AMERISOURCEBERGEN CORP
Form 10-Q
May 07, 2010

Table of Contents

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
FORM 10-Q

þ **QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
FOR THE QUARTERLY PERIOD ENDED March 31, 2010
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	**23-3079390**
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
1300 Morris Drive, Chesterbrook, PA	**19087-5594**
(Address of principal executive offices)	(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 þ 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 þ 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 þ   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 þ

The number of shares of common stock of AmerisourceBergen Corporation outstanding as of April 30, 2010 was 282,520,332.

AMERISOURCEBERGEN CORPORATION
TABLE OF CONTENTS

1

Table of Contents

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

(in thousands, except share and per share data)	**March 31, 2010 (Unaudited)**	**September 30, 2009**
ASSETS		
Current assets:		
Cash and cash equivalents	$ 1,199,872	$ 1,009,368
Accounts receivable, less allowances for returns and doubtful accounts: $350,427 at March 31, 2010 and $370,303 at September 30, 2009	3,948,478	3,916,509
Merchandise inventories	4,980,895	4,972,820
Prepaid expenses and other	37,785	55,056
Total current assets	10,167,030	9,953,753
Property and equipment, at cost:		
Land	36,067	35,665
Buildings and improvements	295,685	292,903
Machinery, equipment and other	770,014	694,555
Total property and equipment	1,101,766	1,023,123
Less accumulated depreciation	(435,965)	(403,885)
Property and equipment, net	665,801	619,238
Goodwill and other intangible assets	2,854,637	2,859,064
Other assets	134,820	140,685
TOTAL ASSETS	$ 13,822,288	$ 13,572,740
LIABILITIES AND STOCKHOLDERS EQUITY		
Current liabilities:		
Accounts payable	$ 8,434,934	$ 8,517,162
Accrued expenses and other	312,169	315,657
Current portion of long-term debt	503	1,068
Deferred income taxes	678,792	645,723
Total current liabilities	9,426,398	9,479,610
Long-term debt, net of current portion	1,358,505	1,176,933

Other liabilities	205,463	199,728
Stockholders equity:		
Common stock, $0.01 par value authorized: 600,000,000 shares; issued and outstanding: 486,662,447 shares and 281,578,939 shares at March 31, 2010, respectively, and 482,941,212 shares and 287,922,263 shares at September 30, 2009, respectively	4,867	4,829
Additional paid-in capital	3,817,201	3,737,835
Retained earnings	3,206,322	2,919,760
Accumulated other comprehensive loss	(38,293)	(46,096)
	6,990,097	6,616,328
Treasury stock, at cost: 205,083,508 shares at March 31, 2010 and 195,018,949 shares at September 30, 2009	(4,158,175)	(3,899,859)
Total stockholders equity	2,831,922	2,716,469
TOTAL LIABILITIES AND STOCKHOLDERS EQUITY	$ 13,822,288	$ 13,572,740

See notes to consolidated financial statements.

Table of Contents

AMERISOURCEBERGEN CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF OPERATIONS
(Unaudited)

(in thousands, except per share data)	Three months ended March 31, 2010	Three months ended March 31, 2009	Six months ended March 31, 2010	Six months ended March 31, 2009
Revenue	$ 19,300,627	$ 17,311,651	$ 38,636,486	$ 34,650,028
Cost of goods sold	18,688,559	16,759,180	37,461,048	33,607,709
Gross profit	612,068	552,471	1,175,438	1,042,319
Operating expenses:				
Distribution, selling, and administrative	279,491	279,209	559,730	551,235
Depreciation	16,601	15,607	33,259	30,660
Amortization	4,086	3,827	8,225	7,683
Facility consolidations, employee severance and other	(37)	4,262	(85)	5,291
Intangible asset impairments	700	1,300	700	1,300
Operating income	311,227	248,266	573,609	446,150
Other loss	268	504	545	933
Interest expense, net	19,279	14,521	36,546	28,704
Income from continuing operations before income taxes	291,680	233,241	536,518	416,513
Income taxes	110,672	89,199	204,203	159,942
Income from continuing operations	181,008	144,042	332,315	256,571
Loss from discontinued operations, net of income taxes		(655)		(2,128)
Net income	$ 181,008	$ 143,387	$ 332,315	$ 254,443
Earnings per share:				
Basic earnings per share:				
Continuing operations	$ 0.64	$ 0.48	$ 1.17	$ 0.84
Discontinued operations				(0.01)
Rounding		(0.01)		
Total	$ 0.64	$ 0.47	$ 1.17	$ 0.83
Diluted earnings per share:				
Continuing operations	$ 0.63	$ 0.47	$ 1.15	$ 0.83
Discontinued operations				(0.01)
Rounding				0.01

Total	$ 0.63	$ 0.47	$ 1.15	$ 0.83
Weighted average common shares outstanding:				
Basic	281,926	302,446	284,478	305,586
Diluted	287,162	304,584	289,262	307,446
Cash dividends declared per share of common stock	$ 0.08	$ 0.05	$ 0.16	$ 0.10

See notes to consolidated financial statements.

