

AMERISOURCEBERGEN CORP
Form 10-Q
February 06, 2015
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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 December 31, 2014

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)

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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 January 31, 2015 was 219,604,997.

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(in thousands, except share and per share data)	December 31, 2014 (Unaudited)	September 30, 2014
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 2,298,756	\$ 1,808,513
Accounts receivable, less allowances for returns and doubtful accounts: \$931,322 at December 31, 2014 and \$998,383 at September 30, 2014	7,144,031	6,312,883
Merchandise inventories	10,628,342	8,593,852
Prepaid expenses and other	73,581	84,957
Total current assets	20,144,710	16,800,205
Property and equipment, at cost:		
Land	37,538	37,538
Buildings and improvements	382,789	359,037
Machinery, equipment and other	1,321,327	1,295,854
Total property and equipment	1,741,654	1,692,429
Less accumulated depreciation	(834,650)	(792,847)
Property and equipment, net	907,004	899,582
Goodwill and other intangible assets	3,501,051	3,481,744
Other assets	352,151	350,652
TOTAL ASSETS	\$ 24,904,916	\$ 21,532,183
LIABILITIES AND STOCKHOLDERS EQUITY		
Current liabilities:		
Accounts payable	\$ 19,031,658	\$ 15,592,834
Accrued expenses and other	673,510	561,863
Deferred income taxes	1,099,865	1,095,463
Total current liabilities	20,805,033	17,250,160
Long-term debt	1,995,885	1,995,632
Other liabilities	335,652	329,492
Stockholders' equity:		
Common stock, \$0.01 par value - authorized: 600,000,000 shares; issued and outstanding: 272,040,492 shares and 219,340,882 shares at December 31, 2014, respectively, and	2,720	2,711

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271,126,753 shares and 221,908,650 shares at September 30, 2014, respectively		
Additional paid-in capital	3,102,312	2,749,185
Retained earnings	1,306,457	1,570,429
Accumulated other comprehensive loss	(60,727)	(52,046)
Treasury stock, at cost: 52,699,610 shares at December 31, 2014 and 49,218,103 shares at September 30, 2014	(2,582,416)	(2,313,380)
Total stockholders' equity	1,768,346	1,956,899
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	\$ 24,904,916	\$ 21,532,183

See notes to consolidated financial statements.

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AMERISOURCEBERGEN CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF OPERATIONS

(Unaudited)

(in thousands, except per share data)	Three months ended December 31,	
	2014	2013
Revenue	\$ 33,588,602	\$ 29,176,362
Cost of goods sold	32,836,303	28,488,137
Gross profit	752,299	688,225
Operating expenses:		
Distribution, selling, and administrative	416,491	364,060
Depreciation	43,773	37,319
Amortization	5,524	6,631
Warrants	371,405	116,297
Employee severance, litigation and other	3,503	4,302
Operating (loss) income	(88,397)	159,616
Other loss (income)	1,314	(597)
Interest expense, net	17,342	18,832
(Loss) income from continuing operations before income taxes	(107,053)	141,381
Income taxes	92,894	92,450
(Loss) income from continuing operations	(199,947)	48,931
Loss from discontinued operations, net of income taxes		(7,546)
Net (loss) income	\$ (199,947)	\$ 41,385
Earnings per share:		
Basic earnings per share:		
Continuing operations	\$ (0.91)	\$ 0.21
Discontinued operations		(0.03)
Total	\$ (0.91)	\$ 0.18
Diluted earnings per share:		
Continuing operations	\$ (0.91)	\$ 0.21
Discontinued operations		(0.03)
Rounding		(0.01)
Total	\$ (0.91)	\$ 0.17
Weighted average common shares outstanding:		
Basic	219,456	230,277
Diluted	219,456	237,012
Cash dividends declared per share of common stock	\$ 0.29	\$ 0.235

See notes to consolidated financial statements.

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AMERISOURCEBERGEN CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(Unaudited)

(in thousands)	Three months ended December 31, 2014		2013
	2014		
Net (loss) income	\$ (199,947)	\$	41,385
Other comprehensive loss:			
Net change in foreign currency translation adjustments	(8,730)		(5,442)
Other	49		(151)
Total other comprehensive loss	(8,681)		(5,593)
Total comprehensive (loss) income	\$ (208,628)	\$	35,792

See notes to consolidated financial statements.

