

AMERISOURCEBERGEN CORP

Form 10-Q

August 03, 2010

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

**☐ QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES  
EXCHANGE ACT OF 1934  
FOR THE QUARTERLY PERIOD ENDED June 30, 2010  
OR**

**○ 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  No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes  No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company (as defined in Rule 12b-2 of the Exchange Act).

Large accelerated filer  Accelerated filer  Non-accelerated filer  Smaller reporting company

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

The number of shares of common stock of AmerisourceBergen Corporation outstanding as of July 31, 2010 was 278,837,313.



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

| <i>(in thousands, except share and per share data)</i>  | <b>June 30,<br/>2010<br/>(Unaudited)</b> | <b>September 30,<br/>2009</b> |
|---|--|-------------------------------|
| <b>ASSETS</b>   |  |                               |
| Current assets:   |  |                               |
| Cash and cash equivalents   | \$ 1,310,716                             | \$ 1,009,368                  |
| Accounts receivable, less allowances for returns and doubtful accounts:<br>\$371,643 at June 30, 2010 and \$370,303 at September 30, 2009 | 3,887,827                                | 3,916,509                     |
| Merchandise inventories   | 5,096,601                                | 4,972,820                     |
| Prepaid expenses and other  | 42,859                                   | 55,056                        |
| Total current assets  | 10,338,003                               | 9,953,753                     |
| Property and equipment, at cost:  |  |                               |
| Land  | 36,044                                   | 35,665                        |
| Buildings and improvements  | 305,197                                  | 292,903                       |
| Machinery, equipment and other  | 800,994                                  | 694,555                       |
| Total property and equipment  | 1,142,235                                | 1,023,123                     |
| Less accumulated depreciation   | (454,051)                                | (403,885)                     |
| Property and equipment, net   | 688,184                                  | 619,238                       |
| Goodwill and other intangible assets  | 2,846,301                                | 2,859,064                     |
| Other assets  | 131,297                                  | 140,685                       |
| <b>TOTAL ASSETS</b>   | <b>\$ 14,003,785</b>                     | <b>\$ 13,572,740</b>          |

**LIABILITIES AND STOCKHOLDERS EQUITY**

|                                   |              |              |
|-----------------------------------|--------------|--------------|
| Current liabilities:              |              |              |
| Accounts payable                  | \$ 8,452,112 | \$ 8,517,162 |
| Accrued expenses and other        | 331,067      | 315,657      |
| Current portion of long-term debt | 489          | 1,068        |
| Deferred income taxes             | 703,019      | 645,723      |
| Total current liabilities         | 9,486,687    | 9,479,610    |

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|  |                      |                      |
|--|----------------------|----------------------|
| Long-term debt, net of current portion   | 1,359,681            | 1,176,933            |
| Other liabilities  | 226,226              | 199,728              |
| Stockholders' equity:  |                      |                      |
| Common stock, \$0.01 par value authorized: 600,000,000 shares; issued and outstanding: 489,375,766 shares and 281,182,658 shares at June 30, 2010, respectively, and 482,941,212 shares and 287,922,263 shares at September 30, 2009, respectively | 4,894                | 4,829                |
| Additional paid-in capital   | 3,882,719            | 3,737,835            |
| Retained earnings  | 3,346,975            | 2,919,760            |
| Accumulated other comprehensive loss   | (50,159)             | (46,096)             |
|  | 7,184,429            | 6,616,328            |
| Treasury stock, at cost: 208,193,108 shares at June 30, 2010 and 195,018,949 shares at September 30, 2009  | (4,253,238)          | (3,899,859)          |
| Total stockholders' equity   | 2,931,191            | 2,716,469            |
| <b>TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY</b>  | <b>\$ 14,003,785</b> | <b>\$ 13,572,740</b> |

See notes to consolidated financial statements.

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**AMERISOURCEBERGEN CORPORATION AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF OPERATIONS**  
**(Unaudited)**

| <i>(in thousands, except per share data)</i>           | <b>Three months ended</b> |               | <b>Nine months ended</b> |               |
|--|---------------------------|---------------|--------------------------|---------------|
|  | <b>June 30,</b>           |               | <b>June 30,</b>          |               |
|  | <b>2010</b>               | <b>2009</b>   | <b>2010</b>              | <b>2009</b>   |
| Revenue  | \$ 19,602,120             | \$ 18,393,899 | \$ 58,238,606            | \$ 53,043,927 |
| Cost of goods sold                                     | 19,013,750                | 17,874,676    | 56,474,798               | 51,482,385    |
| Gross profit   | 588,370                   | 519,223       | 1,763,808                | 1,561,542     |
| Operating expenses:                                    |                           |               |                          |               |
| Distribution, selling, and administrative              | 289,288                   | 277,434       | 849,018                  | 828,669       |
| Depreciation   | 17,556                    | 15,949        | 50,815                   | 46,609        |
| Amortization   | 4,069                     | 3,740         | 12,294                   | 11,423        |
| Facility consolidations, employee severance and other  | (4,397)                   | 213           | (4,482)                  | 5,504         |
| Intangible asset impairments                           |                           | 8,900         | 700                      | 10,200        |
| Operating income                                       | 281,854                   | 212,987       | 855,463                  | 659,137       |
| Other loss   | 488                       | 186           | 1,033                    | 1,119         |
| Interest expense, net                                  | 17,901                    | 14,652        | 54,447                   | 43,356        |
| Income from continuing operations before income taxes  | 263,465                   | 198,149       | 799,983                  | 614,662       |
| Income taxes   | 100,260                   | 73,015        | 304,463                  | 232,957       |
| Income from continuing operations                      | 163,205                   | 125,134       | 495,520                  | 381,705       |
| Loss from discontinued operations, net of income taxes |                           | (6,327)       |                          | (8,455)       |
| Net income   | \$ 163,205                | \$ 118,807    | \$ 495,520               | \$ 373,250    |
| Earnings per share:                                    |                           |               |                          |               |
| Basic earnings per share:                              |                           |               |                          |               |
| Continuing operations                                  | \$ 0.58                   | \$ 0.42       | \$ 1.75                  | \$ 1.26       |
| Discontinued operations                                |                           | (0.02)        |                          | (0.03)        |
| Total  | \$ 0.58                   | \$ 0.40       | \$ 1.75                  | \$ 1.23       |
| Diluted earnings per share:                            |                           |               |                          |               |
| Continuing operations                                  | \$ 0.57                   | \$ 0.42       | \$ 1.72                  | \$ 1.25       |
| Discontinued operations                                |                           | (0.02)        |                          | (0.03)        |
| Total  | \$ 0.57                   | \$ 0.40       | \$ 1.72                  | \$ 1.22       |

Weighted average common shares outstanding:

|         |         |         |         |         |
|---------|---------|---------|---------|---------|
| Basic   | 281,195 | 298,477 | 283,390 | 303,225 |
| Diluted | 286,693 | 300,592 | 288,412 | 305,171 |

Cash dividends declared per share of common

|       |         |         |         |         |
|-------|---------|---------|---------|---------|
| stock | \$ 0.08 | \$ 0.05 | \$ 0.24 | \$ 0.15 |
|-------|---------|---------|---------|---------|

See notes to consolidated financial statements.



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

| <i>(in thousands)</i>  | <b>Nine months ended June 30,</b> |                  |
|--|-----------------------------------|------------------|
|  | <b>2010</b>                       | <b>2009</b>      |
| <b>OPERATING ACTIVITIES</b>  |                                   |                  |
| Net income   | \$ 495,520                        | \$ 373,250       |
| Loss from discontinued operations  |                                   | 8,455            |
| Income from continuing operations  | 495,520                           | 381,705          |
| Adjustments to reconcile income from continuing operations to net cash provided by operating activities: |                                   |                  |
| Depreciation, including amounts charged to cost of goods sold  | 60,358                            | 54,847           |
| Amortization, including amounts charged to interest expense  | 16,043                            | 14,547           |
| Provision for doubtful accounts  | 30,560                            | 24,236           |
| Provision for deferred income taxes  | 60,688                            | 45,835           |
| Share-based compensation   | 24,119                            | 20,384           |
| Loss on disposal of property and equipment   | 1,414                             | 3,100            |
| Other, including intangible asset impairments  | 1,537                             | 7,320            |
| Changes in operating assets and liabilities, excluding the effects of acquisitions and dispositions:     |                                   |                  |
| Accounts receivable  | 3,453                             | (292,773)        |
| Merchandise inventories  | (127,927)                         | (222,302)        |
| Prepaid expenses and other assets  | 19,582                            | (15,693)         |
| Accounts payable, accrued expenses, and income taxes   | (25,511)                          | 415,960          |
| Other liabilities  | (445)                             | 526              |
| Net cash provided by operating activities-continuing operations  | 559,391                           | 437,692          |
| Net cash used in operating activities-discontinued operations  |                                   | (7,233)          |
| <b>NET CASH PROVIDED BY OPERATING ACTIVITIES</b>   | <b>559,391</b>                    | <b>430,459</b>   |
| <b>INVESTING ACTIVITIES</b>  |                                   |                  |
| Capital expenditures   | (132,302)                         | (102,221)        |
| Cost of acquired companies, net of cash acquired   |                                   | (13,422)         |
| Proceeds from sale of PMSI   |                                   | 14,936           |
| Other  | 143                               | 32               |
| Net cash used in investing activities-continuing operations  | (132,159)                         | (100,675)        |
| Net cash used in investing activities-discontinued operations  |                                   | (1,138)          |
| <b>NET CASH USED IN INVESTING ACTIVITIES</b>   | <b>(132,159)</b>                  | <b>(101,813)</b> |
| <b>FINANCING ACTIVITIES</b>  |                                   |                  |
| Long-term debt borrowings  | 396,696                           |                  |

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|   |                     |                   |
|---|---------------------|-------------------|
| Borrowings under revolving and securitization credit facilities   | 780,691             | 1,908,106         |
| Repayments under revolving and securitization credit facilities   | (997,411)           | (1,886,558)       |
| Purchases of common stock   | (350,262)           | (273,824)         |
| Exercises of stock options, including excess tax benefits of \$19,996 and \$375 in fiscal 2010 and 2009, respectively | 122,715             | 7,795             |
| Cash dividends on common stock  | (68,306)            | (45,924)          |
| Debt issuance costs and other   | (10,007)            | (3,431)           |
| <b>NET CASH USED IN FINANCING ACTIVITIES</b>  | <b>(125,884)</b>    | <b>(293,836)</b>  |
| <b>INCREASE IN CASH AND CASH EQUIVALENTS</b>  | <b>301,348</b>      | <b>34,810</b>     |
| Cash and cash equivalents at beginning of period  | 1,009,368           | 878,114           |
| <b>CASH AND CASH EQUIVALENTS AT END OF PERIOD</b>   | <b>\$ 1,310,716</b> | <b>\$ 912,924</b> |

See notes to consolidated financial statements.