3

Table of Contents

AMERISOURCEBERGEN CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
(Unaudited)

(in thousands)	Six months ended March 31, 2010	Six months ended March 31, 2009
OPERATING ACTIVITIES		
Net income	$ 332,315	$ 254,443
Loss from discontinued operations		2,128
Income from continuing operations	332,315	256,571
Adjustments to reconcile income from continuing operations to net cash provided by operating activities:		
Depreciation, including amounts charged to cost of goods sold	39,607	36,131
Amortization, including amounts charged to interest expense	10,785	9,712
Provision for doubtful accounts	16,758	16,359
Provision for deferred income taxes	41,475	26,142
Share-based compensation	16,791	14,599
Other	3,379	(910)
Changes in operating assets and liabilities, excluding the effects of acquisitions and dispositions:		
Accounts receivable	(21,006)	(290,245)
Merchandise inventories	(22,943)	(385,242)
Prepaid expenses and other assets	23,749	25,855
Accounts payable, accrued expenses, and income taxes	(94,583)	322,296
Other liabilities	66	2,056
Net cash provided by operating activities-continuing operations	346,393	33,324
Net cash used in operating activities-discontinued operations		(906)
NET CASH PROVIDED BY OPERATING ACTIVITIES	346,393	32,418
INVESTING ACTIVITIES		
Capital expenditures	(88,037)	(68,587)
Proceeds from sale of PMSI		14,936
Other	134	
Net cash used in investing activities-continuing operations	(87,903)	(53,651)
Net cash used in investing activities-discontinued operations		(1,138)
NET CASH USED IN INVESTING ACTIVITIES	(87,903)	(54,789)
FINANCING ACTIVITIES		
Long-term debt borrowings	396,696	
Borrowings under revolving and securitization credit facilities	561,459	1,604,658

Repayments under revolving and securitization credit facilities	(780,637)	(1,596,360)
Purchases of common stock	(255,199)	(179,879)
Exercises of stock options, including excess tax benefits of $9,454 and $617 in fiscal 2010 and 2009, respectively	64,496	4,415
Cash dividends on common stock	(45,754)	(30,798)
Debt issuance costs and other	(9,047)	(2,450)
NET CASH USED IN FINANCING ACTIVITIES	(67,986)	(200,414)
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	190,504	(222,785)
Cash and cash equivalents at beginning of period	1,009,368	878,114
CASH AND CASH EQUIVALENTS AT END OF PERIOD	$ 1,199,872	$ 655,329

See notes to consolidated financial statements.

AMERISOURCEBERGEN CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(UNAUDITED)

Note 1. Summary of Significant Accounting Policies

Basis of Presentation

The accompanying financial statements present the consolidated financial position, results of operations and cash flows of AmerisourceBergen Corporation and its wholly owned subsidiaries (the Company) as of the dates and for the periods indicated. All intercompany accounts and transactions have been eliminated in consolidation.

The accompanying unaudited consolidated financial statements have been prepared in conformity with U.S. generally accepted accounting principles (GAAP) for interim financial information, the instructions to Form 10-Q and Rule 10-01 of Regulation S-X. In the opinion of management, all adjustments (consisting only of normal recurring accruals, except as otherwise disclosed herein) considered necessary to present fairly the financial position as of March 31, 2010 and the results of operations and cash flows for the interim periods ended March 31, 2010 and 2009 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, 2009.

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.

The Company has three operating segments, which include the operations of AmerisourceBergen Drug Corporation (ABDC), AmerisourceBergen Specialty Group (ABSG), and AmerisourceBergen Packaging Group (ABPG). The Company has aggregated the operating results of ABDC, ABSG, and ABPG into one reportable segment, Pharmaceutical Distribution, which represents the consolidated operating results of the Company. The businesses of the Pharmaceutical Distribution operating segments are similar in that they service both healthcare providers and pharmaceutical manufacturers in the pharmaceutical supply channel. Prior to October 1, 2009, management considered gains on antitrust litigation settlements and costs related to facility consolidations, employee severance and other, to be reconciling items between the operating results of Pharmaceutical Distribution and the Company.

On June 15, 2009, the Company effected a two-for-one stock split of its outstanding shares of common stock in the form of a 100% stock dividend to stockholders of record at the close of business on May 29, 2009. All applicable share and per-share amounts in the consolidated financial statements and related disclosures have been retroactively adjusted to reflect this stock split.

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

Recent Accounting Pronouncements

Effective October 1, 2009, the Company adopted the applicable sections of Accounting Standards Codification (ASC) 805, Business Combinations, which provides revised guidance for recognizing and measuring identifiable assets and goodwill acquired, liabilities assumed, and any non-controlling interest in the acquiree. Additionally, this ASC provides disclosure requirements to enable users of financial statements to evaluate the nature and financial effects of a business combination. The Company also adopted certain other applicable sections that address application issues raised on the initial recognition and measurement, subsequent measurement, and accounting and disclosure of assets and liabilities from contingencies from a business combination. The application of ASC 805 relating to a future acquisition or divestiture may have an impact to the Company s financial position and/or results of operations.

