AMERISOURCEBERGEN CORP
Form 10-Q
May 08, 2015
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

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

FOR THE QUARTERLY PERIOD ENDED March 31, 2015

OR

o 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)

Delaware (State or other jurisdiction of incorporation or organization)	**23-3079390** (I.R.S. Employer Identification No.)
1300 Morris Drive, Chesterbrook, PA (Address of principal executive offices)	**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 x No o

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 x No o

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 x	Accelerated filer o
Non-accelerated filer o	Smaller reporting company o

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes o No x

The number of shares of common stock of AmerisourceBergen Corporation outstanding as of April 30, 2015 was 219,685,548.

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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, 2015 (Unaudited)	September 30, 2014
ASSETS		
Current assets:		
Cash and cash equivalents	$ 2,336,979	$ 1,808,513
Accounts receivable, less allowances for returns and doubtful accounts: $884,810 at March 31, 2015 and $998,383 at September 30, 2014	7,560,122	6,312,883
Merchandise inventories	9,517,312	8,593,852
Prepaid expenses and other	142,410	84,957
Total current assets	19,556,823	16,800,205
Property and equipment, at cost:		
Land	39,490	37,538
Buildings and improvements	407,071	359,037
Machinery, equipment and other	1,365,364	1,295,854
Total property and equipment	1,811,925	1,692,429
Less accumulated depreciation	(856,367)	(792,847)
Property and equipment, net	955,558	899,582
Goodwill and other intangible assets	6,122,137	3,481,744
Other assets	371,012	350,652
TOTAL ASSETS	$ 27,005,530	$ 21,532,183
LIABILITIES AND STOCKHOLDERS EQUITY		
Current liabilities:		
Accounts payable	$ 18,395,154	$ 15,592,834
Accrued expenses and other	649,637	561,863
Short-term debt	64,205	
Deferred income taxes	1,116,910	1,095,463
Total current liabilities	20,225,906	17,250,160
Long-term debt	3,942,517	1,995,632
Other liabilities	920,852	329,492
Stockholders equity:		

Common stock, $0.01 par value - authorized: 600,000,000 shares; issued and outstanding: 274,067,580 shares and 221,110,118 shares at March 31, 2015, respectively, and 271,126,753 shares and 221,908,650 shares at September 30, 2014, respectively		2,741		2,711
Additional paid-in capital		3,868,378		2,749,185
Retained earnings		728,973		1,570,429
Accumulated other comprehensive loss		(75,585)		(52,046)
Treasury stock, at cost: 52,957,462 shares at March 31, 2015 and 49,218,103 shares at September 30, 2014		(2,608,252)		(2,313,380)
Total stockholders equity		1,916,255		1,956,899
TOTAL LIABILITIES AND STOCKHOLDERS EQUITY	$	27,005,530	$	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 March 31, 2015	Three months ended March 31, 2014	Six months ended March 31, 2015	Six months ended March 31, 2014
Revenue	$ 32,669,267	$ 28,455,903	$ 66,257,869	$ 57,632,265
Cost of goods sold	31,757,291	27,726,310	64,593,594	56,214,447
Gross profit	911,976	729,593	1,664,275	1,417,818
Operating expenses:				
Distribution, selling, and administrative	442,443	376,341	858,934	740,401
Depreciation	45,699	37,968	89,472	75,287
Amortization	10,506	6,526	16,030	13,157
Warrants	752,706	5,663	1,124,111	121,960
Employee severance, litigation and other	24,871	1,967	28,374	6,269
Operating (loss) income	(364,249)	301,128	(452,646)	460,744
Other loss (income)	11,405	(3,783)	12,719	(4,380)
Interest expense, net	22,946	19,474	40,288	38,306
(Loss) income from continuing operations before income taxes	(398,600)	285,437	(505,653)	426,818
Income taxes	114,790	105,360	207,684	197,810
(Loss) income from continuing operations	(513,390)	180,077	(713,337)	229,008
Loss from discontinued operations, net of income taxes				(7,546)
Net (loss) income	$ (513,390)	$ 180,077	$ (713,337)	$ 221,462
Earnings per share:				
Basic earnings per share:				
Continuing operations	$ (2.33)	$ 0.78	$ (3.24)	$ 1.00
Discontinued operations				(0.03)
Rounding				(0.01)
Total	$ (2.33)	$ 0.78	$ (3.24)	$ 0.96
Diluted earnings per share:				
Continuing operations	$ (2.33)	$ 0.76	$ (3.24)	$ 0.97
Discontinued operations				(0.03)
Total	$ (2.33)	$ 0.76	$ (3.24)	$ 0.94
Weighted average common shares outstanding:				
Basic	220,243	229,409	219,854	229,852
Diluted	220,243	236,268	219,854	236,650
Cash dividends declared per share of common stock	$ 0.290	$ 0.235	$ 0.580	$ 0.470

