MCKESSON CORP
Form 10-Q
January 30, 2014
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended December 31, 2013

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: 1-13252

McKESSON CORPORATION
(Exact name of registrant as specified in its charter)

Delaware (State or other jurisdiction of incorporation or organization)	94-3207296 (I.R.S. Employer Identification No.)
One Post Street, San Francisco, California (Address of principal executive offices)	94104 (Zip Code)

(415) 983-8300
(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 (§232.405 of this chapter) 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. See the definitions of “large accelerated filer,” “accelerated filer” and “smaller reporting company” in Rule 12b-2 of the Exchange Act.

Large accelerated filer	x	Accelerated filer	o
Non-accelerated filer	o (Do not check if a smaller reporting company)	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

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date.

Class	Outstanding as of December 31, 2013
Common stock, $0.01 par value	230,126,791 shares

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PART I—FINANCIAL INFORMATION
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
(In millions, except per share amounts)
(Unaudited)

	Quarter Ended December 31,		Nine Months Ended December 31,	
	2013	2012	2013	2012
Revenues	$34,306	$31,099	$99,468	$91,553
Cost of Sales	(32,466)	(29,454)	(93,699)	(86,664)
Gross Profit	1,840	1,645	5,769	4,889
Operating Expenses	(1,337)	(1,147)	(3,890)	(3,230)
Litigation Charges	(18)	—	(68)	(60)
Gain on Business Combination	—	—	—	81
Total Operating Expenses	(1,355)	(1,147)	(3,958)	(3,209)
Operating Income	485	498	1,811	1,680
Other Income (Loss), Net	(8)	10	7	28
Interest Expense	(69)	(59)	(187)	(170)
Income from Continuing Operations Before Income Taxes	408	449	1,631	1,538
Income Tax Expense	(252)	(143)	(639)	(454)
Income from Continuing Operations	156	306	992	1,084
Loss from Discontinued Operations, Net of Tax	(92)	(8)	(100)	(5)
Net Income	$64	$298	$892	$1,079
Earnings (Loss) Per Common Share				
Diluted				
Continuing operations	$0.67	$1.27	$4.26	$4.51
Discontinued operations	(0.39)	(0.03)	(0.43)	(0.02)
Total	$0.28	$1.24	$3.83	$4.49
Basic				
Continuing operations	$0.68	$1.30	$4.34	$4.60
Discontinued operations	(0.40)	(0.03)	(0.44)	(0.02)
Total	$0.28	$1.27	$3.90	$4.58
Dividends Declared Per Common Share	$0.24	$0.20	$0.68	$0.60
Weighted Average Common Shares				
Diluted	234	240	233	240
Basic	230	235	229	236

See Financial Notes

McKESSON CORPORATION

CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
(In millions)
(Unaudited)

	Quarter Ended December 31,		Nine Months Ended December 31,	
	2013	2012	2013	2012
Net Income	$64	$298	$892	$1,079
Other Comprehensive Income (Loss), Net of Tax				
Foreign currency translation adjustments, net of income tax expense (benefit) of nil, ($4), $24 and ($2)	(55)	(16)	(16)	14
Unrealized gains (losses) on cash flow hedges and other, net of income tax expense of nil, nil, nil and nil	(1)	—	(2)	2
Retirement-related benefit plans, net of income tax expense of $4, $3, $11 and $8	4	5	15	14
Other Comprehensive Income (Loss), Net of Tax	(52)	(11)	(3)	30
Comprehensive Income	$12	$287	$889	$1,109

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McKESSON CORPORATION

CONDENSED CONSOLIDATED BALANCE SHEETS
(In millions, except per share amounts)
(Unaudited)