AMERISOURCEBERGEN CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(UNAUDITED)

Note 2. Discontinued Operations

In October 2008, the Company completed the divestiture of its workers compensation business, PMSI, for approximately $31 million, net of a final working capital adjustment, including a $19 million subordinated note due from PMSI on the fifth anniversary of the closing date, of which $4 million may be payable in October 2010 if PMSI achieves certain revenue targets with respect to its largest customer during the twelve months ending September 30, 2010. Interest on the note accrues at an annual rate of LIBOR plus 4% (not to exceed 8%).

PMSI s revenue and loss before income taxes were $29.0 million and $1.1 million, respectively, for the six months ended March 31, 2009. The Company classified PMSI s October 2008 operating results and cash flows as discontinued in the consolidated financial statements. Loss from discontinued operations, net of income taxes, for the three and six months ended March 31, 2009 also included a charge of $0.7 million related to a prior period business disposition.

Note 3. Income Taxes

The Company files income tax returns in U.S. federal and state jurisdictions as well as various foreign jurisdictions. The U.S. Internal Revenue Service (IRS) completed its examination of the Company s U.S. federal income tax returns for fiscal 2006 and 2007. In Canada, the Company is currently under examination for fiscal years 2007 and 2008.

As of March 31, 2010, 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 $55.1 million ($38.1 million net of federal benefit, which, if recognized, would reduce income tax expense). Included in this amount is $18.2 million of interest and penalties, which the Company records in income tax expense. During the six months ended March 31, 2010, unrecognized tax benefits increased by $0.7 million. During the next 12 months, it is reasonably possible that audit resolutions and the expiration of statutes of limitations could result in a reduction of unrecognized tax benefits by approximately $5.4 million.

Note 4. Goodwill and Other Intangible Assets

Following is a summary of the changes in the carrying value of goodwill for the six months ended March 31, 2010 (in thousands):

Goodwill at September 30, 2009	$ 2,542,352
Foreign currency translation	2,768
Other	(707)
Goodwill at March 31, 2010	$ 2,544,413

6

Table of Contents

AMERISOURCEBERGEN CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(UNAUDITED)

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

	March 31, 2010			September 30, 2009		
	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount
Indefinite-lived intangibles-trade names	$ 240,733	$	$ 240,733	$ 241,554	$	$ 241,554
Finite-lived intangibles:						
Customer relationships	121,977	(63,142)	58,835	121,419	(56,679)	64,740
Other	35,442	(24,786)	10,656	33,100	(22,682)	10,418
Total other intangible assets	$ 398,152	$ (87,928)	$ 310,224	$ 396,073	$ (79,361)	$ 316,712

Amortization expense for other intangible assets was $8.2 million and $7.7 million in the six months ended March 31, 2010 and 2009, respectively. Amortization expense for other intangible assets is estimated to be $16.3 million in fiscal 2010, $15.7 million in fiscal 2011, $13.3 million in fiscal 2012, $11.2 million in fiscal 2013, $8.0 million in fiscal 2014, and $13.2 million thereafter.

Note 5. Debt

Debt consisted of the following (in thousands):

	March 31, 2010	September 30, 2009
Blanco revolving credit facility at 2.23% and 2.25%, respectively, due 2011	$ 55,000	$ 55,000
Receivables securitization facility due 2011		
Multi-currency revolving credit facility at 2.25% and 0.92%, respectively, due 2011	8,790	224,026
$400,000, 5 5/8% senior notes due 2012	399,206	399,058
$500,000, 5 7/8% senior notes due 2015	498,457	498,339
$400,000, 4 7/8% senior notes due 2019	396,804	
Other	751	1,578
Total debt	1,359,008	1,178,001
Less current portion	503	1,068
Total, net of current portion	$ 1,358,505	$ 1,176,933

Table of Contents

AMERISOURCEBERGEN CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(UNAUDITED)

The Company has a $695 million multi-currency senior unsecured revolving credit facility, which expires in November 2011, (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 19 basis points to 60 basis points over LIBOR/EURIBOR/Bankers Acceptance Stamping Fee, as applicable (40 basis points over LIBOR/EURIBOR/Bankers Acceptance Stamping Fee at March 31, 2010). Additionally, interest on borrowings denominated in Canadian dollars may accrue at the greater of the Canadian prime rate or the CDOR rate. The Company pays quarterly facility fees to maintain the availability under the Multi-Currency Revolving Credit Facility at specified rates based on the Company s debt rating, ranging from 6 basis points to 15 basis points of the total commitment (10 basis points at March 31, 2010). The Company may choose to repay or reduce its commitments under the Multi-Currency Revolving Credit Facility at any time. The Multi-Currency Revolving Credit Facility contains covenants, including compliance with a financial leverage ratio test, as well as others that impose limitations on, among other things, indebtedness of excluded subsidiaries and asset sales.