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 March 31, 2015	Three months ended March 31, 2014	Six months ended March 31, 2015	Six months ended March 31, 2014
Net (loss) income	$ (513,390)	$ 180,077	$ (713,337)	$ 221,462
Other comprehensive loss:				
Net change in foreign currency translation adjustments	(18,108)	(3,173)	(26,838)	(8,615)
Other	3,250	(265)	3,299	(416)
Total other comprehensive loss	(14,858)	(3,438)	(23,539)	(9,031)
Total comprehensive (loss) income	$ (528,248)	$ 176,639	$ (736,876)	$ 212,431

See notes to consolidated financial statements.

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AMERISOURCEBERGEN CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

(Unaudited)

(in thousands)	Six months ended March 31, 2015	2014
OPERATING ACTIVITIES		
Net (loss) income	$ (713,337)	$ 221,462
Loss from discontinued operations		7,546
(Loss) income from continuing operations	(713,337)	229,008
Adjustments to reconcile (loss) income from continuing operations to net cash provided by operating activities:		
Depreciation, including amounts charged to cost of goods sold	89,436	76,395
Amortization, including amounts charged to interest expense	18,394	15,556
(Benefit) provision for doubtful accounts	(606)	13,095
Benefit for deferred income taxes	(5,717)	(11,143)
Warrant expense	1,124,111	121,960
Share-based compensation	33,408	22,018
Loss on sale of business	7,814	
Other	(3,587)	(6,309)
Changes in operating assets and liabilities, excluding the effects of acquisitions and divestitures:		
Accounts receivable	(810,902)	(495,495)
Merchandise inventories	(611,235)	(1,486,055)
Prepaid expenses and other assets	(54,138)	27,083
Accounts payable, accrued expenses, and income taxes	2,566,923	1,612,833
Other liabilities	(1,880)	1,253
Net cash provided by operating activities - continuing operations	1,638,684	120,199
Net cash used in operating activities - discontinued operations		(7,546)
NET CASH PROVIDED BY OPERATING ACTIVITIES	1,638,684	112,653
INVESTING ACTIVITIES		
Capital expenditures	(105,201)	(125,392)
Cost of acquired companies, net of cash acquired	(2,603,918)	(9,103)
Proceeds from sale of business	18,498	
Other	1,168	6,360
NET CASH USED IN INVESTING ACTIVITIES	(2,689,453)	(128,135)
FINANCING ACTIVITIES		
Long-term debt borrowings	1,996,390	
Borrowings under revolving and securitization credit facilities	33,076	16,133,500
Repayments under revolving and securitization credit facilities	(18,685)	(16,133,500)
Purchases of common stock	(316,480)	(251,961)
Exercises of stock options, including excess tax benefits of $66,032 and $22,670 in fiscal 2015 and 2014, respectively	141,895	59,675
Cash dividends on common stock	(128,119)	(108,397)
Purchases of capped call options	(100,000)	(211,397)
Debt issuance costs and other	(28,842)	(6,714)

NET CASH PROVIDED BY (USED IN) FINANCING ACTIVITIES		1,579,235		(518,794)
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS		528,466		(534,276)
Cash and cash equivalents at beginning of period		1,808,513		1,231,006
CASH AND CASH EQUIVALENTS AT END OF PERIOD	$	2,336,979	$	696,730

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 March 31, 2015 and the results of operations and cash flows for the interim periods ended March 31, 2015 and 2014 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. In April 2015, the Financial Accounting Standards Board issued an exposure draft of the proposed ASU that will delay the effective date of ASU 2014-09 by one year and also permit entities to adopt the standard as early as the original public entity effective date. The Company has not yet selected a transition method and is currently evaluating the impact of adopting this new accounting guidance.