	December 31, 2013	March 31, 2013
ASSETS		
Current Assets		
Cash and cash equivalents	$2,431	$2,456
Receivables, net	10,750	9,975
Inventories, net	11,462	10,335
Prepaid expenses and other	591	404
Total Current Assets	25,234	23,170
Property, Plant and Equipment, Net	1,359	1,321
Goodwill	6,300	6,405
Intangible Assets, Net	2,066	2,270
Other Assets	1,520	1,620
Total Assets	$36,479	$34,786
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current Liabilities		
Drafts and accounts payable	$16,638	$16,108
Deferred revenue	1,286	1,359
Deferred tax liabilities	1,519	1,626
Current portion of long-term debt	353	352
Other accrued liabilities	2,108	1,912
Total Current Liabilities	21,904	21,357
Long-Term Debt	4,521	4,521
Other Noncurrent Liabilities	2,027	1,838
Commitments and Contingent Liabilities (Note 13)		
Stockholders' Equity		
Preferred stock, $0.01 par value, 100 shares authorized, no shares issued or outstanding	—	—
Common stock, $0.01 par value, 800 shares authorized at December 31, 2013 and March 31, 2013, 380 and 376 shares issued at December 31, 2013 and March 31, 2013	4	4
Additional Paid-in Capital	6,442	6,078
Retained Earnings	11,138	10,402
Accumulated Other Comprehensive Loss	(68)	(65)
Other	16	14
Treasury Shares, at Cost, 150 and 149 at December 31, 2013 and March 31, 2013	(9,505)	(9,363)
Total Stockholders' Equity	8,027	7,070
Total Liabilities and Stockholders' Equity	$36,479	$34,786

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McKESSON CORPORATION

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(In millions)
(Unaudited)

	Nine Months Ended December 31,	
	2013	2012
Operating Activities		
Net income	$892	$1,079
Adjustments to reconcile to net cash provided by operating activities:		
Depreciation and amortization	475	383
Deferred taxes	86	499
Share-based compensation expense	115	123
Gain on business combination	—	(81)
Charges associated with last-in-first-out inventory method	186	5
Other non-cash items	83	49
Changes in operating assets and liabilities, net of acquisitions:		
Receivables	(865)	67
Inventories	(1,387)	(313)
Drafts and accounts payable	584	(1,078)
Deferred revenue	20	72
Taxes	154	(90)
Litigation charges	68	60
Litigation settlement payments	(86)	(470)
Other	147	(29)
Net cash provided by operating activities	472	276
Investing Activities		
Property acquisitions	(188)	(145)
Capitalized software expenditures	(108)	(111)
Acquisitions, less cash and cash equivalents acquired	(116)	(577)
Proceeds from sale of business	55	—
Other	(65)	49
Net cash used in investing activities	(422)	(784)
Financing Activities		
Proceeds from short-term borrowings	150	1,125
Repayments of short-term borrowings	(150)	(1,525)
Proceeds from issuances of long-term debt	—	892
Common stock transactions:		
Issuances	150	112
Share repurchases, including shares surrendered for tax withholding	(128)	(413)
Dividends paid	(154)	(147)
Other	59	38
Net cash provided by (used in) financing activities	(73)	82
Effect of exchange rate changes on cash and cash equivalents	(2)	3
Net decrease in cash and cash equivalents	(25)	(423)
Cash and cash equivalents at beginning of period	2,456	3,149
Cash and cash equivalents at end of period	$2,431	$2,726

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McKESSON CORPORATION
FINANCIAL NOTES
(UNAUDITED)

1. Significant Accounting Policies

Basis of Presentation: The condensed consolidated financial statements of McKesson Corporation ("McKesson," the "Company," or "we" and other similar pronouns) include the financial statements of all wholly-owned subsidiaries and majority-owned or controlled companies. We also evaluate our ownership, contractual and other interests in entities to determine if they are variable interest entities ("VIEs"), if we have a variable interest in those entities and the nature and extent of those interests. These evaluations are highly complex and involve judgment and the use of estimates and assumptions based on available historical information and management's judgment, among other factors. Based on our evaluations, if we determine we are the primary beneficiary of such VIEs, we consolidate such entities into our financial statements. The consolidated VIEs are not material to our condensed consolidated financial statements. Intercompany transactions and balances have been eliminated. The condensed consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America ("GAAP") for interim financial reporting and the rules and regulations of the U.S. Securities and Exchange Commission ("SEC") and, therefore, do not include all information and footnote disclosures normally included in the annual consolidated financial statements.

To prepare the financial statements in conformity with GAAP, management must make estimates and assumptions that affect the reported amounts of assets and liabilities as of the date of these financial statements and income and expenses during the reporting period. Actual amounts may differ from these estimated amounts. In our opinion, the accompanying unaudited condensed consolidated financial statements include all normal recurring adjustments necessary for a fair presentation of our financial position, results of operations and cash flows for the interim periods presented.

