AMERISOURCEBERGEN CORP
Form 10-Q
February 04, 2016
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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 December 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 January 31, 2016 was 205,462,465.

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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)	December 31, 2015 (Unaudited)	September 30, 2015
ASSETS		
Current assets:		
Cash and cash equivalents	$ 978,090	$ 2,167,442
Accounts receivable, less allowances for returns and doubtful accounts: $879,333 at December 31, 2015 and $899,764 at September 30, 2015	8,380,652	8,222,951
Merchandise inventories	10,863,974	9,755,094
Prepaid expenses and other	138,959	189,001
Total current assets	20,361,675	20,334,488
Property and equipment, at cost:		
Land	40,339	39,499
Buildings and improvements	463,073	413,854
Machinery, equipment and other	1,539,928	1,449,545
Total property and equipment	2,043,340	1,902,898
Less accumulated depreciation	(983,839)	(923,647)
Property and equipment, net	1,059,501	979,251
Goodwill and other intangible assets	9,052,837	6,123,944
Other assets	281,789	298,474
TOTAL ASSETS	$ 30,755,802	$ 27,736,157
LIABILITIES AND STOCKHOLDERS EQUITY		
Current liabilities:		
Accounts payable	$ 22,536,323	$ 20,886,439
Accrued expenses and other	592,553	679,309
Short-term debt	108,412	
Deferred income taxes	787,053	1,135,017
Total current liabilities	24,024,341	22,700,765
Long-term debt	4,393,317	3,493,048
Deferred income taxes	932,299	819,188
Other liabilities	105,826	89,636

Stockholders equity:				
Common stock, $0.01 par value - authorized: 600,000,000 shares; issued and outstanding: 275,880,785 shares and 206,315,699 shares at December 31, 2015, respectively, and 274,991,824 shares and 206,891,873 shares at September 30, 2015, respectively		2,759		2,750
Additional paid-in capital		4,260,078		3,736,477
Retained earnings		1,440,801		1,181,623
Accumulated other comprehensive loss		(115,814)		(136,333)
Treasury stock, at cost: 69,565,086 shares at December 31, 2015 and 68,099,951 shares at September 30, 2015		(4,287,805)		(4,150,997)
Total stockholders equity		1,300,019		633,520
TOTAL LIABILITIES AND STOCKHOLDERS EQUITY	$	30,755,802	$	27,736,157

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, 2015		2014	
Revenue	$	36,709,046	$	33,588,602
Cost of goods sold		35,744,169		32,836,303
Gross profit		964,877		752,299
Operating expenses:				
Distribution, selling, and administrative		528,296		416,491
Depreciation		49,342		43,773
Amortization		32,096		5,524
Warrants		467,375		371,405
Employee severance, litigation and other		18,868		3,503
Pension settlement charge		48,731		
Operating loss		(179,831)		(88,397)
Other (income) loss		(310)		1,314
Interest expense, net		30,879		17,342
Loss from operations before income taxes		(210,400)		(107,053)
Income tax (benefit) expense		(540,777)		92,894
Net income (loss)	$	330,377	$	(199,947)
Earnings per share:				
Basic	$	1.60	$	(0.91)
Diluted	$	1.46	$	(0.91)
Weighted average common shares outstanding:				
Basic		206,180		219,456
Diluted		226,718		219,456
Cash dividends declared per share of common stock	$	0.34	$	0.29

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, 2015	2014
Net income (loss)	$ 330,377	$ (199,947)
Other comprehensive income (loss):		
Net change in foreign currency translation adjustments	(10,434)	(8,730)
Pension plan adjustments, net of tax of $19,054 and $0, respectively	31,538	
Other	(585)	49
Total other comprehensive income (loss)	20,519	(8,681)
Total comprehensive income (loss)	$ 350,896	$ (208,628)