The Company has a $700 million receivables securitization facility (Receivables Securitization Facility). In April 2010, the Company amended this facility, which now expires in April 2011. The Company continues to have 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 commitment fee to maintain the availability under the Receivables Securitization Facility. In connection with the April 2010 amendment, the program fee and the commitment fee were reduced to 125 basis points and 60 basis points, respectively. At March 31, 2010, there were no borrowings outstanding under the Receivables Securitization Facility. The Receivables Securitization Facility contains similar covenants to the Multi-Currency Revolving Credit Facility.

In April 2010, the Company amended the $55 million Blanco revolving credit facility (the Blanco Credit Facility) to, among other things, extend the maturity date of the Blanco Credit Facility to April 2011. Borrowings under the Blanco Credit Facility are guaranteed by the Company. In connection with the April 2010 amendment, interest on borrowings under this facility continues to be 200 basis points over LIBOR.

In November 2009, the Company issued $400 million of 4 7/8% senior notes due November 15, 2019 (the 2019 Notes). The 2019 Notes were sold at 99.174% of the principal amount and have an effective yield of 4.98%. The interest on the 2019 Notes is payable semiannually, in arrears, commencing May 15, 2010. The 2019 Notes rank pari passu to the Multi-Currency Revolving Credit Facility, the 5 5/8% senior notes due 2012, and the 5 7/8% senior notes due 2015. The Company used the net proceeds of the 2019 Notes to repay substantially all amounts then outstanding under its Multi-Currency Revolving Credit Facility, and the remaining net proceeds were used for general corporate purposes. Costs incurred in connection with the issuance of the 2019 Notes were deferred and are being amortized over the 10-year term of the notes.

Table of Contents

AMERISOURCEBERGEN CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(UNAUDITED)

Note 6. Stockholders Equity and Earnings per Share

The following table illustrates comprehensive income for the three and six months ended March 31, 2010 and 2009 (in thousands):

	Three months ended March 31,		Six months ended March 31,	
	2010	**2009**	**2010**	**2009**
Net income	$ 181,008	$ 143,387	$ 332,315	$ 254,443
Foreign currency translation adjustments and other	4,525	(1,175)	7,803	(11,241)
Comprehensive income	$ 185,533	$ 142,212	$ 340,118	$ 243,202

In May 2009, the Company declared a two-for-one split of the Company s outstanding shares of common stock.

In November 2008, the Company s board of directors increased the quarterly dividend by 33% to $0.05 per common share. In May 2009, the Company s board of directors increased the quarterly dividend by 20% to $0.06 per common share. In November 2009, the Company s board of directors authorized another increase in the quarterly dividend by 33% to $0.08 per share.

In November 2008, the Company s board of directors authorized a program allowing the Company to purchase up to $500 million of its outstanding shares of common stock, subject to market conditions. During the six months ended March 31, 2009, the Company purchased 9.8 million shares under this program for $161.7 million and another 1.2 million shares for $18.1 million to complete its authorization under a prior share repurchase program.

In November 2009, the Company s board of directors authorized a new program allowing the Company to purchase up to $500 million of its outstanding shares of common stock, subject to market conditions. During the six months ended March 31, 2010, the Company purchased 2.8 million shares for $68.1 million to complete its authorization under the November 2008 program. During the six months ended March 31, 2010, the Company purchased 7.2 million shares for $186.9 million under the new program.

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, and restricted stock units.

	Three months ended March 31,		Six months ended March 31,	
(in thousands)	**2010**	**2009**	**2010**	**2009**
Weighted average common shares outstanding-basic	281,926	302,446	284,478	305,586
Effect of dilutive securities: stock options, restricted stock, and restricted stock units	5,236	2,138	4,784	1,860
Weighted average common shares outstanding-diluted	287,162	304,584	289,262	307,446

The potentially dilutive stock options that were antidilutive for the three months ended March 31, 2010 and 2009 were 1.1 million and 12.2 million, respectively, and for the six months ended March 31, 2010 and March 31, 2009 were 0.6 million and 11.5 million, respectively.

9

Table of Contents

AMERISOURCEBERGEN CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(UNAUDITED)

Note 7. Facility Consolidations, Employee Severance and Other

During fiscal 2008, the Company announced a more streamlined organizational structure and introduced an initiative (cE2) designed to drive increased customer efficiency and cost effectiveness. In connection with these efforts, the Company reduced various operating costs and terminated certain positions. During the six months ended March 31, 2009, the Company terminated 183 employees and incurred $2.9 million of employee severance costs. Additionally, during the three months ended March 31, 2009, the Company recorded $2.2 million of additional costs relating to the Bergen Brunswig Matter as described in Note 8. Employees receive their severance benefits over a period of time, generally not in excess of 12 months, or in the form of a lump-sum payment.