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

**Note 1. Summary of Significant Accounting Policies**

***Basis of Presentation***

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

The accompanying unaudited consolidated financial statements have been prepared in conformity with U.S. generally accepted accounting principles (GAAP) for interim financial information, the instructions to Form 10-Q and Rule 10-01 of Regulation S-X. In the opinion of management, all adjustments (consisting only of normal recurring accruals, except as otherwise disclosed herein) considered necessary to present fairly the financial position as of June 30, 2010 and the results of operations and cash flows for the interim periods ended June 30, 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. 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.

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**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, which was net of a final working capital adjustment and which includes 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 nine months ended June 30, 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 nine months ended June 30, 2009 included an estimated PMSI working capital adjustment of \$2.8 million and a charge of \$3.6 million and \$4.3 million, respectively, 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 June 30, 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 \$56.0 million (\$38.7 million net of federal benefit, which, if recognized, would reduce income tax expense). Included in this amount is \$18.5 million of interest and penalties, which the Company records in income tax expense. During the nine months ended June 30, 2010, unrecognized tax benefits increased by \$1.6 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 \$1.2 million.

**Note 4. Goodwill and Other Intangible Assets**

Following is a summary of the changes in the carrying value of goodwill for the nine months ended June 30, 2010 (in thousands):

|                                |              |
|--------------------------------|--------------|
| Goodwill at September 30, 2009 | \$ 2,542,352 |
| Foreign currency translation   | (1,756)      |
| Other                          | (707)        |
| Goodwill at June 30, 2010      | \$ 2,539,889 |

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

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

|  | June 30, 2010               |                             |                           | September 30, 2009          |                             |                           |
|--|-----------------------------|-----------------------------|---------------------------|-----------------------------|-----------------------------|---------------------------|
|  | Gross<br>Carrying<br>Amount | Accumulated<br>Amortization | Net<br>Carrying<br>Amount | Gross<br>Carrying<br>Amount | Accumulated<br>Amortization | Net<br>Carrying<br>Amount |
| Indefinite-lived intangibles-trade names | \$ 240,575                  | \$                          | \$ 240,575                | \$ 241,554                  | \$                          | \$ 241,554                |
| Finite-lived intangibles:                |                             |                             |                           |                             |                             |                           |
| Customer relationships                   | 121,134                     | (65,699)                    | 55,435                    | 121,419                     | (56,679)                    | 64,740                    |
| Other                                    | 36,190                      | (25,788)                    | 10,402                    | 33,100                      | (22,682)                    | 10,418                    |
| Total other intangible assets            | \$ 397,899                  | \$ (91,487)                 | \$ 306,412                | \$ 396,073                  | \$ (79,361)                 | \$ 316,712                |

Amortization expense for other intangible assets was \$12.3 million and \$11.4 million in the nine months ended June 30, 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, \$13.4 million in fiscal 2012, \$11.3 million in fiscal 2013, \$8.2 million in fiscal 2014, and \$13.2 million thereafter.

**Note 5. Debt**

Debt consisted of the following (in thousands):

|   | June 30,<br>2010 | September 30,<br>2009 |
|---|------------------|-----------------------|
| Blanco revolving credit facility at 2.35% and 2.25%, respectively, due 2011         | \$ 55,000        | \$ 55,000             |
| Receivables securitization facility due 2011  |                  |                       |
| Multi-currency revolving credit facility at 2.50% and 0.92%, respectively, due 2011 | 9,888            | 224,026               |
| \$400,000, 5 5/8% senior notes due 2012   | 399,270          | 399,058               |
| \$500,000, 5 7/8% senior notes due 2015   | 498,507          | 498,339               |
| \$400,000, 4 7/8% senior notes due 2019   | 396,848          |                       |
| Other   | 657              | 1,578                 |
| Total debt  | 1,360,170        | 1,178,001             |
| Less current portion  | 489              | 1,068                 |
| Total, net of current portion   | \$ 1,359,681     | \$ 1,176,933          |

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**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 June 30, 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 June 30, 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 June 30, 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. Interest on borrowings under this facility continues to be 200 basis points over LIBOR. The Blanco Credit Facility is not classified in the current portion of long-term debt on the consolidated balance sheet at June 30, 2010 because the Company has both the ability and intent to refinance it on a long-term basis.

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. 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.

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**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 nine months ended June 30, 2010 and 2009 (in thousands):

|  | <b>Three months ended</b> |             | <b>Nine months ended</b> |             |
|--|---------------------------|-------------|--------------------------|-------------|
|  | <b>June 30,</b>           |             | <b>June 30,</b>          |             |
|  | <b>2010</b>               | <b>2009</b> | <b>2010</b>              | <b>2009</b> |
| Net income   | \$ 163,205                | \$ 118,807  | \$ 495,520               | \$ 373,250  |
| Foreign currency translation adjustments and other | (11,866)                  | 6,748       | (4,063)                  | (4,493)     |
| Comprehensive income                               | \$ 151,339                | \$ 125,555  | \$ 491,457               | \$ 368,757  |

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 nine months ended June 30, 2009, the Company purchased 14.9 million shares under this program for \$255.6 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 nine months ended June 30, 2010, the Company purchased 2.8 million shares for \$68.1 million to complete its authorization under the November 2008 program. During the nine months ended June 30, 2010, the Company purchased 10.3 million shares for \$281.9 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.

|  | <b>Three months ended</b> |             | <b>Nine months ended</b> |             |
|--|---------------------------|-------------|--------------------------|-------------|
|  | <b>June 30,</b>           |             | <b>June 30,</b>          |             |
| <i>(in thousands)</i>  | <b>2010</b>               | <b>2009</b> | <b>2010</b>              | <b>2009</b> |
| Weighted average common shares outstanding-basic   | 281,195                   | 298,477     | 283,390                  | 303,225     |
| Effect of dilutive securities: stock options, restricted stock, and restricted stock units | 5,498                     | 2,115       | 5,022                    | 1,946       |
| Weighted average common shares outstanding-diluted   | 286,693                   | 300,592     | 288,412                  | 305,171     |

The potentially dilutive stock options that were antidilutive for the three months ended June 30, 2010 and 2009 were 3.6 million and 14.0 million, respectively. The potentially dilutive stock options that were antidilutive for the nine months ended June 30, 2010 and 2009 were 1.6 million and 12.3 million, respectively.





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**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 nine months ended June 30, 2009, the Company terminated 197 employees and incurred \$3.2 million of employee severance costs. 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. In the quarter ended June 30, 2010, the Company reversed its liability related to the Bergen Brunswig Matter, as more fully described in Note 8, by \$4.4 million. In the prior year nine months ended June 30, 2009, the Company had recorded \$2.2 million of additional costs related to the Bergen Brunswig Matter.

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

|   | <b>Employee<br/>Severance</b> | <b>Lease<br/>Cancellation<br/>Costs and Other</b> | <b>Total</b> |
|---|-------------------------------|---|--------------|
| Balance as of September 30, 2009            | \$ 7,876                      | \$ 3,549  | \$ 11,425    |
| Expense (income) recorded during the period | (4,482)                       |   | (4,482)      |
| Payments made during the period             | (2,151)                       | (560)   | (2,711)      |
| Balance as of June 30, 2010                 | \$ 1,243                      | \$ 2,989  | \$ 4,232     |

The lease cancellation costs and other balance set forth in the above table as of June 30, 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.

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***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 Section 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. 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. 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 held argument on the appeal on May 17, 2010. On July 8, 2010, the Court of Appeal ruled in a manner that was favorable to the Company, holding that the Review Official's decision regarding the amount of supplemental retirement benefits due to the executive should be upheld, and that post-judgment interest, if any, on that award would run from April 9, 2009 forward. Because the Company already tendered payment to the executive on March 9, 2009 in the full amount of the award, no further payments are due to the executive. As a result, in the quarter ended June 30, 2010, the Company reversed its total remaining \$4.4 million reserve for liability to the executive. On July 19, 2010, the executive filed a petition for rehearing with the Court of Appeal and the Company has filed a response in opposition to the petition for rehearing.



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***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. 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.

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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. Five states – California, Illinois, Indiana, Massachusetts, and New York – filed notices of appeal to the U.S. Court of Appeals for the First Circuit (the First Circuit) and the relator filed a notice of appeal to the First Circuit on behalf of Georgia and New Mexico. On July 15, 2010, the First Circuit issued an order requiring the Federal District Court to provide a written statement explaining why a final judgment was entered with respect to the states in order for the First Circuit to determine whether to allow the appeals to proceed, and the Federal District Court complied with the order. The First Circuit is currently considering whether to allow the appeals to proceed. The relator also sought and received permission from the Federal District Court to file a further amended complaint (the Fourth Amended Complaint). On May 27, 2010, the relator filed a Fourth Amended Complaint with the Federal District Court, which names ASD and INN, along with Amgen, as defendants. The Fourth Amended Complaint contains many of the same allegations contained in the relator's prior complaints, but adds a count based on allegations that conduct by ASD, INN, and Amgen caused healthcare providers to submit false claims because it is alleged that the healthcare providers billed the government for amounts of Aranesp that were either not administered or administered, but medically unnecessary. On June 28, 2010, the Company and Amgen filed motions to dismiss the Fourth Amended Complaint. The motions to dismiss were denied following a hearing on July 21, 2010. 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 and/or additional subsidiaries or businesses of the Company that 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 (including the Fourth Amended Complaint), and the Intervention Complaint and against any appeals. The Company cannot predict the outcome of either the Federal District Court action (or any appeals 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. On May 20, 2010, the Company filed a motion to dismiss the derivative complaint. A hearing on the Company's motion to dismiss has been scheduled for August 23, 2010. The Company has also filed a motion pursuant to Rule 11 of the Federal Rules of Civil Procedure for sanctions against the party who filed the shareholder derivative action. 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.