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, 2015**	**2014**
OPERATING ACTIVITIES		
Net income (loss)	$ 330,377	$ (199,947)
Adjustments to reconcile net income (loss) to net cash provided by operating activities:		
Depreciation, including amounts charged to cost of goods sold	53,668	44,518
Amortization, including amounts charged to interest expense	33,801	6,652
Provision (benefit) for doubtful accounts	4,080	(1,379)
Benefit for deferred income taxes	(610,771)	(18,058)
Warrant expense	467,375	371,405
Share-based compensation	22,255	19,567
Pension settlement charge	48,731	
Other	(7,982)	(1,951)
Changes in operating assets and liabilities, excluding the effects of acquisitions:		
Accounts receivable	(76,261)	(766,718)
Merchandise inventories	(1,086,296)	(2,096,578)
Prepaid expenses and other assets	31,966	10,992
Accounts payable, accrued expenses, and income taxes	1,522,332	3,529,971
Other liabilities	17,573	(1,510)
NET CASH PROVIDED BY OPERATING ACTIVITIES	750,848	896,964
INVESTING ACTIVITIES		
Capital expenditures	(90,110)	(52,557)
Cost of acquired companies, net of cash acquired	(2,726,632)	(24,604)
Proceeds from sale of investment securities available-for-sale	88,829	
Purchases of investment securities available-for-sale	(41,136)	
Other	(3,438)	5
NET CASH USED IN INVESTING ACTIVITIES	(2,772,487)	(77,156)
FINANCING ACTIVITIES		
Long-term debt borrowings	1,000,000	
Borrowings under revolving and securitization credit facilities	1,755,310	
Repayments under revolving and securitization credit facilities	(1,746,766)	
Purchases of common stock	(118,575)	(300,213)
Exercises of stock options, including excess tax benefits of $17,436 and $17,332 in fiscal 2016 and 2015, respectively	33,980	40,164
Cash dividends on common stock	(71,199)	(64,025)
Debt issuance costs and other	(20,463)	(5,491)
NET CASH PROVIDED BY (USED IN) FINANCING ACTIVITIES	832,287	(329,565)
(DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS	(1,189,352)	490,243
Cash and cash equivalents at beginning of period	2,167,442	1,808,513
CASH AND CASH EQUIVALENTS AT END OF PERIOD	$ 978,090	$ 2,298,756

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, 2015 and the results of operations and cash flows for the interim periods ended December 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, 2015.

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

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 was originally scheduled to be effective for annual reporting periods beginning after December 15, 2016, including interim periods within those reporting periods. In July 2015, the Financial Accounting Standards Board deferred the effective date of ASU 2014-09 by one year. Entities are permitted to adopt the standard as early as the original public entity effective date, 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.

In November 2015, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update No. 2015-17, Balance Sheet Classification of Deferred Taxes (ASU 2015-17). ASU 2015-17 is the result of the FASB s simplification initiative intended to improve U.S. GAAP by reducing costs and complexity while maintaining or enhancing the usefulness of related financial statement information. ASU 2015-17 requires that all deferred tax assets and liabilities, along with any related valuation allowance, be classified as noncurrent on the balance sheet. The guidance does not change the existing requirement that prohibits companies from offsetting deferred tax liabilities from one jurisdiction against deferred assets of another jurisdiction. ASU 2015-17 is effective for annual reporting periods beginning after December 15, 2016, and interim periods within those fiscal years. ASU 2015-17 will have no effect on the Company s results of operations or liquidity.

As of December 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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(UNAUDITED)

Note 2. Acquisition

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

The purchase price has been preliminarily allocated to the underlying assets acquired and liabilities assumed based upon their estimated fair values at the date of the acquisition. The preliminary allocation is pending the finalization of the appraisals of intangible assets and the corresponding deferred taxes, as well as the finalization of working capital account balances. There can be no assurance that the estimated amounts recorded will represent the final purchase price allocation. The purchase price currently exceeds the estimated fair value of the net tangible and intangible assets acquired by $1.8 billion, which was allocated to goodwill. The estimated fair value of accounts receivable, inventory, and accounts payable acquired was $63.2 million, $43.1 million and $22.8 million, respectively. The estimated fair value of the intangible assets acquired of $1.1 billion consists of customer relationships of $883.4 million, trade name of $167.6 million, and software technology of $52.6 million. The Company established an estimated deferred tax liability of $424.5 million primarily in connection with the intangible assets acquired. The Company is amortizing the estimated fair values of the acquired customer relationships and trade name over their estimated useful lives of 15 years. The estimated fair value of the acquired software technology is being amortized over its estimated useful life of 10 years. Goodwill and intangible assets resulting from the acquisition are not expected to be deductible for income tax purposes.

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 December 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 $51.9 million ($36.6 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 $7.9 million of interest and penalties, which the Company records in income tax expense. During the three months ended December 31, 2015, unrecognized tax benefits decreased by $0.9 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 $7.5 million.

