AMERISOURCEBERGEN CORP
Form 10-Q
May 10, 2012
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

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

FOR THE QUARTERLY PERIOD ENDED March 31, 2012

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 x No o

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

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

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

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

The number of shares of common stock of AmerisourceBergen Corporation outstanding as of April 30, 2012 was 252,962,934.

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PART I. FINANCIAL INFORMATION

ITEM I. Financial Statements (Unaudited)

AMERISOURCEBERGEN CORPORATION AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

(in thousands, except share and per share data)	March 31, 2012 (Unaudited)	September 30, 2011
ASSETS		
Current assets:		
Cash and cash equivalents	$ 2,327,094	$ 1,825,990
Accounts receivable, less allowances for returns and doubtful accounts:		
$330,282 at March 31, 2012 and $351,382 at September 30, 2011	3,868,647	3,837,203
Merchandise inventories	5,354,338	5,466,534
Prepaid expenses and other	53,562	87,896
Total current assets	11,603,641	11,217,623
Property and equipment, at cost:		
Land	36,028	35,998
Buildings and improvements	320,150	316,199
Machinery, equipment and other	1,038,027	977,320
Total property and equipment	1,394,205	1,329,517
Less accumulated depreciation	(590,786)	(556,601)
Property and equipment, net	803,419	772,916
Goodwill and other intangible assets	3,108,418	2,863,084
Other assets	129,558	129,048
TOTAL ASSETS	$ 15,645,036	$ 14,982,671
LIABILITIES AND STOCKHOLDERS EQUITY		
Current liabilities:		
Accounts payable	$ 9,249,766	$ 9,202,115
Accrued expenses and other	412,599	422,917
Current portion of long-term debt	392,164	392,089
Deferred income taxes	860,471	837,999
Total current liabilities	10,915,000	10,855,120
Long-term debt, net of current portion	1,489,971	972,863
Other liabilities	293,590	287,830
Stockholders equity:		

Common stock, $0.01 par value - authorized: 600,000,000 shares; issued and outstanding: 260,803,540 shares and 255,423,425 shares at March 31, 2012, respectively, and 496,522,288 shares and 260,991,439 shares at September 30, 2011, respectively		2,608		4,965
Additional paid-in capital		2,194,517		4,082,978
Retained earnings		990,989		4,055,664
Accumulated other comprehensive loss		(37,362)		(50,868)
		3,150,752		8,092,739
Treasury stock, at cost: 5,380,115 shares at March 31, 2012 and 235,530,849 shares at September 30, 2011		(204,277)		(5,225,881)
Total stockholders equity		2,946,475		2,866,858
TOTAL LIABILITIES AND STOCKHOLDERS EQUITY	$	15,645,036	$	14,982,671

See notes to consolidated financial statements.

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AMERISOURCEBERGEN CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF OPERATIONS

(Unaudited)

(in thousands, except per share data)	Three months ended March 31, 2012	Three months ended March 31, 2011	Six months ended March 31, 2012	Six months ended March 31, 2011
Revenue	$ 20,071,271	$ 19,760,257	$ 40,431,916	$ 39,648,866
Cost of goods sold	19,376,146	19,072,921	39,143,698	38,381,298
Gross profit	695,125	687,336	1,288,218	1,267,568
Operating expenses:				
Distribution, selling, and administrative	284,638	296,132	558,503	574,165
Depreciation	27,771	21,876	53,587	43,180
Amortization	5,588	4,079	10,527	8,208
Employee severance, litigation and other	9,027		12,586	
Operating income	368,101	365,249	653,015	642,015
Other income	(131)	(142)	(132)	(1,809)
Interest expense, net	23,906	19,056	46,497	38,200
Income before income taxes	344,326	346,335	606,650	605,624
Income taxes	132,221	131,954	232,429	230,743
Net income	$ 212,105	$ 214,381	$ 374,221	$ 374,881
Earnings per share:				
Basic	$ 0.82	$ 0.78	$ 1.45	$ 1.36
Diluted	$ 0.81	$ 0.77	$ 1.42	$ 1.34
Weighted average common shares outstanding:				
Basic	258,162	274,319	258,316	274,980
Diluted	262,363	279,766	262,729	280,247
Cash dividends declared per share of common stock	$ 0.13	$ 0.10	$ 0.26	$ 0.20

See notes to consolidated financial statements.

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AMERISOURCEBERGEN CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

(Unaudited)