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AMERISOURCEBERGEN CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

(Unaudited)

(in thousands)	Three months ended December 31,	
	2014	2013
OPERATING ACTIVITIES		
Net (loss) income	\$ (199,947)	\$ 41,385
Loss from discontinued operations		7,546
(Loss) income from continuing operations	(199,947)	48,931
Adjustments to reconcile (loss) income from continuing operations to net cash provided by (used in) operating activities:		
Depreciation, including amounts charged to cost of goods sold	44,518	37,887
Amortization, including amounts charged to interest expense	6,652	7,823
(Benefit) provision for doubtful accounts	(1,379)	1,688
(Benefit) provision for deferred income taxes	(18,058)	2,396
Warrant expense	371,405	116,297
Share-based compensation	19,567	11,226
Other	(1,951)	(2,675)
Changes in operating assets and liabilities, excluding the effects of acquisitions:		
Accounts receivable	(766,718)	(159,120)
Merchandise inventories	(2,096,578)	(1,626,618)
Prepaid expenses and other assets	10,992	43,659
Accounts payable, accrued expenses, and income taxes	3,529,971	523,117
Other liabilities	(1,510)	(708)
Net cash provided by (used in) operating activities - continuing operations	896,964	(996,097)
Net cash used in operating activities - discontinued operations		(7,546)
NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES	896,964	(1,003,643)
INVESTING ACTIVITIES		
Capital expenditures	(52,557)	(59,183)
Cost of acquired companies, net of cash acquired	(24,604)	(9,103)
Other	5	83
NET CASH USED IN INVESTING ACTIVITIES	(77,156)	(68,203)
FINANCING ACTIVITIES		
Borrowings under revolving and securitization credit facilities		522,500
Repayments under revolving and securitization credit facilities		(99,500)
Purchases of common stock	(300,213)	(19,652)
Exercises of stock options, including excess tax benefits of \$17,332 and \$11,631 in fiscal 2015 and 2014, respectively	40,164	32,326
Cash dividends on common stock	(64,025)	(54,367)
Purchases of capped call options		(192,995)
Debt issuance costs and other	(5,491)	(7)
NET CASH (USED IN) PROVIDED BY FINANCING ACTIVITIES	(329,565)	188,305
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	490,243	(883,541)
Cash and cash equivalents at beginning of period	1,808,513	1,231,006
CASH AND CASH EQUIVALENTS AT END OF PERIOD	\$ 2,298,756	\$ 347,465

See notes to consolidated financial statements.

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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 December 31, 2014 and the results of operations and cash flows for the interim periods ended December 31, 2014 and 2013 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, 2014.

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.

In May 2014, the Financial Accounting Standards Board issued Accounting Standards Update 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 is effective for annual reporting periods beginning after December 15, 2016, including interim periods within those reporting periods. Early adoption is not permitted under GAAP and either full or modified retrospective application is required. The Company has not yet selected a transition method and is currently evaluating the impact of adopting this new accounting guidance.

As of December 31, 2014, 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. Income Taxes

The Company files income tax returns in U.S. federal and state jurisdictions as well as various foreign jurisdictions. As of December 31, 2014, 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 \$53.0 million (\$37.5 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 \$8.2 million of interest and penalties, which the Company records in income tax expense. During the three months ended December 31, 2014, unrecognized tax benefits increased by \$2.4 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 \$6.6 million.

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In March 2013, the Company issued Warrants (as defined in Note 5) 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). As of the date of issuance, the Warrants were valued at \$242.4 million, which approximates the amount that will be deductible for income tax purposes. The fair value of the Warrants as of December 31, 2014 was \$1,688.9 million. The excess of the fair value of the Warrants over the initial value is not tax deductible. As a result, in periods where the fair value of the Warrants exceeds the initial value, the Company's effective income tax rate will be higher than its normal historical rate.