The following table displays the activity in accrued expenses and other from September 30, 2009 to March 31, 2010 (in thousands):

	Employee Severance	Lease Cancellation Costs and Other	Total
Balance as of September 30, 2009	$ 7,876	$ 3,549	$ 11,425
Expense recorded during the period	(85)		(85)
Payments made during the period	(1,947)	(411)	(2,358)
Balance as of March 31, 2010	$ 5,844	$ 3,138	$ 8,982

The employee severance balance set forth in the above table as of March 31, 2010 includes an accrual for the Bergen Brunswig Matter as described in Note 8. The lease cancellation costs and other balance set forth in the above table as of March 31, 2010 primarily consists of an accrual for information technology transition costs payable to IBM Global Services.

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.

Table of Contents

AMERISOURCEBERGEN CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(UNAUDITED)

Bergen Brunswig Matter

A former Bergen Brunswig chief executive officer who was terminated in 1999 filed an action that year in the Superior Court of the State of California, County of Orange (the Superior Court) claiming that Bergen Brunswig (predecessor in interest to AmerisourceBergen Corporation) had breached its obligations to him under his employment agreement. Shortly after the filing of the lawsuit, Bergen Brunswig made a California Civil Procedure Code § 998 Offer of Judgment to the executive, which the executive accepted. The resulting judgment awarded the executive damages and the continuation of certain employment benefits. Since then, the Company and the executive have engaged in litigation as to what specific benefits were included in the scope of the Offer of Judgment and the value of those benefits. The Superior Court entered an Order in Implementation of Judgment on June 7, 2001, which identified the specific benefits encompassed by the Offer of Judgment. Following submission by the executive of a claim for benefits pursuant to the Bergen Brunswig Supplemental Executive Retirement Plan (the Plan), the Company followed the administrative procedure set forth in the Plan. This procedure involved separate reviews by two independent parties, the first by the Review Official appointed by the Plan Administrator and second by the Plan Trustee, and resulted in a determination that the executive was entitled to a $1.9 million supplemental retirement benefit and such amount was paid. The executive challenged this award and on July 7, 2006, the Superior Court entered a Second Order in Implementation of Judgment determining that the executive was entitled to a supplemental retirement benefit, net of the $1.9 million previously paid to him, in the amount of $19.4 million, which included interest at the rate of ten percent per annum from August 29, 2001. The Company recorded a charge of $13.9 million in June 2006 to establish the total liability of $19.4 million on its balance sheet. Both the executive and the Company appealed the ruling of the Superior Court. On October 12, 2007, the Court of Appeal for the State of California, Fourth Appellate District (the Court of Appeal) made certain rulings, and reversed certain portions of the July 2006 decision of the Superior Court in a manner that was favorable to the Company. As a result, in fiscal 2007, the Company reduced its total liability to the executive by $10.4 million. The parties then entered into a stipulation to remand the calculation of the executive s supplemental retirement benefit to the Plan Administrator in accordance with the Court of Appeal s decision of October 12, 2007. On June 10, 2008, the Plan Administrator issued a decision that the executive was entitled to receive approximately $6.9 million in supplemental retirement benefits plus interest, less the $1.9 million already paid to the executive under the Plan. The executive appealed this determination and a hearing on his appeal was held in August 2008 before a Review Official appointed by the Plan Administrator. On October 31, 2008, the Review Official issued a decision affirming in most respects the Plan Administrator s determination of the executive s supplemental retirement benefit. On November 17, 2008, the executive filed a motion for a Third Order in Implementation of Judgment with the Superior Court asking the court to overturn the decision of the Review Official. On March 9, 2009, the Company paid the executive approximately $5.6 million, plus interest, for the executive s supplemental retirement benefit, as determined by the Review Official. On April 9, 2009, the Superior Court affirmed most aspects of the Review Official s determination of decision, but held that the Review Official had abused his discretion by discounting the executive s supplemental retirement benefit to its present value. As a result, the Superior Court held that the executive was entitled to an additional supplemental retirement benefit of approximately $6.6 million, plus interest, beyond what has already been paid by the Company. During the fiscal year ended September 30, 2009, the Company accrued an additional $2.2 million related to this matter. The Company believes that the Superior Court s holding is inconsistent with the 2007 Court of Appeal decision and on May 4, 2009, filed a Notice of Appeal appealing the Superior Court s holding. The executive also appealed the Superior Court s holding. The Court of Appeal will hold argument on the appeal on May 17, 2010.

AMERISOURCEBERGEN CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(UNAUDITED)

Ontario Ministry of Health and Long-Term Care Civil Rebate Payment Order and Civil Complaint

On April 27, 2009, the Ontario Ministry of Health and Long-Term Care (OMH) notified the Company s Canadian subsidiary, AmerisourceBergen Canada Corporation (ABCC), that it had entered a Rebate Payment Order requiring ABCC to pay C$5.8 million to the Ontario Ministry of Finance. OMH maintains that it has reasonable grounds to believe that ABCC accepted rebates, directly or indirectly, in violation of the Ontario Drug Interchangeability and Dispensing Fee Act. OMH at the same time announced similar rebate payment orders against other wholesalers, generic manufacturers, pharmacies, and individuals. ABCC was cooperating fully with OMH prior to the entry of the Order by responding fully to requests for information and/or documents and will continue to cooperate. ABCC filed an appeal of the Order pursuant to OMH procedures in May 2009. In addition, on the same day that the Order was issued, OMH notified ABCC that it had filed a civil complaint with Health Canada (department of the Canadian government responsible for national public health) against ABCC for potential violations of the Canadian Food and Drug Act. Health Canada subsequently conducted an audit of ABCC, and ABCC has cooperated fully with Health Canada in the conduct of the audit. The Company has met several times with representatives of OMH to present its position on the Rebate Payment Order. Although the Company believes that ABCC has not violated the relevant statutes and regulations and has conducted its business consistent with widespread industry practices, the Company cannot predict the outcome of these matters.