In March 2013, the Company issued Warrants (as defined in Note 6) in connection with various agreements and arrangements with Walgreens Boots Alliance, Inc. (WBA), as successor in interest to Walgreen Co. (Walgreens) and Alliance Boots GmbH (Alliance Boots). At that time, the Company determined that the Warrants had a fair value of $242.4 million on the date of issuance, which approximated the tax deductible amount that would be deducted ratably on the Company s income tax return over the 10-year term of the various agreements, and that any value in excess of the initial fair value of the Warrants on the date of issuance would not be tax deductible. In November 2015, the Company received a private letter ruling from the Internal Revenue Service, which entitles it to an income tax deduction equal to the fair value of the Warrants on the date of exercise. As a result, the Company recorded a deferred tax asset and recognized a tax benefit adjustment of approximately $456 million, which represented the estimated tax deduction for the increase in the fair value of the Warrants from the issuance date through September 30, 2015. This tax benefit adjustment had a significant impact to the Company s effective tax rate in the quarter ended December 31, 2015. An additional tax benefit of approximately $173 million was recognized primarily related to the change in the fair value of the Warrants during the three months ended December 31, 2015.

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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 three months ended December 31, 2015 (in thousands):

	Pharmaceutical Distribution	Other	Total
Goodwill at September 30, 2015	$ 2,418,806	$ 1,712,019	$ 4,130,825
Goodwill recognized in connection with acquisitions	1,825,590	27,115	1,852,705
Foreign currency translation		(1,786)	(1,786)
Goodwill at December 31, 2015	$ 4,244,396	$ 1,737,348	$ 5,981,744

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

	December 31, 2015			September 30, 2015		
	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount
Indefinite-lived intangibles - trade names	$ 684,899	$	$ 684,899	$ 684,966	$	$ 684,966
Finite-lived intangibles:						
Customer relationships	2,309,819	(173,352)	2,136,467	1,421,230	(146,227)	1,275,003
Trade names and other	302,632	(52,905)	249,727	81,241	(48,091)	33,150
Total other intangible assets	$ 3,297,350	$ (226,257)	$ 3,071,093	$ 2,187,437	$ (194,318)	$ 1,993,119

Amortization expense for finite-lived intangible assets was $32.1 million and $5.5 million in the three months ended December 31, 2015 and 2014, respectively. Amortization expense for finite-lived intangible assets is estimated to be $150.9 million in fiscal 2016, $155.2 million in fiscal 2017, $153.0 million in fiscal 2018, $151.1 million in fiscal 2019, $148.7 million in fiscal 2020, and $1,659.4 million thereafter.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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Note 5. Debt

Debt consisted of the following (in thousands):

	December 31, 2015	**September 30, 2015**
Multi-currency revolving credit facility due 2020	$	$
Receivables securitization facility due 2018		
Revolving credit note		
Overdraft facility	8,412	
Term loans	1,500,000	500,000
$600,000, 1.15% senior notes due 2017	599,712	599,658
$400,000, 4.875% senior notes due 2019	398,543	398,456
$500,000, 3.50% senior notes due 2021	499,586	499,568
$500,000, 3.40% senior notes due 2024	498,812	498,777
$500,000, 3.25% senior notes due 2025	497,570	497,503
$500,000, 4.25% senior notes due 2045	499,094	499,086
Total debt	$ 4,501,729	$ 3,493,048
Less current portion	108,412	
Total, net of current portion	$ 4,393,317	$ 3,493,048

The Company has a $1.4 billion multi-currency senior unsecured revolving credit facility, which expires in November 2020 (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 (91 basis points over LIBOR/EURIBOR/Bankers Acceptance Stamping Fee at December 31, 2015). Additionally, interest on borrowings denominated in Canadian dollars may accrue at either 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 (9 basis points at December 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 subsidiaries and asset sales, with which the Company was compliant as of December 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, 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, 2015.

The Company has a $950 million receivables securitization facility (Receivables Securitization Facility), which expires in November 2018. The Company has available to it an accordion feature whereby the commitment on the Receivables Securitization Facility may be increased by up to $250 million, subject to lender approval, for seasonal needs during the December and March quarters. Interest rates are based on prevailing market rates for short-term commercial paper or LIBOR plus a program fee. The Company pays a customary unused fee at prevailing market rates, annually, to maintain the availability under the Receivables Securitization Facility. The Receivables Securitization Facility contains similar covenants to the Multi-Currency Revolving Credit Facility, with which the Company was compliant as of December 31, 2015.

