AMERISOURCEBERGEN CORP
Form 10-Q
February 08, 2011

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

þ **QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
FOR THE QUARTERLY PERIOD ENDED December 31, 2010
OR

o **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
FOR THE TRANSITION PERIOD FROM _________ TO _________
Commission file number 1-16671
AMERISOURCEBERGEN CORPORATION
(Exact name of registrant as specified in its charter)

Delaware	**23-3079390**
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
1300 Morris Drive, Chesterbrook, PA	**19087-5594**
(Address of principal executive offices)	(Zip Code)

(610) 727-7000
(Registrant s telephone number, including area code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes þ No o

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

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

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

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

The number of shares of common stock of AmerisourceBergen Corporation outstanding as of January 31, 2011 was 274,094,567.

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PART I. FINANCIAL INFORMATION

ITEM 1. Financial Statements (Unaudited)

AMERISOURCEBERGEN CORPORATION AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS

(in thousands, except share and per share data)	December 31, 2010 (Unaudited)	September 30, 2010
ASSETS		
Current assets:		
Cash and cash equivalents	$ 1,400,895	$ 1,658,182
Accounts receivable, less allowances for returns and doubtful accounts: $371,563 at December 31, 2010 and $366,477 at September 30, 2010	3,551,315	3,827,484
Merchandise inventories	5,440,751	5,210,098
Prepaid expenses and other	35,212	52,586
Total current assets	10,428,173	10,748,350
Property and equipment, at cost:		
Land	36,164	36,407
Buildings and improvements	308,692	307,448
Machinery, equipment and other	889,658	841,586
Total property and equipment	1,234,514	1,185,441
Less accumulated depreciation	(497,702)	(473,729)
Property and equipment, net	736,812	711,712
Goodwill and other intangible assets	2,845,423	2,845,343
Other assets	121,911	129,438
TOTAL ASSETS	$ 14,132,319	$ 14,434,843
LIABILITIES AND STOCKHOLDERS EQUITY		
Current liabilities:		
Accounts payable	$ 8,467,004	$ 8,833,285
Accrued expenses and other	338,461	369,016
Current portion of long-term debt	115,379	422
Deferred income taxes	720,061	703,621
Total current liabilities	9,640,905	9,906,344
Long-term debt, net of current portion	1,287,410	1,343,158

Other liabilities	241,998	231,044
Stockholders equity:		
Common stock, $0.01 par value authorized: 600,000,000 shares; issued and outstanding: 491,970,200 shares and 273,702,931 shares at December 31, 2010, respectively, and 489,831,248 shares and 277,521,183 shares at September 30, 2010, respectively	4,920	4,898
Additional paid-in capital	3,953,121	3,899,381
Retained earnings	3,598,651	3,465,886
Accumulated other comprehensive loss	(35,834)	(42,536)
	7,520,858	7,327,629
Treasury stock, at cost: 218,267,269 shares at December 31, 2010 and 212,310,065 shares at September 30, 2010	(4,558,852)	(4,373,332)
Total stockholders equity	2,962,006	2,954,297
TOTAL LIABILITIES AND STOCKHOLDERS EQUITY	$ 14,132,319	$ 14,434,843

See notes to consolidated financial statements.

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AMERISOURCEBERGEN CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF OPERATIONS
(Unaudited)

	Three months ended December 31,	
(in thousands, except per share data)	**2010**	**2009**
Revenue	$ 19,888,609	$ 19,335,859
Cost of goods sold	19,308,377	18,772,489
Gross profit	580,232	563,370
Operating expenses:		
Distribution, selling, and administrative	278,033	280,239
Depreciation	21,304	16,658
Amortization	4,129	4,139
Facility consolidations, employee severance and other		(48)
Operating income	276,766	262,382
Other (income) loss	(1,667)	277
Interest expense, net	19,144	17,267
Income before income taxes	259,289	244,838
Income taxes	98,789	93,531
Net income	$ 160,500	$ 151,307
Earnings per share:		
Basic	$ 0.58	$ 0.53
Diluted	$ 0.57	$ 0.52
Weighted average common shares outstanding:		
Basic	275,605	286,955
Diluted	280,693	291,287
Cash dividends declared per share of common stock	$ 0.10	$ 0.08

See notes to consolidated financial statements.