In April 2015, the Financial Accounting Standards Board issued Accounting Standards Update 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 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.

As of March 31, 2015, 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.

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AMERISOURCEBERGEN CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(UNAUDITED)

Note 2. Acquisition

On February 24, 2015, the Company acquired MWI Veterinary Supply, Inc. (MWI) for a purchase price of $2.6 billion. MWI is a leading animal health distribution company in the United States and in the United Kingdom. MWI s annual revenues are estimated to be approximately $3.0 billion. For reportable segment presentation, MWI s operating results are included within Other.

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 finalization of the appraisals of intangible assets and the corresponding deferred taxes, as well as the finalization of the working capital account balances. There can be no assurance that the estimated amounts recorded represent the final purchase price allocation. The purchase price currently exceeds the estimated fair value of the net tangible and intangible assets acquired by $1.2 billion, which was allocated to goodwill. The estimated fair value of accounts receivable, inventory, and accounts payable acquired was $384.9 million, $440.0 million and $365.1 million, respectively. The estimated fair value of the intangible assets acquired of $1.5 billion consists of customer relationships of $1.1 billion, a trade name of $344.0 million, and software technology of $11.0 million. The Company established an estimated deferred tax liability of $562.7 million primarily in connection with the intangible assets acquired. The Company is amortizing the estimated fair values of the acquired customer relationships and software technology over the remaining estimated useful lives of 20 years and 8 years, respectively. The trade name has been determined to have an indefinite life. Goodwill and intangibles resulting from the acquisition are not expected to be deductible for income tax purposes.

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, 2015, 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 $54.7 million ($38.6 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, 2015, unrecognized tax benefits increased by $4.1 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 $6.7 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). 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 March 31, 2015 was $2,743.8 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 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, 2015 (in thousands):

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AMERISOURCEBERGEN CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(UNAUDITED)

	Pharmaceutical Distribution	Other	Total
Goodwill at September 30, 2014	$ 2,400,926	$ 547,576	$ 2,948,502
Goodwill recognized in connection with acquisitions	17,048	1,177,529	1,194,577
Goodwill disposed in connection with divestiture	(3,605)		(3,605)
Foreign currency translation		(3,053)	(3,053)
Goodwill at March 31, 2015	$ 2,414,369	$ 1,722,052	$ 4,136,421

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

	March 31, 2015			September 30, 2014		
	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount
Indefinite-lived intangibles - trade names	$ 685,055	$	$ 685,055	$ 343,707	$	$ 343,707
Finite-lived intangibles:						
Customer relationships	1,377,500	(110,162)	1,267,338	268,208	(98,412)	169,796
Other	77,153	(43,830)	33,323	71,114	(51,375)	19,739
Total other intangible assets	$ 2,139,708	$ (153,992)	$ 1,985,716	$ 683,029	$ (149,787)	$ 533,242

Amortization expense for finite-lived intangible assets was $16.0 million and $13.2 million in the six months ended March 31, 2015 and 2014, respectively. Amortization expense for finite-lived intangible assets is estimated to be $55.4 million in fiscal 2015, $78.7 million in fiscal 2016, $75.5 million in fiscal 2017, $73.4 million in fiscal 2018, $72.9 million in fiscal 2019, and $961.8 million thereafter.

