---------------------------------|--------------|-------------------------------|--------------|
| | 2016 | 2015 | 2016 | 2015 |
| Net income (loss) | \$ 604,135 | \$ (513,390) | \$ 934,512 | \$ (713,337) |
| Other comprehensive income (loss): | | | | |
| Net change in foreign currency translation adjustments | 13,911 | (18,108) | 3,477 | (26,838) |
| Pension plan adjustment, net of tax of \$19,054 | | | 31,538 | |
| Other | (281) | 3,250 | (866) | 3,299 |
| Total other comprehensive income (loss) | 13,630 | (14,858) | 34,149 | (23,539) |
| Total comprehensive income (loss) | \$ 617,765 | \$ (528,248) | \$ 968,661 | \$ (736,876) |

See notes to consolidated financial statements.

Table of Contents

AMERISOURCEBERGEN CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

(Unaudited)

| (in thousands) | Six months ended March 31, | |
|---|----------------------------|--------------------|
| | 2016 | 2015 |
| OPERATING ACTIVITIES | | |
| Net income (loss) | \$ 934,512 | \$ (713,337) |
| Adjustments to reconcile net income (loss) to net cash provided by operating activities: | | |
| Depreciation, including amounts charged to cost of goods sold | 109,796 | 89,436 |
| Amortization, including amounts charged to interest expense | 75,144 | 18,394 |
| Provision (benefit) for doubtful accounts | 8,065 | (606) |
| Benefit for deferred income taxes | (292,154) | (5,717) |
| Warrants (income) expense | (36,571) | 1,124,111 |
| Share-based compensation | 39,787 | 33,408 |
| Pension settlement | 47,607 | |
| Loss on sale of business | | 7,814 |
| Other | (193) | (3,587) |
| Changes in operating assets and liabilities, excluding the effects of acquisitions and divestitures: | | |
| Accounts receivable | (472,074) | (810,902) |
| Merchandise inventories | (853,077) | (611,235) |
| Prepaid expenses and other assets | 17,642 | (54,138) |
| Accounts payable, accrued expenses, and income taxes | 2,028,560 | 2,566,923 |
| Other liabilities | 23,542 | (1,880) |
| NET CASH PROVIDED BY OPERATING ACTIVITIES | 1,630,586 | 1,638,684 |
| INVESTING ACTIVITIES | | |
| Capital expenditures | (180,012) | (105,201) |
| Cost of acquired companies, net of cash acquired | (2,731,356) | (2,603,918) |
| Proceeds from sale of business | | 18,498 |
| Proceeds from sale of investment securities available-for-sale | 88,829 | |
| Purchases of investment securities available-for-sale | (41,136) | |
| Other | (10,878) | 1,168 |
| NET CASH USED IN INVESTING ACTIVITIES | (2,874,553) | (2,689,453) |
| FINANCING ACTIVITIES | | |
| Long-term debt borrowings | 1,000,000 | 1,996,390 |
| Long-term debt repayments | (25,000) | |
| Borrowings under revolving and securitization credit facilities | 8,237,792 | 33,076 |
| Repayments under revolving and securitization credit facilities | (8,217,849) | (18,685) |
| Purchases of common stock | (436,804) | (316,480) |
| Exercises of warrants | 1,168,891 | |
| Exercises of stock options, including excess tax benefits of \$0 and \$66,032 in fiscal 2016 and 2015, respectively | 37,285 | 141,895 |
| Cash dividends on common stock | (141,829) | (128,119) |
| Purchases of call options | | (100,000) |
| Debt issuance costs and other | (20,674) | (28,842) |
| NET CASH PROVIDED BY FINANCING ACTIVITIES | 1,601,812 | 1,579,235 |
| INCREASE IN CASH AND CASH EQUIVALENTS | 357,845 | 528,466 |

Edgar Filing: AMERISOURCEBERGEN CORP - Form 10-Q

| | | | | |
|--|----|-----------|----|-----------|
| Cash and cash equivalents at beginning of period | | 2,167,442 | | 1,808,513 |
| CASH AND CASH EQUIVALENTS AT END OF PERIOD | \$ | 2,525,287 | \$ | 2,336,979 |

See notes to consolidated financial statements.

Table of Contents

AMERISOURCEBERGEN CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(UNAUDITED)

Note 1. Summary of Significant Accounting Policies

Basis of Presentation

The accompanying financial statements present the consolidated financial position, results of operations and cash flows of AmerisourceBergen Corporation and its wholly-owned subsidiaries (the Company) as of the dates and for the periods indicated. All intercompany accounts and transactions have been eliminated in consolidation.

The accompanying unaudited consolidated financial statements have been prepared in conformity with U.S. generally accepted accounting principles (GAAP) for interim financial information, the instructions to Form 10-Q and Rule 10-01 of Regulation S-X. In the opinion of management, all adjustments (consisting only of normal recurring accruals, except as otherwise disclosed herein) considered necessary to present fairly the financial position as of March 31, 2016 and the results of operations and cash flows for the interim periods ended March 31, 2016 and 2015 have been included. Certain information and footnote disclosures normally included in financial statements presented in accordance with U.S. GAAP, but which are not required for interim reporting purposes, have been omitted. The accompanying unaudited consolidated financial statements should be read in conjunction with the financial statements and notes thereto included in the Company's Annual Report on Form 10-K for the fiscal year ended September 30, 2015.

The preparation of financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect amounts reported in the financial statements and accompanying notes. Actual amounts could differ from these estimated amounts. Certain reclassifications have been made to prior-period amounts in order to conform to the current year presentation.

In May 2014, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2014-09, Revenue from Contracts with Customers (Topic 606) (ASU 2014-09). ASU 2014-09 supersedes the revenue recognition requirements in Accounting Standards Codification 605 Revenue Recognition, and most industry-specific guidance throughout the Codification. ASU 2014-09 outlines a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers. The standard's core principle is that a company should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. ASU 2014-09 was originally scheduled to be effective for annual reporting periods beginning after December 15, 2016, including interim periods within those reporting periods. In July 2015, the Financial Accounting Standards Board deferred the effective date of ASU 2014-09 by one year.

Edgar Filing: AMERISOURCEBERGEN CORP - Form 10-Q

In March 2016, the FASB issued ASU No. 2016-08, Revenue from Contracts with Customers (Topic 606) Principal versus Agent Considerations (ASU 2016-08), which clarifies the implementation guidance for principal versus agent considerations in ASU 2014-09. In April 2016, the FASB issued ASU No. 2016-10, Revenue from Contracts with Customers (Topic 606) Identifying Performance Obligations and Licensing (ASU 2016-10), which amends the guidance in ASU 2014-09 related to identifying performance obligations and accounting for licenses of intellectual property. The Company must adopt ASU 2016-08 and ASU 2016-10 with ASU 2014-09. Entities are permitted to adopt the standards as early as the original public entity effective date of ASU 2014-09, and either full or modified retrospective application is required. The Company has not yet selected an adoption date or a transition method and is currently evaluating the impact of adopting this new accounting guidance.

In April 2015, the FASB issued ASU No. 2015-03, Interest - Imputation of Interest (Subtopic 835-30): Simplifying the Presentation of Debt Issuance Costs (ASU 2015-03). ASU 2015-03 is the result of the Financial Accounting Standards Board's simplification initiative intended to improve U.S. GAAP by reducing costs and complexity while maintaining or enhancing the usefulness of related financial statement information. ASU 2015-03 specifies that debt issuance costs related to a note shall be reported in the balance sheet as a direct reduction from the face amount of the note. ASU 2015-03 is effective for annual reporting periods beginning after December 15, 2015, and interim periods within those fiscal years. ASU 2015-03 will require the Company to

Table of Contents

AMERISOURCEBERGEN CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(UNAUDITED)

reclassify its capitalized debt issuance costs currently recorded as assets on the consolidated condensed balance sheets. ASU 2015-03 will have no effect on the Company's results of operations or liquidity.

In November 2015, the FASB issued ASU No. 2015-17, Balance Sheet Classification of Deferred Taxes (ASU 2015-17). ASU 2015-17 is the result of the FASB's simplification initiative intended to improve U.S. GAAP by reducing costs and complexity while maintaining or enhancing the usefulness of related financial statement information. ASU 2015-17 requires that all deferred tax assets and liabilities, along with any related valuation allowance, be classified as noncurrent on the balance sheet. The guidance does not change the existing requirement that prohibits companies from offsetting deferred tax liabilities from one jurisdiction against deferred assets of another jurisdiction. ASU 2015-17 is effective for annual reporting periods beginning after December 15, 2016, and interim periods within those fiscal years. During the quarter ended March 31, 2016, the Company early adopted ASU 2015-17, which resulted in the reclassification of \$1,135.0 million from current deferred income taxes to long-term deferred income taxes on the September 30, 2015 Consolidated Balance Sheet.