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

(in thousands)	Three months ended December 31, 2010	2009
OPERATING ACTIVITIES		
Net income	$ 160,500	$ 151,307
Adjustments to reconcile net income to net cash used in operating activities:		
Depreciation, including amounts charged to cost of goods sold	24,517	19,820
Amortization, including amounts charged to interest expense	5,342	5,384
Provision for doubtful accounts	4,963	9,387
Provision for deferred income taxes	20,296	17,511
Share-based compensation	6,780	7,176
Other	(887)	2,630
Changes in operating assets and liabilities:		
Accounts receivable	275,792	371,936
Merchandise inventories	(227,739)	(391,153)
Prepaid expenses and other assets	24,956	22,499
Accounts payable, accrued expenses, and income taxes	(399,651)	(254,538)
Other liabilities	5,931	(3,648)
NET CASH USED IN OPERATING ACTIVITIES	(99,200)	(41,689)
INVESTING ACTIVITIES		
Capital expenditures	(50,091)	(42,574)
Other		127
NET CASH USED IN INVESTING ACTIVITIES	(50,091)	(42,447)
FINANCING ACTIVITIES		
Long-term debt borrowings		396,696
Borrowings under revolving and securitization credit facilities	343,413	290,074
Repayments under revolving and securitization credit facilities	(285,012)	(491,704)
Purchases of common stock	(185,362)	(144,626)
Exercises of stock options, including excess tax benefits of $10,508 and $5,050 in fiscal 2011 and 2010, respectively	46,982	30,416
Cash dividends on common stock	(27,735)	(23,149)
Debt issuance costs and other	(282)	(3,372)
NET CASH (USED IN) PROVIDED BY FINANCING ACTIVITIES	(107,996)	54,335
DECREASE IN CASH AND CASH EQUIVALENTS	(257,287)	(29,801)
Cash and cash equivalents at beginning of period	1,658,182	1,009,368

CASH AND CASH EQUIVALENTS AT END OF PERIOD	$ 1,400,895	$ 979,567

See notes to consolidated financial statements.

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

Note 1. Summary of Significant Accounting Policies

Basis of Presentation

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

The accompanying unaudited consolidated financial statements have been prepared in conformity with U.S. generally accepted accounting principles (GAAP) for interim financial information, the instructions to Form 10-Q and Rule 10-01 of Regulation S-X. In the opinion of management, all adjustments (consisting only of normal recurring accruals, except as otherwise disclosed herein) considered necessary to present fairly the financial position as of December 31, 2010 and the results of operations and cash flows for the interim periods ended December 31, 2010 and 2009 have been included. Certain information and footnote disclosures normally included in financial statements presented in accordance with U.S. GAAP, but which are not required for interim reporting purposes, have been omitted. The accompanying unaudited consolidated financial statements should be read in conjunction with the financial statements and notes thereto included in the Company s Annual Report on Form 10-K for the fiscal year ended September 30, 2010.

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 four operating segments, which include the operations of AmerisourceBergen Drug Corporation (ABDC), AmerisourceBergen Specialty Group (ABSG), AmerisourceBergen Consulting Services (ABCS), and AmerisourceBergen Packaging Group (ABPG). The Company has aggregated the operating results of all of its operating segments 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.

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

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

Note 2. Income Taxes

The Company files income tax returns in U.S. federal and state jurisdictions as well as various foreign jurisdictions. In fiscal 2010, the U.S. Internal Revenue Service (IRS) completed its examination of the Company s U.S. federal income tax returns for fiscal 2006, 2007 and 2008. No significant adjustments were made resulting from the IRS examination. In Canada, the Company is currently under examination for fiscal years 2007 and 2008.

As of December 31, 2010, the Company had unrecognized tax benefits, defined as the aggregate tax effect of differences between tax return positions and the benefits recognized in the Company s financial statements, of $49.4 million ($33.7 million net of federal benefit, which, if recognized, would reduce income tax expense). Included in this amount is $12.7 million of interest and penalties, which the Company records in income tax expense. During the three months ended December 31, 2010, unrecognized tax benefits decreased by $6.5 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 $8.4 million.