Note 3. Goodwill and Other Intangible Assets

Following is a summary of the changes in the carrying value of goodwill, by reportable segment, for the three months ended December 31, 2014 (in thousands):

	Pharmaceutical Distribution	Other	Total
Goodwill at September 30, 2014	\$ 2,400,926	\$ 547,576	\$ 2,948,502
Goodwill recognized in connection with acquisition	12,812		12,812
Foreign currency translation		(921)	(921)
Goodwill at December 31, 2014	\$ 2,413,738	\$ 546,655	\$ 2,960,393

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

	December 31, 2014			September 30, 2014		
	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount
Indefinite-lived intangibles - trade names	\$ 343,629	\$	\$ 343,629	\$ 343,707	\$	\$ 343,707
Finite-lived intangibles:						
Customer relationships	275,026	(102,004)	173,022	268,208	(98,412)	169,796
Other	77,103	(53,096)	24,007	71,114	(51,375)	19,739
Total other intangible assets	\$ 695,758	\$ (155,100)	\$ 540,658	\$ 683,029	\$ (149,787)	\$ 533,242

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Amortization expense for finite-lived intangible assets was \$5.5 million and \$6.6 million in the three months ended December 31, 2014 and 2013, respectively. Amortization expense for finite-lived intangible assets is estimated to be \$24.0 million in fiscal 2015, \$23.9 million in fiscal 2016, \$20.0 million in fiscal 2017, \$17.6 million in fiscal 2018, \$17.0 million in fiscal 2019, and \$100.0 million thereafter.

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AMERISOURCEBERGEN CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(UNAUDITED)

Note 4. Debt

Debt consisted of the following (in thousands):

	December 31, 2014	September 30, 2014
Multi-currency revolving credit facility due 2019	\$	\$
Receivables securitization facility due 2017		
Revolving credit note		
\$600,000, 1.15% senior notes due 2017	599,496	599,379
\$400,000, 4.875% senior notes due 2019	398,204	398,122
\$500,000, 3.50% senior notes due 2021	499,515	499,497
\$500,000, 3.40% senior notes due 2024	498,670	498,634
Total debt	\$ 1,995,885	\$ 1,995,632

The Company has a \$1.4 billion multi-currency senior unsecured revolving credit facility, which expires in August 2019 (the 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 LIBOR/EURIBOR/Bankers Acceptance Stamping Fee, as applicable (90 basis points over LIBOR/EURIBOR/Bankers Acceptance Stamping Fee at December 31, 2014). Additionally, interest on borrowings denominated in Canadian dollars may accrue at the greater of the Canadian prime rate or the CDOR rate. 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 (10 basis points at December 31, 2014). 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 excluded subsidiaries and asset sales, with which the Company was compliant as of December 31, 2014.

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 rates, 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 backed by the Company's Multi-Currency Revolving Credit Facility. There were no borrowings outstanding under the commercial paper program at December 31, 2014.

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The Company has a \$950 million receivables securitization facility (Receivables Securitization Facility), which was scheduled to expire in June 2016. In December 2014, the Company entered into an amendment to the Receivables Securitization Facility to extend the maturity date to December 2017. 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 of 75 basis points. The Company pays an unused fee of 40 basis points, 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 December 31, 2014.

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 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.

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AMERISOURCEBERGEN CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(UNAUDITED)

Note 5. Stockholders' Equity and Earnings per Share

In November 2014, the Company's board of directors increased the quarterly cash dividend by 23% from \$0.235 per share to \$0.29 per share.

In August 2013, the Company's board of directors authorized a program allowing the Company to purchase up to \$750 million of its outstanding shares of common stock, subject to market conditions. During the three months ended December 31, 2014, the Company purchased 1.7 million shares of its common stock for a total of \$132.0 million under this program, which excluded \$18.0 million of fiscal 2014 purchases that cash settled in October 2014. The Company had \$443.3 million of availability remaining under this share repurchase program as of December 31, 2014.

In March 2013, the Company and WBA entered into various agreements and arrangements pursuant to which WBA was 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 (approximately 7% of the Company's common stock, on a fully diluted basis as of the date of issuance, assuming the exercise in full of the Warrants, as defined below) in open market transactions. In connection with these arrangements, Walgreens Pharmacy Strategies, LLC, a wholly owned subsidiary of WBA, was issued (a) a warrant to purchase up to 11,348,456 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, and (b) a warrant to purchase up to 11,348,456 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 and Alliance Boots Luxembourg S.à.r.l., also a wholly owned subsidiary of WBA, was issued (a) a warrant to purchase up to 11,348,456 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 and (b) a warrant to purchase up to 11,348,456 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 (collectively, the Warrants).