Qui Tam Matter and Related Shareholder Derivative Action

On October 30, 2009, 14 states (including New York and Florida) and the District of Columbia filed a complaint (the Intervention Complaint) in the United States District Court for the District of Massachusetts (the Federal District Court) naming Amgen Inc. as well as two business units of AmerisourceBergen Specialty Group, AmerisourceBergen Specialty Group, and AmerisourceBergen Corporation as defendants. The Intervention Complaint was filed to intervene in a pending civil case against the defendants filed under the qui tam provisions of the federal and various state civil False Claims Acts (the Original Qui Tam Complaint). The qui tam provisions permit a private person, known as a relator (i.e. whistleblower), to file civil actions under these statutes on behalf of the federal and state governments. The relator in the Original Complaint is a former Amgen employee. The Office of the New York Attorney General is leading the intervention on behalf of the state governments.

The Original Qui Tam Complaint was initially filed under seal. On January 21, 2009, the Company learned that the United States Attorney for the Eastern District of New York (the DOJ) was investigating allegations in a sealed civil complaint filed in the Federal District Court under the qui tam provisions of the federal civil False Claims Act. In February 2009, the Company received a redacted copy of the then current version of the Original Qui Tam Complaint, pursuant to a court order. However, the Company was never served with the Original Qui Tam Complaint. Based upon the disclosed portions of the redacted complaint, it appears that the relator initially filed the action on or about June 5, 2006 and a first amendment thereto on or about July 2, 2007. On May 18, 2009, the Federal District Court extended the time period for federal and state government authorities to conduct their respective investigations and to decide whether to intervene in the civil action. On September 1, 2009, 14 states and the District of Columbia filed notices of their intent to intervene. The 14 states and the District of Columbia were given leave by the Federal District Court to file a complaint within 60 days, or by October 30, 2009. The DOJ filed a notice that it was not intervening as of September 1, 2009, but stated that its investigation is continuing. The Company has received subpoenas for records issued by the DOJ in connection with its investigation. The Company has been cooperating with the DOJ and is producing records in response to the subpoenas.

Both the Intervention Complaint and the Original Qui Tam Complaint, as amended on October 30, 2009, allege that from 2002 through 2009, Amgen offered remuneration to medical providers in violation of federal and state health laws to increase purchases and prescriptions of Amgen s anemia drug, Aranesp. Specifically with regard to the Company s business units, the complaints allege that ASD Specialty Healthcare, Inc., which is a distributor of pharmaceuticals to physician practices (ASD), and International Nephrology Network, which was a business name for one of the Company s subsidiaries and a group purchasing organization for nephrologists and nephrology practices

(INN), conspired with Amgen to promote Aranesp in violation of federal and state health laws. The complaints further allege that the defendants caused medical providers to submit to state Medicaid programs false certifications and false claims for payment for Aranesp. According to the complaints, the latter conduct allegedly violated state civil False Claims Acts and constituted fraud and unjust enrichment. The Original Qui Tam Complaint, as amended, also alleges that the defendants caused medical providers to submit to other federal health programs, including Medicare, false certifications and false claims for payment for Aranesp.

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

On December 17, 2009, the states and the relator both filed amended complaints. The State of Texas, which was not one of the original 14 states intervening in the action, joined in the amended complaint. Between January 20, 2010 and February 23, 2010, the States of Florida, Texas, New Hampshire, Louisiana, Nevada and Delaware filed notices to voluntarily dismiss the Intervention Complaint, leaving 9 states and the District of Columbia as intervenors. On February 1, 2010, the Company filed a motion to dismiss the complaints. Amgen, Inc. filed a motion to dismiss as well. On April 23, 2010, the Federal District Court issued a written opinion and order dismissing the Original Qui Tam Complaint, as amended, and the Intervention Complaint. The relator and the intervenors may seek to appeal the order of the Federal District Court.

The Company has learned that there are prior filings in another federal district, which are under seal, that contain allegations similar to those in the Federal District Court action, including allegations against the same, additional and/or subsidiaries or businesses of the Company as are defendants in the Federal District Court action. The DOJ investigation of the allegations contained in the Original Qui Tam Complaint appears to include investigation of allegations contained in the prior filings.

