

AMERISOURCEBERGEN CORP  
Form 10-Q  
August 07, 2013  
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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 June 30, 2013**

**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)

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**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  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 July 31, 2013 was 230,903,118.

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AMERISOURCEBERGEN CORPORATION

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

(in thousands, except share and per share data)	June 30, 2013 (Unaudited)	September 30, 2012
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	\$ 1,567,585	\$ 1,066,608
Accounts receivable, less allowances for returns and doubtful accounts: \$351,221 at June 30, 2013 and \$338,245 at September 30, 2012	4,585,488	3,784,619
Merchandise inventories	5,895,089	5,472,010
Prepaid expenses and other	90,911	72,374
Assets held for sale		662,853
Total current assets	12,139,073	11,058,464
Property and equipment, at cost:		
Land	37,538	33,009
Buildings and improvements	321,834	324,264
Machinery, equipment and other	1,057,279	942,604
Total property and equipment	1,416,651	1,299,877
Less accumulated depreciation	(639,560)	(556,193)
Property and equipment, net	777,091	743,684
Goodwill and other intangible assets	3,504,803	3,523,432
Other assets	158,365	116,676
<b>TOTAL ASSETS</b>	<b>\$ 16,579,332</b>	<b>\$ 15,442,256</b>
<b>LIABILITIES AND STOCKHOLDERS EQUITY</b>		
Current liabilities:		
Accounts payable	\$ 11,009,224	\$ 9,492,589
Accrued expenses and other	441,017	570,210
Deferred income taxes	991,407	963,081
Liabilities held for sale		239,706
Total current liabilities	12,441,648	11,265,586
Long-term debt	1,396,439	1,395,931
Other liabilities	323,051	325,897

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Stockholders' equity:			
Common stock, \$0.01 par value - authorized: 600,000,000 shares; issued and outstanding:			
267,137,701 shares and 230,795,299 shares at June 30, 2013, respectively, and 262,542,659			
shares and 235,394,281 shares at September 30, 2012, respectively			
		2,671	2,625
Additional paid-in capital		2,398,239	2,252,470
Retained earnings		1,506,102	1,270,423
Accumulated other comprehensive loss		(55,097)	(32,657)
Treasury stock, at cost: 36,342,402 shares at June 30, 2013 and 27,148,378 shares at			
September 30, 2012			
		(1,433,721)	(1,038,019)
Total stockholders' equity		2,418,194	2,454,842
<b>TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY</b>	<b>\$</b>	<b>16,579,332</b>	<b>\$</b> 15,442,256

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 June 30,		Nine months ended June 30,	
	2013	2012	2013	2012
Revenue	\$ 21,906,648	\$ 19,326,807	\$ 63,490,127	\$ 59,016,363
Cost of goods sold	21,344,198	18,658,941	61,549,860	57,095,494
Gross profit	562,450	667,866	1,940,267	1,920,869
Operating expenses:				
Distribution, selling, and administrative	331,173	303,812	975,409	823,418
Depreciation	34,395	29,552	99,338	81,278
Amortization	6,743	5,981	20,352	14,603
Warrants	35,815		39,576	
Employee severance, litigation and other	19,678	4,135	21,383	16,721
Operating income	134,646	324,386	784,209	984,849
Other loss (income)	525	(4,785)	1,251	(4,917)
Interest expense, net	18,190	23,771	55,225	69,432
Income before income taxes	115,931	305,400	727,733	920,334
Income taxes	51,821	115,223	284,859	349,422
Income from continuing operations	64,110	190,177	442,874	570,912
Income (loss) from discontinued operations, net of income taxes	104,329	(8,906)	(60,190)	(15,420)
Net income	\$ 168,439	\$ 181,271	\$ 382,684	\$ 555,492
Earnings per share:				
Basic earnings per share:				
Continuing operations	\$ 0.28	\$ 0.75	\$ 1.91	\$ 2.23
Discontinued operations	0.45	(0.04)	(0.26)	(0.06)
Rounding		0.01		
Total	\$ 0.73	\$ 0.72	\$ 1.65	\$ 2.17
Diluted earnings per share:				
Continuing operations	\$ 0.27	\$ 0.74	\$ 1.88	\$ 2.19
Discontinued operations	0.44	(0.03)	(0.26)	(0.06)
Rounding			0.01	
Total	\$ 0.71	\$ 0.71	\$ 1.63	\$ 2.13
Weighted average common shares outstanding:				
Basic	231,002	252,116	231,273	256,260
Diluted	235,669	255,725	235,428	260,404
Cash dividends declared per share of common stock	\$ 0.21	\$ 0.13	\$ 0.63	\$ 0.39

See notes to consolidated financial statements.