AMERISOURCEBERGEN CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(UNAUDITED)

Note 5. Debt

Debt consisted of the following (in thousands):

		March 31, 2015		September 30, 2014
Multi-currency revolving credit facility due 2019	$		$	
Receivables securitization facility due 2017				
Revolving credit note				
Overdraft facility		14,205		
Term loan		1,000,000		
$600,000, 1.15% senior notes due 2017		599,550		599,379
$400,000, 4.875% senior notes due 2019		398,287		398,122
$500,000, 3.50% senior notes due 2021		499,532		499,497
$500,000, 3.40% senior notes due 2024		498,706		498,634
$500,000, 3.25% senior notes due 2025		497,369		
$500,000, 4.25% senior notes due 2045		499,073		
Total debt	$	4,006,722	$	1,995,632
Less current portion		64,205		
Total, net of current portion	$	3,942,517	$	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 March 31, 2015). 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 March 31, 2015). 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 March 31, 2015.

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 March 31, 2015.

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 March 31, 2015.

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AMERISOURCEBERGEN CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(UNAUDITED)

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. MWI also has an uncommitted U.K. overdraft facility (Overdraft Facility), which allows it to borrow up to £20 million to fund short term normal trading cycle fluctuations. The Overdraft Facility expires in November 2016.

In February 2015, the Company entered into a $1.0 billion term loan credit agreement (Term Loan), which matures in 2020. The Term Loan is subject to quarterly principal payments equal to (1) 1.25% of the aggregate principal amount of the Term Loan beginning with the first quarterly principal payment to and including the third anniversary of the first quarterly principal payment, and (2) thereafter, 2.50% of the aggregate principal amount of the Term Loan, with the remaining balance of the Term Loan due upon maturity. The Term Loan will bear interest at a rate equal either to a base rate plus a margin or a LIBOR rate plus a margin. The margin will be based on the public debt ratings of the Company and ranges from 75 basis points to 125 basis points over a LIBOR rate (100 basis points at March 31, 2015) and 0 to 25 basis points over a base rate. The Term Loan contains similar covenants to the Multi-Currency Revolving Credit Facility, with which the Company was compliant as of March 31, 2015.

In February 2015, the Company issued $500 million of 3.25% senior notes due March 1, 2025 (the 2025 Notes) and $500 million of 4.25% senior notes due March 1, 2045 (the 2045 Notes). The 2025 Notes were sold at 99.47% of the principal amount and have an effective yield of 3.31%. The 2045 Notes were sold at 99.81% of the principal amount and have an effective yield of 4.26%. The interest on the 2025 and 2045 Notes is payable semi-annually in arrears, commencing on September 1, 2015. The 2025 and 2045 Notes rank pari passu to the Multi-Currency Revolving Credit Facility, the Revolving Credit Note, the Overdraft Facility, the $600 million 1.15% senior notes due in 2017, the $400 million 4.875% senior notes due in 2019, the $500 million 3.50% senior notes due in 2021, and the $500 million 3.40% senior notes due in 2024.

The Company used the proceeds from Term Loan, the 2025 Notes and the 2045 Notes to finance a portion of the $2.6 billion purchase price of MWI.

Note 6. 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 six months ended March 31, 2015, the Company purchased 1.9 million shares of its common stock for a total of $148.3 million under this program, which excluded $18.0 million of fiscal 2014 purchases that cash settled in October 2014. The Company had $427.0 million of availability remaining under this share repurchase program as of March 31, 2015.

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).

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AMERISOURCEBERGEN CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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The Company valued these Warrants as of March 18, 2013 (date of issuance) and revised the valuation each subsequent quarter. As of March 31, 2015 the Warrants with an exercise price of $51.50 were valued at $61.22 per share and the Warrants with an exercise price of $52.50 were valued at $59.67 per share. In total, the Warrants were valued at $2,743.8 million as of March 31, 2015. 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 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. 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, to further mitigate the potentially dilutive effect of the Warrants and supplements the Company s previously executed warrant hedging strategy. During the six months ended March 31, 2015, 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 March 31, 2015.

In March 2015, the Company supplemented its hedging strategy by entering into a contract with a financial institution pursuant to which it has executed a series of issuer call options (Call Options). The Call Options give the Company the right to buy shares of its common stock subject to the Warrants at specified prices between April 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, which was accrued as of March 31, 2015. The Company has accounted for the Call Options as equity contracts and therefore, the above premiums were recorded as a reduction to paid-in capital.