The Company intends to continue to defend itself vigorously against the allegations contained in the Original Qui Tam Complaint, as amended, and the Intervention Complaint and against any appeal. The Company cannot predict the outcome of either the Federal District Court action (or any appeal thereof) or the DOJ investigation or the potential outcome of any other action involving similar allegations in which any AmerisourceBergen entity is or may become a defendant.

The Company was named as a nominal defendant in an alleged shareholder derivative action that was filed on March 26, 2010 in the U.S. District Court for the Eastern District of Pennsylvania. Also named as defendants in the action were all of the individuals who were serving as directors of the Company immediately prior to the date of filing of the action and certain current and former officers and directors of the Company. The derivative action alleges breach of fiduciary duty against all the individual defendants arising from the allegations contained in the complaints filed in the Qui Tam Matter described above. The derivative action seeks compensatory damages in favor of the Company, attorneys fees and costs, and further relief as may be determined by the court. Although the Company and the other defendants believe that the derivative action is wholly without merit and intend to defend themselves vigorously against the claims raised in this action, the Company cannot predict the outcome of this matter.

Table of Contents

AMERISOURCEBERGEN CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(UNAUDITED)

Note 9. Litigation Settlements

Antitrust Settlements

During the last several years, 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 a named 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 has gone to trial, but some have settled in the past with the Company receiving proceeds from the settlement funds. Currently, there are several such class actions pending in which the Company is a class member. During the six months ended March 31, 2010, the Company recognized a gain of $1.5 million relating to the above-mentioned class action lawsuits. The gain, which was net of attorney fees and estimated payments due to other parties, was recorded as a reduction to cost of goods sold in the Company s consolidated statements of operations.

Note 10. Financial Instruments

The carrying amounts of the Company s cash and cash equivalents, accounts receivable and accounts payable at March 31, 2010 and September 30, 2009 approximated their fair values due to the short-term nature of these financial instruments. Included in cash and cash equivalents at March 31, 2010 and September 30, 2009 are money market fund investments of $1,106.0 million and $928.3 million, respectively, which are reported at fair value. The fair value of these investments was determined by using quoted prices for identical investments in active markets, which are considered Level 1 inputs under ASC 820-10, Fair Value Measurements and Disclosures.

The carrying amounts and fair values of the Company s debt were $1,359.0 million and $1,442.1 million at March 31, 2010 and $1,178.0 million and $1,246.4 million at September 30, 2009. The fair value of the Company s debt was determined using quoted market prices that were derived from available market information.

Note 11. Subsequent Event

On May 5, 2010, the Company received a cash settlement from a pharmaceutical manufacturer relating to an antitrust litigation settlement and expects to realize a gain of $18.8 million (net of attorney fees and estimated payments due to other parties) in the quarter ending June 30, 2010.

Note 12. Selected Consolidating Financial Statements of Parent, Guarantors and Non-Guarantors

The Company s 5 5/8% senior notes due September 15, 2012 (the 2012 Notes), 5 7/8% senior notes due September 15, 2015 (the 2015 Notes), and 4 7/8% senior notes due November 15, 2019 (the 2019 Notes and, together with the 2012 Notes and 2015 Notes, the Notes) each are fully and unconditionally guaranteed on a joint and several basis by certain of the Company s subsidiaries (the subsidiaries of the Company that are guarantors of any of the Notes being referred to collectively as the Guarantor Subsidiaries). The total assets, stockholders equity, revenue, earnings, and cash flows from operating activities of the Guarantor Subsidiaries reflect the majority of the consolidated total of such items as of or for the periods reported. The only consolidated subsidiaries of the Company that are not guarantors of the Notes (the Non-Guarantor Subsidiaries) are: (a) the receivables securitization special purpose entity, (b) the foreign operating subsidiaries, and (c) certain smaller operating subsidiaries. The following tables present condensed consolidating financial statements including AmerisourceBergen Corporation (the Parent), the Guarantor Subsidiaries, and the Non-Guarantor Subsidiaries. Such financial statements include balance sheets as of March 31, 2010 and September 30, 2009, statements of operations for the three and six months ended March 31, 2010 and 2009, and statements of cash flows for the six months ended March 31, 2010 and 2009.

AMERISOURCEBERGEN CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(UNAUDITED)

SUMMARY CONSOLIDATING BALANCE SHEETS:

	March 31, 2010				
(in thousands)	Parent	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	Consolidated Total
Current assets:					
Cash and cash equivalents	$ 1,115,717	$ 56,383	$ 27,772	$	$ 1,199,872
Accounts receivable, net	128	1,275,592	2,672,758		3,948,478
Merchandise inventories		4,863,790	117,105		4,980,895
Prepaid expenses and other	180	35,647	1,958		37,785
Total current assets	1,116,025	6,231,412	2,819,593		10,167,030
Property and equipment, net		637,070	28,731		665,801
Goodwill and other intangible assets		2,716,667	137,970		2,854,637
Other assets	11,848	122,421	551		134,820
Intercompany investments and advances	2,723,824	1,953,282	(144,753)	(4,532,353)	
Total assets	$ 3,851,697	$ 11,660,852	$ 2,842,092	$ (4,532,353)	$ 13,822,288
Current liabilities:					
Accounts payable	$	$ 8,272,750	$ 162,184	$	$ 8,434,934
Accrued expenses and other	(274,692)	578,683	8,178		312,169
Current portion of long-term debt		346	157		503
Deferred income taxes		678,792			678,792
Total current liabilities	(274,692)	9,530,571	170,519		9,426,398
Long-term debt, net of current portion	1,294,467	249	63,789		1,358,505
Other liabilities		203,166	2,297		205,463
Total stockholders equity	2,831,922	1,926,866	2,605,487	(4,532,353)	2,831,922
Total liabilities and stockholders equity	$ 3,851,697	$ 11,660,852	$ 2,842,092	$ (4,532,353)	$ 13,822,288