In February 2016, the FASB issued ASU No. 2016-02, Leases (ASU 2016-02). ASU 2016-02 aims to increase transparency and comparability across organizations by requiring lease assets and lease liabilities to be recognized on the balance sheet as well as key information to be disclosed regarding lease arrangements. ASU 2016-02 is effective for annual reporting periods beginning after December 15, 2018, and interim periods within those fiscal years. Entities are permitted to adopt the standard early, and a modified retrospective application is required. The Company is currently evaluating the impact of adopting this new accounting guidance.

In March 2016, the FASB issued ASU No. 2016-09, Improvements to Employee Share-Based Payment Accounting (ASU 2016-09). ASU 2016-09 will require all income tax effects of awards to be recognized in the income statement when the awards vest or are settled. It also will allow an employer to repurchase more of an employee's shares than it can today for tax withholding purposes without triggering liability accounting and to make a policy election to account for forfeitures as they occur. ASU 2016-09 is effective for annual reporting periods beginning after December 15, 2016, and interim periods within those fiscal years. Entities are permitted to adopt the standard early in any interim or annual period. The Company is currently evaluating the impact of adopting this new accounting guidance.

As of March 31, 2016, there were no other recently issued accounting standards that will have a material impact on the Company's financial position or results of operations upon their adoption.

Note 2. Acquisition

On November 6, 2015, the Company acquired PharMEDium Healthcare Holdings, Inc. (PharMEDium) for \$2.7 billion in cash, which included certain purchase price adjustments. PharMEDium is a leading national provider of outsourced compounded sterile preparations (CSPs) to acute care hospitals in the United States. PharMEDium is a component of AmerisourceBergen Drug Corporation (ABDC) within the Pharmaceutical Distribution reportable segment.

The purchase price has been preliminarily allocated to the underlying assets acquired and liabilities assumed based upon their estimated fair values at the date of the acquisition. The preliminary allocation is pending the finalization of the appraisals of intangible assets and the corresponding deferred taxes, as well as the finalization of working capital account balances. There can be no assurance that the estimated amounts recorded will represent the final purchase price allocation. The purchase price currently exceeds the estimated fair value of the net tangible and intangible assets acquired by \$1.8 billion, which was allocated to goodwill. The estimated fair value of accounts receivable, inventory, and accounts payable acquired was \$63.2 million, \$43.1 million and \$22.8 million, respectively. The estimated fair value of the intangible assets acquired of \$1.1 billion consisted of customer relationships of \$882.7 million, trade name of \$167.6 million, and software technology of \$52.6 million. The Company established an estimated deferred tax liability of \$358.1 million primarily in connection with the intangible assets acquired. The Company is amortizing the estimated fair values of the acquired customer relationships and trade name over their estimated useful lives of 15 years. The estimated fair value of the acquired software technology is being amortized over its estimated useful life of 10 years. Goodwill and intangible assets resulting from the acquisition are not expected to be deductible for income tax purposes.

[Table of Contents](#)

AMERISOURCEBERGEN CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(UNAUDITED)

Note 3. Income Taxes

The Company files income tax returns in U.S. federal and state jurisdictions as well as various foreign jurisdictions. As of March 31, 2016, the Company had unrecognized tax benefits, defined as the aggregate tax effect of differences between tax return positions and the benefits recognized in the Company's financial statements, of \$61.4 million (\$45.6 million, net of federal benefit). If recognized, these tax benefits would reduce income tax expense and the effective tax rate. Included in this amount is \$8.5 million of interest and penalties, which the Company records in income tax expense. During the six months ended March 31, 2016, unrecognized tax benefits increased by \$8.6 million. During the next 12 months, it is reasonably possible that state tax audit resolutions and the expiration of statutes of limitations could result in a reduction of unrecognized tax benefits by approximately \$5.2 million.

In March 2013, the Company issued Warrants (as defined in Note 6) in connection with various agreements and arrangements with Walgreens Boots Alliance, Inc. (WBA), as successor in interest to Walgreen Co. (Walgreens) and Alliance Boots GmbH (Alliance Boots). At that time, the Company determined that the Warrants had a fair value of \$242.4 million on the date of issuance, which approximated the tax deductible amount that would be deducted ratably on the Company's income tax return over the 10-year term of the various agreements, and that any value in excess of the initial fair value of the Warrants on the date of issuance would not be tax deductible. In November 2015, the Company received a private letter ruling from the Internal Revenue Service, which entitles it to an income tax deduction equal to the fair value of the Warrants on the date of exercise. As a result, the Company recorded a deferred tax asset and recognized a tax benefit adjustment of approximately \$456 million, which represented the estimated benefit from the tax deduction for the increase in the fair value of the Warrants from the issuance date through September 30, 2015. This tax benefit adjustment had a significant impact to the Company's effective tax rate in the six months ended March 31, 2016.

Note 4. Goodwill and Other Intangible Assets

Following is a summary of the changes in the carrying value of goodwill, by reportable segment, for the six months ended March 31, 2016 (in thousands):

| | Pharmaceutical Distribution | | Other | Total |
|---|--------------------------------|-----------|--------------|--------------|
| Goodwill at September 30, 2015 | \$ | 2,418,806 | \$ 1,712,019 | \$ 4,130,825 |
| Goodwill recognized in connection with acquisitions | | 1,832,114 | 18,195 | 1,850,309 |
| Foreign currency translation | | | (635) | (635) |
| Goodwill at March 31, 2016 | \$ | 4,250,920 | \$ 1,729,579 | \$ 5,980,499 |

Table of Contents**AMERISOURCEBERGEN CORPORATION AND SUBSIDIARIES****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS****(UNAUDITED)**

Following is a summary of other intangible assets (in thousands):

| | March 31, 2016 | | | September 30, 2015 | | |
|-------------------------------|-----------------------------|-----------------------------|---------------------------|-----------------------------|-----------------------------|---------------------------|
| | Gross Carrying Amount | Accumulated Amortization | Net Carrying Amount | Gross Carrying Amount | Accumulated Amortization | Net Carrying Amount |
| Indefinite-lived intangibles | | | | | | |
| - trade names | \$ 685,009 | | \$ 685,009 | \$ 684,966 | | \$ 684,966 |
| Finite-lived intangibles: | | | | | | |
| Customer relationships | 2,324,207 | (206,783) | 2,117,424 | 1,421,230 | (146,227) | 1,275,003 |
| Trade names and other | 305,123 | (59,567) | 245,556 | 81,241 | (48,091) | 33,150 |
| Total other intangible assets | \$ 3,314,339 | \$ (266,350) | \$ 3,047,989 | \$ 2,187,437 | \$ (194,318) | \$ 1,993,119 |

Amortization expense for finite-lived intangible assets was \$71.9 million and \$16.0 million in the six months ended March 31, 2016 and 2015, respectively. Amortization expense for finite-lived intangible assets is estimated to be \$152.5 million in fiscal 2016, \$157.9 million in fiscal 2017, \$155.6 million in fiscal 2018, \$152.6 million in fiscal 2019, \$149.3 million in fiscal 2020, and \$1,667.1 million thereafter.

Table of Contents

AMERISOURCEBERGEN CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(UNAUDITED)

Note 5. Debt

Debt consisted of the following (in thousands):

| | March 31, 2016 | September 30, 2015 |
|---|-------------------|-----------------------|
| Multi-currency revolving credit facility due 2020 | \$ | \$ |
| Receivables securitization facility due 2018 | | |
| Revolving credit note | | |
| Overdraft facility | 19,553 | |
| Term loans | 1,475,000 | 500,000 |
| \$600,000, 1.15% senior notes due 2017 | 599,766 | 599,658 |
| \$400,000, 4.875% senior notes due 2019 | 398,630 | 398,456 |
| \$500,000, 3.50% senior notes due 2021 | 499,604 | 499,568 |
| \$500,000, 3.40% senior notes due 2024 | 498,848 | 498,777 |
| \$500,000, 3.25% senior notes due 2025 | 497,637 | 497,503 |
| \$500,000, 4.25% senior notes due 2045 | 499,101 | 499,086 |
| Total debt | \$ 4,488,139 | \$ 3,493,048 |
| Less current portion | 119,553 | |
| Total, net of current portion | \$ 4,368,586 | \$ 3,493,048 |

The Company has a \$1.4 billion multi-currency senior unsecured revolving credit facility, which expires in November 2020 (Multi-Currency Revolving Credit Facility), with a syndicate of lenders. Interest on borrowings under the Multi-Currency Revolving Credit Facility accrues at specified rates based on the Company's debt rating and ranges from 69 basis points to 110 basis points over CDOR/LIBOR/EURIBOR/Bankers Acceptance Stamping Fee, as applicable (91 basis points over CDOR/LIBOR/EURIBOR/Bankers Acceptance Stamping Fee at March 31, 2016) and from 0 basis points to 10 basis points over the alternate base rate and Canadian prime rate, as applicable. The Company pays facility fees to maintain the availability under the Multi-Currency Revolving Credit Facility at specified rates based on its debt rating, ranging from 6 basis points to 15 basis points, annually, of the total commitment (9 basis points at March 31, 2016). The Company may choose to repay or reduce its commitments under the Multi-Currency Revolving Credit Facility at any time. The Multi-Currency Revolving Credit Facility contains covenants, including compliance with a financial leverage ratio test, as well as others that impose limitations on, among other things, indebtedness of subsidiaries and asset sales, with which the Company was compliant as of March 31, 2016.