The results of operations for the quarter and nine months ended December 31, 2013 are not necessarily indicative of the results that may be expected for the entire year. These interim financial statements should be read in conjunction with the annual audited financial statements, accounting policies and financial notes included in our Annual Report on Form 10-K for the fiscal year ended March 31, 2013 previously filed with the SEC on May 7, 2013 ("2013 Annual Report").

Certain prior period amounts, which primarily relate to discontinued operations, have been reclassified to conform to the current period presentation. Refer to Financial Note 7, "Discontinued Operations," for more information.

The Company's fiscal year begins on April 1 and ends on March 31. Unless otherwise noted, all references to a particular year shall mean the Company's fiscal year.

Recently Adopted Accounting Pronouncements

Balance Sheet Offsetting: In the first quarter of 2014, we adopted disclosure guidance on a retrospective basis related to the offsetting of assets and liabilities. The guidance requires an entity to disclose information about offsetting assets and liabilities for derivatives, repurchase agreements and reverse purchase agreements, and securities borrowing and securities lending transactions that are either offset in accordance with specific GAAP criteria or subject to a master netting arrangement or similar agreement. The adoption of this guidance did not have a material effect on our condensed consolidated financial statements.

Comprehensive Income: In the first quarter of 2014, we adopted disclosure guidance on a prospective basis related to the reporting of amounts reclassified out of Accumulated Other Comprehensive Income ("AOCI"). The guidance requires disclosure of amounts reclassified out of AOCI by component. In addition, an entity is required to present either on the face of the statement of operations or in the notes, significant amounts reclassified out of AOCI by the respective line items of net income but only if the amount reclassified is required to be reclassified to net income in its entirety in the same reporting period. For amounts not reclassified in their entirety to net income, an entity is required to cross-reference to other disclosures that provide additional detail about those amounts. The adoption of this guidance did not have a material effect on our condensed consolidated financial statements.

Recently Issued Accounting Pronouncement Not Yet Adopted

Cumulative Translation Adjustments: In March 2013, amended guidance was issued for a parent's accounting for the cumulative translation adjustment upon derecognition of certain subsidiaries or group of assets within a foreign entity or of an investment in a foreign entity. The amended guidance requires the release of any cumulative translation adjustment into net income only upon complete or substantially complete liquidation of a controlling interest in a subsidiary or a group of assets within a foreign entity. Also, it requires the release of all or a pro rata portion of the cumulative translation adjustment to net income in case of sale of an equity method investment that is a foreign entity. The amended guidance is applicable to us effective in the first quarter of fiscal 2015. Early adoption is permitted. We are currently evaluating the impact of this amended guidance on our condensed consolidated financial statements.

2. Business Combinations

On February 22, 2013, we acquired all of the outstanding shares of PSS World Medical, Inc. ("PSS World Medical") of Jacksonville, Florida for $29.00 per share plus the assumption of PSS World Medical's debt, or approximately $1.9 billion in aggregate, consisting of cash consideration of $1.3 billion, net of cash acquired, and the assumption of long-term debt with a fair value of $0.6 billion. The cash paid at acquisition was funded from cash on hand and the issuance of long-term debt. PSS World Medical markets and distributes medical products and services throughout the United States. The acquisition of PSS World Medical expands our existing Medical-Surgical business.

The following table summarizes the preliminary recording of the fair values of the assets acquired and liabilities assumed as of the acquisition date:

(In millions)	Amounts Previously Recognized as of Acquisition Date (Provisional)(1)	Measurement Period Adjustments	Amounts Recognized as of Acquisition Date (Provisional as Adjusted)
Current assets, net of cash and cash equivalents acquired	$706	$5	$711
Goodwill	1,145	(15)	1,130
Intangible assets	557	11	568
Other long-term assets	183	(1)	182
Current liabilities	(376)	3	(373)
Current portion of long-term debt	(635)	—	(635)
Other long-term liabilities	(281)	(3)	(284)
Net assets acquired, less cash and cash equivalents	$1,299	$—	$1,299

(1) As previously reported in our Form 10-K for the year ended March 31, 2013.

During the first nine months of 2014, the fair value measurements of assets acquired and liabilities assumed of PSS World Medical as of the acquisition date were refined. This refinement did not have a significant impact on our condensed consolidated statements of operations, balance sheets or cash flows in any period and, therefore, we have not retrospectively adjusted our financial statements. These amounts are subject to change within the measurement period as our fair value assessments are finalized. Financial results for PSS World Medical have been included in the results of operations within our Medical-Surgical distribution and services business, which is part of our Distribution Solutions segment since the date of acquisition.