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**AMERISOURCEBERGEN CORPORATION AND SUBSIDIARIES**

**CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME**

**(Unaudited)**

<b>(in thousands)</b>	<b>Three months ended June 30,</b>		<b>Nine months ended June 30,</b>	
	<b>2013</b>	<b>2012</b>	<b>2013</b>	<b>2012</b>
Net income	\$ 168,439	\$ 181,271	\$ 382,684	\$ 555,492
Other comprehensive income (loss):				
Net change in foreign currency translation adjustments	1,067	(5,202)	(22,574)	6,266
Other	80	27	134	81
Total other comprehensive income (loss)	1,147	(5,175)	(22,440)	6,347
Total comprehensive income	\$ 169,586	\$ 176,096	\$ 360,244	\$ 561,839

See notes to consolidated financial statements.



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## AMERISOURCEBERGEN CORPORATION AND SUBSIDIARIES

## CONSOLIDATED STATEMENTS OF CASH FLOWS

(Unaudited)

(in thousands)	Nine months ended June 30,	
	2013	2012
<b>OPERATING ACTIVITIES</b>		
Net income	\$ 382,684	\$ 555,492
Loss from discontinued operations	60,190	15,420
Income from continuing operations	442,874	570,912
Adjustments to reconcile income from continuing operations to net cash provided by operating activities:		
Depreciation, including amounts charged to cost of goods sold	102,737	81,965
Amortization, including amounts charged to interest expense	23,908	18,636
Provision for doubtful accounts	7,922	22,300
Provision for deferred income taxes	12,390	45,897
Warrant expense	39,576	
Share-based compensation	26,900	18,437
Other	(5,873)	(5,288)
Changes in operating assets and liabilities, excluding the effects of acquisitions:		
Accounts receivable	(835,697)	122,297
Merchandise inventories	(399,087)	207,607
Prepaid expenses and other assets	(65,656)	48,766
Accounts payable, accrued expenses, and income taxes	1,380,353	(228,351)
Other liabilities	4,692	(12,035)
Net cash provided by operating activities - continuing operations	735,039	891,143
Net cash provided by (used in) operating activities - discontinued operations	84,025	(131,088)
<b>NET CASH PROVIDED BY OPERATING ACTIVITIES</b>	<b>819,064</b>	<b>760,055</b>
<b>INVESTING ACTIVITIES</b>		
Capital expenditures	(137,927)	(92,881)
Cost of acquired companies, net of cash acquired		(778,755)
Proceeds from sales of businesses	331,630	
Other	523	23
Net cash provided by (used in) investing activities - continuing operations	194,226	(871,613)
Net cash used in investing activities - discontinued operations	(11,672)	(34,712)
<b>NET CASH PROVIDED BY (USED IN) INVESTING ACTIVITIES</b>	<b>182,554</b>	<b>(906,325)</b>
<b>FINANCING ACTIVITIES</b>		
Long-term debt borrowings		499,290
Long-term debt repayments		(55,000)
Borrowings under revolving and securitization credit facilities	2,330,000	30,500
Repayments under revolving and securitization credit facilities	(2,330,000)	(30,500)
Purchases of common stock	(401,091)	(514,258)
Exercises of stock options, including excess tax benefits of \$35,275 and \$21,490 in fiscal 2013 and 2012, respectively	132,766	91,092
Cash dividends on common stock	(147,005)	(100,081)
Purchases of capped call options	(27,906)	
Debt issuance costs and other	(6,867)	(10,528)
Net cash used in financing activities - continuing operations	(450,103)	(89,485)

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Net cash (used in) provided by financing activities - discontinued operations	(50,538)	65,513
NET CASH USED IN FINANCING ACTIVITIES	(500,641)	(23,972)
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	500,977	(170,242)
Cash and cash equivalents at beginning of period	1,066,608	1,825,990
CASH AND CASH EQUIVALENTS AT END OF PERIOD	\$ 1,567,585	\$ 1,655,748

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 June 30, 2013 and the results of operations and cash flows for the interim periods ended June 30, 2013 and 2012 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 Exhibit 99.1 of the Company's Current Report on Form 8-K filed on July 16, 2013, which retrospectively revised the financial statements and related notes included in the Company's Annual Report on Form 10-K for the fiscal year ended September 30, 2012.