The Company has a commercial paper program whereby it may from time to time issue short-term promissory notes in an aggregate amount of up to \$1.4 billion at any one time. Amounts available under the program may be borrowed, repaid, and re-borrowed from time to time. The maturities on the notes will vary, but may not exceed 365 days from the date of issuance. The notes will bear interest, if interest bearing, or will be sold at a discount from their face amounts. The commercial paper program does not increase the Company's borrowing capacity as it is fully

Edgar Filing: AMERISOURCEBERGEN CORP - Form 10-Q

backed by the Company's Multi-Currency Revolving Credit Facility. There were no borrowings outstanding under the commercial paper program as of March 31, 2016.

The Company has a \$950 million receivables securitization facility (Receivables Securitization Facility), which expires in November 2018. The Company has available to it an accordion feature whereby the commitment on the Receivables Securitization Facility may be increased by up to \$250 million, subject to lender approval, for seasonal needs during the December and March quarters. Interest rates are based on prevailing market rates for short-term commercial paper or LIBOR plus a program fee. The Company pays a customary unused fee at prevailing market rates, annually, to maintain the availability under the Receivables Securitization Facility. The Receivables Securitization Facility contains similar covenants to the Multi-Currency Revolving Credit Facility, with which the Company was compliant as of March 31, 2016.

The Company has an uncommitted, unsecured line of credit available to it pursuant to a revolving credit note (Revolving Credit Note). The Revolving Credit Note provides the Company with the ability to request short-term unsecured revolving credit

Table of Contents

AMERISOURCEBERGEN CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(UNAUDITED)

loans from time to time in a principal amount not to exceed \$75 million. The Revolving Credit Note may be decreased or terminated by the bank or the Company at any time without prior notice. The Company also has an uncommitted U.K. overdraft facility (Overdraft Facility) to fund short term normal trading cycle fluctuations related to its MWI business. In February 2016, the Company amended the Overdraft Facility to extend the maturity date from November 2016 to February 2021 and increase the borrowing capacity from £20 million to £30 million.

In February 2015, the Company entered into a \$1.0 billion variable-rate term loan (February 2015 Term Loan), which matures in 2020. In fiscal 2015, the Company elected to make principal payments of \$500 million on the February 2015 Term Loan, and as a result, the Company's next required principal payment is due upon maturity. The February 2015 Term Loan bears interest at a rate equal either to a base rate plus a margin, or a LIBOR, plus a margin. The margin is based on the public debt ratings of the Company and ranges from 75 basis points to 125 basis points over a LIBOR (100 basis points at March 31, 2016) and 0 to 25 basis points over a base rate. The February 2015 Term Loan contains similar covenants to the Multi-Currency Revolving Credit Facility, with which the Company was compliant as of March 31, 2016.

In November 2015, the Company entered into a \$1.0 billion variable-rate term loan (November 2015 Term Loan), which matures in 2020. The November 2015 Term Loan is subject to quarterly principal payments of \$25 million on the last business day of each March, June, September and December, commencing in March 2016. The November 2015 Term Loan bears interest at a rate equal either to a base rate, plus a margin, or a LIBOR, plus a margin. The margin is based on the public debt ratings of the Company and ranges from 75 basis points to 125 basis points over LIBOR (100 basis points at March 31, 2016) and 0 basis points to 25 basis points over a base rate. The November 2015 Term Loan contains similar covenants to the Multi-Currency Revolving Credit Facility, with which the Company was compliant as of March 31, 2016.

Note 6. Stockholders' Equity and Earnings per Share

In November 2015, the Company's board of directors increased the quarterly cash dividend by 17% from \$0.29 per share to \$0.34 per share.

In August 2013, the Company's board of directors authorized a share repurchase program allowing the Company to purchase up to \$750 million of its outstanding shares of common stock, subject to market conditions. During the six months ended March 31, 2016, the Company purchased 1.1 million shares of its common stock for a total of \$100.0 million under this program. The Company had \$174.5 million of availability remaining under this share repurchase program as of March 31, 2016.

In March 2013, the Company and Walgreens Boots Alliance, Inc. (WBA) entered into various agreements and arrangements pursuant to which subsidiaries of WBA were granted the right to purchase a minority equity position in the Company, beginning with the right, but not the obligation, to purchase up to 19,859,795 shares of the Company's common stock in open market transactions (approximately 7% of the

Edgar Filing: AMERISOURCEBERGEN CORP - Form 10-Q

Company's common stock on a fully diluted basis as of the date of issuance of the Warrants described below, assuming their exercise in full). In connection with these arrangements, wholly-owned subsidiaries of WBA were issued (a) warrants to purchase up to an aggregate of 22,696,912 shares of the Company's common stock at an exercise price of \$51.50 per share, exercisable during a six-month period beginning in March 2016 (the 2016 Warrants), and (b) warrants to purchase up to 22,696,912 shares of the Company's common stock at an exercise price of \$52.50 per share, exercisable during a six-month period beginning in March 2017 (the 2017 Warrants) and, together with the 2016 Warrants, the Warrants).

In June 2013, the Company commenced its hedging strategy by entering into a contract with a financial institution pursuant to which it executed a series of issuer capped call option transactions (Capped Calls). The Capped Calls give the Company the right to buy shares of its common stock subject to the Warrants at specified prices at maturity. The Capped Calls are subject to a cap price. If the Company's share price exceeds the cap price in the Capped Calls at the time the Capped Calls are exercised, the number of shares that will be delivered to the Company under the Capped Calls will be reduced accordingly. This hedge transaction was completed in January 2014, and included the purchase of Capped Calls on a total of 27.2 million shares of the Company's common stock for a total premium of \$368.7 million.

Table of Contents

AMERISOURCEBERGEN CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(UNAUDITED)

Subsequently, the Company amended certain of the Capped Calls to increase their cap price to continue to address the dilutive effect of the Warrants. The Company paid a premium of \$100.0 million in January 2015 to increase the cap price on certain of the Capped Calls subject to the 2016 Warrants. The Capped Calls permit the Company to acquire shares of its common stock at strike prices of \$51.50 and \$52.50 and have expiration dates ranging from February 2016 through October 2017. The Capped Calls permit net share settlement, which is limited by caps on the market price of the Company's common stock. The Company has accounted for the Capped Calls as equity contracts and therefore the above premiums were recorded as a reduction to paid-in capital.

In fiscal 2014 and 2015, the Company purchased 18.8 million shares of its common stock for a total of \$1,774.1 million under special share repurchase programs to further mitigate the dilutive effect of the Warrants and supplement the Company's previously executed warrant hedging strategy.

In March 2015, the Company supplemented its hedging strategy by entering into a contract with a financial institution pursuant to which it executed a series of issuer call options (Call Options). The Call Options gave the Company the right to buy shares of its common stock subject to the Warrants at specified prices between April 2015 and October 2015. In total, the Company purchased Call Options on six million shares of its common stock for a total premium of \$80.0 million. The Company accounted for the Call Options as equity contracts and therefore, the above premium was recorded as a reduction to paid-in capital.

In September 2015, the Company's board of directors authorized a new special share repurchase program allowing the Company to purchase up to \$2.4 billion in shares of its common stock, subject to market conditions. During the six months ended March 31, 2016, the Company purchased 5.9 million shares (all under the Call Options and Capped Calls) of its common stock for a total of \$360.2 million under this program, which included \$23.4 million of purchases that cash settled in April 2016. The Company had \$1,915.7 million of availability remaining under this special share repurchase program as of March 31, 2016. In April 2016, the Company purchased 8.4 million shares (all under the Capped Calls) of its common stock for a total of \$459.8 million under this program. Availability under the new special share repurchase program is reduced by share repurchases, if any, of the Company's common stock on the open market under the special program, as well as share repurchases due to the Company's exercise of Call Options and/or Capped Calls.

In March 2016, the 2016 Warrants were exercised by WBA for \$1,168.9 million in cash. The shares issued for the 2016 Warrants were from the Company's treasury stock on a first-in, first-out basis, and were originally purchased for \$866.0 million. The Company recognized a reissuance gain in paid-in capital of \$302.9 million. The earnings per share dilutive effect of the 2016 Warrants was fully mitigated by the Company hedging a portion of its obligation to deliver common stock with a financial institution and repurchasing additional shares of its common stock under special share repurchase programs for the Company's own account over time (see above).