Note 3. Goodwill and Other Intangible Assets

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

Goodwill at September 30, 2010	$ 2,544,367
Foreign currency translation	2,470
Goodwill at December 31, 2010	$ 2,546,837

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

	December 31, 2010			September 30, 2010		
	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount
Indefinite-lived intangibles-trade names	$ 238,389	$	$ 238,389	$ 238,355	$	$ 238,355
Finite-lived intangibles:						
Customer relationships	122,414	(72,526)	49,888	121,940	(69,207)	52,733
Other	37,796	(27,487)	10,309	36,330	(26,442)	9,888
Total other intangible assets	$ 398,599	$ (100,013)	$ 298,586	$ 396,625	$ (95,649)	$ 300,976

Amortization expense for other intangible assets was $4.1 million in the three months ended December 31, 2010 and 2009. Amortization expense for other intangible assets is estimated to be $16.0 million in fiscal 2011, $14.1 million in fiscal 2012, $12.0 million in fiscal 2013, $8.4 million in fiscal 2014, $3.8 million in fiscal 2015, and $10.0 million thereafter.

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

Note 4. Debt

Debt consisted of the following (in thousands):

	December 31, 2010	September 30, 2010
Blanco revolving credit facility at 2.26% due 2011	$ 55,000	$ 55,000
Receivables securitization facility due 2011		
Multi-currency revolving credit facility at 3.00% due 2011	60,032	907
$392,326, 5 5/8% senior notes due 2012	391,760	391,682
$500,000, 5 7/8% senior notes due 2015	498,631	498,568
$400,000, 4 7/8% senior notes due 2019	396,981	396,915
Other	385	508
Total debt	1,402,789	1,343,580
Less current portion	115,379	422
Total, net of current portion	$ 1,287,410	$ 1,343,158

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. Amounts outstanding under the Multi-Currency Revolving Credit Facility are classified in the current portion of long-term debt on the consolidated balance sheet at December 31, 2010 as the Company seeks to renew this facility in fiscal 2011 at available market rates. 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 (32 basis points over LIBOR/EURIBOR/Bankers Acceptance Stamping Fee at December 31, 2010). Additionally, interest on borrowings denominated in Canadian dollars may accrue at the greater of the Canadian prime rate or the CDOR rate. The Company pays quarterly facility fees to maintain the availability under the Multi-Currency Revolving Credit Facility at specified rates based on the Company s debt rating, ranging from 6 basis points to 15 basis points of the total commitment (8 basis points at December 31, 2010). The Company may choose to repay or reduce its commitments under the Multi-Currency Revolving Credit Facility at any time. The Multi-Currency Revolving Credit Facility contains covenants, including compliance with a financial leverage ratio test, as well as others that impose limitations on, among other things, indebtedness of excluded subsidiaries and asset sales.

The Company has a $700 million receivables securitization facility (Receivables Securitization Facility), which expires in April 2011 and which it intends to renew at available market rates. The Company has available to it an accordion feature whereby the commitment on the Receivables Securitization Facility may be increased by up to $250 million, subject to lender approval, for seasonal needs during the December and March quarters. Interest rates are based on prevailing market rates for short-term commercial paper or LIBOR plus a program fee of 125 basis points. The Company pays a commitment fee of 60 basis points to maintain the availability under the Receivables Securitization Facility. At December 31, 2010, there were no borrowings outstanding under the Receivables Securitization Facility. The Receivables Securitization Facility contains similar covenants to the Multi-Currency Revolving Credit Facility.

The Blanco revolving credit facility (the Blanco Credit Facility), which the Company intends to refinance, expires in April 2011. Borrowings under the Blanco Credit Facility are guaranteed by the Company. Interest on borrowings under the Blanco Credit Facility accrues at specific rates based on the Company s debt rating (200 basis points over

LIBOR at December 31, 2010).

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

Note 5. Stockholders Equity and Earnings per Share

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

	2010	2009
Net income	$ 160,500	$ 151,307
Foreign currency translation adjustments and other	6,702	3,278
Comprehensive income	$ 167,202	$ 154,585

In November 2009, the Company s board of directors increased the quarterly dividend by 33% from $0.06 per share to $0.08 per share. In November 2010, the Company s board of directors authorized another increase in the quarterly dividend by 25% to $0.10 per share.