On April 6, 2012, we purchased the remaining 50% ownership interest in our corporate headquarters building located in San Francisco, California, for $90 million, which was funded from cash on hand. We previously held a 50% ownership interest and were the primary tenant in this building. This transaction was accounted for as a step acquisition, which required that we re-measure our previously held 50% ownership interest to fair value and record the difference between the fair value and carrying value as a gain in the consolidated statements of operations. The re-measurement to fair value resulted in a non-cash pre-tax gain of $81 million ($51 million after-tax), which was recorded as a gain on business combination within Corporate operating expenses in the consolidated statements of operations during the first quarter of 2013.

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FINANCIAL NOTES (CONTINUED)
(UNAUDITED)

The total fair value of the net assets acquired was $180 million, which was allocated as follows: building and improvements of $113 million and land of $58 million, with the remainder allocated for settlement of our pre-existing lease and lease intangible assets. The fair value of the building and improvements was determined based on current market replacement costs less depreciation and unamortized tenant improvement costs, as well as other relevant market information, which are considered to be Level 3 inputs under the fair value measurements and disclosure guidance. The building and improvements have a weighted average useful life of 30 years. The fair value of the land was determined using comparable sales of land within the surrounding market, which is considered to be a Level 2 input.

During the last two years, we also completed a number of smaller acquisitions within both of our operating segments. Financial results for our business acquisitions have been included in our consolidated financial statements since their respective acquisition dates. Purchase prices for our business acquisitions have been allocated based on estimated fair values at the date of acquisition.

Goodwill recognized for our business acquisitions is generally not expected to be deductible for tax purposes. However, if we acquire the assets of a company, the goodwill may be deductible for tax purposes. The pro forma results of operations for our business acquisitions and the results of operations for these acquisitions since the acquisition date have not been presented because the effects were not material to the consolidated financial statements on either an individual or an aggregate basis.

3. Acquisition of Celesio AG

On October 24, 2013, we entered into (i) a Share Purchase Agreement (the “SPA”) with Franz Haniel & Cie. GmbH (“Haniel”) and (ii) a Business Combination Agreement (the “BCA”) with Celesio AG (“Celesio”). Celesio’s issued and outstanding share capital was 50.01% owned by Haniel. Celesio is an international wholesale and retail company and provider of logistics and services to the pharmaceutical and healthcare sectors. Celesio operates in 14 countries and is headquartered in Stuttgart, Germany.

Under the original terms of the SPA and BCA, McKesson was to acquire a majority stake in Celesio for €23.00 per share from Haniel and launch a parallel voluntary public tender offer to purchase Celesio’s publicly-traded shares at €23.00 per share (the “Share Offer”) and tender offers for its outstanding convertible bonds at a price corresponding to the value of the underlying shares implied by a €23.00 per share offer price (the “Bond Offers” and, together with the “Share Offer,” the “2013 Tender Offers”).

The total original proposed transaction, including the assumption of Celesio’s outstanding debt, was valued at approximately €6.1 billion (or, assuming a currency exchange ratio of $1.35/1€, approximately $8.3 billion). The SPA included provisions allowing either party to terminate the agreement if certain conditions were not met. In particular, if applicable antitrust approval was not received by the closing date, or if we did not acquire at least 75% of Celesio’s shares on a fully diluted basis, either Haniel or McKesson could terminate the agreement. We intended to complete the acquisition by utilizing the below described senior bridge term loan and cash on hand.

In October 2013, we entered into a $5.5 billion 364-day unsecured Senior Bridge Term Loan Agreement (the “2013 Bridge Loan”). The 2013 Bridge Loan contained terms substantially similar to those contained in our existing revolving credit facility. Borrowings under the 2013 Bridge Loan were generally to bear interest based upon either a prime rate or the London Interbank Offered Rate. In addition, the 2013 Bridge Loan required that we maintain a debt to capital ratio of no greater than 65% throughout the term of the 2013 Bridge Loan. We expected to refinance all or part of the outstanding amounts under the 2013 Bridge Loan with longer-term financing prior to the end of the 2013 Bridge Loan’s 364-day term.