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

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AMERISOURCEBERGEN CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(UNAUDITED)

loans from time to time in a principal amount not to exceed $75 million. The Revolving Credit Note may be decreased or terminated by the bank or the Company at any time without prior notice. The Company also has an uncommitted U.K. overdraft facility (Overdraft Facility), which allows it to borrow up to £20 million to fund short term normal trading cycle fluctuations related to its MWI business. The Overdraft Facility expires in November 2016.

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

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

Note 6. Stockholders Equity and Earnings per Share

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

In August 2013, the Company s board of directors authorized a 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, 2015, the Company did not purchase any shares of its common stock under this program. The Company had $274.5 million of availability remaining under this share repurchase program as of December 31, 2015.

In March 2013, the Company and WBA entered into various agreements and arrangements pursuant to which subsidiaries of WBA were granted the right to purchase a minority equity position in the Company, beginning with the right, but not the obligation, to purchase up to 19,859,795 shares of the Company s Common Stock (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., 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 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, 2015 the Warrants with an exercise price of $51.50 were valued at $51.98 per share, and the Warrants with an exercise price of $52.50 were valued at $50.19 per share. In total, the Warrants were valued at $2,318.9 million as of

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December 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, 2015 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.

Subsequently, 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 fiscal 2014 and 2015, the Company purchased $1,774.1 million of its common stock under special share repurchase programs as an opportunity to further mitigate the potentially dilutive effect of the Warrants and supplement the Company s previously executed warrant hedging strategy.

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

In September 2015, the Company s board of directors authorized a new special share repurchase program allowing it to repurchase up to $2.4 billion in shares of its common stock, subject to market conditions. During the three months ended December 31, 2015, the Company purchased 1.3 million shares (all under the Call Options) of its common stock for a total of $118.6 million under this program. The Company has $2,157.3 million of availability remaining under this special share repurchase program as of December 31, 2015. Availability under the new special share repurchase program is reduced by share repurchases, if any, of its common stock on the open market under the special program, as well as share repurchases due to the Company s exercise of Call Options and/or Capped Calls.

Based on the closing stock price of the Company s common stock on December 31, 2015, the Capped Calls associated with the Warrants exercisable in 2016 would have covered approximately 51% of the shares subject to the Warrants and the Capped Calls associated with the Warrants exercisable in 2017 would have covered approximately 46% of the shares subject to the Warrants. Adding the shares repurchased through December 31, 2015 under the special share repurchase programs, the Company would have covered 100% of the Warrants exercisable in 2016 and approximately 85% of the Warrants exercisable in 2017.

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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 December 31,	
(in thousands)	**2015**	**2014**
Weighted average common shares outstanding - basic	206,180	219,456
Dilutive effect of stock options, restricted stock, and restricted stock units	3,858	
Dilutive effect of Warrants	16,680	
Weighted average common shares outstanding - diluted	226,718	219,456

The potentially dilutive stock options, restricted stock, restricted stock units, and Warrants that were antidilutive for the three months ended December 31, 2015 and 2014 were 1.5 million and 15.8 million, respectively.

Note 7. Pension Plan

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

In December 2015, the Company completed the settlement of plan benefits through the combination of lump-sum distributions to participants and the purchase of a nonparticipating annuity contract, which transferred the remaining obligation from the plan. Plan assets were sufficient to satisfy the obligations of the plan. In December 2015, the Company recorded a pension settlement charge of $48.7 million, which primarily consisted of the recognition of unrecognized actuarial losses that were included in accumulated other comprehensive income, net of the related deferred tax assets.