The preparation of financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect amounts reported in the financial statements and accompanying notes. Actual amounts could differ from these estimated amounts.

Certain reclassifications have been made to prior year amounts in order to conform to the current year presentation.

**Note 2. Discontinued Operations**

In May 2013, the Company completed the divestiture of its packaging and clinical trials services business, AndersonBrecon (AB), and completed the divestiture of AmerisourceBergen Canada Corporation (ABCC). The Company previously committed to a plan to divest both businesses and therefore classified AB and ABCC's assets and liabilities as held for sale in the accompanying consolidated balance sheets and

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classified AB and ABCC's operating results, net of tax, as discontinued operations in the accompanying consolidated statements of operations for all periods presented. Prior to being classified within discontinued operations, AB was included in Other and ABCC was included in Pharmaceutical Distribution for segment reporting. AB and ABCC's revenue and income (loss) before income taxes were as follows:

(in thousands)	Three months ended June 30,		Nine months ended June 30,	
	2013	2012	2013	2012
Revenue	\$ 265,724	\$ 442,577	\$ 1,181,232	\$ 1,194,481
Income (loss) before income taxes	\$ 105,950	\$ (11,607)	\$ (50,663)	\$ (19,892)

The income before income taxes in the three months ended June 30, 2013 includes a \$114.3 million gain on the sale of AB and an \$8.9 million increase to the previously estimated loss on sale of ABCC. The loss in the nine months ended June 30, 2013 also includes a goodwill impairment charge of \$26.9 million and the initial estimated \$134.8 million loss on the sale of ABCC. Both divestitures are subject to final purchase price working capital adjustments.

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The gain on the sale of AB and the loss on the sale of ABCC include the reclassification of \$9.3 million of cumulative foreign currency translation losses included within accumulated other comprehensive income. The loss on the sale of ABCC will offset the gain on the sale of AB, and as a result, there is no impact on income tax expense.

The Company sold AB for \$308.1 million and sold ABCC for \$67.9 million, including a C\$50.0 million note due from the buyer, with interest accruing at 3% annually, and scheduled monthly payments to be made over a seven-year term commencing in June 2013. The Company entered into a foreign currency denominated contract to hedge the foreign currency exchange risk associated with the Canadian Note.

The following table summarizes the assets and liabilities of AB and ABCC when they were classified as held for sale (in thousands):

	<b>September 30, 2012</b>	
<b>Assets:</b>		
Accounts receivable	\$	187,179
Merchandise inventories		249,463
Property and equipment, net		131,907
Goodwill and other intangible assets		85,163
Other assets		9,141
Assets held for sale		662,853
<b>Liabilities:</b>		
Accounts payable		152,110
Accrued expenses and other		16,554
Other liabilities		71,042
Liabilities held for sale		239,706
Net assets	\$	423,147

**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 June 30, 2013, 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 \$50.9 million (\$36.0 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 \$7.9 million of interest and penalties, which the Company records in income tax expense. During the nine months ended June 30, 2013, unrecognized tax benefits increased by \$7.6 million. During the

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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 \$3.3 million.

In March 2013, the Company issued Warrants in connection with the announcement of various agreements and arrangements with Walgreen Co. ( Walgreens ) and Alliance Boots GmbH ( Alliance Boots ). See Note 6 for further details. 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 June 30, 2013 was \$467.6 million. The excess of the fair value as of June 30, 2013 over the initial value of \$242.4 million is not tax deductible. As a result, the Company's current effective income tax rate, which includes the impact of the Warrants, is higher than its historical rate.

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## AMERISOURCEBERGEN CORPORATION AND SUBSIDIARIES

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(UNAUDITED)

**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 nine months ended June 30, 2013 (in thousands):

	Pharmaceutical Distribution		Other		Total
Goodwill at September 30, 2012	\$	2,422,975	\$	520,009	\$ 2,942,984
Foreign currency translation and other		(1,437)		3,000	1,563
Goodwill at June 30, 2013	\$	2,421,538	\$	523,009	\$ 2,944,547

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

	June 30, 2013			September 30, 2012		
	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount
Indefinite-lived intangibles - trade names	\$ 343,845	\$	\$ 343,845	\$ 344,004	\$	\$ 344,004
Finite-lived intangibles:						
Customer relationships	265,739	(75,989)	189,750	265,981		