Table of Contents

AMERISOURCEBERGEN CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(UNAUDITED)

SUMMARY CONSOLIDATING BALANCE SHEETS:

	September 30, 2009				
(in thousands)	Parent	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	Consolidated Total
Current assets:					
Cash and cash equivalents	$ 927,049	$ 58,900	$ 23,419	$	$ 1,009,368
Accounts receivable, net	66	1,292,822	2,623,621		3,916,509
Merchandise inventories		4,856,637	116,183		4,972,820
Prepaid expenses and other	67	52,816	2,173		55,056
Total current assets	927,182	6,261,175	2,765,396		9,953,753
Property and equipment, net		589,838	29,400		619,238
Goodwill and other intangible assets		2,719,324	139,740		2,859,064
Other assets	9,645	129,817	1,223		140,685
Intercompany investments and advances	2,405,087	1,938,742	(152,302)	(4,191,527)	
Total assets	$ 3,341,914	$ 11,638,896	$ 2,783,457	$ (4,191,527)	$ 13,572,740
Current liabilities:					
Accounts payable	$	$ 8,360,776	$ 156,386	$	$ 8,517,162
Accrued expenses and other	(271,952)	581,354	6,255		315,657
Current portion of long-term debt		346	722		1,068
Deferred income taxes		645,723			645,723
Total current liabilities	(271,952)	9,588,199	163,363		9,479,610
Long-term debt, net of current portion	897,397	412	279,124		1,176,933
Other liabilities		197,496	2,232		199,728
Total stockholders equity	2,716,469	1,852,789	2,338,738	(4,191,527)	2,716,469
Total liabilities and stockholders equity	$ 3,341,914	$ 11,638,896	$ 2,783,457	$ (4,191,527)	$ 13,572,740

Table of Contents

AMERISOURCEBERGEN CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(UNAUDITED)

CONDENSED CONSOLIDATING STATEMENTS OF OPERATIONS:

	Three months ended March 31, 2010				
(in thousands)	Parent	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	Consolidated Total
Revenue	$	$ 18,884,847	$ 446,948	$ (31,168)	$ 19,300,627
Cost of goods sold		18,292,376	396,183		18,688,559
Gross profit		592,471	50,765	(31,168)	612,068
Operating expenses:					
Distribution, selling, and administrative		300,865	9,794	(31,168)	279,491
Depreciation		15,750	851		16,601
Amortization		3,241	845		4,086
Facility consolidations, employee severance and other		(37)			(37)
Intangible asset impairments		700			700
Operating income		271,952	39,275		311,227
Other loss (income)		271	(3)		268
Interest expense, net	675	15,815	2,789		19,279
(Loss) income before income taxes and equity in earnings of subsidiaries	(675)	255,866	36,489		291,680
Income taxes	(236)	98,105	12,803		110,672
Equity in earnings of subsidiaries	181,447			(181,447)	
Net income	$ 181,008	$ 157,761	$ 23,686	$ (181,447)	$ 181,008

17

Table of Contents

AMERISOURCEBERGEN CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(UNAUDITED)

CONDENSED CONSOLIDATING STATEMENTS OF OPERATIONS:

	Three months ended March 31, 2009				
(in thousands)	Parent	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	Consolidated Total
Revenue	$	$ 16,974,495	$ 364,649	$ (27,493)	$ 17,311,651
Cost of goods sold		16,437,775	321,405		16,759,180
Gross profit		536,720	43,244	(27,493)	552,471
Operating expenses:					
Distribution, selling, and administrative		293,287	13,415	(27,493)	279,209
Depreciation		14,922	685		15,607
Amortization		3,149	678		3,827
Facility consolidations, employee severance and other		4,262			4,262
Intangible asset impairments		1,300			1,300
Operating income		219,800	28,466		248,266
Other loss		503	1		504
Interest (income) expense, net	(890)	12,389	3,022		14,521
Income from continuing operations before income taxes and equity in earnings of subsidiaries	890	206,908	25,443		233,241
Income taxes	311	80,172	8,716		89,199
Equity in earnings of subsidiaries	142,808			(142,808)	
Income from continuing operations	143,387	126,736	16,727	(142,808)	144,042
Loss from discontinued operations		(655)			(655)