Note 8. Legal Matters and Contingencies

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

Qui Tam Matters

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

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

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Subpoenas and Ongoing Investigations

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

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

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

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

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

State Proceedings

In June 2012, the Attorney General of the State of West Virginia (West Virginia) filed complaints, which have been amended, in the Circuit Court of Boone County, West Virginia, against a number of pharmaceutical wholesale distributors, including the Company s subsidiary, ABDC, alleging, among other claims, that the distributors failed to provide effective controls and procedures to guard against diversion of controlled substances for illegitimate purposes in West Virginia, acted negligently by distributing controlled substances to pharmacies that serve individuals who abuse controlled substances, and failed to report suspicious orders of uncontrolled substances in accordance with state regulations. In addition to monetary damages and injunctive and other equitable relief, West Virginia is seeking to require the defendants to fund a medical monitoring treatment program. On April 6, 2015, ABDC filed a motion to dismiss, which was subsequently denied on September 8, 2015. On October 23, 2015, ABDC, together with all other defendants, filed a writ of prohibition to the Supreme Court of Appeals of West Virginia. On October 30, 2015, ABDC filed

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an answer to West Virginia s second amended complaint. The writ of prohibition filed on October 23, 2015 was denied on January 5, 2016. ABDC is vigorously defending itself and cannot predict the outcome of this matter.

Note 9. 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 months ended December 31, 2015, the Company recognized gains of $12.8 million relating to the above-mentioned class action lawsuits. During the three months ended December 31, 2014, the Company recognized no gains 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 10. Fair Value of Financial Instruments

The recorded amounts of the Company s cash and cash equivalents, accounts receivable and accounts payable at December 31, 2015 and September 30, 2015 approximate fair value based upon the relatively short-term nature of these financial instruments.

The Company had $38.3 million of investment securities available-for-sale, none of which are within cash and cash equivalents, at December 31, 2015. The Company had $213.1 million of investment securities available-for-sale, $126.9 million of which were within cash and cash equivalents, at September 30, 2015. The fair value of the investments was based on inputs other than quoted prices, otherwise known as Level 2 inputs. The investments held as of December 31, 2015 consist of fixed-income securities with maturities ranging from November 2016 to July 2017. The amortized cost of the investments was $38.4 million and $213.1 million at December 31, 2015 and September 30, 2015, respectively.

The recorded amount of long-term debt (see Note 5) and the corresponding fair value as of December 31, 2015 were $4,393.3 million and $4,388.7 million, respectively. The recorded amount of long-term debt and the corresponding fair value as of September 30, 2015 were $3,493.0 million and $3,515.1 million, respectively. The fair value of long-term debt was determined based on quoted market prices, otherwise known as Level 2 inputs.

Note 11. 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.

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The following tables illustrate reportable segment information for the three months ended December 31, 2015 and 2014 (in thousands):

	Revenue Three months ended December 31, 2015	Revenue Three months ended December 31, 2014
Pharmaceutical Distribution	$ 35,194,679	$ 32,982,724
Other	1,577,815	696,001
Intersegment eliminations	(63,448)	(90,123)
Revenue	$ 36,709,046	$ 33,588,602

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

	Segment Operating Income Three months ended December 31, 2015	Segment Operating Income Three months ended December 31, 2014
Pharmaceutical Distribution	$ 379,559	$ 390,401
Other	95,565	45,166
Total segment operating income	$ 475,124	$ 435,567

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

	Loss From Operations Before Income Taxes Three months ended December 31,	
	2015	**2014**
Total segment operating income	$ 475,124	$ 435,567
Gains on antitrust litigation settlements	12,791	
LIFO expense	(101,562)	(144,024)
Acquisition-related intangibles amortization	(31,210)	(5,032)
Warrant expense	(467,375)	(371,405)
Employee severance, litigation and other	(18,868)	(3,503)
Pension settlement charge	(48,731)	
Operating loss	(179,831)	(88,397)
Other (income) loss	(310)	1,314
Interest expense, net	30,879	17,342
Loss from operations before income taxes	$ (210,400)	$ (107,053)

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; pension settlement charge; other (income) loss; 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, 2015.

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

Pharmaceutical Distribution Segment

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

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

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

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

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

Other

Other consists of the AmerisourceBergen Consulting Services (ABCS) operating segment, the World Courier Group, Inc. (World Courier) operating segment, and the MWI Veterinary Supply, Inc. (MWI) operating segment. The results of operations of these operating segments are not significant enough to require separate reportable segment disclosure, and therefore, have been included in Other for the purpose of our reportable segment presentation.

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

Recent Developments

On November 6, 2015, we acquired PharMEDium Healthcare Holdings, Inc. (PharMEDium), a privately held leading national provider of outsourced compounded sterile preparations to acute care hospitals in the United States, for $2.7 billion in cash, which included certain purchase price adjustments. We financed the transaction through a combination of cash and long-term debt. In November 2015, we entered into a $1.0 billion variable rate term loan, which matures in November 2020 and is subject to quarterly principal payments, as defined. PharMEDium is a component of ABDC within our Pharmaceutical Distribution reportable segment.