In October 2013, we also entered into a foreign currency option (the “Option”) to hedge a portion of the Euro denominated acquisition purchase price. The Option provided the right but not the obligation to purchase €1.6 billion at $1.40/1€. The Option was not designated for hedge accounting and, accordingly, changes in the fair value of the contract of $13 million were recorded directly in earnings for the quarter ended December 31, 2013.

In November 2013, we amended our Accounts Receivable Sales Facility and Revolving Credit Facility (these facilities are described in Financial Note 10, “Debt and Financing Activities”). The amendments added an extended cure period to both facilities with respect to defaults under the facilities relating to Celesio. Additionally, the amendments increased the maximum debt to capital ratio covenant from 56.5% to 65% for the Accounts Receivable Sales Facility, and upon completion of the acquisition of Celesio, for the Revolving Credit Facility.

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(UNAUDITED)

On December 5, 2013, we commenced the voluntary public tender offers. On January 9, 2014, we and Haniel amended the SPA to increase the price to be paid per share of Celesio from €23.00 to €23.50 and we increased the purchase price in the Share Offer to €23.50 per share and the purchase price offered in the Bond Offers to a price corresponding to the value of the underlying shares implied by a €23.50 per share offer price. The Tender Offers expired on January 9, 2014. On January 13, 2014, the commitments under the 2013 Bridge Loan automatically terminated upon the failure of the 2013 Tender Offers and the provisions of the amendments to the Accounts Receivable Sales Facility and Revolving Credit Facility terminated other than the increase to the debt to capital ratio for the Accounts Receivable Sales Facility, which remains in effect. On January 13, 2014, we announced that the 2013 Tender Offers had failed to meet the minimum 75% completion condition outlined in the 2013 Tender Offers. On January 17, 2014, the Option expired.

On January 23, 2014, we entered into (i) an amendment to the BCA, (ii) an amended and restated SPA with Haniel, and (iii) a Bond Purchase Agreement with Elliott International, L.P., The Liverpool Limited Partnership and Elliott Capital Advisers, L.P. (collectively, the "Acquisition"). Upon completion of the Acquisition, we will acquire approximately 75.99% of Celesio's shares currently outstanding for €23.50 per share. These agreements are not subject to any closing conditions. The Acquisition is expected to close during our fourth quarter of fiscal year 2014, which will result in McKesson achieving more than 75% ownership of Celesio shares on a fully diluted basis following a conversion of the Celesio convertible bonds into Celesio shares. We intend to utilize the below described bridge term loan and cash on hand to complete the Acquisition. We also intend to launch and complete a voluntary tender offer (the "2014 Tender Offer") of €23.50 per Celesio share in the fourth quarter of fiscal year 2014. The total proposed transaction, including the assumption of Celesio's outstanding debt, is currently valued at approximately €6.4 billion (or, assuming a currency exchange ratio of $1.37/1€ as of January 23, 2014, approximately $8.7 billion).

On January 23, 2014, we entered into a $5.5 billion 364-day unsecured Senior Bridge Term Loan Agreement (the "2014 Bridge Loan") under terms substantially similar to those previously in place for the 2013 Bridge Loan. The borrowings under the 2014 Bridge Loan will be made available to us at our request to: (i) pay the Acquisition consideration, (ii) fund additional acquisitions, if any, of Celesio shares and convertible bonds, including shares acquired in the 2014 Tender Offer and (iii) pay transaction costs associated with the Acquisition. The 2014 Bridge Loan requires that we maintain a debt to capital ratio of no greater than 65% throughout the term of the 2014 Bridge Loan. In the fourth quarter of fiscal year 2014, we amended our Accounts Receivable Sales Facility and Revolving Credit Facility to revive the extended cure period under both facilities with respect to defaults relating to Celesio and to the Revolving Credit Facility to revive the change of the debt to capital ratio from 56.5% to 65%. We expect that we will refinance all or part of the outstanding amounts under the 2014 Bridge Loan with longer-term financing prior to the end of the 2014 Bridge Loan's 364-day term.

During the quarter ended December 31, 2013, we incurred $35 million of expenses related to the acquisition of Celesio. These expenses primarily consisted of professional fees, Option costs and fees associated with the 2013 Bridge Loan. Amounts incurred prior to the third quarter were not material. Expenses were recorded within the Corporate segment as follows: $12 million in operating expenses, $13 million in other income (loss), net and $10 million in interest expense in our condensed consolidated statement of operations.