In November 2009, 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 fiscal year ended September 30, 2010, the Company purchased 14.4 million shares under this program for a total of $401.9 million. During the three months ended December 31, 2010, the Company purchased 3.2 million shares for $98.1 million to complete its authorization under this program.

In September 2010, 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 three months ended December 31, 2010, the Company purchased 2.8 million shares for $87.1 million under the new program.

Basic earnings per share is computed on the basis of the weighted average number of shares of common stock outstanding during the periods presented. Diluted earnings per share is computed on the basis of the weighted average number of shares of common stock outstanding during the periods presented plus the dilutive effect of stock options, restricted stock, and restricted stock units.

	Three months ended December 31,	
(in thousands)	**2010**	**2009**
Weighted average common shares outstanding basic	275,605	286,955
Effect of dilutive securities: stock options, restricted stock, and restricted stock units	5,088	4,332
Weighted average common shares outstanding diluted	280,693	291,287

The potentially dilutive stock options that were antidilutive for the three months ended December 31, 2010 and 2009 were 3.5 million and 3.3 million, respectively.

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

Note 6. 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; however, 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.

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

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.

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

Both the Intervention Complaint and the Original Qui Tam Complaint, as amended on October 30, 2009, allege that from 2002 through 2009, Amgen and two of the Company s business units 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.

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 appeals are currently pending. 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. A trial date is set in this matter for July 2011.

The Company has learned that there are both prior and subsequent filings in another federal district, including a complaint filed by a former employee of the Company, that are under seal and that contain allegations similar to those in the Federal District Court action against the same and/or additional subsidiaries or businesses of the Company that are defendants in the Federal District Court action, including the Company s group purchasing organization for oncologists and the Company s oncology distribution business. The DOJ investigation of the allegations contained in the Original Qui Tam Complaint appears to include investigation of allegations contained in some or all of these other 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.

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

Note 7. 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. During the three months ended December 31, 2009, the Company recognized a gain of $1.5 million relating to the above-mentioned class action lawsuits. The gain, which was net of attorney fees and estimated payments due to other parties, was recorded as a reduction to cost of goods sold in the Company s consolidated statements of operations.

Note 8. Fair Value of Financial Instruments

The recorded amounts of the Company s cash and cash equivalents, accounts receivable and accounts payable at December 31, 2010 and September 30, 2010 approximate fair value based upon the relatively short-term nature of these financial instruments. Within cash and cash equivalents, the Company had $1,266.3 million and $1,552.4 million of investments in money market accounts as of December 31, 2010 and September 30, 2010, respectively. The fair values of the money market accounts were determined based on unadjusted quoted prices in active markets for identical assets, otherwise known as Level 1 investments. The fair values of the Company s debt instruments are estimated based on market prices. The recorded amount of debt (see Note 4) and the corresponding fair value as of December 31, 2010 were $1,402.8 million and $1,494.3 million, respectively. The recorded amount of debt and the corresponding fair value as of September 30, 2010 were $1,343.6 million and $1,486.3 million, respectively.

Note 9. 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 December 31, 2010 and September 30, 2010, statements of operations for the three months ended December 31, 2010 and 2009, and statements of cash flows for the three months ended December 31, 2010 and 2009.

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

SUMMARY CONSOLIDATING BALANCE SHEETS:

	December 31, 2010				
(in thousands)	Parent	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	Consolidated Total
Current assets:					
Cash and cash equivalents	$ 1,260,640	$ 68,479	$ 71,776	$	$ 1,400,895
Accounts receivable, net	145	946,619	2,604,551		3,551,315
Merchandise inventories		5,302,302	138,449		5,440,751
Prepaid expenses and other	222	32,785	2,205		35,212
Total current assets	1,261,007	6,350,185	2,816,981		10,428,173
Property and equipment, net		709,122	27,690		736,812
Goodwill and other intangible assets		2,707,054	138,369		2,845,423
Other assets	9,577	110,506	1,828		121,911
Intercompany investments and advances	2,704,131	1,829,633	(33,046)	(4,500,718)	
Total assets	$ 3,974,715	$ 11,706,500	$ 2,951,822	$ (4,500,718)	$ 14,132,319
Current liabilities:					
Accounts payable	$ 69	$ 8,321,217	$ 145,718	$	$ 8,467,004
Accrued expenses and other	(274,737)	605,680	7,518		338,461
Current portion of long-term debt		347	115,032		115,379
Deferred income taxes	5	720,056			720,061
Total current liabilities	(274,663)	9,647,300	268,268		9,640,905
Long-term debt, net of current portion	1,287,372	31	7		1,287,410
Other liabilities		239,551	2,447		241,998
Total stockholders equity	2,962,006	1,819,618	2,681,100	(4,500,718)	2,962,006
Total liabilities and stockholders equity	$ 3,974,715	$ 11,706,500	$ 2,951,822	$ (4,500,718)	$ 14,132,319