Based on the closing stock price of the Company s common stock on March 31, 2015, the Capped Calls associated with the warrants exercisable in 2016 would have covered approximately 46% of the shares subject to the warrants and the Capped Calls associated with the warrants exercisable in 2017 would have covered approximately 42% of the shares subject to the warrants. Adding the shares repurchased through March 31, 2015 under the special share repurchase program, the Company would have covered approximately 70% of the warrants exercisable in 2016.

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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.

	Three months ended March 31,		**Six months ended March 31,**	
(in thousands)	**2015**	**2014**	**2015**	**2014**
Weighted average common shares outstanding - basic	220,243	229,409	219,854	229,852
Dilutive effect of stock options, restricted stock, and restricted stock units		4,863		4,985
Dilutive effect of Warrants		1,996		1,813
Weighted average common shares outstanding - diluted	220,243	236,268	219,854	236,650

The potentially dilutive stock options, restricted stock, restricted stock units, and Warrants that were antidilutive for the three and six months ended March 31, 2015 were 17.4 million and 16.0 million, respectively, and 2.3 million and 1.8 million for the three and six months ended March 31, 2014, respectively.

Note 7. 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. 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 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,

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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 and Investigations

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 additional information related to electronically stored information and documents concerning specific customers purchases of controlled substances. Since fiscal 2012, ABDC has received a number of subpoenas from both the USAO and the DEA requesting additional information. 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 requests for information. The Company cannot predict the outcome of these matters.

State Proceedings

On June 26, 2012, the Attorney General of the State of West Virginia (West Virginia) filed a 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 Virginia as a result of the defendants alleged conduct. On January 2, 2014, West Virginia filed an Amended Complaint, which removed the claims for unjust enrichment, medical monitoring and antitrust violations and named two additional plaintiffs, the West Virginia Department of Military Affairs and Public Safety and the West Virginia Department of Health and Human Resources (together with West Virginia, Plaintiffs). On January 13, 2015, Plaintiffs filed a Second Amended Complaint under seal, which reasserted an unjust enrichment claim. Plaintiffs also filed an accompanying motion to modify the protective order so that the Second Amended Complaint may be unsealed and served on all defendants. On April 6, 2015, ABDC filed a renewed motion to dismiss and to strike the Second Amended Complaint. The

Company cannot predict the outcome of this matter.

On March 10, 2015, the County of Fulton, Georgia (County), through its County Attorney R. David Ware, filed a complaint in the Superior Court for Fulton County, Georgia, against a number of pharmaceutical wholesalers, including the Company s subsidiary ABDC. The complaint alleges that ABDC and other defendants failed to maintain effective controls against the diversion of controlled substances, failed to maintain records, and failed to report suspicious orders in violation of the Georgia Controlled Substances Act and the Georgia Pharmacy Practice Act. The complaint also alleges that the defendants acted negligently in the marketing, promotion, and distribution of controlled substances by failing to guard against misconduct by physicians, pharmacists, and other parties who diverted controlled substances for illegitimate users. The complaint further asserts that defendants

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were unjustly enriched by such conduct and created a public nuisance. The County seeks injunctive relief and a trial by jury to determine damages. The defendants filed a Notice of Removal on April 14, 2015 and filed a motion to dismiss on April 21, 2015. The Company cannot predict the outcome of this matter.