Edgar Filing: AMERISOURCEBERGEN CORP - Form 10-Q

The following table illustrates the dilutive impact of the Warrants based on the closing price of the Company's common stock on March 31, 2016:

| (in thousands) | 2016 Warrants | 2017 Warrants |
|---|------------------|------------------|
| Warrants Exercised | 22,697 | |
| Warrants Exercisable | | 22,697 |
| Shares repurchased under special share repurchase programs through March 31, 2016 | 22,697 | 2,015 |
| Shares repurchased under special share repurchase programs in April 2016 | | 8,432 |
| Shares expected to be repurchased under remaining Capped Calls | | 12,550 |
| Total repurchases | 22,697 | 22,997 |
| Warrants Coverage | 100% | 101% |

Table of Contents**AMERISOURCEBERGEN CORPORATION AND SUBSIDIARIES****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS****(UNAUDITED)**

The Company valued the Warrants as of their March 18, 2013 date of issuance and revised the valuation each subsequent quarter. As of March 31, 2016, the 2017 Warrants (with an exercise price of \$52.50) were valued at \$33.16 per share. In total, the 2017 Warrants were valued at \$752.6 million as of March 31, 2016. Refer to "Critical Accounting Policies and Estimates - Warrants" in the Company's Annual Report on Form 10-K for the fiscal year ended September 30, 2015 for a more detailed description of the accounting for the Warrants.

Basic earnings per share is computed on the basis of the weighted average number of shares of common stock outstanding during the periods presented. Diluted earnings per share is computed on the basis of the weighted average number of shares of common stock outstanding during the periods presented plus the dilutive effect of stock options, restricted stock, restricted stock units, and the Warrants.

| (in thousands) | Three months ended March 31, | | Six months ended March 31, | |
|--|---------------------------------|---------|-------------------------------|---------|
| | 2016 | 2015 | 2016 | 2015 |
| Weighted average common shares outstanding - basic | 207,858 | 220,243 | 207,017 | 219,854 |
| Dilutive effect of stock options, restricted stock, and restricted stock units | 3,421 | | 3,639 | |
| Dilutive effect of Warrants | 14,171 | | 15,426 | |
| Weighted average common shares outstanding - diluted | 225,450 | 220,243 | 226,082 | 219,854 |

The potentially dilutive stock options, restricted stock, restricted stock units, and Warrants that were antidilutive for the three and six months ended March 31, 2016 were 2.3 million and 1.9 million, respectively, and 17.4 million and 16.0 million for the three and six months ended March 31, 2015, respectively.

Note 7. Related Party Transactions

As a result of WBA's exercise of the 2016 Warrants (see Note 6), it owns more than 10% of the Company's common stock, and is, therefore, considered a related party. The Company operates under various agreements and arrangements with WBA, including a pharmaceutical distribution agreement, pursuant to which the Company distributes branded and generic pharmaceutical products to WBA and an agreement that provides the Company the ability to access generics and related pharmaceutical products through a global sourcing arrangement with Walgreens Boots Alliance Development GmbH. The Company recently extended both of these agreements for three years to now expire in 2026.

Revenue from the various agreements and arrangements with WBA was \$10.7 billion and \$21.7 billion in the three and six months ended March 31, 2016, respectively, and \$9.9 billion and \$20.0 billion in the three and six months ended March 31, 2015, respectively. The Company's receivable from WBA (net of incentives owed to it) was \$3.2 billion and \$3.1 billion at March 31, 2016 and September 30, 2015, respectively.

Note 8. Pension Plan

The Company approved the termination, effective August 1, 2014, of the salaried defined benefit pension plan, under which approximately 3,200 participants, including 500 active employees, had accrued benefits. In fiscal 2015, the Company obtained regulatory approval from the Internal Revenue Service to settle the plan.

In December 2015, the Company completed the settlement of plan benefits through the combination of lump-sum distributions to participants and the purchase of a nonparticipating annuity contract, which transferred the remaining obligation from the plan. Plan assets were sufficient to satisfy the obligations of the plan. During the six months ended March 31, 2016, the Company recorded a pension settlement charge of \$47.6 million, which primarily consisted of the recognition of unrecognized actuarial losses that were included in accumulated other comprehensive income, net of the related deferred tax assets.

Table of Contents

AMERISOURCEBERGEN CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(UNAUDITED)

Note 9. Legal Matters and Contingencies

In the ordinary course of its business, the Company becomes involved in lawsuits, administrative proceedings, government subpoenas, and government investigations, including antitrust, commercial, environmental, product liability, intellectual property, regulatory, employment discrimination, and other matters. Significant damages or penalties may be sought from the Company in some matters, and some matters may require years for the Company to resolve. The Company establishes reserves based on its periodic assessment of estimates of probable losses. There can be no assurance that an adverse resolution of one or more matters during any subsequent reporting period will not have a material adverse effect on the Company's results of operations for that period or on the Company's financial condition.

Qui Tam Matters

The qui tam provisions of the federal civil False Claims Act and various state and local civil False Claims Acts permit a private person, known as a relator or whistleblower, to file civil actions under these statutes on behalf of the federal, state and local governments. Qui tam complaints are initially filed by the relator under seal (or on a confidential basis) and the filing of the complaint imposes obligations on government authorities to investigate the allegations in the complaint and to determine whether or not to intervene in the action. Qui tam complaints remain sealed until the court in which the case was filed orders otherwise.

The Company has learned that there are filings in one or more federal district courts, including a qui tam complaint filed by one of its former employees, that are under seal and may involve allegations against the Company (and/or subsidiaries or businesses of the Company, including its group purchasing organization for oncologists and its oncology distribution business) relating to its distribution of certain pharmaceutical products to providers.

Subpoenas and Ongoing Investigations

From time to time, the Company receives subpoenas or requests for information from various government agencies relating to the Company's business or to the business of a customer, supplier or other industry participant. The Company generally responds to such subpoenas and requests in a cooperative manner. These responses often require time and effort and can result in considerable costs being incurred by the Company. Most of these matters are resolved without incident; however, such subpoenas or requests can lead to the assertion of claims or the commencement of civil or criminal legal proceedings against the Company and other members of the health care industry, as well as to substantial settlements.

Since fiscal 2012, the Company and AmerisourceBergen Specialty Group (ABSG) have been responding to subpoenas from the United States Attorney s Office for the Eastern District of New York (USAO-EDNY) requesting production of documents and information relating to ABSG s oncology distribution center and former pharmacy in Dothan, Alabama (including the practices and procedures of the former pharmacy s pre-filled syringe program), its group purchasing organization for oncologists, and intercompany transfers of certain oncology products, which the Company believes could be related in whole or in part to one or more of the qui tam actions that remain under seal. The Company recently received another subpoena from the USAO-EDNY and continues to produce documents and engage in dialogue with the USAO-EDNY.

In fiscal 2012, the Company s subsidiary, AmerisourceBergen Drug Corporation (ABDC), received a subpoena from the United States Attorney s Office in New Jersey (the USAO-NJ) in connection with a grand jury proceeding requesting documents concerning ABDC s program for controlling and monitoring diversion of controlled substances into channels other than for legitimate medical, scientific, and industrial purposes. ABDC also received a subpoena from the Drug Enforcement Administration (DEA) in connection with the matter. Since fiscal 2012, ABDC has received and responded to a number of subpoenas from both the USAO-NJ and DEA requesting grand jury testimony and additional information related to electronically stored information, documents concerning specific customers purchases of controlled substances, and DEA audits. The Company continues to engage in dialogue with the USAO-NJ.

Table of Contents

AMERISOURCEBERGEN CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(UNAUDITED)

Since fiscal 2013, the Company or ABDC has received subpoenas from the United States Attorney's Office in the District of Kansas and the United States Attorney's Office in the Northern District of Ohio in connection with grand jury proceedings requesting documents concerning ABDC's program for controlling and monitoring diversion of controlled substances into channels other than for legitimate medical, scientific and industrial purposes. As in the New Jersey matter described above, in addition to requesting information on ABDC's diversion control program generally, the subpoenas have also requested documents concerning specific customers' purchases of controlled substances. The Company has responded to the subpoenas and requests for information.

The Company cannot predict the outcome of these ongoing investigations, or the impact on the Company as a result of these matters, which may include settlements in significant amounts that are not currently estimable, limitations on the Company's conduct, the imposition of corporate integrity obligations and/or other civil and criminal penalties.

State Proceedings

In June 2012, the Attorney General of the State of West Virginia (West Virginia) filed complaints, which have been amended, in the Circuit Court of Boone County, West Virginia, against a number of pharmaceutical wholesale distributors, including the Company's subsidiary, ABDC, alleging, among other claims, that the distributors failed to provide effective controls and procedures to guard against diversion of controlled substances for illegitimate purposes in West Virginia, acted negligently by distributing controlled substances to pharmacies that serve individuals who abuse controlled substances, and failed to report suspicious orders of uncontrolled substances in accordance with state regulations. West Virginia is seeking monetary damages and injunctive and other equitable relief. On April 6, 2015, ABDC filed a motion to dismiss, which was subsequently denied on September 8, 2015. On October 23, 2015, ABDC, together with all other defendants, filed a writ of prohibition to the Supreme Court of Appeals of West Virginia. On October 30, 2015, ABDC filed an answer to West Virginia's second amended complaint. The writ of prohibition filed on October 23, 2015 was denied on January 5, 2016. Trial is currently scheduled for October, 2016. ABDC is vigorously defending itself and cannot predict the outcome of this matter.