4. Technology Solutions Charges

During the third quarter of 2014, our Technology Solutions segment recorded pre-tax charges totaling $57 million. These charges primarily consist of $35 million of product alignment charges, $15 million of integration-related expenses and $7 million of reduction-in-workforce severance charges. Included in the total charge was $35 million for severance for employees primarily in our research and development, customer services and sales functions, and $15 million for asset impairments which primarily represents the write-off of deferred costs related to a product that will no longer be developed. Charges were recorded in our condensed consolidated statement of operations as follows: $34 million in cost of sales and $23 million in operating expenses.

5. Sale of an Equity Investment

In September 2013, we completed the sale of our 49% equity interest in Nadro, S.A. de C.V. ("Nadro"). Under the terms of the agreement, we received $41 million in total cash consideration. There was no material gain or loss on the disposition based on the adjusted net realizable value of the investment at the time of the sale. Prior to the sale, our investment in Nadro was accounted for under the equity method of accounting within our Distribution Solutions segment.

6. Income Taxes

As of December 31, 2013, we had $656 million of unrecognized tax benefits, of which $500 million would reduce income tax expense and the effective tax rate, if recognized. During the next twelve months, it is reasonably possible that audit resolutions and the expiration of statutes of limitations could potentially reduce our unrecognized tax benefits by up to $227 million. However, this amount may change because we continue to have ongoing negotiations with various taxing authorities throughout the year.

We have received reassessments from the Canada Revenue Agency ("CRA") for a total of $210 million related to a transfer pricing matter impacting years 2003 through 2008. Payments of approximately $156 million of these reassessments have been made to the CRA to stop the accrual of interest. In prior years, we appealed the reassessment for 2003 to the Tax Court of Canada and filed a notice of objection for 2004 through 2008. On December 13, 2013, the Tax Court of Canada dismissed our appeal of the reassessment with respect to 2003. On January 10, 2014, we filed a Notice of Appeal to the Federal Court of Appeal from the judgment of the Tax Court of Canada. As a result of the unfavorable Tax Court Decision relating to 2003, we recognized a discrete tax charge of $122 million in the quarter, which includes tax and interest for the years 2003 through 2013. The ultimate resolution of these issues could result in an increase or decrease to income tax expense.

We have received tax assessments of $98 million from the U.S. Internal Revenue Service ("IRS") relating to 2003 through 2006. We disagree with a substantial portion of the tax assessments primarily relating to transfer pricing. We are pursuing administrative relief through the appeals process. We continue to believe in the merits of our tax positions and that we have adequately provided for any potential adverse results relating to these examinations in our financial statements.

The IRS is currently examining our U.S. corporation income tax returns for 2007 through 2009. The CRA is currently examining our Canadian income tax returns for 2009 through 2013. In nearly all jurisdictions, the tax years prior to 2003 are no longer subject to examination.

We report interest and penalties on tax deficiencies as income tax expense. At December 31, 2013, before any tax benefits, our accrued interest and penalties on unrecognized tax benefits amounted to $180 million. We recognized an income tax expense of $44 million and $50 million, before any tax benefit, related to interest and penalties in our condensed consolidated statements of operations during the third quarter and first nine months of 2014.

7. Discontinued Operations

In the first quarter of 2014, we committed to a plan to sell our International Technology and our Hospital Automation businesses from our Technology Solutions segment and a small business from our Distribution Solutions segment. The results of operations and cash flows for these businesses are classified as discontinued operations for the quarter and nine months ended December 31, 2013 and 2012 in our condensed consolidated financial statements.

During the third quarter of 2014, we recorded an $80 million non-cash pre-tax and after-tax impairment charge to reduce the carrying value of our International Technology business to its estimated net realizable value (fair value less costs to sell). The charge is primarily the result of the terms of the preliminary purchase offers received for this business during the third quarter of 2014. The ultimate selling price of our International Technology business may be higher or lower than our current assessment of fair value. The impairment charge is included in loss from discontinued operations, net of tax, in our condensed consolidated statement of operations. The impairment charge was primarily attributed to goodwill and other long-lived assets of our International Technology business which are included in the assets classified as held for sale at December 31, 2013. There was no tax benefit associated with the impairment charge.