Note 8. 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 three and six months ended March 31, 2015, the Company recognized gains of $21.5 million, relating to the above-mentioned class action lawsuits. During the three and six months ended March 31, 2014, the Company recognized gains of $0.8 million and $21.9 million, respectively, 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 9. Fair Value of Financial Instruments

The recorded amounts of the Company s cash and cash equivalents, accounts receivable, and accounts payable at March 31, 2015 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 $875.0 million and $400.0 million of investments in money market accounts as of March 31, 2015 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 March 31, 2015 were $3,942.5 million and $4,070.0 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 10. 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, 2015 and 2014 (in thousands):

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	Revenue			
	Three months ended March 31,		Six months ended March 31,	
	2015	2014	2015	2014
Pharmaceutical Distribution	$ 31,762,523	$ 27,932,495	$ 64,745,247	$ 56,555,086
Other	986,069	572,503	1,682,070	1,176,635
Intersegment eliminations	(79,325)	(49,095)	(169,448)	(99,456)
Revenue	$ 32,669,267	$ 28,455,903	$ 66,257,869	$ 57,632,265

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

	Operating Income			
	Three months ended March 31,		Six months ended March 31,	
	2015	2014	2015	2014
Pharmaceutical Distribution	$ 488,574	$ 372,929	$ 878,976	$ 659,711
Other	64,150	43,633	109,316	79,583
Total segment operating income	$ 552,724	$ 416,562	$ 988,292	$ 739,294

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

	(Loss) Income From Continuing Operations Before Income Taxes			
	Three months ended March 31,		Six months ended March 31,	
	2015	2014	2015	2014
Total segment operating income	$ 552,724	$ 416,562	$ 988,292	$ 739,294
Gains on antitrust litigation settlements	21,483	849	21,483	21,872
LIFO expense	(151,144)	(102,828)	(295,168)	(160,410)
Acquisition related intangibles amortization	(9,735)	(5,825)	(14,768)	(11,783)
Warrant expense	(752,706)	(5,663)	(1,124,111)	(121,960)
Employee severance, litigation and other	(24,871)	(1,967)	(28,374)	(6,269)
Operating (loss) income	(364,249)	301,128	(452,646)	460,744
Other loss (income)	11,405	(3,783)	12,719	(4,380)
Interest expense, net	22,946	19,474	40,288	38,306
(Loss) income from continuing operations before income taxes	$ (398,600)	$ 285,437	$ (505,653)	$ 426,818

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; Warrant expense; employee severance, litigation and other; other loss (income); and interest expense, net. All corporate office expenses are allocated to each operating segment.

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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, 2014.

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. 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, 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; scalable automated pharmacy dispensing equipment; medication and supply dispensing cabinets; 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 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.

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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

On February 24, 2015, we acquired MWI, a leading animal health distribution company in the United States and in the United Kingdom for a price of $190.00 per share, or $2.6 billion in total. We financed the transaction through a combination of cash and long-term debt. In February 2015, we issued $500 million 3.25% senior notes due in 2025 and $500 million 4.25% senior notes due in 2045, and we entered into a $1.0 billion variable rate term loan, which matures in 2020 and is subject to quarterly principal payments, as defined.

Executive Summary

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

- Revenue increased 14.8% and 15.0% from the prior year quarter and six month period, respectively, as a result of the gradual phase in of generic drug distribution from ABDC to Walgreens Boots Alliance, Inc. (WBA) in fiscal 2014, increased sales of brand and generic products (including products that treat Hepatitis C), and the strong growth of ABSG and ABCS. Additionally, the acquisition of MWI contributed to our revenue growth in the current quarter;

- Pharmaceutical Distribution gross profit increased 22.1% and 24.2% from the prior year quarter and six month period, respectively, as the result of our strong revenue growth in brand and generic pharmaceuticals in ABDC and ABSG, greater brand and generic price appreciation, and the incremental income from ABDC s participation in the WBA procurement joint venture;

- Total gross profit was impacted by LIFO expense, which was $151.1 million and $295.2 million in the current year quarter and six month period, respectively, in comparison to $102.8 million and $160.4 million in the prior year quarter and six month period, respectively;

- Distribution, selling, and administrative expenses increased 17.6% and 16.0% in the quarter and six month period, respectively, to support our revenue growth. Additionally, these expenses were greater in the current year quarter due to the addition of MWI;

- Total operating expenses were impacted by Warrant expense, which was $752.7 million and $1,124.1 million in the current year quarter and six month period, respectively, in comparison to $5.7 million and $122.0 million in the prior year quarter and six month period, respectively;

- Total segment operating income increased by 32.7% and 33.7% compared to the prior year quarter and six month period, respectively, primarily due to the increase in Pharmaceutical Distribution s gross profit and the addition of MWI; and

- Net income and diluted earnings per share in the quarter and six month period were impacted by the significant LIFO and Warrant expenses.