Note 10. Litigation Settlements

Antitrust Settlements

Numerous class action lawsuits have been filed against certain brand pharmaceutical manufacturers alleging that the manufacturer, by itself or in concert with others, took improper actions to delay or prevent generic drugs from entering the market. The Company has not been named a plaintiff in any of these class actions, but has been a member of the direct purchasers' class (i.e., those purchasers who purchase directly from

these pharmaceutical manufacturers). None of the class actions have gone to trial, but some have settled in the past with the Company receiving proceeds from the settlement funds. During the six months ended March 31, 2016, the Company recognized gains of \$12.8 million relating to the above-mentioned class action lawsuits. During the three and six months ended March 31, 2015, the Company recognized \$21.5 million relating to the above-mentioned class action lawsuits. These gains, which are net of attorney fees and estimated payments due to other parties, were recorded as reductions to cost of goods sold in the Company's consolidated statements of operations.

Note 11. Fair Value of Financial Instruments

The recorded amounts of the Company's cash and cash equivalents, accounts receivable and accounts payable at March 31, 2016 and September 30, 2015 approximate fair value based upon the relatively short-term nature of these financial instruments. Within cash and cash equivalents, the Company had \$900.0 million of investments in money market accounts as of March 31, 2016. The Company had no investments in money market accounts as of September 30, 2015.

The Company had \$38.2 million of investment securities available-for-sale, none of which are within cash and cash equivalents, at March 31, 2016. The Company had \$213.1 million of investment securities available-for-sale, \$126.9 million of which were within cash and cash equivalents, at September 30, 2015. The fair value of the investments was based on inputs other than quoted prices, otherwise known as Level 2 inputs. The investments held as of March 31, 2016 consist of fixed-income securities with

Table of Contents**AMERISOURCEBERGEN CORPORATION AND SUBSIDIARIES****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS****(UNAUDITED)**

maturities ranging from November 2016 to July 2017. The amortized cost of the investments was \$38.2 million and \$213.1 million at March 31, 2016 and September 30, 2015, respectively.

The recorded amount of long-term debt (see Note 5) and the corresponding fair value as of March 31, 2016 were \$4,368.6 million and \$4,439.8 million, respectively. The recorded amount of long-term debt and the corresponding fair value as of September 30, 2015 were \$3,493.0 million and \$3,515.1 million, respectively. The fair value of long-term debt was determined based on quoted market prices, otherwise known as Level 2 inputs.

Note 12. Business Segment Information

The Company is organized based upon the products and services it provides to its customers. The Company's operations are comprised of the Pharmaceutical Distribution reportable segment and Other. The Pharmaceutical Distribution reportable segment consists of the AmerisourceBergen Drug Corporation (ABDC) and AmerisourceBergen Specialty Group (ABSG) operating segments. Other consists of the AmerisourceBergen Consulting Services (ABCS), World Courier Group, Inc. (World Courier), and MWI Veterinary Supply, Inc. (MWI) operating segments.

The following tables illustrate reportable segment information for the three and six months ended March 31, 2016 and 2015 (in thousands):

| | Revenue | | | | | |
|-----------------------------|---------------------------------|---------------|---------------|-------------------------------|------|------|
| | Three months ended March 31, | | | Six months ended March 31, | | |
| | 2016 | 2015 | 2016 | 2015 | 2016 | 2015 |
| Pharmaceutical Distribution | \$ 34,165,733 | \$ 31,762,523 | \$ 69,360,412 | \$ 64,745,247 | | |
| Other | 1,599,805 | 986,069 | 3,177,620 | 1,682,070 | | |
| Intersegment eliminations | (67,181) | (79,325) | (130,629) | (169,448) | | |
| Revenue | \$ 35,698,357 | \$ 32,669,267 | \$ 72,407,403 | \$ 66,257,869 | | |

Intersegment eliminations primarily represent the elimination of certain ABCS sales to the Pharmaceutical Distribution reportable segment.

Segment Operating Income

Edgar Filing: AMERISOURCEBERGEN CORP - Form 10-Q

| | Three months ended March 31, | | Six months ended March 31, | |
|-----------------------------------|---------------------------------|------------|-------------------------------|------------|
| | 2016 | 2015 | 2016 | 2015 |
| Pharmaceutical Distribution | \$ 498,395 | \$ 488,574 | \$ 877,954 | \$ 878,976 |
| Other | 93,956 | 64,150 | 189,521 | 109,316 |
| Total segment operating income | \$ 592,351 | \$ 552,724 | \$ 1,067,475 | \$ 988,292 |

Table of Contents

AMERISOURCEBERGEN CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(UNAUDITED)

The following table reconciles total segment operating income to income (loss) from operations before income taxes (in thousands):

| | Income (Loss) From Operations Before Income Taxes | | | |
|--|--|--------------|-------------------------------|--------------|
| | Three months ended March 31, | | Six months ended March 31, | |
| | 2016 | 2015 | 2016 | 2015 |
| Total segment operating income | \$ 592,351 | \$ 552,724 | \$ 1,067,475 | \$ 988,292 |
| Gains on antitrust litigation settlements | 7 | 21,483 | 12,798 | 21,483 |
| LIFO expense | (92,379) | (151,144) | (193,941) | (295,168) |
| Acquisition-related intangibles amortization | (38,720) | (9,735) | (69,930) | (14,768) |
| Warrants income (expense) | 503,946 | (752,706) | 36,571 | (1,124,111) |
| Employee severance, litigation and other | (17,617) | (24,871) | (36,485) | (28,374) |
| Pension settlement | 1,124 | | (47,607) | |
| Operating income (loss) | 948,712 | (364,249) | 768,881 | (452,646) |
| Other (income) loss | (756) | 11,405 | (1,066) | 12,719 |
| Interest expense, net | 33,113 | 22,946 | 63,992 | 40,288 |
| Income (loss) from operations before income taxes | \$ 916,355 | \$ (398,600) | \$ 705,955 | \$ (505,653) |

Segment operating income is evaluated by the chief operating decision maker of the Company before gains on antitrust litigation settlements; LIFO expense; acquisition-related intangibles amortization; Warrants income (expense); employee severance, litigation and other; pension settlement; other (income) loss; and interest expense, net. All corporate office expenses are allocated to each operating segment.

Table of Contents

ITEM 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

Overview

The following discussion should be read in conjunction with the Consolidated Financial Statements and notes thereto contained herein and in conjunction with the financial statements and related notes included in our Annual Report on Form 10-K for the fiscal year ended September 30, 2015.

We are one of the largest global pharmaceutical sourcing and distribution services companies, helping both healthcare providers and pharmaceutical and biotech manufacturers improve patient access to products and enhance patient care. We deliver innovative programs and services designed to increase the effectiveness and efficiency of the pharmaceutical supply chain in both human and animal health. We are organized based upon the products and services we provide to our customers. Our operations are comprised of the Pharmaceutical Distribution reportable segment and Other.

Pharmaceutical Distribution Segment

The Pharmaceutical Distribution reportable segment is comprised of two operating segments, which include the operations of AmerisourceBergen Drug Corporation (ABDC) and AmerisourceBergen Specialty Group (ABSG). Servicing healthcare providers in the pharmaceutical supply channel, the Pharmaceutical Distribution segment's operations provide drug distribution and related services designed to reduce healthcare costs and improve patient outcomes.

ABDC distributes a comprehensive offering of brand-name and generic pharmaceuticals (including specialty pharmaceutical products), over-the-counter healthcare products, home healthcare supplies and equipment, outsourced compounded sterile preparations, and related services to a wide variety of healthcare providers, including acute care hospitals and health systems, independent and chain retail pharmacies, mail order pharmacies, medical clinics, long-term care and other alternate site pharmacies, and other customers. ABDC also provides pharmacy management, staffing and other consulting services, and supply management software to a variety of retail and institutional healthcare providers. Additionally, ABDC delivers packaging solutions to institutional and retail healthcare providers.

ABSG, through a number of operating businesses, provides pharmaceutical distribution and other services to physicians who specialize in a variety of disease states, especially oncology, and to other healthcare providers, including hospitals and dialysis clinics. ABSG also distributes plasma and other blood products, injectible pharmaceuticals, vaccines, and other specialty products. Additionally, ABSG provides third party logistics and outcomes research, and other services for biotechnology and other pharmaceutical manufacturers.