(in thousands)	**Six months ended March 31, 2012**	**2011**
OPERATING ACTIVITIES		
Net income	$ 374,221	$ 374,881
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation, including amounts charged to cost of goods sold	60,139	49,565
Amortization, including amounts charged to interest expense	13,334	10,685
Provision for doubtful accounts	15,532	17,340
Provision for deferred income taxes	26,107	50,599
Share-based compensation	12,685	12,122
Other	2,693	1,175
Changes in operating assets and liabilities, excluding the effects of acquisitions:		
Accounts receivable	105,284	6,819
Merchandise inventories	135,299	30,462
Prepaid expenses and other assets	37,441	14,169
Accounts payable, accrued expenses, and income taxes	(114,822)	1,588
Other liabilities	211	7,799
NET CASH PROVIDED BY OPERATING ACTIVITIES	668,124	577,204
INVESTING ACTIVITIES		
Capital expenditures	(88,198)	(93,773)
Cost of acquired companies, net of cash acquired	(257,658)	
NET CASH USED IN INVESTING ACTIVITIES	(345,856)	(93,773)
FINANCING ACTIVITIES		
Long-term debt borrowings	499,290	
Long-term debt repayments	(55,000)	
Borrowings under revolving and securitization credit facilities	449,962	506,306
Repayments under revolving and securitization credit facilities	(380,044)	(508,211)
Purchases of common stock	(328,504)	(255,120)
Exercises of stock options, including excess tax benefits of $17,385 and $20,846 in fiscal 2012 and 2011, respectively	71,084	89,369
Cash dividends on common stock	(67,429)	(55,271)
Debt issuance costs and other	(10,523)	(6,250)
NET CASH PROVIDED BY (USED IN) FINANCING ACTIVITIES	178,836	(229,177)
INCREASE IN CASH AND CASH EQUIVALENTS	501,104	254,254
Cash and cash equivalents at beginning of period	1,825,990	1,658,182
CASH AND CASH EQUIVALENTS AT END OF PERIOD	$ 2,327,094	$ 1,912,436

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 March 31, 2012 and the results of operations and cash flows for the interim periods ended March 31, 2012 and 2011 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, 2011.

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 Consulting Services (ABCS). 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.

Note 2. Acquisitions

On November 1, 2011, the Company acquired TheraCom, LLC (TheraCom), a subsidiary of CVS Caremark Corporation, for a purchase price of $257.2 million, net of a working capital adjustment. TheraCom is a leading provider of commercialization support services to the biotechnology and pharmaceutical industry, specifically providing reimbursement and patient support services. TheraCom s capabilities complement those of the Lash Group and significantly increase the size and scope of consulting services provided by the Company s ABCS operating segment. The purchase price was allocated to the underlying assets acquired and liabilities assumed based upon their fair values at the date of the acquisition. The purchase price exceeded the fair value of the net tangible and intangible assets acquired by $179.8 million, which was allocated to goodwill. The fair values of significant tangible assets acquired and liabilities assumed were as follows: accounts receivable of $119.6 million, merchandise inventories of $41.7 million and accounts payable of $153.2 million. The fair value of intangible assets acquired of $68.8 million consists of customer relationships of $57.1 million, software technology of $7.9 million, and trade names of $3.8 million. The Company is amortizing the fair values of the acquired customer relationships over their remaining useful lives of 15 years, and amortizing the fair values of software technology and trade names over their remaining useful lives of 5 years. Goodwill resulting from the acquisition is expected to be deductible for income tax purposes.

TheraCom s annualized revenues are approximately $700 million, the majority of which are provided by the specialized distribution component of the integrated reimbursement support services for certain unique prescription products. Approximately $60

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(UNAUDITED)

million of these revenues are from sales to ABDC. During the three and six months ended March 31, 2012, TheraCom sales to ABDC were $19.0 million and $29.6 million, respectively, which were eliminated from the Company s consolidated financial statements.

Pro forma results of operations for the aforementioned acquisition have not been presented because the effects of revenue and earnings were not material to the consolidated financial statements.

Note 3. Income Taxes

The Company files income tax returns in U.S. federal and state jurisdictions as well as various foreign jurisdictions. As of March 31, 2012, 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 $45.4 million ($30.7 million, net of federal benefit). If recognized, these tax benefits would reduce income tax expense and the effective tax rate. Included in this amount is $10.3 million of interest and penalties, which the Company records in income tax expense. During the six months ended March 31, 2012, unrecognized tax benefits decreased by $0.3 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 $2.2 million.

Note 4. Goodwill and Other Intangible Assets

Following is a summary of the changes in the carrying value of goodwill for the six months ended March 31, 2012 (in thousands):

Goodwill at September 30, 2011	$	2,565,227
Goodwill recognized in connection with acquisition (See Note 2)		179,838
Foreign currency translation and other		5,851
Goodwill at March 31, 2012	$	2,750,916

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

	March 31, 2012			September 30, 2011		
	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount
Indefinite-lived intangibles-trade names	$ 237,951	$	$ 237,951	$ 237,711	$	$ 237,711
Finite-lived intangibles:						
Customer relationships	175,634	(82,015)	93,619	117,540	(73,987)	43,553
Other	59,930	(33,998)	25,932	47,304	(30,711)	16,593
Total other intangible assets	$ 473,515	$ (116,013)	$ 357,502	$ 402,555	$ (104,698)	$ 297,857

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Amortization expense for other intangible assets was $10.5 million and $8.2 million in the six months ended March 31, 2012 and 2011, respectively. Amortization expense for other intangible assets is estimated to be $20.9 million in fiscal 2012, $19.3 million in fiscal 2013, $16.6 million in fiscal 2014, $12.4 million in fiscal 2015, $11.8 million in fiscal 2016, and $49.1 million thereafter.