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**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. In the quarter and nine months ended June 30, 2010, the Company recognized a gain of \$19.1 million and \$20.7 million, respectively, relating to the above-mentioned class action lawsuits. The gains, which were net of attorney fees and estimated payments due to other parties, were 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 June 30, 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 June 30, 2010 and September 30, 2009 are money market fund investments of \$1,221.0 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 \$1,360.2 million and \$1,474.9 million at June 30, 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. 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 any 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 June 30, 2010 and September 30, 2009, statements of operations for the three and nine months ended June 30, 2010 and 2009, and statements of cash flows for the nine months ended June 30, 2010 and 2009.

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**SUMMARY CONSOLIDATING BALANCE SHEETS:**

| <i>(in thousands)</i>                                 | <b>June 30, 2010</b> |                           |                               |                       | Consolidated<br>Total |
|---|----------------------|---------------------------|-------------------------------|-----------------------|-----------------------|
|   | Parent               | Guarantor<br>Subsidiaries | Non-Guarantor<br>Subsidiaries | Eliminations          |                       |
| <b>Current assets:</b>                                |                      |                           |                               |                       |                       |
| Cash and cash equivalents                             | \$ 1,224,289         | \$ 52,979                 | \$ 33,448                     | \$                    | \$ 1,310,716          |
| Accounts receivable, net                              | 227                  | 1,281,192                 | 2,606,408                     |                       | 3,887,827             |
| Merchandise inventories                               |                      | 4,979,861                 | 116,740                       |                       | 5,096,601             |
| Prepaid expenses and other                            | 105                  | 40,029                    | 2,725                         |                       | 42,859                |
| <b>Total current assets</b>                           | <b>1,224,621</b>     | <b>6,354,061</b>          | <b>2,759,321</b>              |                       | <b>10,338,003</b>     |
| Property and equipment, net                           |                      | 660,788                   | 27,396                        |                       | 688,184               |
| Goodwill and other intangible<br>assets               |                      | 2,714,193                 | 132,108                       |                       | 2,846,301             |
| Other assets  | 11,088               | 117,817                   | 2,392                         |                       | 131,297               |
| Intercompany investments and<br>advances              | 2,715,355            | 2,028,250                 | (59,805)                      | (4,683,800)           |                       |
| <b>Total assets</b>                                   | <b>\$ 3,951,064</b>  | <b>\$ 11,875,109</b>      | <b>\$ 2,861,412</b>           | <b>\$ (4,683,800)</b> | <b>\$ 14,003,785</b>  |
| <b>Current liabilities:</b>                           |                      |                           |                               |                       |                       |
| Accounts payable                                      | \$                   | \$ 8,279,221              | \$ 172,891                    | \$                    | \$ 8,452,112          |
| Accrued expenses and other                            | (274,752)            | 597,005                   | 8,814                         |                       | 331,067               |
| Current portion of long-term<br>debt                  |                      | 346                       | 143                           |                       | 489                   |
| Deferred income taxes                                 |                      | 703,019                   |                               |                       | 703,019               |
| <b>Total current liabilities</b>                      | <b>(274,752)</b>     | <b>9,579,591</b>          | <b>181,848</b>                |                       | <b>9,486,687</b>      |
| Long-term debt, net of current<br>portion             | 1,294,625            | 168                       | 64,888                        |                       | 1,359,681             |
| Other liabilities                                     |                      | 223,692                   | 2,534                         |                       | 226,226               |
| <b>Total stockholders' equity</b>                     | <b>2,931,191</b>     | <b>2,071,658</b>          | <b>2,612,142</b>              | <b>(4,683,800)</b>    | <b>2,931,191</b>      |
| <b>Total liabilities and<br/>stockholders' equity</b> | <b>\$ 3,951,064</b>  | <b>\$ 11,875,109</b>      | <b>\$ 2,861,412</b>           | <b>\$ (4,683,800)</b> | <b>\$ 14,003,785</b>  |





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| <i>(in thousands)</i>                                 | <b>September 30, 2009</b> |                           |                               |                       | Consolidated<br>Total |
|---|---------------------------|---------------------------|-------------------------------|-----------------------|-----------------------|
|   | Parent                    | Guarantor<br>Subsidiaries | Non-Guarantor<br>Subsidiaries | Eliminations          |                       |
| 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                |
| <b>Total current assets</b>                           | <b>927,182</b>            | <b>6,261,175</b>          | <b>2,765,396</b>              |                       | <b>9,953,753</b>      |
| Property and equipment, net                           |                           | 589,838                   | 29,400                        |                       | 619,238               |
| Goodwill and other intangible<br>assets               |                           | 2,719,324                 | 139,740                       |                       | 2,859,064             |
| Other assets  | 9,645                     | 129,817                   | 1,223                         |                       | 140,685               |
| Intercompany investments and<br>advances              | 2,405,087                 | 1,938,742                 | (152,302)                     | (4,191,527)           |                       |
| <b>Total assets</b>                                   | <b>\$ 3,341,914</b>       | <b>\$ 11,638,896</b>      | <b>\$ 2,783,457</b>           | <b>\$ (4,191,527)</b> | <b>\$ 13,572,740</b>  |
| 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<br>debt                  |                           | 346                       | 722                           |                       | 1,068                 |
| Deferred income taxes                                 |                           | 645,723                   |                               |                       | 645,723               |
| <b>Total current liabilities</b>                      | <b>(271,952)</b>          | <b>9,588,199</b>          | <b>163,363</b>                |                       | <b>9,479,610</b>      |
| Long-term debt, net of current<br>portion             | 897,397                   | 412                       | 279,124                       |                       | 1,176,933             |
| Other liabilities                                     |                           | 197,496                   | 2,232                         |                       | 199,728               |
| <b>Total stockholders' equity</b>                     | <b>2,716,469</b>          | <b>1,852,789</b>          | <b>2,338,738</b>              | <b>(4,191,527)</b>    | <b>2,716,469</b>      |
| <b>Total liabilities and<br/>stockholders' equity</b> | <b>\$ 3,341,914</b>       | <b>\$ 11,638,896</b>      | <b>\$ 2,783,457</b>           | <b>\$ (4,191,527)</b> | <b>\$ 13,572,740</b>  |



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**CONDENSED CONSOLIDATING STATEMENTS OF OPERATIONS:**

| <i>(in thousands)</i>  | <b>Three months ended June 30, 2010</b> |                           |                               |              | Consolidated<br>Total |
|--|---|---------------------------|-------------------------------|--------------|-----------------------|
|  | Parent                                  | Guarantor<br>Subsidiaries | Non-Guarantor<br>Subsidiaries | Eliminations |                       |
| Revenue  | \$                                      | \$ 19,157,657             | \$ 476,078                    | \$ (31,615)  | \$ 19,602,120         |
| Cost of goods sold   |   | 18,590,407                | 423,343                       |              | 19,013,750            |
| Gross profit   |   | 567,250                   | 52,735                        | (31,615)     | 588,370               |
| Operating expenses:  |   |                           |                               |              |                       |
| Distribution, selling, and<br>administrative                                   |   | 300,954                   | 19,949                        | (31,615)     | 289,288               |
| Depreciation   |   | 16,667                    | 889                           |              | 17,556                |
| Amortization   |   | 3,297                     | 772                           |              | 4,069                 |
| Facility consolidations,<br>employee severance and other                       |   | (4,397)                   |                               |              | (4,397)               |
| Operating income   |   | 250,729                   | 31,125                        |              | 281,854               |
| Other loss (income)  |   | 489                       | (1)                           |              | 488                   |
| Interest expense, net  | 234                                     | 15,154                    | 2,513                         |              | 17,901                |
| (Loss) income before income<br>taxes and equity in earnings of<br>subsidiaries | (234)                                   | 235,086                   | 28,613                        |              | 263,465               |
| Income taxes   | (82)                                    | 90,520                    | 9,822                         |              | 100,260               |
| Equity in earnings of<br>subsidiaries  | 163,357                                 |                           |                               | (163,357)    |                       |
| Net income   | \$ 163,205                              | \$ 144,566                | \$ 18,791                     | \$ (163,357) | \$ 163,205            |

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**CONDENSED CONSOLIDATING STATEMENTS OF OPERATIONS:**

| <i>(in thousands)</i>   | <b>Three months ended June 30, 2009</b> |                           |                               |              |  | Consolidated<br>Total |
|---|---|---------------------------|-------------------------------|--------------|--|-----------------------|
|   | Parent                                  | Guarantor<br>Subsidiaries | Non-Guarantor<br>Subsidiaries | Eliminations |  |                       |
| Revenue   | \$                                      | \$ 18,025,437             | \$ 397,788                    | \$ (29,326)  |  | \$ 18,393,899         |
| Cost of goods sold  |   | 17,522,690                | 351,986                       |              |  | 17,874,676            |
| Gross profit  |   | 502,747                   | 45,802                        | (29,326)     |  | 519,223               |
| Operating expenses:   |   |                           |                               |              |  |                       |
| Distribution, selling, and<br>administrative  |   | 286,656                   | 20,104                        | (29,326)     |  | 277,434               |
| Depreciation  |   | 15,235                    | 714                           |              |  | 15,949                |
| Amortization  |   | 2,993                     | 747                           |              |  | 3,740                 |
| Facility consolidations,<br>employee severance and other  |   | 213                       |                               |              |  | 213                   |
| Intangible asset impairments  |   | 8,900                     |                               |              |  | 8,900                 |
| Operating income  |   | 188,750                   | 24,237                        |              |  | 212,987               |
| Other loss  |   | 124                       | 62                            |              |  | 186                   |
| Interest (income) expense, net  | (216)                                   | 11,773                    | 3,095                         |              |  | 14,652                |
| Income from continuing<br>operations before income taxes<br>and equity in earnings of<br>subsidiaries | 216                                     | 176,853                   | 21,080                        |              |  | 198,149               |
| Income taxes  | 76                                      | 65,455                    | 7,484                         |              |  | 73,015                |
| Equity in earnings of<br>subsidiaries   | 118,667                                 |                           |                               | (118,667)    |  |                       |
| Income from continuing<br>operations  | 118,807                                 | 111,398                   | 13,596                        | (118,667)    |  | 125,134               |
| Loss from discontinued<br>operations  |   | (6,327)                   |                               |              |  | (6,327)               |
| Net income  | \$ 118,807                              | \$ 105,071                | \$ 13,596                     | \$ (118,667) |  | \$ 118,807            |