Our use of the terms specialty and specialty pharmaceutical products refers to drugs used to treat complex diseases, such as cancer, diabetes and multiple sclerosis. Specialty pharmaceutical products are part of complex treatment regimens for serious conditions and diseases that generally require ongoing clinical monitoring. We believe the terms specialty and specialty pharmaceutical products are used consistently by industry participants and our competitors. However, we cannot be certain that other distributors of specialty products define these and other similar terms

in exactly the same manner as we do.

Both ABDC and ABSG distribute specialty drugs to their customers, with the principal difference between these two operating segments being that ABSG operates distribution facilities that focus primarily on complex disease treatment regimens. Therefore, a product distributed from one of ABSG's distribution facilities results in revenue reported under ABSG, and a product distributed from one of ABDC's distribution centers results in revenue reported under ABDC. Essentially all of ABSG sales consist of specialty pharmaceutical products. ABDC sales of specialty pharmaceutical products have historically been a relatively small component of its overall revenue.

Other

Other consists of the AmerisourceBergen Consulting Services (ABCS) operating segment, the World Courier Group, Inc. (World Courier) operating segment, and the MWI Veterinary Supply, Inc. (MWI) operating segment. The results of

Table of Contents

operations of these operating segments are not significant enough to require separate reportable segment disclosure, and therefore, have been included in Other for the purpose of our reportable segment presentation.

ABCS, through a number of operating businesses, provides commercialization support services including reimbursement support programs, outcomes research, contract field staffing, patient assistance and co-pay assistance programs, adherence programs, risk mitigation services, and other market access programs to pharmaceutical and biotechnology manufacturers. World Courier, which operates in over 50 countries, is a leading global specialty transportation and logistics provider for the biopharmaceutical industry. MWI is a leading animal health distribution company in the United States and in the United Kingdom. MWI sells pharmaceuticals, vaccines, parasiticides, diagnostics, micro feed ingredients, and various other products to customers in both the companion animal and production animal markets.

Recent Developments

In March 2016, Walgreens Boots Alliance, Inc. (WBA) exercised the 2016 Warrants and purchased 22,696,912 shares of our common stock for \$1,168.9 million. The earnings per share dilutive effect of the exercise of the 2016 Warrants was 100% mitigated by our hedging a portion of our obligation to deliver common stock with a financial institution and repurchasing additional shares of our common stock under special share repurchase programs for our own account over time.

We recently extended our ten-year pharmaceutical distribution agreement with WBA for three years to now expire in 2026. We also extended for three years the agreement that provides us the ability to access generics and related pharmaceutical products through a global sourcing arrangement with Walgreens Boots Alliance Development GmbH to now expire in 2026. Additionally, we agreed to make working capital investments over time related to our strategic relationship with WBA.

In May 2016, our board of directors authorized a new share repurchase program that, together with availability remaining under the existing share repurchase program, permits us to purchase up to \$750 million in shares of our common stock, subject to market conditions.

Executive Summary

This executive summary provides highlights from the results of operations that follows:

- Revenue increased 9.3% from both the prior year quarter and six month period as a result of ABDC s increased sales of brand and generic products, the strong revenue growth of ABSG and the addition of MWI, which was acquired in February 2015;

- Pharmaceutical Distribution gross profit increased 3.9% and 3.3% from the prior year quarter and six month period, respectively, as the result of the contribution from our recent PharMEDium acquisition, ABDC s and ABSG s revenue growth, and the incremental income from ABDC s participation in the WBA global sourcing arrangement. Gross profit growth in the current year quarter and six month period was adversely impacted by lower generic price appreciation and the renewal of our contract with the Department of Defense (DOD) at less favorable terms;
- Total gross profit increased 17.9% and 22.6% from the prior year quarter and six month period, respectively, primarily due to the addition of MWI and a reduction in LIFO expense, which was \$92.4 million and \$193.9 million in the current year quarter and six month period, respectively, in comparison to \$151.1 million and \$295.2 million in the prior year quarter and six month period, respectively. The decrease in LIFO expense was primarily due to lower brand inflation and higher generic drug deflation;
- Distribution, selling, and administrative expenses increased 18.2% and 22.4% in the quarter and six month period, respectively, primarily due to the addition of MWI, and to a lesser extent, PharMEDium, and to support our revenue growth;

Table of Contents

- Total operating expenses were impacted by Warrants. Warrants income was \$503.9 million in the current year quarter compared to Warrants expense of \$752.7 million in the prior year quarter. Warrants income was \$36.6 million in the current year six month period compared to Warrants expense of \$1,124.1 million in the prior year six month period. Warrants expense decreased significantly due to the decline in our stock price during the quarter ended March 31, 2016. We also incurred a pension settlement charge during the six month period ended March 31, 2016 in connection with the settlement of our salaried defined benefit pension plan. In addition, depreciation and amortization expense increased \$35.1 million and \$67.2 million from the prior year quarter and six month period, respectively;
- Total segment operating income increased by 7.2% and 8.0% compared to the prior year quarter and six month period, respectively, primarily due to the additions of MWI and PharMEDium; and
- Income taxes were an expense of \$312.2 million and a benefit of \$228.6 million in the current year quarter and six month period, respectively, as compared to an expense of \$114.8 million and \$207.7 million in the prior year quarter and six month period, respectively. In November 2015, we received a private letter ruling from the Internal Revenue Service, which entitles us to an income tax deduction equal to the fair value of the Warrants at the date of exercise. As a result, we recognized a tax benefit adjustment of approximately \$456 million, which represented the estimated benefit from the tax deduction for the increase in the value of the Warrants from the issuance date through September 30, 2015. This tax benefit adjustment had a significant impact to our effective tax rate in the six month period ended March 31, 2016. Our income tax rate has also been favorably impacted in fiscal 2016 due to the growth of our international service offerings.

Table of Contents*Results of Operations**Revenue*

| (dollars in thousands) | Three months ended March 31, | | | Six months ended March 31, | | |
|--------------------------------|---------------------------------|---------------|---------|-------------------------------|---------------|---------|
| | 2016 | 2015 | Change | 2016 | 2015 | Change |
| Pharmaceutical Distribution | \$ 34,165,733 | \$ 31,762,523 | 7.6% | \$ 69,360,412 | \$ 64,745,247 | 7.1% |
| Other | 1,599,805 | 986,069 | 62.2% | 3,177,620 | 1,682,070 | 88.9% |
| Intersegment eliminations | (67,181) | (79,325) | (15.3)% | (130,629) | (169,448) | (22.9)% |
| Revenue | \$ 35,698,357 | \$ 32,669,267 | 9.3% | \$ 72,407,403 | \$ 66,257,869 | 9.3% |

Revenue increased by 9.3% from both the prior year quarter and six month period. See discussions below under *Pharmaceutical Distribution* and *Other* for commentary regarding our revenue growth.

We currently expect our revenue in fiscal 2016 to increase by approximately 8%. Our future revenue growth will continue to be affected by various factors such as industry growth trends, including drug utilization, the introduction of new innovative brand therapies, the likely increase in the number of generic drugs that will be available over the next few years as a result of the expiration of certain drug patents held by brand-name pharmaceutical manufacturers, price increases and price deflation, general economic conditions in the United States, competition within the industry, customer consolidation, changes in pharmaceutical manufacturer pricing and distribution policies and practices, increased downward pressure on government and other third party reimbursement rates to our customers, and changes in Federal government rules and regulations.

Pharmaceutical Distribution Segment

The Pharmaceutical Distribution segment grew its revenue by 7.6% and 7.1% from the prior year quarter and six month period, respectively. Intra-segment revenues between ABDC and ABSG have been eliminated in the presentation of total Pharmaceutical Distribution revenue. Intra-segment revenues primarily consisted of ABSG sales directly to ABDC customer sites or ABSG sales to ABDC facilities. Intra-segment revenues were \$1.8 billion and \$1.6 billion in the quarters ended March 31, 2016 and 2015, respectively, and \$3.5 billion and \$3.2 billion in the six months ended March 31, 2016 and 2015, respectively.

ABDC's revenue of \$29.1 billion and \$59.2 billion in the quarter and six months ended March 31, 2016 increased 5.6% and 5.4%, respectively, from the prior year periods (before intra-segment eliminations). The increases in ABDC's revenue were primarily due to overall market growth including sales to WBA. Revenue in the current year quarter was negatively impacted by lower sales of products that treat Hepatitis C.

ABSG's revenue of \$6.9 billion and \$13.7 billion in the quarter and six months ended March 31, 2016 increased 18.5% and 16.5%, respectively, from the prior year periods (before intra-segment eliminations). The increases in ABSG's revenue were due to the continued growth in our

oncology business (including an increase in sales to community oncologists), in our blood products, vaccine and physician office distribution businesses, and increased sales in our third party logistics business.