On October 31, 2013, we sold our Hospital Automation business for net cash proceeds of $55 million and recorded a pre-tax and after-tax loss of $5 million and $7 million.

A summary of results of discontinued operations is as follows:

	Quarter Ended December 31,		Nine Months Ended December 31,	
(In millions)	2013	2012	2013	2012
Revenues	$78	$88	$304	$282
Loss from discontinued operations	$(85)	$(13)	$(98)	$(5)
Loss on sale	(5)	—	(5)	—
Loss from discontinued operations before income tax	(90)	(13)	(103)	(5)
Income tax (expense) benefit	(2)	5	3	—
Loss from discontinued operations, net of tax	$(92)	$(8)	$(100)	$(5)

The assets and liabilities of our discontinued operations were classified as held-for-sale effective June 30, 2013. All applicable assets of the businesses to be sold are included under the caption “Prepaid expenses and other” and all applicable liabilities under the caption “Other accrued liabilities” within our condensed consolidated balance sheet at December 31, 2013. The carrying values of the assets and liabilities classified as held-for-sale were $258 million and $207 million at December 31, 2013.

8. Earnings Per Common Share

Basic earnings per common share are computed by dividing net income by the weighted average number of common shares outstanding during the reporting period. Diluted earnings per common share are computed similar to basic earnings per common share except that it reflects the potential dilution that could occur if dilutive securities or other obligations to issue common stock were exercised or converted into common stock.

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FINANCIAL NOTES (CONTINUED)
(UNAUDITED)

The computations for basic and diluted earnings per common share are as follows:

	Quarter Ended December 31,		Nine Months Ended December 31,	
(In millions, except per share amounts)	2013	2012	2013	2012
Income from continuing operations	$156	$306	$992	$1,084
Loss from discontinued operations, net of tax	(92)	(8)	(100)	(5)
Net income	$64	$298	$892	$1,079
Weighted average common shares outstanding:				
Basic	230	235	229	236
Effect of dilutive securities:				
Options to purchase common stock	2	1	1	1
Restricted stock units	2	4	3	3
Diluted	234	240	233	240
Earnings (loss) per common share: (1)				
Diluted				
Continuing operations	$0.67	$1.27	$4.26	$4.51
Discontinued operations	(0.39)	(0.03)	(0.43)	(0.02)
Total	$0.28	$1.24	$3.83	$4.49
Basic				
Continuing operations	$0.68	$1.30	$4.34	$4.60
Discontinued operations	(0.40)	(0.03)	(0.44)	(0.02)
Total	$0.28	$1.27	$3.90	$4.58

(1) Certain computations may reflect rounding adjustments.

Potentially dilutive securities include outstanding stock options, restricted stock units and performance-based restricted stock units. Approximately nil and 1 million potentially dilutive securities were excluded from the computations of diluted net earnings per common share for the quarters ended December 31, 2013 and 2012 and 3 million and 5 million potentially dilutive securities were excluded from the computations of diluted net earnings per common share for the nine months ended December 31, 2013 and 2012, as they were anti-dilutive.

9. Goodwill and Intangible Assets, Net

Changes in the carrying amount of goodwill were as follows:

(In millions)	Distribution Solutions	Technology Solutions	Total
Balance at March 31, 2013	$4,413	$1,992	$6,405
Goodwill acquired	45	—	45
Amount reclassified to assets held-for-sale	—	(127)	(127)
Foreign currency translation adjustments and other	(13)	(10)	(23)
Balance at December 31, 2013	$4,445	$1,855	$6,300

As of December 31, 2013 and March 31, 2013, the accumulated goodwill impairment losses were $36 million in our Technology Solutions segment.

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FINANCIAL NOTES (CONTINUED)
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Information regarding intangible assets is as follows:

(Dollars in millions)	December 31, 2013				March 31, 2013		
	Weighted Average Remaining Amortization Period (years)	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount
Customer lists	7	$1,791	$ (804)	$987	$1,761	$ (672)	$1,089
Service agreements	17	999	(157)	842	1,018	(114)	904
Trademarks and trade names	16	201	(53)	148	208	(46)	162
Technology	4	215	(170)	45	271	(207)	64
Other	6	86	(42)	44	89	(38)	51
Total		$3,292	$ (1,226)	$2,066	$3,347	$ (1,077)	$2,270

Amortization expense of intangible assets was $70 million and $211 million for the quarter and nine months ended December 31,