The Company valued these Warrants as of March 18, 2013 (date of issuance) and revised the valuation each subsequent quarter. As of December 31, 2014, the Warrants with an exercise price of \$51.50 were valued at \$37.69 per share and the Warrants with an exercise price of \$52.50 were valued at \$36.72 per share. In total, the Warrants were valued at \$1,688.9 million as of December 31, 2014. 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, 2014 for a more detailed description of the accounting for the Warrants.

The Company has taken steps to mitigate the potentially dilutive effect that the exercise of the Warrants could have by hedging a portion of its future obligation to deliver common stock with a financial institution and repurchasing additional shares of its common stock for the Company's own account over time. In June 2013, the Company commenced its hedging strategy by entering into a contract with a financial institution pursuant to which it has 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, should the Warrants be exercised in 2016 and

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2017 and were initially intended to cover approximately 60% of the shares subject to the Warrants at the time the Company entered into the transactions. If the Warrants are exercised, the Company will use a majority of the proceeds to repurchase its shares under the Capped Calls. 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 Warrants are exercised, the number of shares that will be delivered to the Company under the Capped Calls will be reduced, and accordingly, will cover less than 60% of the shares of common stock subject to the Warrants. 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.

Based upon the Company's recent share price, the number of shares of common stock the Company expects to receive under the Capped Calls at maturity has been reduced. Therefore, the Company amended certain of the Capped Calls to increase their cap price to continue to address the potentially 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 warrants that become exercisable in 2016. As of

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

December 31, 2014, the Company had \$78.0 million recorded as a liability related to the total premium. 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 May 2014, the Company's board of directors authorized a special program allowing the Company to purchase up to \$650 million of its outstanding shares of common stock, subject to market conditions, as an opportunity to further mitigate the potentially dilutive effect of the Warrants and supplements the Company's previously executed warrant hedging strategy. During the three months ended December 31, 2014, the Company purchased 1.7 million shares of its common stock for a total of \$132.1 million under this program, which excluded \$18.0 million of fiscal 2014 purchases that cash settled in October 2014. The Company has \$265.9 million of availability remaining under this special share repurchase program as of December 31, 2014.

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 December 31,	
	2014	2013
Weighted average common shares outstanding - basic	219,456	230,277
Dilutive effect of stock options, restricted stock, and restricted stock units		5,106
Dilutive effect of Warrants		1,629
Weighted average common shares outstanding - diluted	219,456	237,012

The potentially dilutive stock options, restricted stock, restricted stock units, and Warrants that were antidilutive for the three months ended December 31, 2014 and 2013 were 15.8 million and 1.2 million, respectively.

Note 6. Legal Matters and Contingencies

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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

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. Such cases may involve allegations around the marketing, sale and/or purchase of pharmaceutical products. Qui tam complaints are initially filed by the relator under seal (or on a confidential basis) and the filing of the complaint imposes obligations

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AMERISOURCEBERGEN CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(UNAUDITED)

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. The Company and AmerisourceBergen Specialty Group (ABSG) have also received subpoenas from the United States Attorney's Office for the Eastern District of New York (USAO) requesting production of documents and information relating to ABSG's oncology distribution center and former pharmacy in Dothan, Alabama, its group purchasing organization for oncologists, and intercompany transfers of certain oncology products, which the Company believes could be related to one or more of the qui tam actions that remain under seal. The Company is in the process of responding to the subpoenas. The Company cannot predict the outcome of any pending action in which any AmerisourceBergen entity is or may become a defendant.

Subpoenas from United States Attorney's Offices

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) 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. In addition to requesting information on ABDC's diversion control program generally, the subpoenas also request documents concerning specific customers' purchases of controlled substances. On August 30, 2013, ABDC received a second subpoena from the USAO and also a second subpoena from the DEA requesting additional information related to the documents produced in response to the first subpoena, as well as information regarding additional specific customers' purchases of controlled substances. On December 31, 2013, ABDC received a third subpoena from the USAO requesting additional information related to electronically stored information. On June 20, 2014, ABDC received a fourth subpoena requesting additional information related to the documents produced in response to the first and second subpoenas. On July 23, 2014, ABDC received a fifth subpoena requesting documents relating to specific customers and audits, among other information requests. The Company has responded to the subpoenas and is continuing to respond to subpoenas and requests for information. The Company cannot predict the outcome of this matter.