A number of our contracts with customers, including group purchasing organizations, are typically subject to expiration each year. We may lose a significant customer if any existing contract with such customer expires without being extended, renewed, or replaced. During the six months ended March 31, 2016, no significant contracts expired; however, one significant contract with a group purchasing organization was renewed, effective April 1, 2016, at less favorable terms. Over the next twelve months, the one significant contract scheduled to expire is our contract with Kaiser Permanente (Kaiser), which expires in June 2016. Our contract with Express Scripts, Inc. (Express Scripts) was scheduled to expire in September 2016; however, the current contract was recently extended for one year at the election of Express Scripts. Our revenue, results of operations, and cash flows may be negatively impacted if the Kaiser contract is not renewed or the terms of the renewed contract are less favorable than the existing contract. Additionally, from time to time, other significant contracts may be renewed prior to their expiration dates. If those contracts are renewed at less favorable terms, they may also negatively impact our revenue, results of operations, and cash flows.

Table of Contents*Other*

Revenue in Other increased 62.2% and 88.9% from the prior year quarter and six month period, respectively, primarily due to the revenue contribution from MWI.

Gross Profit

| (dollars in thousands) | Three months ended March 31, | | | Six months ended March 31, | | | Change |
|---|---------------------------------|------------|--------|-------------------------------|--------------|--------|--------|
| | 2016 | 2015 | Change | 2016 | 2015 | Change | |
| Pharmaceutical Distribution | \$ 882,209 | \$ 849,148 | 3.9% | \$ 1,654,177 | \$ 1,601,204 | 3.3% | |
| Other | 285,494 | 192,489 | 48.3% | 567,174 | 336,756 | 68.4% | |
| Gains on antitrust litigation settlements | 7 | 21,483 | | 12,798 | 21,483 | | |
| LIFO expense | (92,379) | (151,144) | | (193,941) | (295,168) | | |
| Gross profit | \$ 1,075,331 | \$ 911,976 | 17.9% | \$ 2,040,208 | \$ 1,664,275 | 22.6% | |

Gross profit increased 17.9%, or \$163.4 million, and 22.6%, or \$375.9 million, from the prior year quarter and six month period, respectively. The increases were due to the increase in gross profit of Other, the increase in gross profit of Pharmaceutical Distribution, and the \$58.8 million and \$101.2 million decrease in LIFO expense from the prior year quarter and six month period, respectively. The decreases in LIFO expense were primarily due to lower brand inflation and higher generic drug deflation.

Pharmaceutical Distribution gross profit increased 3.9%, or \$33.1 million, and 3.3%, or \$53.0 million, from the prior year quarter and six month period, respectively. The increases were due to the contribution from our recent PharMEDium acquisition, an increase in income resulting from our participation in the WBA global sourcing arrangement, and the growth of our businesses. Gross profit growth in the current year quarter and six month period was adversely impacted by lower generic price appreciation and the renewal of our contract with the DOD at less favorable terms. As a percentage of revenue, Pharmaceutical Distribution gross profit margin of 2.58% and 2.38% in the quarter and six months ended March 31, 2016 decreased 9 basis points from the prior year quarter and six month period. The decrease was primarily due to a decline in generic price appreciation, the DOD contract renewal, and increased sales to our larger customers that typically have a lower gross profit margin.

Gross profit in Other increased 48.3%, or \$93.0 million, and 68.4%, or \$230.4 million, from the prior year quarter and six month period, respectively. The increases were primarily due to the contribution from our February 2015 acquisition of MWI, and, to a lesser extent, the increase in ABCS's revenue. As a percentage of revenue, gross profit margin in Other of 17.85% in the quarter ended March 31, 2016, decreased from 19.52% in the prior year quarter. As a percentage of revenue, gross profit margin in Other of 17.85% in the six months ended March 31, 2016, decreased from 20.02% in the prior year six month period. The decreases were primarily due to the addition of MWI and the increase in ABCS distribution revenue, both of which have lower gross profit margins in comparison to other businesses within Other.

No significant gains from antitrust litigation settlements with pharmaceutical manufacturers were recognized in the quarter ended March 31, 2016. We recognized gains of \$21.5 million from antitrust litigation settlements with pharmaceutical manufacturers during the quarter ended March 31, 2015. We recognized gains of \$12.8 million and \$21.5 million from antitrust litigation settlements with pharmaceutical manufacturers during the six months ended March 31, 2016 and 2015, respectively. The gains were recorded as reductions to cost of goods sold.

Our cost of goods sold for interim periods includes a last-in, first-out (LIFO) provision that is based on our estimated annual LIFO provision. The annual LIFO provision, which we estimate on a quarterly basis, is affected by expected changes in inventory quantities, product mix, and manufacturer pricing practices, which may be impacted by market and other external influences, many of which are difficult to predict. Changes to any of the above factors can have a material impact to our annual LIFO provision.

Table of Contents*Operating Expenses*

| (dollars in thousands) | Three months ended March 31, | | | Six months ended March 31, | | |
|--|---------------------------------|--------------|--------|-------------------------------|--------------|--------|
| | 2016 | 2015 | Change | 2016 | 2015 | Change |
| Distribution, selling and administrative | \$ 522,760 | \$ 442,443 | 18.2% | \$ 1,051,056 | \$ 858,934 | 22.4% |
| Depreciation and amortization | 91,312 | 56,205 | 62.5% | 172,750 | 105,502 | 63.7% |
| Warrants | (503,946) | 752,706 | | (36,571) | 1,124,111 | |
| Employee severance, litigation and other | 17,617 | 24,871 | | 36,485 | 28,374 | |
| Pension settlement charge | (1,124) | | | 47,607 | | |
| Total operating expenses | \$ 126,619 | \$ 1,276,225 | | \$ 1,271,327 | \$ 2,116,921 | |

Distribution, selling and administrative expenses increased 18.2%, or \$80.3 million, from the prior year quarter, and increased 22.4%, or \$192.1 million, from the prior six month period, primarily due to our February 2015 acquisition of MWI, and to a lesser extent, our November 2015 acquisition of PharMEDium. As a percentage of revenue, distribution, selling and administrative expenses were 1.46% and 1.45% in the current year quarter and six month period, respectively, and represent an increase of 11 basis points and 15 basis points in comparison to the prior year quarter and six month period, respectively. The increases were primarily due to the addition of MWI, which has higher operating expenses as a percentage of revenue in comparison to the Pharmaceutical Distribution segment.

Depreciation expense increased from the prior year quarter and six month period due to an increase in the amount of capital projects being depreciated. Amortization expense increased from prior year quarter and six month period primarily due to the amortization of intangible assets from our MWI and PharMEDium acquisitions.

Warrants expense decreased significantly from the prior year quarter and six month period primarily due to the decline in our stock price during the quarter ended March 31, 2016. The Warrants were issued in March 2013 in connection with the agreements and arrangements that define our strategic relationship with WBA. Warrants expense is largely dependent upon changes in our stock price, therefore, future Warrants expense related to the 2017 Warrants could fluctuate significantly. (Refer to Critical Accounting Policies and Estimates Warrants in our Annual Report on Form 10-K for the fiscal year ended September 30, 2015 for a more detailed description of the accounting for the Warrants.)

Employee severance, litigation and other for the quarter ended March 31, 2016 included \$13.0 million of costs related to customer contract extensions (primarily related to the settlement of certain disputed items), \$2.6 million of employee severance and other costs, and \$2.0 million of deal-related transaction costs. Employee severance, litigation and other for the six months ended March 31, 2016 included \$18.1 million of deal-related transaction costs (primarily related to professional fees with respect to the PharMEDium acquisition), \$13.0 million of costs related to customer contract extensions, and \$5.4 million of employee severance and other costs. Employee severance, litigation and other for the quarter ended March 31, 2015 included \$24.3 million of deal-related transaction costs (primarily related to professional fees with respect to the MWI acquisition) and \$0.5 million of employee severance and other costs. Employee severance, litigation and other for the six months ended March 31, 2015 included \$27.3 million of deal-related transaction costs and \$1.1 million of employee severance and other costs.

We recorded a pension settlement charge of \$47.6 million in the six month period ended March 31, 2016 related to the settlement of our salaried defined benefit plan (see Note 8).

Table of Contents*Operating Income*

| (dollars in thousands) | Three months ended March 31, | | | Six months ended March 31, | | |
|--|---------------------------------|--------------|--------|-------------------------------|--------------|--------|
| | 2016 | 2015 | Change | 2016 | 2015 | Change |
| Pharmaceutical Distribution | \$ 498,395 | \$ 488,574 | 2.0% | \$ 877,954 | \$ 878,976 | -0.1% |
| Other | 93,956 | 64,150 | 46.5% | 189,521 | 109,316 | 73.4% |
| Total segment operating income | 592,351 | 552,724 | 7.2% | 1,067,475 | 988,292 | 8.0% |
| Gains on antitrust litigation settlements | 7 | 21,483 | | 12,798 | 21,483 | |
| LIFO expense | (92,379) | (151,144) | | (193,941) | (295,168) | |
| Acquisition-related intangibles amortization | (38,720) | (9,735) | | (69,930) | (14,768) | |
| Warrants income (expense) | 503,946 | (752,706) | | 36,571 | (1,124,111) | |
| Employee severance, litigation and other | (17,617) | (24,871) | | (36,485) | (28,374) | |
| Pension settlement | 1,124 | | | (47,607) | | |
| Operating income (loss) | \$ 948,712 | \$ (364,249) | | \$ 768,881 | \$ (452,646) | |

Segment operating income is evaluated before gains on antitrust litigation settlements; LIFO expense; acquisition-related intangibles amortization; Warrants income (expense); employee severance, litigation and other; and the pension settlement.