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

**CONDENSED CONSOLIDATING STATEMENTS OF OPERATIONS:**

| <i>(in thousands)</i>  | <b>Nine months ended June 30, 2010</b> |                           |                               |              |                       |
|--|--|---------------------------|-------------------------------|--------------|-----------------------|
|  | Parent                                 | Guarantor<br>Subsidiaries | Non-Guarantor<br>Subsidiaries | Eliminations | Consolidated<br>Total |
| Revenue  | \$                                     | \$ 56,949,476             | \$ 1,382,854                  | \$ (93,724)  | \$ 58,238,606         |
| Cost of goods sold   |  | 55,245,895                | 1,228,903                     |              | 56,474,798            |
| Gross profit   |  | 1,703,581                 | 153,951                       | (93,724)     | 1,763,808             |
| Operating expenses:  |  |                           |                               |              |                       |
| Distribution, selling, and<br>administrative                                   |  | 895,414                   | 47,328                        | (93,724)     | 849,018               |
| Depreciation   |  | 48,244                    | 2,571                         |              | 50,815                |
| Amortization   |  | 9,798                     | 2,496                         |              | 12,294                |
| Facility consolidations,<br>employee severance and other                       |  | (4,482)                   |                               |              | (4,482)               |
| Intangible asset impairments   |  | 700                       |                               |              | 700                   |
| Operating income   |  | 753,907                   | 101,556                       |              | 855,463               |
| Other loss (income)  |  | 1,039                     | (6)                           |              | 1,033                 |
| Interest expense, net  | 1,459                                  | 44,554                    | 8,434                         |              | 54,447                |
| (Loss) income before income<br>taxes and equity in earnings of<br>subsidiaries | (1,459)                                | 708,314                   | 93,128                        |              | 799,983               |
| Income taxes   | (511)                                  | 272,160                   | 32,814                        |              | 304,463               |
| Equity in earnings of<br>subsidiaries  | 496,468                                |                           |                               | (496,468)    |                       |
| Net income   | \$ 495,520                             | \$ 436,154                | \$ 60,314                     | \$ (496,468) | \$ 495,520            |

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

**CONDENSED CONSOLIDATING STATEMENTS OF OPERATIONS:**

| <i>(in thousands)</i>   | <b>Nine months ended June 30, 2009</b> |                           |                               |              |  | Consolidated<br>Total |
|---|--|---------------------------|-------------------------------|--------------|--|-----------------------|
|   | Parent                                 | Guarantor<br>Subsidiaries | Non-Guarantor<br>Subsidiaries | Eliminations |  |                       |
| Revenue   | \$                                     | \$ 51,974,529             | \$ 1,153,710                  | \$ (84,312)  |  | \$ 53,043,927         |
| Cost of goods sold  |  | 50,463,684                | 1,018,701                     |              |  | 51,482,385            |
| Gross profit  |  | 1,510,845                 | 135,009                       | (84,312)     |  | 1,561,542             |
| Operating expenses:   |  |                           |                               |              |  |                       |
| Distribution, selling, and<br>administrative  |  | 864,789                   | 48,192                        | (84,312)     |  | 828,669               |
| Depreciation  |  | 44,506                    | 2,103                         |              |  | 46,609                |
| Amortization  |  | 9,288                     | 2,135                         |              |  | 11,423                |
| Facility consolidations,<br>employee severance and other  |  | 5,504                     |                               |              |  | 5,504                 |
| Intangible asset impairments  |  | 10,200                    |                               |              |  | 10,200                |
| Operating income  |  | 576,558                   | 82,579                        |              |  | 659,137               |
| Other loss  |  | 1,056                     | 63                            |              |  | 1,119                 |
| Interest (income) expense, net  | (3,277)                                | 36,616                    | 10,017                        |              |  | 43,356                |
| Income from continuing<br>operations before income taxes<br>and equity in earnings of<br>subsidiaries | 3,277                                  | 538,886                   | 72,499                        |              |  | 614,662               |
| Income taxes  | 1,147                                  | 206,328                   | 25,482                        |              |  | 232,957               |
| Equity in earnings of<br>subsidiaries   | 371,120                                |                           |                               | (371,120)    |  |                       |
| Income from continuing<br>operations  | 373,250                                | 332,558                   | 47,017                        | (371,120)    |  | 381,705               |
| Loss from discontinued<br>operations  |  | (8,455)                   |                               |              |  | (8,455)               |
| Net income  | \$ 373,250                             | \$ 324,103                | \$ 47,017                     | \$ (371,120) |  | \$ 373,250            |

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

**CONDENSED CONSOLIDATING STATEMENTS OF CASH FLOWS:**

| <i>(in thousands)</i>  | <b>Nine months ended June 30, 2010</b> |                           |                               |              | Consolidated<br>Total |
|--|--|---------------------------|-------------------------------|--------------|-----------------------|
|  | Parent                                 | Guarantor<br>Subsidiaries | Non-Guarantor<br>Subsidiaries | Eliminations |                       |
| Net income   | \$ 495,520                             | \$ 436,154                | \$ 60,314                     | \$ (496,468) | \$ 495,520            |
| Adjustments to reconcile net income to net cash (used in) provided by operating activities | (497,225)                              | 23,198                    | 41,430                        | 496,468      | 63,871                |
| Net cash (used in) provided by operating activities  | (1,705)                                | 459,352                   | 101,744                       |              | 559,391               |
| Capital expenditures   |  | (129,684)                 | (2,618)                       |              | (132,302)             |
| Other  |  | 24                        | 119                           |              | 143                   |
| Net cash used in investing activities  |  | (129,660)                 | (2,499)                       |              | (132,159)             |
| Long-term debt borrowings  | 396,696                                |                           |                               |              | 396,696               |
| Net repayments under revolving and securitization credit facilities                        |  |                           | (216,720)                     |              | (216,720)             |
| Purchases of common stock  | (350,262)                              |                           |                               |              | (350,262)             |
| Exercise of stock options, including excess tax benefit                                    | 122,715                                |                           |                               |              | 122,715               |
| Cash dividends on common stock   | (68,306)                               |                           |                               |              | (68,306)              |
| Debt issuance costs and other  | (8,687)                                | (454)                     | (866)                         |              | (10,007)              |
| Intercompany financing and advances  | 206,789                                | (335,159)                 | 128,370                       |              |                       |
| Net cash provided by (used in) financing activities  | 298,945                                | (335,613)                 | (89,216)                      |              | (125,884)             |
| Increase (decrease) in cash and cash equivalents   | 297,240                                | (5,921)                   | 10,029                        |              | 301,348               |
| Cash and cash equivalents at beginning of period   | 927,049                                | 58,900                    | 23,419                        |              | 1,009,368             |
| Cash and cash equivalents at end of period   | \$ 1,224,289                           | \$ 52,979                 | \$ 33,448                     | \$           | \$ 1,310,716          |





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

**CONDENSED CONSOLIDATING STATEMENTS OF CASH FLOWS:**

| <i>(in thousands)</i>   | <b>Nine months ended June 30, 2009</b> |                           |                               |              | Consolidated<br>Total |
|---|--|---------------------------|-------------------------------|--------------|-----------------------|
|   | Parent                                 | Guarantor<br>Subsidiaries | Non-Guarantor<br>Subsidiaries | Eliminations |                       |
| Net income  | \$ 373,250                             | \$ 324,103                | \$ 47,017                     | \$ (371,120) | \$ 373,250            |
| Loss from discontinued operations   |  | 8,455                     |                               |              | 8,455                 |
| Income from continuing operations   | 373,250                                | 332,558                   | 47,017                        | (371,120)    | 381,705               |
| Adjustments to reconcile income from continuing operations to net cash provided by (used in) operating activities | (306,867)                              | 247,147                   | (255,413)                     | 371,120      | 55,987                |
| Net cash provided by (used in) operating activities continuing operations   | 66,383                                 | 579,705                   | (208,396)                     |              | 437,692               |
| Net cash used in operating activities discontinued operations   |  | (7,233)                   |                               |              | (7,233)               |
| Net cash provided by (used in) operating activities   | 66,383                                 | 572,472                   | (208,396)                     |              | 430,459               |
| Capital expenditures  |  | (96,037)                  | (6,184)                       |              | (102,221)             |
| Cost of acquired companies, net of cash required  |  |                           | (13,422)                      |              | (13,422)              |
| Proceeds from the sale of property and equipment  |  | 26                        | 6                             |              | 32                    |
| Proceeds from the sale of PMSI  |  | 14,936                    |                               |              | 14,936                |
| Net cash used in investing activities continuing operations   |  | (81,075)                  | (19,600)                      |              | (100,675)             |
| Net cash used in investing activities discontinued operations   |  | (1,138)                   |                               |              | (1,138)               |
| Net cash used in investing activities   |  | (82,213)                  | (19,600)                      |              | (101,813)             |
| Net borrowings under revolving and securitization credit facilities   |  |                           | 21,548                        |              | 21,548                |
| Purchases of common stock   | (273,824)                              |                           |                               |              | (273,824)             |
| Debt issuance costs and other   | (2,916)                                | 593                       | (1,108)                       |              | (3,431)               |
| Exercise of stock options, including excess tax benefit   | 7,795                                  |                           |                               |              | 7,795                 |
| Cash dividends on common stock  | (45,924)                               |                           |                               |              | (45,924)              |
| Intercompany financing and advances   | 281,664                                | (493,150)                 | 211,486                       |              |                       |

|   |          |           |           |            |
|---|----------|-----------|-----------|------------|
| Net cash (used in) provided by financing activities | (33,205) | (492,557) | 231,926   | (293,836)  |
| Increase (decrease) in cash and cash equivalents    | 33,178   | (2,298)   | 3,930     | 34,810     |
| Cash and cash equivalents at beginning of period    | 719,570  | 100,623   | 57,921    | 878,114    |
| Cash and cash equivalents at end of period \$       | 752,748  | \$ 98,325 | \$ 61,851 | \$ 912,924 |

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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 notes thereto included in our Annual Report on Form 10-K for the fiscal year ended September 30, 2009.