Executive Summary

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

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

- Pharmaceutical Distribution gross profit increased 2.6% from the prior year quarter as the result of ABDC s and ABSG s revenue growth, the incremental income from ABDC s participation in the WBA global sourcing arrangement, and the contribution from our recent PharMEDium acquisition. Gross profit growth in the current year quarter was adversely impacted by lower generic price appreciation and the renewal of our contract with the Department of Defense (DOD) at less favorable terms;

- Total gross profit increased 28.3% primarily due to the addition of MWI and a reduction in LIFO expense, which was $101.6 million in the current year quarter in comparison to $144.0 million in the prior year quarter. The decrease in LIFO expense was primarily due to lower brand inflation and higher generic drug deflation;

- Distribution, selling, and administrative expenses increased 26.8% in the quarter primarily due to the addition of MWI and to support our revenue growth;

- Total operating expenses were impacted by an increase in Warrant expense of $96.0 million, a pension settlement charge of $48.7 million, and an increase in depreciation and amortization expense of $32.1 million. Warrant expense increased significantly due to the rise in our stock price during the quarter ended December 31, 2015. We incurred the pension charge in the current year quarter in connection with the settlement of our salaried defined benefit pension plan;

- Total segment operating income increased by 9.1% compared to the prior year quarter primarily due to the addition of MWI; and

- Income taxes were a benefit of $540.8 million in the current year quarter as compared to an expense of $92.9 million in the prior year quarter. In November 2015, we received a private letter ruling, which entitles us to an income tax deduction equal to the fair value of the Warrants at the date of exercise. As a result, we recognized a tax benefit adjustment of approximately $456 million,

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which represented the estimated tax deduction for the increase in the value of the Warrants from the issuance date through September 30, 2015. This tax benefit adjustment had a significant impact to our effective tax rate in the quarter ended December 31, 2015. An additional tax benefit of approximately $173 million was recognized primarily related to the change in the fair value of the Warrants during the three months ended December 31, 2015.

Results of Operations

Revenue

(dollars in thousands)	Three months ended December 31, 2015	Three months ended December 31, 2014	Change
Pharmaceutical Distribution	$ 35,194,679	$ 32,982,724	6.7%
Other	1,577,815	696,001	126.7%
Intersegment eliminations	(63,448)	(90,123)	(29.6)%
Revenue	$ 36,709,046	$ 33,588,602	9.3%

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

We continue to expect our revenue in fiscal 2016 to increase in the range of 8% to 10%. Our future revenue growth will continue to be affected by various factors such as industry growth trends, including drug utilization, the introduction of new innovative brand therapies, the likely increase in the number of generic drugs that will be available over the next few years as a result of the expiration of certain drug patents held by brand-name pharmaceutical manufacturers, price increases and price deflation, general economic conditions in the United States, competition within the industry, customer consolidation, changes in pharmaceutical manufacturer pricing and distribution policies and practices, increased downward pressure on government and other third party reimbursement rates to our customers, and changes in Federal government rules and regulations.

Pharmaceutical Distribution Segment

The Pharmaceutical Distribution segment grew its revenue by 6.7% from the prior year quarter. 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 $1.7 billion and $1.6 billion in the quarters ended December 31, 2015 and 2014, respectively.

ABDC s revenue of $30.1 billion in the quarter ended December 31, 2015 increased 5.2% from the prior year quarter (before intrasegment eliminations). The increase in ABDC s revenue was primarily due to overall market growth including sales to WBA, and increased sales of products that treat Hepatitis C.

ABSG s revenue of $6.8 billion in the quarter ended December 31, 2015 increased 14.6% from the prior quarter (before intrasegment eliminations). The increase in ABSG s revenue was due to the continued growth in our oncology business (including an increase in sales to community oncologists) and in our blood products, vaccine and physician office distribution businesses.