In fiscal 2013 and in 2014, the Company or ABDC has also received similar 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 also request documents concerning specific customers' purchases of controlled substances. The Company is in the process of responding to the subpoenas and cannot predict the outcome of these matters.

West Virginia Complaint

On June 26, 2012, the Attorney General of the State of West Virginia (West Virginia) filed a complaint (the Complaint) 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 things, that the distributors failed to provide effective controls and procedures to guard against diversion of controlled substances for illegitimate purposes in West Virginia. The Complaint also alleges that the distributors acted negligently by distributing controlled substances to pharmacies that serve individuals who abuse prescription pain medication and were unjustly enriched by such conduct, violated consumer credit and protection laws, created a public nuisance, and violated state antitrust laws in connection with the distribution of controlled substances. West Virginia is seeking injunctive relief to enjoin alleged violations of state regulations requiring suspicious order monitoring and reporting and to require defendants to fund a medical monitoring treatment program. The Complaint also seeks a jury trial to determine any losses and damages sustained by West

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Virginia as a result of the defendants' alleged conduct. On July 26, 2012, one of the defendants, J.M. Smith Corporation d/b/a Smith Drug Company, filed a Notice of Removal from the Circuit Court of Boone County, West Virginia to the United States District Court for the Southern District of West Virginia, and ABDC and all other defendants filed Consents to Removal. On August 27, 2012, West Virginia filed a Motion to Remand, to which J.M. Smith Corporate d/b/a Smith Drug Company, joined by all other defendants, filed a reply. On March 27, 2013, the Court granted West Virginia's Motion to Remand and West Virginia notified the parties that they intended to file an amended complaint. In advance of filing an amended complaint, West Virginia served discovery requests and subsequently filed a motion to compel. After responding to West Virginia's motion to compel and oral argument, defendants were ordered to provide limited responses. On January 2, 2014, West Virginia filed an amended complaint, which removed the claims for unjust enrichment, medical monitoring and antitrust violations. On February 14, 2014, the defendants filed motions to dismiss the amended complaint. The plaintiffs filed responses in opposition to the defendants' motion to dismiss on May 6, 2014, and the defendants filed reply briefs in support of their motions on May 23, 2014. The court held oral arguments on June 5, 2014. On December 12, 2014, the court denied defendants' motions to dismiss, but granted defendants' motion for a more definite statement. On January 13, 2015, West Virginia filed a second amended complaint under seal and an accompanying motion to modify the protective order so that the second amended complaint may be unsealed and served on all defendants. The second amended complaint has not currently been served on any of the defendants. The Company cannot predict the outcome of this matter.

Note 7. 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. The Company recognized no gains during the three months ended December 31, 2014 and recognized gains of \$21.0 million during the three months ended December 31, 2013 related 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 8. Fair Value of Financial Instruments

The recorded amounts of the Company's cash and cash equivalents, accounts receivable, and accounts payable at December 31, 2014 and September 30, 2014 approximate fair value based upon the relatively short-term nature of these financial instruments. Within cash and cash equivalents, the Company had \$450.0 million and \$400.0 million of investments in money market accounts as of December 31, 2014 and

September 30, 2014, respectively. The fair values of the money market accounts were based on unadjusted quoted prices in active markets for identical assets, otherwise known as Level 1 inputs. The recorded amount of long-term debt and the corresponding fair value as of December 31, 2014 were \$1,995.9 million and \$2,061.0 million, respectively. The recorded amount of long-term debt and the corresponding fair value as of September 30, 2014 were \$1,995.6 million and \$2,056.6 million, respectively. The fair values of debt were determined based on quoted market prices, otherwise known as Level 2 inputs.

Note 9. 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

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segments. Other consists of the AmerisourceBergen Consulting Services (ABCS) and World Courier Group, Inc. (World Courier) operating segments.

The following tables illustrate reportable segment information for the three months ended December 31, 2014 and 2013 (in thousands):

Revenue
Three months ended