We are a pharmaceutical services company providing drug distribution and related healthcare services and solutions to our pharmacy, physician, and manufacturer customers, which are based primarily in the United States and Canada. Substantially all of our operations are located in the United States and Canada. We also have a pharmaceutical packaging operation in the United Kingdom.

We have three operating segments, which include the operations of AmerisourceBergen Drug Corporation ( ABDC ), AmerisourceBergen Specialty Group ( ABSG ), and AmerisourceBergen Packaging Group ( ABPG ). We have aggregated the operating results of ABDC, ABSG, and ABPG into one reportable segment, Pharmaceutical Distribution, which represents the consolidated operating results of the Company. Servicing both healthcare providers and pharmaceutical manufacturers 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.

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.

ABDC distributes a comprehensive offering of brand-name and generic pharmaceuticals, over-the-counter healthcare products, home healthcare supplies and equipment, and related services to a wide variety of healthcare providers, including acute care hospitals and health systems, independent and chain retail pharmacies, mail order pharmacies, medical clinics, long-term care and other alternate site pharmacies, and other customers. ABDC also provides pharmacy management, staffing and other consulting services; scalable automated pharmacy dispensing equipment; medication and supply dispensing cabinets; and supply management software to a variety of retail and institutional healthcare providers.

ABSG, through a number of individual operating businesses, provides pharmaceutical distribution and other services primarily to physicians who specialize in a variety of disease states, especially oncology, and to other healthcare providers, including dialysis clinics. ABSG also distributes plasma and other blood products, injectables and vaccines. In addition, through its specialty services businesses, ABSG provides drug commercialization services, third party logistics, and other services for biotech and other pharmaceutical manufacturers, as well as reimbursement consulting, data analytics, outcomes research, practice management, and group purchasing services for physician practices.

ABPG consists of American Health Packaging, Anderson Packaging ( Anderson ), and Brecon Pharmaceuticals Limited ( Brecon ). American Health Packaging delivers unit dose, punch card, unit-of-use, and other packaging solutions to institutional and retail healthcare providers. American Health Packaging's largest customer is ABDC and, as a result, its operations are closely aligned with the operations of ABDC. Anderson is a leading provider of contract packaging services for pharmaceutical manufacturers. Brecon is a United Kingdom-based provider of contract packaging and clinical trials materials services for pharmaceutical manufacturers.

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**Summary Financial Information**

| <i>(dollars in thousands)</i> | <b>Three months ended June 30,</b> |               | <b>Change</b> |
|-------------------------------|------------------------------------|---------------|---------------|
|                               | <b>2010</b>                        | <b>2009</b>   |               |
| Revenue                       | \$ 19,602,120                      | \$ 18,393,899 | 6.6%          |
| Gross profit                  | \$ 588,370                         | \$ 519,223    | 13.3%         |
| Operating income              | \$ 281,854                         | \$ 212,987    | 32.3%         |
| Percentages of revenue:       |                                    |               |               |
| Gross profit                  | 3.00%                              | 2.82%         |               |
| Operating expenses            | 1.56%                              | 1.66%         |               |
| Operating income              | 1.44%                              | 1.16%         |               |

| <i>(dollars in thousands)</i> | <b>Nine months ended June 30,</b> |               | <b>Change</b> |
|-------------------------------|-----------------------------------|---------------|---------------|
|                               | <b>2010</b>                       | <b>2009</b>   |               |
| Revenue                       | \$ 58,238,606                     | \$ 53,043,927 | 9.8%          |
| Gross profit                  | \$ 1,763,808                      | \$ 1,561,542  | 13.0%         |
| Operating income              | \$ 855,463                        | \$ 659,137    | 29.8%         |
| Percentages of revenue:       |                                   |               |               |
| Gross profit                  | 3.03%                             | 2.94%         |               |
| Operating expenses            | 1.56%                             | 1.70%         |               |
| Operating income              | 1.47%                             | 1.24%         |               |

**Results of Operations**

Revenue of \$19.6 billion, which included bulk deliveries to customer warehouses of \$238.4 million, in the quarter ended June 30, 2010 increased 6.6% from the prior year quarter. The increase in revenue was due to the 8% growth of ABDC and the 3% growth of ABSG. During the quarter ended June 30, 2010, 69% of revenue was from sales to institutional customers and 31% was from sales to retail customers; this compared to a customer mix in the prior year quarter of 68% institutional and 32% retail. Sales to institutional customers increased 8% in the current year quarter and sales to retail customers increased 4% in the current year quarter. Revenue of \$58.2 billion, which included bulk deliveries to customer warehouses of \$1.0 billion, in the nine months ended June 30, 2010 increased 10% from the prior year period as ABDC's revenue grew 11% and ABSG's revenue grew 5%.

ABDC's revenue increased by 8% from the prior year quarter due to the above market growth of a few of our largest customers, one new customer with which we started doing business in August 2009 (representing approximately 1% of ABDC's revenue growth in the quarter), and overall pharmaceutical market growth. ABDC's revenue increased by 11% from the prior year nine month period due to revenue from our new customers, primarily the new buying group

customers with which we started doing business in March and April of 2009 (representing approximately 5% of ABDC's revenue growth in the nine month period), the above market growth of a few of our largest customers, and overall pharmaceutical market growth.

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ABSG's revenue of \$4.1 billion and \$12.0 billion in the quarter and nine months ended June 30, 2010 increased 3% and 5%, respectively, from the prior year periods due to growth of its distribution businesses, primarily relating to the distribution of nephrology and blood products and its third party logistics business. The majority of ABSG's revenue is generated from the distribution of pharmaceuticals to physicians who specialize in a variety of disease states, especially oncology. ABSG's business may be adversely impacted in the future by changes in medical guidelines and the Medicare reimbursement rates for certain pharmaceuticals, especially oncology drugs administered by physicians and anemia drugs. Since ABSG provides a number of services to or through physicians, any changes affecting this service channel could result in slower or reduced growth in revenues.

We currently expect to grow our revenues between 8% and 9% in fiscal 2010. As expected, our revenue growth was lower in the third quarter of fiscal 2010 than the growth we experienced in the first half of fiscal 2010, as we passed the anniversary date of the addition of our new significant customers, which we added primarily in March and April of 2009. We expect our revenue growth in the fourth quarter to approximate market growth. Our expected growth reflects U.S. pharmaceutical industry conditions, including increases in prescription drug utilization, the introduction of new products, and higher branded pharmaceutical prices, offset, in part, by the increased use of lower-priced generics. Our growth also may be impacted, among other things, by industry competition and changes in customer mix. Industry sales in the United States, as recently estimated by industry data firm IMS Healthcare, Inc. (IMS), are expected to grow between 3% and 5% in calendar 2010. IMS expects that certain sectors of the market, such as biotechnology and other specialty and generic pharmaceuticals, will grow faster than the overall market. Additionally, IMS expects the U.S. pharmaceutical industry to grow annually in the low to mid-single digit percentages through 2013. Our future revenue growth will continue to be affected by various factors such as industry growth trends, including the likely increase in the number of generic drugs that will be available over the next few years as a result of the expiration of certain drug patents held by brand-name pharmaceutical manufacturers, general economic conditions in the United States, competition within the industry, customer consolidation, changes in pharmaceutical manufacturer pricing and distribution policies and practices, increased downward pressure on reimbursement rates, and changes in Federal government rules and regulations.

Gross profit of \$588.4 million in the quarter ended June 30, 2010 increased by \$69.1 million or 13% from the prior year quarter. Gross profit of \$1.8 billion in the nine months ended June 30, 2010 increased by \$202.3 million or 13% from the prior year period. The increases in our gross profit in the quarter and nine months ended June 30, 2010 were in large part attributable to the continued strong growth and profitability of our generic programs (with generic revenue increasing in double digits in comparison to the prior year periods) and increased contributions from fee-for-service agreements with brand name pharmaceutical manufacturers. In August 2009, a generic oncology drug was introduced (launched) and ABSG's gross profit significantly benefited from this generic launch in the quarter and nine months ended June 30, 2010. The gross profit benefit that we continue to receive from this new generic launch significantly exceeds the typical benefit we have experienced in the past from generic launches. Approximately one-third and slightly less than one-half, respectively, of the gross profit increases for the quarter and nine months ended June 30, 2010 were derived from this new generic product launch. While we expect an increase in the number of brand to generic conversions in the future, the amount of gross profit attributable to each generic launch can vary significantly depending on the individual characteristics of each new product. As a result, generic launches can cause significant variability in our quarterly results of operations. There can be no assurance that future generic launches will contribute as significantly to our gross profit as they did in the nine months ended June 30, 2010. Additionally, in the current year quarter and nine-month period, we recognized a gain of \$19.1 million and \$20.7 million, respectively, from antitrust litigation settlements with pharmaceutical manufacturers. This gain was recorded as a reduction to cost of goods sold. We are unable to estimate future gains, if any, we will recognize as a result of antitrust settlements (see Note 9 of the Notes to Consolidated Financial Statements). Lastly, in the nine months ended June 30, 2010, we completed a reconciliation with one of our generic suppliers relating to rebate incentives owed to us. Our gross profit benefited by approximately \$12 million in the current nine-month period as a result of having completed this reconciliation.

As a percentage of revenue, our gross profit margin of 3.00% and 3.03% in the quarter and nine months ended June 30, 2010, improved by 18 basis points and 9 basis points, respectively, from the prior year quarter and nine-month period due to generic launches, the strong growth and profitability of our generic programs, and increased contributions from fee-for-service agreements with brand name pharmaceutical manufacturers. Additionally, the gain on antitrust litigation settlements, as noted above, had the effect of increasing our gross profit margin by 10 basis points and 4 basis points for the quarter and nine months ended June 30, 2010, respectively. All of these factors more than offset the above market growth of some of our largest customers, who benefit from our best pricing, and normal competitive pressures on customer margins.



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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. We recorded a LIFO charge of \$11.3 million and \$4.1 million in the quarters ended June 30, 2010 and 2009, respectively. Our LIFO charge was \$29.9 million and \$20.8 million in the nine months ended June 30, 2010 and 2009, respectively. The increases in our LIFO charge reflect strong brand name price inflation and a year-over-year reduction in generic price deflation. The annual LIFO provision is affected by changes in inventory quantities, product mix, and manufacturer pricing practices, which may be impacted by market and other external influences.