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

SUMMARY CONSOLIDATING BALANCE SHEETS:

	September 30, 2010				
(in thousands)	Parent	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	Consolidated Total
Current assets:					
Cash and cash equivalents	$ 1,552,122	$ 79,700	$ 26,360	$	$ 1,658,182
Accounts receivable, net	227	1,303,333	2,523,924		3,827,484
Merchandise inventories		5,090,604	119,494		5,210,098
Prepaid expenses and other	87	49,753	2,746		52,586
Total current assets	1,552,436	6,523,390	2,672,524		10,748,350
Property and equipment, net		683,855	27,857		711,712
Goodwill and other intangible assets		2,708,901	136,442		2,845,343
Other assets	10,332	116,917	2,189		129,438
Intercompany investments and advances	2,404,018	1,905,733	23,401	(4,333,152)	
Total assets	$ 3,966,786	$ 11,938,796	$ 2,862,413	$ (4,333,152)	$ 14,434,843
Current liabilities:					
Accounts payable	$	$ 8,680,923	$ 152,362	$	$ 8,833,285
Accrued expenses and other	(274,676)	634,437	9,255		369,016
Current portion of long-term debt		346	76		422
Deferred income taxes		703,621			703,621
Total current liabilities	(274,676)	10,019,327	161,693		9,906,344
Long-term debt, net of current portion	1,287,165	86	55,907		1,343,158
Other liabilities		228,768	2,276		231,044
Total stockholders equity	2,954,297	1,690,615	2,642,537	(4,333,152)	2,954,297
Total liabilities and stockholders equity	$ 3,966,786	$ 11,938,796	$ 2,862,413	$ (4,333,152)	$ 14,434,843

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

CONDENSED CONSOLIDATING STATEMENTS OF OPERATIONS:

	Three months ended December 31, 2010				
(in thousands)	Parent	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	Consolidated Total
Revenue	$	$ 19,451,810	$ 469,244	$ (32,445)	$ 19,888,609
Cost of goods sold		18,891,139	417,238		19,308,377
Gross profit		560,671	52,006	(32,445)	580,232
Operating expenses:					
Distribution, selling, and administrative		295,399	15,079	(32,445)	278,033
Depreciation		20,453	851		21,304
Amortization		3,344	785		4,129
Operating income		241,475	35,291		276,766
Other income		(1,666)	(1)		(1,667)
Interest expense, net	389	16,210	2,545		19,144
(Loss) income before income taxes and equity in earnings of subsidiaries	(389)	226,931	32,747		259,289
Income taxes	(136)	87,236	11,689		98,789
Equity in earnings of subsidiaries	160,753			(160,753)	
Net income	$ 160,500	$ 139,695	$ 21,058	$ (160,753)	$ 160,500

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

CONDENSED CONSOLIDATING STATEMENTS OF OPERATIONS:

	Three months ended December 31, 2009				
(in thousands)	Parent	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	Consolidated Total
Revenue	$	$ 18,906,972	$ 459,828	$ (30,941)	$ 19,335,859
Cost of goods sold		18,363,112	409,377		18,772,489
Gross profit		543,860	50,451	(30,941)	563,370
Operating expenses:					
Distribution, selling, and administrative		293,595	17,585	(30,941)	280,239
Depreciation		15,827	831		16,658
Amortization		3,260	879		4,139
Facility consolidations, employee severance and other		(48)			(48)
Operating income		231,226	31,156		262,382
Other loss (income)		279	(2)		277
Interest expense, net	550	13,585	3,132		17,267
(Loss) income before income taxes and equity in earnings of subsidiaries	(550)	217,362	28,026		244,838
Income taxes	(193)	83,535	10,189		93,531
Equity in earnings of subsidiaries	151,664			(151,664)	
Net income	$ 151,307	$ 133,827	$ 17,837	$ (151,664)	$ 151,307