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Results of Operations

Revenue

	Three months ended March 31,			Six months ended March 31,		
(dollars in thousands)	**2015**	**2014**	**Change**	**2015**	**2014**	**Change**
Pharmaceutical Distribution	$ 31,762,523	$ 27,932,495	13.7%	$ 64,745,247	$ 56,555,086	14.5%
Other	986,069	572,503	72.2%	1,682,070	1,176,635	43.0%
Intersegment eliminations	(79,325)	(49,095)	61.6%	(169,448)	(99,456)	70.4%
Revenue	$ 32,669,267	$ 28,455,903	14.8%	$ 66,257,869	$ 57,632,265	15.0%

Revenue increased by 14.8% and 15.0% from the prior year quarter and six month period, respectively. The increases in revenue were primarily due to increased sales to WBA of $2.0 billion and $4.2 billion from the prior year quarter and six month period, respectively. Fiscal 2014 revenue included the gradual phase in of the WBA generics business beginning in January 2014. Excluding WBA, our revenue increased by 8% from the prior year quarter and six month period. See discussions below under Pharmaceutical Distribution and Other for additional commentary regarding our revenue growth.

We currently expect our revenue in fiscal 2015 to increase in the range of 12% to 13%. Our expected growth rate is driven in part by a full year of generic drug distribution to WBA, which was phased in during fiscal 2014. Our future revenue growth will continue to be affected by various factors such as industry growth trends, including 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, 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 13.7% and 14.5% from the prior year quarter and six month period, respectively. Intrasegment revenues between ABDC and ABSG have been eliminated in the presentation of total Pharmaceutical Distribution revenue. Intrasegment revenues primarily consisted of ABSG sales directly to ABDC customer sites or ABSG sales to ABDC s facilities. Intrasegment revenues were $1.6 billion and $1.0 billion in the quarters ended March 31, 2015 and 2014, respectively, and $3.2 billion and $2.0 billion in the six months ended March 31, 2015 and 2014, respectively.

ABDC s revenue of $27.6 billion and $56.2 billion in the quarter and six months ended March 31, 2015 increased 13.4% and 14.3%, respectively, from the prior year periods (before intrasegment eliminations). The increase in ABDC s revenue was primarily due to increased sales to WBA of $2.0 billion and $4.2 billion in the quarter and six months ended March 31, 2015 (as noted above); increased sales of products that treat Hepatitis C; and overall market growth.

ABSG s revenue of $5.8 billion and $11.7 billion in the quarter and six months ended March 31, 2015 increased 25.3% and 25.5%, respectively, from the prior year periods (before intrasegment eliminations). The increase in ABSG s revenue was due to the continued growth in our blood products, vaccine and physician office distribution businesses, the impact of manufacturer shifts of certain infused oncology products from full line distribution to specialty distribution, an increase in sales in our third party logistics business, and the growth in oncology product sales (including an increase in sales to community oncologists). Excluding the impact of the manufacturer shifts of certain infused oncology products from full line distribution to specialty distribution, ABSG revenue grew by 15.8% and 16.2% in the quarter and six months ended March 31, 2015, respectively.

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A portion of ABSG s revenue is generated from the distribution of pharmaceuticals to physicians who specialize in a variety of disease states, especially oncology. Community oncologists and other specialty physicians that administer drugs under Medicare Part B continue to be impacted by lower reimbursement rates for specialty pharmaceutical drugs. ABSG s business may be adversely impacted in the future by changes in medical guidelines and the Medicare reimbursement rates for certain pharmaceuticals, especially oncology drugs administered by physicians. Since ABSG provides a number of services to or through physicians, any changes affecting this service channel could result in revenue reductions. (Refer to Item 1A. Risk Factors, in our Annual Report on Form 10-K for the fiscal year ended September 30, 2014 for a more detailed description of this business risk.)