Operating expenses of \$306.5 million in the quarter ended June 30, 2010 were relatively flat compared to the prior year quarter. Operating expenses in the current year quarter included an increase in bad debt expense of \$5.9 million primarily relating to physician customers within ABSG's oncology business, an increase in employee severance, and additional expenses relating to our Business Transformation project, which includes a new enterprise resource planning ( ERP ) platform. The above increases were offset, in part, by a favorable \$4.4 million adjustment relating to the Bergen Brunswig Matter as described in Note 8 (Legal Matters and Contingencies) of the Notes to the Consolidated Financial Statements. Additionally, operating expenses in the prior year quarter included an intangible asset impairment charge of \$8.9 million relating to a tradename within the ABSG operating segment. Operating expenses of \$908.3 million in the nine months ended June 30, 2010 increased by 1% from the prior year period due to an increase in incentive compensation, an increase in bad debt expense of \$6.3 million and an increase in depreciation and amortization of \$5.1 million. The above increases were largely offset by a \$10.0 million reduction in facility consolidations, employee severance and other costs and a \$9.5 million reduction in asset impairment charges. As a percentage of revenue, operating expenses were 1.56% in the quarter and nine months ended June 30, 2010 and represented a significant 10 basis point and 14 basis point decline, respectively, in our operating expense ratios from the prior year periods, reflecting our strong operating leverage particularly within ABDC as its operating expenses remained relatively flat in the quarter and nine months ended June 30, 2010 in comparison to the prior year periods. Our operating leverage has benefited from significant productivity increases achieved from our highly automated distribution facilities and our cE2 initiative, as described below.

In July 2010, we implemented the first phase of our new ERP platform. As a result, we will begin to depreciate a significant portion of our capitalized project costs in the fourth quarter of fiscal 2010. Additionally, we will begin to incur other significant costs to support our new ERP platform as we begin the transition from our legacy information systems to our new ERP platform over the next couple of years. The incremental costs of maintaining dual information technology platforms, including depreciation, are expected to be approximately \$40 million per year during the transition period. We intend to mitigate the impact of these incremental costs by reducing expenses elsewhere, but there can be no assurance that we will be able to do so.

In fiscal 2008, we 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, we reduced various operating costs and terminated certain positions. During the nine months ended June 30, 2009, we terminated 197 employees and incurred \$3.2 million of employee severance costs relating to our cE2 initiative. As previously noted, in the quarter ended June 30, 2010, we recorded a \$4.4 million favorable adjustment relating to the Bergen Brunswig Matter. During the nine months ended June 30, 2009, we recorded \$2.2 million of additional expense relating to the Bergen Brunswig Matter.

We paid a total of \$2.7 million and \$14.3 million for employee severance, lease cancellation and other costs during the nine months ended June 30, 2010 and 2009, respectively. Remaining unpaid amounts of \$4.2 million for employee severance, lease cancellation and other costs are included in accrued expenses and other in the accompanying balance sheet at June 30, 2010. Employees receive their severance benefits over a period, generally not in excess of 12 months, or in the form of a lump-sum payment.

Operating income of \$281.9 million and \$855.5 million in the quarter and nine months ended June 30, 2010 increased 32% and 30%, respectively, from the prior year periods primarily due to the increases in our gross profit. As a percentage of revenue, operating income increased 28 basis points to 1.44% and 23 basis points to 1.47% in the quarter and nine months ended June 30, 2010, respectively, from the prior year periods due to the increase in our gross

profit margins and the decrease in our operating expense ratios.

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The costs of facility consolidations, employee severance and other, the intangible asset impairments, and the gain on antitrust litigation settlements had the following net effects on operating income as a percentage of revenue:

|                                 |  |
|---------------------------------|--|
| Quarter ended June 30, 2010     | increased operating income as a percentage of revenue by 12 basis points |
| Quarter ended June 30, 2009     | decreased operating income as a percentage of revenue by 5 basis points  |
| Nine months ended June 30, 2010 | increased operating income as a percentage of revenue by 4 basis points  |
| Nine months ended June 30, 2009 | decreased operating income as a percentage of revenue by 3 basis points  |

Interest expense, interest income, and the respective weighted-average interest rates in the quarters ended June 30, 2010 and 2009 were as follows (in thousands):

|                       | 2010      |                                | 2009      |                                |
|-----------------------|-----------|--------------------------------|-----------|--------------------------------|
|                       | Amount    | Weighted-Average Interest Rate | Amount    | Weighted-Average Interest Rate |
| Interest expense      | \$ 18,615 | 5.34%                          | \$ 15,684 | 4.72%                          |
| Interest income       | (714)     | 0.20%                          | (1,032)   | 0.61%                          |
| Interest expense, net | \$ 17,901 |                                | \$ 14,652 |                                |

Interest expense increased from the prior year quarter primarily due to an increase of \$182.3 million in average borrowings, offset in part, by an increase in interest costs capitalized relating to our Business Transformation project. Interest costs capitalized in the quarter ended June 30, 2010 and 2009 were \$2.0 million and \$0.7 million, respectively. Interest income decreased from the prior year quarter primarily due to a decline in the weighted-average interest rate, offset in part, by an increase in average invested cash of \$731.8 million.

Interest expense, interest income, and the respective weighted-average interest rates in the nine months ended June 30, 2010 and 2009 were as follows (in thousands):

|                       | 2010      |                                | 2009      |                                |
|-----------------------|-----------|--------------------------------|-----------|--------------------------------|
|                       | Amount    | Weighted-Average Interest Rate | Amount    | Weighted-Average Interest Rate |
| Interest expense      | \$ 55,855 | 5.14%                          | \$ 47,946 | 4.95%                          |
| Interest income       | (1,408)   | 0.18%                          | (4,590)   | 1.18%                          |
| Interest expense, net | \$ 54,447 |                                | \$ 43,356 |                                |

Interest expense increased from the prior year nine-month period due to an increase of \$185.2 million in average borrowings, offset in part, by an increase in interest costs capitalized relating to our Business Transformation project and a decrease in the weighted-average variable interest rate on borrowings under our revolving credit facilities to 1.59% from 2.34% in the prior year period. Interest costs capitalized in the nine months ended June 30, 2010 and 2009 were \$5.0 million and \$1.9 million, respectively. As we begin to implement our new ERP platform in the fourth quarter of fiscal 2010, we expect to capitalize significantly less interest costs related to our Business Transformation project. Interest income decreased from the prior year nine-month period primarily due to a decrease in the weighted-average interest rate, offset in part, by an increase in average invested cash of \$580.4 million.

**Table of Contents****ITEM 2. Management's Discussion and Analysis of Financial Condition and Results of Operations**

Average borrowings increased in the current year quarter and nine months ended June 30, 2010 resulting from the November 2009 issuance of \$400 million of new 10-year senior notes, offset, in part, by the repayment of substantially all amounts then outstanding under our multi-currency revolving credit facility (both described in Liquidity and Capital Resources on the following page).

Income taxes in the quarter ended June 30, 2010 reflect an effective income tax rate of 38.1%, compared to 36.8% in the prior year quarter. In the prior year quarter, due to the expiration of certain statutes of limitations, we were able to recognize certain tax benefits, thereby reducing our effective income tax rate. Income taxes in the nine months ended June 30, 2010 reflect an effective income tax rate of 38.1%, compared to 37.9% in the prior year period.

Income from continuing operations of \$163.2 million in the quarter ended June 30, 2010 increased 30% from the prior year quarter primarily due to the increase in operating income. Diluted earnings per share from continuing operations of \$0.57 in the quarter ended June 30, 2010 increased 36% from \$0.42 per share in the prior year quarter. Income from continuing operations of \$495.5 million in the nine months ended June 30, 2010 increased 30% from the prior year period due to the increase in operating income. Diluted earnings per share from continuing operations of \$1.72 in the nine months ended June 30, 2010 increased 38% from \$1.25 per share in the prior year period. The differences between diluted earnings per share growth and the increase in income from continuing operations for the quarter and nine months ended June 30, 2010 was primarily due to the 5% reduction in weighted average common shares outstanding in both periods, primarily from purchases of our common stock, net of the impact of stock option exercises.

Loss from discontinued operations, net of income taxes, for the quarter and nine months ended June 30, 2009 included an estimated PMSI working capital adjustment of \$2.8 million and costs in connection with a prior period business disposition.

**Liquidity and Capital Resources**

The following table illustrates our debt structure at June 30, 2010, including availability under revolving credit facilities and the receivables securitization facility (in thousands):

|   | <b>Outstanding<br/>Balance</b> | <b>Additional<br/>Availability</b> |
|---|--------------------------------|------------------------------------|
| <b>Fixed-Rate Debt:</b>                           |                                |                                    |
| \$400,000, 5 5/8% senior notes due 2012           | \$ 399,270                     | \$                                 |
| \$500,000, 5 7/8% senior notes due 2015           | 498,507                        |                                    |
| \$400,000, 4 7/8% senior notes due 2019           | 396,848                        |                                    |
| Other   | 657                            |                                    |
| <br>  |                                |                                    |
| Total fixed-rate debt                             | 1,295,282                      |                                    |
| <br>  |                                |                                    |
| <b>Variable-Rate Debt:</b>                        |                                |                                    |
| Blanco revolving credit facility due 2011         | 55,000                         |                                    |
| Multi-currency revolving credit facility due 2011 | 9,888                          | 673,427                            |
| Receivables securitization facility due 2011      |                                | 700,000                            |
| Other   |                                | 747                                |
| <br>  |                                |                                    |
| Total variable-rate debt                          | 64,888                         | 1,374,174                          |

|                                       |              |              |
|---------------------------------------|--------------|--------------|
| Total debt, including current portion | \$ 1,360,170 | \$ 1,374,174 |
|---------------------------------------|--------------|--------------|

Along with our cash balances, our aggregate availability under our revolving credit facilities and our receivables securitization facility provides us sufficient sources of capital to fund our working capital requirements.

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We have 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 our 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 June 30, 2010). Additionally, interest on borrowings denominated in Canadian dollars may accrue at the greater of the Canadian prime rate or the CDOR rate. We pay quarterly facility fees to maintain the availability under the Multi-Currency Revolving Credit Facility at specified rates based on our debt rating, ranging from 6 basis points to 15 basis points of the total commitment (10 basis points at June 30, 2010). We may choose to repay or reduce our 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.