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

CONDENSED CONSOLIDATING STATEMENTS OF CASH FLOWS:

	Three months ended December 31, 2010				
(in thousands)	Parent	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	Consolidated Total
Net income	$ 160,500	$ 139,695	$ 21,058	$ (160,753)	$ 160,500
Adjustments to reconcile net income to net cash provided by (used in) operating activities	(160,043)	(155,002)	(105,408)	160,753	(259,700)
Net cash provided by (used in) operating activities	457	(15,307)	(84,350)		(99,200)
Capital expenditures		(49,252)	(839)		(50,091)
Net cash used in investing activities		(49,252)	(839)		(50,091)
Net borrowings under revolving and securitization credit facilities			58,401		58,401
Purchases of common stock	(185,362)				(185,362)
Exercises of stock options, including excess tax benefit	46,982				46,982
Cash dividends on common stock	(27,735)				(27,735)
Debt issuance costs and other	(158)	(119)	(5)		(282)
Intercompany financing and advances	(125,666)	53,457	72,209		
Net cash (used in) provided by financing activities	(291,939)	53,338	130,605		(107,996)
(Decrease) increase in cash and cash equivalents	(291,482)	(11,221)	45,416		(257,287)
Cash and cash equivalents at beginning of period	1,552,122	79,700	26,360		1,658,182
Cash and cash equivalents at end of period	$ 1,260,640	$ 68,479	$ 71,776	$	$ 1,400,895

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

CONDENSED CONSOLIDATING STATEMENTS OF CASH FLOWS:

	Three months ended December 31, 2009				
(in thousands)	Parent	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	Consolidated Total
Net income	$ 151,307	$ 133,827	$ 17,837	$ (151,664)	$ 151,307
Adjustments to reconcile net income to net cash (used in) provided by operating activities	(152,529)	(408,333)	216,202	151,664	(192,996)
Net cash (used in) provided by operating activities	(1,222)	(274,506)	234,039		(41,689)
Capital expenditures		(41,388)	(1,186)		(42,574)
Other		15	112		127
Net cash used in investing activities		(41,373)	(1,074)		(42,447)
Long-term debt borrowings	396,696				396,696
Net repayments under revolving and securitization credit facilities			(201,630)		(201,630)
Purchases of common stock	(144,626)				(144,626)
Exercises of stock options, including excess tax benefit	30,416				30,416
Cash dividends on common stock	(23,149)				(23,149)
Debt issuance costs and other	(4,110)	741	(3)		(3,372)
Intercompany financing and advances	(323,961)	346,154	(22,193)		
Net cash (used in) provided by financing activities	(68,734)	346,895	(223,826)		54,335
(Decrease) increase in cash and cash equivalents	(69,956)	31,016	9,139		(29,801)
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	$ 857,093	$ 89,916	$ 32,558	$	$ 979,567

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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, 2010.

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. We are organized based upon the products and services that we provide to our customers. Substantially all of our operations are located in the United States and Canada. We also have a pharmaceutical packaging operation in the United Kingdom.

Pharmaceutical Distribution

Our operations are comprised of one reportable segment, Pharmaceutical Distribution. The Pharmaceutical Distribution reportable segment represents the consolidated operating results of the Company and is comprised of four operating segments, which include the operations of AmerisourceBergen Drug Corporation (ABDC), AmerisourceBergen Specialty Group (ABSG), AmerisourceBergen Consulting Services (ABCS) and AmerisourceBergen Packaging Group (ABPG). 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 fiscal 2011, the business operations of ABCS were included within ABSG.

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, injectible pharmaceuticals and vaccines. Additionally, ABSG provides third party logistics and other services for biotech and other pharmaceutical manufacturers.

ABCS provides commercialization support services including reimbursement strategy, outcomes research, contract field staffing, reimbursement support programs, adherence programs, risk mitigation services, and other market access programs to pharmaceutical and biotech manufacturers.

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 and Brecon (based in the United Kingdom) are leading providers of contract packaging and clinical trials services for pharmaceutical manufacturers.

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

Summary Financial Information

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