Pharmaceutical Distribution operating income increased 2.0%, or \$9.8 million, from the prior year quarter due to the increase in gross profit, offset in part by the increase in operating expenses. Pharmaceutical Distribution operating income decreased 0.1%, or \$1.0 million, from the prior year six month period due to the increase in operating expenses, offset in part by the increase in gross profit. As a percentage of revenue, Pharmaceutical Distribution operating income margin decreased 8 basis points and 9 basis points from the prior year quarter and six month period, respectively, primarily due to a decrease in generic price appreciation, the DOD contract renewal, and increased sales to our larger customers that typically have a lower gross profit margin.

Operating income in Other increased 46.5%, or \$29.8 million, and 73.4%, or \$80.2 million, from the prior year quarter and six month period, respectively, primarily due to the February 2015 acquisition of MWI.

Interest expense, interest income, and the respective weighted average interest rates in the quarters ended March 31, 2016 and 2015 were as follows (in thousands):

| | 2016 | | 2015 | |
|-----------------------|-----------|--------------------------------|-----------|--------------------------------|
| | Amount | Weighted Average Interest Rate | Amount | Weighted Average Interest Rate |
| Interest expense | \$ 33,859 | 2.67% | \$ 23,374 | 2.94% |
| Interest income | (746) | 0.80% | (428) | 0.18% |
| Interest expense, net | \$ 33,113 | | \$ 22,946 | |

Table of Contents

Interest expense, interest income, and the respective weighted average interest rates in the six months ended March 31, 2016 and 2015 were as follows (in thousands):

| | 2016 | | 2015 | |
|-----------------------|-----------|--------------------------------|-----------|--------------------------------|
| | Amount | Weighted Average Interest Rate | Amount | Weighted Average Interest Rate |
| Interest expense | \$ 65,446 | 2.71% | \$ 41,265 | 2.98% |
| Interest income | (1,454) | 0.42% | (977) | 0.18% |
| Interest expense, net | \$ 63,992 | | \$ 40,288 | |

Interest expense, net, increased 44.3%, or \$10.2 million, from the prior year quarter and 58.8%, or \$23.7 million, from the prior year six month period due to an increase of \$1.8 billion and \$2.0 billion in average borrowings from the prior year quarter and six month period ended March 31, 2015, respectively, primarily due to the February 2015 issuance of senior notes totaling \$1.0 billion and the February 2015 and November 2015 variable-rate term loan borrowings to finance a portion of the MWI and PharMEDium acquisitions, respectively. Our average borrowing rate was lower during the current year quarter and six month period primarily as a result of the recent variable-rate financings, which bear interest at lower rates.

Income taxes expense was \$312.2 million in the quarter ended March 31, 2016 as compared to \$114.8 million in the prior year quarter. Income taxes were a benefit of \$228.6 million in the six month period ended March 31, 2016 as compared to an expense of \$207.7 million in the prior year six month period. In November 2015, we received a private letter ruling from the Internal Revenue Service, which entitles us to an income tax deduction equal to the fair value of the Warrants on the date of exercise. As a result, we recognized a tax benefit adjustment of approximately \$456 million, which represented the estimated benefit from the tax deduction for the increase in the fair value of the Warrants from the issuance date through September 30, 2015. This tax benefit adjustment had a significant impact to our effective tax rate in the six month period ended March 31, 2016. Our income tax rate has also been favorably impacted in fiscal 2016 due to the growth of our international service offerings.

Net income was \$604.1 million and \$934.5 million in the quarter and six month period ended March 31, 2016, respectively, compared to a net loss of \$513.4 million and \$713.3 million in the prior year quarter and six month period. Net income (loss) for the current and prior year periods have been significantly impacted by Warrants income (expense), net of income taxes.

Table of Contents*Liquidity and Capital Resources*

The following table illustrates our debt structure at March 31, 2016, including availability under the multi-currency revolving credit facility, the receivables securitization facility, the revolving credit note and the overdraft facility (in thousands):

| | Outstanding Balance | Additional Availability |
|---|------------------------|----------------------------|
| Fixed-Rate Debt: | | |
| \$600,000, 1.15% senior notes due 2017 | \$ 599,766 | \$ |
| \$400,000, 4.875% senior notes due 2019 | 398,630 | |
| \$500,000, 3.50% senior notes due 2021 | 499,604 | |
| \$500,000, 3.40% senior notes due 2024 | 498,848 | |
| \$500,000, 3.25% senior notes due 2025 | 497,637 | |
| \$500,000, 4.25% senior notes due 2045 | 499,101 | |
| Total fixed-rate debt | 2,993,586 | |
| Variable-Rate Debt: | | |
| Term loans | 1,475,000 | |
| Multi-currency revolving credit facility due 2020 | | 1,400,000 |
| Receivables securitization facility due 2018 | | 950,000 |
| Revolving credit note | | 75,000 |
| Overdraft facility (£30,000) | 19,553 | 23,527 |
| Total variable-rate debt | 1,494,553 | 2,448,527 |
| Total debt | \$ 4,488,139 | \$ 2,448,527 |

Our operating results have generated cash flow, which, together with availability under our debt agreements and credit terms from suppliers, has provided sufficient capital resources to finance working capital and cash operating requirements, and to fund capital expenditures, acquisitions, repayment of debt, the payment of interest on outstanding debt, dividends, repurchases of shares of our common stock, and our hedging strategy (see below for further details).

Our primary ongoing cash requirements will be to finance working capital, fund the repayment of debt, fund the payment of interest on debt, fund repurchases of our common stock, fund the payment of dividends, finance acquisitions, and fund capital expenditures and routine growth and expansion through new business opportunities. Future cash flows from operations and borrowings are expected to be sufficient to fund our ongoing cash requirements.

As of March 31, 2016 and September 30, 2015, our cash and cash equivalents held by foreign subsidiaries were \$375.2 million and \$266.3 million, respectively. We expect that the growth of our cash and cash equivalents held by foreign subsidiaries will generally be based in U.S. dollar denominated holdings. Amounts held by foreign subsidiaries are generally subject to U.S. income taxation on repatriation to the U.S. We do not have any plans to repatriate these amounts back to the U.S., as we intend to use this cash for future foreign strategic investments or other expenditures.

We have increased seasonal needs related to our inventory build during the December and March quarters that, depending on our cash balance, can require the use of our credit facilities to fund short-term capital needs. Our cash balance in the six months ended March 31, 2016 needed to

Edgar Filing: AMERISOURCEBERGEN CORP - Form 10-Q

be supplemented by intra-period credit facility borrowings to cover short-term working capital needs and a portion of the purchase price of PharMEDium in advance of securing long-term financing. The largest amount of intra-period borrowings under our revolver and securitization credit facilities that was outstanding at any one time during the six months ended March 31, 2016 was \$1,018.2 million. All but \$19.6 million of the \$8,237.8 million of cumulative intra-period borrowings under our credit facilities during the six months ended March 31, 2016 were repaid by the end of the quarter.

We have a \$1.4 billion multi-currency senior unsecured revolving credit facility, which expires in November 2020, (Multi-Currency Revolving Credit Facility) with a syndicate of lenders. Interest on borrowings under the Multi-Currency Revolving Credit Facility accrues at specified rates based on our debt rating and ranges from 69 basis points to 110 basis points over CDOR/LIBOR/EURIBOR/Bankers Acceptance Stamping Fee, as applicable (91 basis points over CDOR/LIBOR/EURIBOR/Bankers

Table of Contents

Acceptance Stamping Fee at March 31, 2016) and from 0 basis points to 10 basis points over the alternate base rate and Canadian prime rate, as applicable. We pay facility fees to maintain the availability under the Multi-Currency Revolving Credit Facility at specified rates based on our debt rating, ranging from 6 basis points to 15 basis points, annually, of the total commitment (9 basis points at March 31, 2016). We may choose to repay or reduce our commitments under the Multi-Currency Revolving Credit Facility at any time. The Multi-Currency Revolving Credit Facility contains covenants, including compliance with a financial leverage ratio test, as well as others that impose limitations on, among other things, indebtedness of subsidiaries and asset sales, with which we are compliant as of March 31, 2016.

We have a commercial paper program whereby we may from time to time issue short-term promissory notes in an aggregate amount of up to \$1.4 billion at any one time. Amounts available under the program may be borrowed, repaid, and re-borrowed from time to time. The maturities on the notes will vary, but may not exceed 365 days from the date