A number of our contracts with customers or group purchasing organizations (GPOs) are typically subject to expiration each year. We may lose a significant customer or GPO relationship if any existing contract with such customer or GPO expires without being extended, renewed, or replaced. During the six months ended March 31, 2015, no significant contracts expired. Our contract with Express Scripts, Inc. (Express Scripts) was scheduled to expire in September 2015; however, the current contract was recently extended for one year at the election of Express Scripts. Over the next twelve months, there are no significant contracts scheduled to expire.

Other

Revenue in Other increased 72.2% and 43.0% from the prior year quarter and six month period, respectively, primarily due to the $304.3 million revenue contribution from MWI.

Gross Profit

	Three months ended March 31,			Six months ended March 31,		
(dollars in thousands)	**2015**	**2014**	**Change**	**2015**	**2014**	**Change**
Pharmaceutical Distribution	$ 849,148	$ 695,202	22.1%	$ 1,601,204	$ 1,289,408	24.2%
Other	192,489	136,370	41.2%	336,756	266,948	26.2%
Gains on antitrust litigation settlements	21,483	849		21,483	21,872	
LIFO expense	(151,144)	(102,828)		(295,168)	(160,410)	
Gross profit	$ 911,976	$ 729,593	25.0%	$ 1,664,275	$ 1,417,818	17.4%

Gross profit increased 25.0%, or $182.4 million, and 17.4%, or $246.5 million, from the prior year quarter and six month period, respectively. These increases were due to the increase in Pharmaceutical Distribution gross profit and the increase in the gross profit of Other (see further discussion below) and was offset in part by the $48.3 million and $134.8 million increase in LIFO expense from the prior year quarter and six month period, respectively. The increase in LIFO expense was primarily due to lower generic drug deflation resulting from the generics pricing environment, a lower number of more significant generic drugs coming off their exclusivity period, and a slight increase in brand inflation.

Pharmaceutical Distribution gross profit increased 22.1%, or $153.9 million, and 24.2%, or $311.8 million, from the prior year quarter and six month period, respectively. These increases were due to higher brand and generic sales volume largely attributable to WBA (as noted above). Gross profit also increased due to the growth of our specialty distribution businesses, an increase in price appreciation, and an increase in income resulting from our participation in the WBA procurement joint venture. As a percentage of revenue, Pharmaceutical Distribution gross profit margin of 2.67% and 2.47% in the quarter and six months ended March 31, 2015 increased 18 basis points and 19 basis points from the prior year quarter and six month period, respectively. These increases were primarily due to brand and generic manufacturer price increases and incremental income from our participation in the WBA procurement joint venture.

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Gross profit in Other increased 41.2%, or $56.1 million, and 26.2%, or $69.8 million, from the prior year quarter and six month period, respectively. These increases were primarily due to the contribution of our MWI acquisition, and, to a lesser extent, the increase in ABCS and World Courier s revenue. As a percentage of revenue, gross profit margin in Other of 19.5% in the quarter ended March 31, 2015 decreased from 23.8% in the prior year quarter. As a percentage of revenue, gross profit margin in Other of 20.0% in the six months ended March 31, 2015 decreased from 22.7% in the prior year six month period. These decreases were primarily due to the contribution from our MWI acquisition and the increase in ABCS distribution revenue, both of which have a lower gross profit margin in comparison to other businesses within Other.

We recognized gains of $21.5 million and $0.8 million from antitrust litigation settlements with pharmaceutical manufacturers during the quarters ended March 31, 2015 and 2014, respectively. We recognized gains of $21.5 million and $21.9 million from antitrust litigation settlements with pharmaceutical manufacturers during the six months ended March 31, 2015 and 2014, 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.

Operating Expenses

	Three months ended March 31,			Six months ended March 31,		
(dollars in thousands)	**2015**	**2014**	**Change**	**2015**	**2014**	**Change**
Distribution, selling and administrative	$ 442,443	$ 376,341	17.6%	$ 858,934	$ 740,401	