We have a \$700 million receivables securitization facility (Receivables Securitization Facility). In April 2010, we amended this facility, which now expires in April 2011. We continue to have available to us 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. We pay a commitment fee to maintain the availability under the Receivables Securitization Facility. In connection with the April 2010 amendment, the program fee and commitment fee were reduced to 125 basis points and 60 basis points, respectively. At June 30, 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, we 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 us. Interest on borrowings under this facility continues to be 200 basis points over LIBOR. The Blanco Credit Facility is not classified in the current portion of long-term debt on the consolidated balance sheet at June 30, 2010 because we have both the ability and intent to refinance it on a long-term basis.

In November 2009, we 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. 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. We used the net proceeds of the 2019 Notes to repay substantially all amounts then outstanding under our 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.

Our operating results have generated cash flow, which, together with availability under our debt agreements and credit terms from suppliers, has provided sufficient capital resources to finance working capital and cash operating requirements, and to fund capital expenditures, acquisitions, repayment of debt, the payment of interest on outstanding debt, dividends, and repurchases of shares of our common stock.

Deterioration in general economic conditions could adversely affect the amount of prescriptions that are filled and the amount of pharmaceutical products purchased by consumers and, therefore, reduces purchases by our customers. In addition, volatility in financial markets may also negatively impact our customers' ability to obtain credit to finance their businesses on acceptable terms. Reduced purchases by our customers or changes in the ability of our customers to remit payments to us could adversely affect our revenue growth, our profitability, and our cash flow from operations.

We monitor the creditworthiness of our lenders and while we do not currently anticipate the failure of any lenders under our revolving credit facilities and/or our receivables securitization facility, the failure of any lender could have an adverse effect on our ability to finance our business operations.



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Our primary ongoing cash requirements will be to finance working capital, fund the payment of interest on debt, fund repurchases of our common stock, fund the payment of dividends, finance acquisitions, and fund capital expenditures (including our Business Transformation project, which involves the implementation of our new enterprise resource planning platform) and routine growth and expansion through new business opportunities. In November 2009, our board of directors approved a new program allowing us to purchase up to \$500 million of our outstanding shares of common stock, subject to market conditions. We currently expect to purchase approximately \$450 million of our common stock in fiscal 2010. During the nine months ended June 30, 2010, we purchased \$350.3 million of our common stock, of which \$68.1 million was purchased to close out our prior November 2008 share repurchase program and \$282.2 million was purchased under the current \$500 million share repurchase program. As of June 30, 2010, we had \$218.1 million of availability remaining on our current \$500 million share repurchase program. Future cash flows from operations and borrowings are expected to be sufficient to fund our ongoing cash requirements.

Our most significant market risk historically has been the effect of fluctuations in interest rates related to our debt. We manage interest rate risk by using a combination of fixed-rate and variable-rate debt. At June 30, 2010, we had \$64.9 million of variable-rate debt outstanding. The amount of variable-rate debt fluctuates during the year based on our working capital requirements. We periodically evaluate financial instruments to manage our exposure to fixed and variable interest rates. However, there are no assurances that such instruments will be available in the combinations we want and on terms acceptable to us. There were no such financial instruments in effect at June 30, 2010.

We also have market risk exposure to interest rate fluctuations relating to our cash and cash equivalents. We had \$1.3 billion in cash and cash equivalents at June 30, 2010. The unfavorable impact of a hypothetical decrease in interest rates on cash and cash equivalents would be partially offset by the favorable impact of such a decrease on variable-rate debt. For every \$100 million of cash invested that is in excess of variable-rate debt, a 10 basis point decrease in interest rates would increase our annual net interest expense by \$0.1 million.

We are exposed to foreign currency and exchange rate risk from our non-U.S. operations. Our largest exposure to foreign exchange rates exists primarily with the Canadian Dollar. We may utilize foreign currency denominated forward contracts to hedge against changes in foreign exchange rates. Such contracts generally have durations of less than one year. We had no foreign currency denominated forward contracts at June 30, 2010. We may use derivative instruments to hedge our foreign currency exposure, but not for speculative or trading purposes.

Following is a summary of our contractual obligations for future principal and interest payments on our debt, minimum rental payments on our noncancelable operating leases and minimum payments on our other commitments at June 30, 2010 (in thousands):

|                                   | <b>Payments Due by Period</b> |                          |                   |                   |                          |
|-----------------------------------|-------------------------------|--------------------------|-------------------|-------------------|--------------------------|
|                                   | <b>Total</b>                  | <b>Within 1<br/>Year</b> | <b>1-3 Years</b>  | <b>4-5 Years</b>  | <b>After 5<br/>Years</b> |
| Debt, including interest payments | \$ 1,770,016                  | \$ 128,171               | \$ 541,657        | \$ 97,750         | \$ 1,002,438             |
| Operating leases                  | 223,669                       | 54,245                   | 66,284            | 42,419            | 60,721                   |
| Other commitments                 | 489,111                       | 224,987                  | 215,623           | 45,602            | 2,899                    |
| <b>Total</b>                      | <b>\$ 2,482,796</b>           | <b>\$ 407,403</b>        | <b>\$ 823,564</b> | <b>\$ 185,771</b> | <b>\$ 1,066,058</b>      |

We have commitments to purchase product from influenza vaccine manufacturers for the 2010/2011 flu season. In our current fiscal year, we reduced our purchase commitment to only the 2010/2011 flu season. We are required to purchase doses at prices that we believe will represent market prices. We currently estimate our remaining purchase commitment under these agreements, as amended, will be approximately \$80.7 million as of June 30, 2010. These influenza vaccine commitments are included in "Other commitments" in the above table.





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We have commitments to purchase blood products from suppliers through December 31, 2012. We are required to purchase quantities at prices that we believe will represent market prices. We currently estimate our remaining purchase commitment under these agreements will be approximately \$241.8 million as of June 30, 2010. These blood product commitments are included in "Other commitments" in the above table.

We have outsourced to IBM Global Services ( "IBM" ) a significant portion of our corporate and ABDC information technology activities, including assistance with the implementation of our new enterprise resource planning ( "ERP" ) platform. The remaining commitment under our 10-year arrangement, as amended, which expires in June 2015, is approximately \$151.7 million as of June 30, 2010 and is included in "Other commitments" in the above table.

Our liability for uncertain tax positions was \$56.0 million as of June 30, 2010. This liability represents an estimate of tax positions that we have taken in our tax returns, which may ultimately not be sustained upon examination by taxing authorities. Since the amount and timing of any future cash settlements cannot be predicted with reasonable certainty, the estimated liability has been excluded from the above contractual obligations table.

During the nine months ended June 30, 2010, our operating activities provided \$559.4 million of cash in comparison to cash provided of \$430.5 million in the prior year period. Cash provided by operations during the nine months ended June 30, 2010 was principally the result of net income of \$495.5 million and non-cash items of \$194.7 million, offset, in part, by an increase in merchandise inventories of \$127.9 million. Despite the increase in revenue in the nine months ended June 30, 2010, accounts receivable decreased by 1% from September 30, 2009 as the average number of days sales outstanding during the current year nine-month period decreased by nearly one day to 17.2 days from the prior year period, reflecting improved cash collection efforts and timing of customer receipts. Our accounts payable and inventory balances at September 30, 2009 were higher than normal as we made inventory purchases of approximately \$400 million in the month of September 2009, primarily relating to purchases of the generic oncology drug launched in August 2009 and purchases made in advance of a manufacturer's temporary plant shutdown in connection with its facility consolidation efforts. Despite our higher than normal accounts payable balance at September 30, 2009, accounts payable, accrued expenses and income taxes decreased only by 1% from September 30, 2009 to June 30, 2010 due to the growth in our business. Our merchandise inventories at June 30, 2010 increased 2% when compared to September 30, 2009, substantially less than our revenue growth, due to a reduction in the September 30, 2009 inventory balance related to the purchases made in advance of the temporary plant shutdown. The average number of inventory days on hand in the nine months ended June 30, 2010 was consistent to the prior year period. Operating cash uses during the nine months ended June 30, 2010 included \$37.4 million in interest payments and \$180.8 million of income tax payments, net of refunds.

During the nine months ended June 30, 2009, the Company's operating activities provided \$430.5 million of cash in comparison to cash provided of \$223.0 million in the prior year period. Cash provided by operations during the nine months ended June 30, 2009 was principally the result of income from continuing operations of \$381.7 million, an increase in accounts payable, accrued expenses and income taxes of \$416.0 million, and non-cash items of \$170.3 million, offset in part, by an increase in accounts receivable of \$292.8 million and an increase in merchandise inventories of \$222.3 million. Accounts receivable increased by 8% from September 30, 2008 primarily due to a 12.5% increase in sales in the month of June 2009 compared to sales in the month of September 2008. The average number of days sales outstanding during the nine months ended June 2009 decreased by one-half day from the prior year period, which was primarily due to favorable customer mix within ABDC. Merchandise inventories increased by 5% from September 30, 2008 due to an increase in sales in the June 2009 quarter. Inventory turns, which were 17.1 times in the nine months ended June 30, 2009, were relatively consistent with the prior year period. Additionally, the average number of inventory days on hand in the nine months ended June 30, 2009 was relatively flat in comparison to the prior year period. The increase in accounts payable, accrued expenses and income taxes was primarily driven by an increase in sales in the June 2009 quarter, the increase in merchandise inventories and the timing of payments to our suppliers. Operating cash uses during the nine months ended June 30, 2009 included \$30.0 million in interest payments and \$166.0 million of income tax payments, net of refunds.



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**ITEM 2. Management's Discussion and Analysis of Financial Condition and Results of Operations**

Capital expenditures for the nine months ended June 30, 2010 and 2009 were \$132.3 million and \$102.2 million, respectively. Our most significant capital expenditures in the nine months ended June 30, 2010 and 2009 related to our Business Transformation project, which includes a new ERP platform that will be implemented in ABDC and our corporate office. Capital expenditures also included improvements made to our operating facilities and other information technology initiatives. We previously estimated that we would spend approximately \$140 million for capital expenditures during fiscal 2010. We currently expect to spend between \$165 million and \$175 million for capital expenditures during fiscal 2010 due to timing of certain expenditures incurred related to our Business Transformation project.

In May 2009, we acquired Innomar, a Canadian specialty pharmaceutical services company, for a purchase price of \$13.4 million, net of a working capital adjustment.