A number of our contracts with customers, including group purchasing organizations (GPOs), are typically subject to expiration each year. We may lose a significant customer if any existing contract with such customer expires without being extended, renewed, or replaced. During the quarter ended December 31, 2015, no significant contracts expired. Over the next twelve months, the two significant contracts scheduled to expire are our contracts with Kaiser Permanente (Kaiser), which expires in June 2016, and Express Scripts, which expires in September 2016. Our revenue, results of operations, and cash flows may be negatively impacted if the Kaiser or Express Scripts contracts are not renewed or the terms of the renewed contracts are less favorable than the existing contracts. Additionally, from time to time, other significant contracts may be renewed prior to their expiration dates. If those contracts are renewed at less favorable terms, they may also negatively impact our revenue, results of operations, and cash flows.

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Other

Revenue in Other increased 126.7% from the prior year quarter primarily due to the revenue contribution from MWI.

Gross Profit

		Three months ended December 31,			
(dollars in thousands)		**2015**		**2014**	**Change**
Pharmaceutical Distribution	$	771,968	$	752,056	2.6%
Other		281,680		144,267	95.2%
Gains on antitrust litigation settlements		12,791			
LIFO expense		(101,562)		(144,024)	
Gross profit	$	964,877	$	752,299	28.3%

Gross profit increased 28.3%, or $212.6 million from the prior year quarter. The increase was due to the increase in Pharmaceutical Distribution gross profit, the increase in the gross profit of Other, gains on antitrust litigation settlements, and the $42.5 million decrease in LIFO expense from the prior year quarter. The decrease in LIFO expense was primarily due to lower brand inflation and higher generic drug deflation.

Pharmaceutical Distribution gross profit increased 2.6%, or $19.9 million, from the prior year quarter. The increase was due to higher brand and generic sales volume largely attributable to WBA (as noted above). Gross profit also increased due to an increase in income resulting from our participation in the WBA global sourcing arrangement, the contribution from our recent PharMEDium acquisition, and the growth of our specialty distribution businesses. Gross profit growth in the current year quarter was adversely impacted by lower generic price appreciation and the renewal of our contract with the DOD at less favorable terms. As a percentage of revenue, Pharmaceutical Distribution gross profit margin of 2.19% in the quarter ended December 31, 2015 decreased 9 basis points from the prior year quarter. The decrease was primarily due to a decline in generic price appreciation and the DOD contract renewal.

Gross profit in Other increased 95.2%, or $137.4 million, from the prior year quarter. The increase was primarily due to the contribution from our February 2015 acquisition of MWI, and, to a lesser extent, the increase in ABCS s revenue. As a percentage of revenue, gross profit margin in Other of 17.85% in the quarter ended December 31, 2015 decreased from 20.73% in the prior year quarter. The decrease was primarily due to the addition of MWI and the increase in ABCS distribution revenue, both of which have lower gross profit margins in comparison to other businesses within Other.

We recognized gains of $12.8 million from antitrust litigation settlements with pharmaceutical manufacturers during the quarter ended December 31, 2015. The gains were recorded as reductions to cost of goods sold. There were no gains in the quarter ended December 31, 2014.

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.

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Operating Expenses

	Three months ended December 31,		
(dollars in thousands)	2015	2014	Change
Distribution, selling and administrative	$ 528,296	$ 416,491	26.8%
Depreciation and amortization	81,438	49,297	65.2%
Warrants	467,375	371,405	
Employee severance, litigation and other	18,868	3,503	
Pension settlement charge	48,731		
Total operating expenses	$ 1,144,708	$ 840,696	

Distribution, selling and administrative expenses increased 26.8%, or $111.8 million, from the prior year quarter, primarily due to our February 2015 acquisition of MWI. In addition, Pharmaceutical Distribution operating expenses, including technology spend, during the current year quarter were higher to support the growth in our business. As a percentage of revenue, distribution, selling and administrative expenses were 1.44% in the current year quarter and represents an increase of 20 basis points in comparison to the prior year quarter. The increase was primarily due to the addition of MWI, which has higher operating expenses as a percentage of revenue in comparison to the Pharmaceutical Distribution segment.

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

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

Employee severance, litigation and other for the quarter ended December 31, 2015 included $16.1 million of deal-related transaction costs (primarily related to professional fees with respect to the PharMEDium acquisition) and $2.8 million of employee severance and other costs. Employee severance, litigation and other for the quarter ended December 31, 2014 included $3.0 million of deal-related transaction costs and $0.5 million of employee severance and other costs.

We recorded a pension settlement charge of $48.7 million in the quarter ended December 31, 2015 related to the settlement of our salaried defined benefit plan (see Note 7).

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Operating Income

Three months ended
December 31,