In October 2008, we sold PMSI for approximately \$31 million, net of a final working capital adjustment and including a \$19 million subordinated note due from PMSI on the fifth anniversary of the closing date.

In November 2009, we issued our 2019 Notes for net proceeds of \$396.7 million. We used the net proceeds of the 2019 Notes to repay substantially all amounts then outstanding under our Multi-Currency Revolving Credit Facility and the remaining net proceeds were used for general corporate purposes.

During the nine months ended June 30, 2010, we purchased 13.1 million shares of our common stock for a total of \$350.3 million. During the nine months ended June 30, 2009, we purchased 16.1 million shares of our common stock for a total of \$273.8 million.

In November 2008, our board of directors increased the quarterly cash dividend by 33% to \$0.05 per share and in May 2009, our board of directors increased the quarterly cash dividend by 20% to \$0.06 per share. In November 2009, our board of directors increased the quarterly cash dividend again by 33% to \$0.08 per share. We anticipate that we will continue to pay quarterly cash dividends in the future. However, the payment and amount of future dividends remains within the discretion of our board of directors and will depend upon our future earnings, financial condition, capital requirements, and other factors.

***Recent Accounting Pronouncements***

Effective October 1, 2009, we 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. We 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 an acquisition or divestiture subsequent to September 30, 2009 may have an impact to our financial position and/or results of operations.

**Table of Contents****ITEM 2. Management's Discussion and Analysis of Financial Condition and Results of Operations*****Forward-Looking Statements***

Certain of the statements contained in this Management's Discussion and Analysis of Financial Condition and Results of Operations and elsewhere in this report are forward-looking statements within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934, as amended (the Exchange Act). These statements are based on management's current expectations and are subject to uncertainty and changes in circumstances. Actual results may vary materially from the expectations contained in the forward-looking statements. The following factors, among others, could cause actual results to differ materially from those described in any forward-looking statements: changes in pharmaceutical market growth rates; the loss of one or more key customer or supplier relationships; changes in customer mix; customer delinquencies, defaults or insolvencies; supplier defaults or insolvencies; changes in pharmaceutical manufacturers' pricing and distribution policies or practices; adverse resolution of any contract or other dispute with customers or suppliers; federal and state government enforcement initiatives to detect and prevent suspicious orders of controlled substances and the diversion of controlled substances; qui tam litigation for alleged violations of laws and regulations governing the marketing, sale and purchase of pharmaceutical products or any related litigation, including shareholder derivative lawsuits; changes in U.S. legislation or regulatory action affecting pharmaceutical product pricing or reimbursement policies, including under Medicaid and Medicare; changes in regulatory or clinical medical guidelines and/or labeling for the pharmaceutical products we distribute, including certain anemia products; price inflation in branded pharmaceuticals and price deflation in generics; greater or less than anticipated benefit from launches of the generic versions of previously patented pharmaceutical products; significant breakdown or interruption of our information technology systems; our inability to implement an enterprise resource planning (ERP) system to handle business and financial processes within AmerisourceBergen Drug Corporation's operations and our corporate functions without operating problems and/or cost overruns; success of integration, restructuring or systems initiatives; interest rate and foreign currency exchange rate fluctuations; economic, business, competitive and/or regulatory developments in Canada, the United Kingdom and elsewhere outside of the United States, including potential changes in Canadian provincial legislation affecting pharmaceutical product pricing or service fees or regulatory action by provincial authorities in Canada to lower pharmaceutical product pricing and service fees; the impact of divestitures or the acquisition of businesses that do not perform as we expect or that are difficult for us to integrate or control; our inability to successfully complete any other transaction that we may wish to pursue from time to time; changes in tax legislation or adverse resolution of challenges to our tax positions; increased costs of maintaining, or reductions in our ability to maintain, adequate liquidity and financing sources; volatility and deterioration of the capital and credit markets; and other economic, business, competitive, legal, tax, regulatory and/or operational factors affecting our business generally. Certain additional factors that management believes could cause actual outcomes and results to differ materially from those described in forward-looking statements are set forth (i) elsewhere in this report, (ii) in Item 1A (Risk Factors) in the Company's Annual Report on Form 10-K for the fiscal year ended September 30, 2009 and elsewhere in that report and (iii) in other reports filed by the Company pursuant to the Exchange Act.

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**ITEM 3. Quantitative and Qualitative Disclosures About Market Risk**

The Company's most significant market risks are the effects of changing interest rates and foreign currency risk. See the discussion under "Liquidity and Capital Resources" in Item 2 on page 30.

**ITEM 4. Controls and Procedures**

***Evaluation of Disclosure Controls and Procedures***

The Company maintains disclosure controls and procedures that are intended to ensure that information required to be disclosed in the Company's reports submitted under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the rules and forms of the SEC. These controls and procedures also are intended to ensure that information required to be disclosed in such reports is accumulated and communicated to management to allow timely decisions regarding required disclosures.

The Company's Chief Executive Officer and Chief Financial Officer, with the participation of other members of the Company's management, have evaluated the effectiveness of the Company's disclosure controls and procedures (as such term is defined in Rules 13a-15(e) and 15d-15(e) under the Exchange Act) and have concluded that the Company's disclosure controls and procedures were effective for their intended purposes as of the end of the period covered by this report.

***Changes in Internal Control over Financial Reporting***

There were no changes during the fiscal quarter ended June 30, 2010 in the Company's internal control over financial reporting that materially affected, or are reasonably likely to materially affect, those controls.

**Table of Contents****PART II. OTHER INFORMATION****ITEM 1. Legal Proceedings**

See Note 8 (Legal Matters and Contingencies) of the Notes to the Consolidated Financial Statements set forth under Item 1 of Part I of this report for the Company's current description of legal proceedings.

**ITEM 2. Unregistered Sales of Equity Securities and Use of Proceeds****(c) Issuer Purchases of Equity Securities**

The following table sets forth the number of shares purchased, the average price paid per share, the total number of shares purchased as part of publicly announced programs, and the approximate dollar value of shares that may yet be purchased under the programs during each month in the quarter ended June 30, 2010.

| <b>Period</b>       | <b>Total<br/>Number of<br/>Shares<br/>Purchased</b> | <b>Average<br/>Price<br/>Paid per<br/>Share</b> | <b>Total Number of<br/>Shares<br/>Purchased<br/>as Part of<br/>Publicly<br/>Announced<br/>Programs</b> | <b>Approximate<br/>Dollar<br/>Value of<br/>Shares that May<br/>Yet<br/>Be<br/>Purchased<br/>Under the<br/>Programs</b> |
|---------------------|---|---|--|--|
| April 1 to April 30 |   | \$  |  | \$ 313,078,127   |
| May 1 to May 31     | 3,109,600   | \$ 30.54  | 3,109,600  | \$ 218,096,891   |
| June 1 to June 30   |   | \$  |  | \$ 218,096,891   |
| Total               | 3,109,600   |   | 3,109,600  |  |

- a) In November 2008, the Company announced a program to purchase up to \$500 million of its outstanding shares of common stock, subject to market conditions. During the nine months ended June 30, 2010, the Company purchased 2.8 million shares for \$68.1 million to complete its authorization

under this  
program.

- b) In November 2009, the Company announced a new program to purchase up to \$500 million of its outstanding shares of common stock, subject to market conditions. During the nine months ended June 30, 2010, the Company purchased 10.3 million shares under this program for \$281.9 million. There is no expiration date related to this new program.



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**ITEM 6. Exhibits**

**(a) Exhibits:**

- 10.1 Amended and Restated Receivables Purchase Agreement, dated as of April 29, 2010, among Amerisource Receivables Financial Corporation, as Seller, AmerisourceBergen Drug Corporation, as initial Servicer, various purchaser groups, and Bank of America, National Association, as Administrator (incorporated by reference to Exhibit 99.1 to the Registrant's Current Report on Form 8-K filed on May 5, 2010).
- 10.2 First Amendment to Receivables Sale Agreement, dated as of April 29, 2010, by and between Amerisource Receivables Financial Corporation, as Buyer, and AmerisourceBergen Drug Corporation as Originator (incorporated by reference to Exhibit 99.2 to the Registrant's Current Report on Form 8-K filed on May 5, 2010).
- 10.3 First Amendment and Waiver, dated as of April 15, 2010, to the Credit Agreement, dated as of November 14, 2006, among the Registrant, the Borrowing Subsidiaries party thereto, the Lenders party thereto, JPMorgan Chase Bank, N.A., as Administrative Agent, J.P. Morgan Europe Limited, as London Agent, and The Bank of Nova Scotia, as Canadian Agent.
- 31.1 Rule 13a-14(a)/15d-14(a) Certification of Chief Executive Officer
- 31.2 Rule 13a-14(a)/15d-14(a) Certification of Chief Financial Officer
- 32.1 Section 1350 Certification of Chief Executive Officer
- 32.2 Section 1350 Certification of Chief Financial Officer
- 101 Financial statements from the Quarterly Report on Form 10-Q of AmerisourceBergen Corporation for the quarter ended June 30, 2010, formatted in Extensible Business Reporting Language (XBRL): (i) the Consolidated Balance Sheets, (ii) the Consolidated Statements of Operations, (iii) the Consolidated Statements of Cash Flows, and (iv) the Notes to Consolidated Statements.

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**SIGNATURES**

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

**AMERISOURCEBERGEN CORPORATION**

August 3, 2010

/s/ R. David Yost  
R. David Yost  
President and Chief Executive Officer

August 3, 2010

/s/ Michael D. DiCandilo  
Michael D. DiCandilo  
Executive Vice President and Chief Financial  
Officer

**Table of Contents****EXHIBIT INDEX**

| <b>Exhibit<br/>Number</b> | <b>Description</b>   |
|---------------------------|--|
| 10.1                      | Amended and Restated Receivables Purchase Agreement, dated as of April 29, 2010, among Amerisource Receivables Financial Corporation, as Seller, AmerisourceBergen Drug Corporation, as initial Servicer, various purchaser groups, and Bank of America, National Association, as Administrator (incorporated by reference to Exhibit 99.1 to the Registrant's Current Report on Form 8-K filed on May 5, 2010). |
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| 31.1                      | Rule 13a-14(a)/15d-14(a) Certification of Chief Executive Officer  |
| 31.2                      | Rule 13a-14(a)/15d-14(a) Certification of Chief Financial Officer  |
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