Note 5. Debt

Debt consisted of the following (in thousands):

	March 31, 2012	September 30, 2011
Blanco revolving credit facility	$	$ 55,000
Receivables securitization facility due 2014		
Multi-currency revolving credit facility at 2.31% and 2.48%, respectively, due 2016	94,341	21,851
$392,326, 5 5/8% senior notes due 2012	392,164	392,000
$500,000, 5 7/8% senior notes due 2015	498,968	498,822
$400,000, 4 7/8% senior notes due 2019	397,342	397,190
$500,000, 3 1/2% senior notes due 2021	499,320	
Other		89
Total debt	1,882,135	1,364,952
Less current portion	392,164	392,089
Total, net of current portion	$ 1,489,971	$ 972,863

In February 2012, the Company repaid the borrowings under the Blanco Credit Facility, which was terminated.

The Company has a multi-currency senior unsecured revolving credit facility for $700 million, which was scheduled to expire in March 2015 (the Multi-Currency Revolving Credit Facility), with a syndicate of lenders. In October 2011, the Company entered into an amendment with the syndicate of lenders to extend the maturity date of the Multi-Currency Revolving Credit Facility to October 2016. The amendment also reduced the Company s borrowing rates and facility fees. Interest on borrowings under the Multi-Currency Revolving Credit Facility accrues at specified rates based on the Company s debt rating and ranges from 68 basis points to 155 basis points over LIBOR/EURIBOR/Bankers Acceptance Stamping Fee, as applicable (90 basis points over LIBOR/EURIBOR/Bankers Acceptance Stamping Fee at March 31, 2012). 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 facility fees to maintain the availability under the Multi-Currency Revolving Credit Facility at specified rates based on its debt rating, ranging from 7 basis points to 20 basis points, annually, of the total commitment (10 basis points at March 31, 2012). 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.

On October 31, 2011, the Company established a commercial paper program whereby it may from time to time issue short-term promissory notes in an aggregate amount of up to $700 million at any one time. Amounts available under the program may be borrowed, repaid, and re-borrowed from time to time. The maturities on the notes will vary, but may not exceed 365 days from the date of issuance. The notes will bear interest rates, if interest bearing, or will be sold at a discount from their face amounts. The commercial paper program does not increase the Company s borrowing capacity as it is fully backed by the Company s Multi-Currency Revolving Credit Facility. There were no borrowings outstanding under the commercial paper program at March 31, 2012.

The Company has a $700 million receivables securitization facility (Receivables Securitization Facility), which was scheduled to expire in April 2014. In October 2011, the Company entered into an amendment to the Receivables Securitization

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AMERISOURCEBERGEN CORPORATION AND SUBSIDIARIES

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Facility to extend the maturity date to October 2014. The amendment also reduced the Company s borrowing 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 75 basis points. The Company pays an unused fee of 37.5 basis points, annually, to maintain the availability under the Receivables Securitization Facility. At March 31, 2012, 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 November 2011, the Company issued $500 million of 3½% senior notes due November 15, 2021 (the 2021 Notes). The 2021 Notes were sold at 99.858% of the principal amount and have an effective yield of 3.52%. The interest on the 2021 Notes is payable semiannually, in arrears, commencing May 15, 2012. The 2021 Notes rank pari passu to the Multi-Currency Revolving Credit Facility, the 5 5/8% senior notes due 2012, the 5 7/8% senior notes due 2015, and the 4 7/8% senior notes due 2019. The Company used the net proceeds of the 2021 Notes for general corporate purposes. Costs incurred in connection with the issuance of the 2021 Notes were deferred and are being amortized over the 10 year term of the notes.

Note 6. Stockholders Equity and Earnings per Share

The following table illustrates comprehensive income for the three and six months ended March 31, 2012 and 2011 (in thousands):

	Three months ended March 31,		Six months ended March 31,	
	2012	**2011**	**2012**	**2011**
Net income	$ 212,105	$ 214,381	$ 374,221	$ 374,881
Foreign currency translation adjustments and other	7,019	9,126	13,506	15,828
Comprehensive income	$ 219,124	$ 223,507	$ 387,727	$ 390,709

In November 2010, the Company s board of directors increased the quarterly cash dividend by 25% from $0.08 to $0.10 per share. In May 2011, the Company s board of directors increased the quarterly cash dividend again by 15% to $0.115 per share. In November 2011, the Company s board of directors increased the quarterly cash dividend again by 13% to $0.13 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 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 program allowing the Company to purchase up to $500 million of its outstanding shares of common stock, subject to market conditions. During the six months ended March 31, 2011, the Company purchased 4.7 million shares for $156.9 million under this program.

In August 2011, the Company s board of directors authorized a new program allowing the Company to purchase up to $750 million of its outstanding shares of common stock, subject to market conditions. During the six months ended March 31, 2012, the Company purchased 8.6 million shares for $320.3 million under this new program.

On December 30, 2011, the Company retired 238.8 million shares of its treasury stock.

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

	Three months ended March 31,		**Six months ended March 31,**	
(in thousands)	**2012**	**2011**	**2012**	**2011**
Weighted average common shares outstanding - basic	258,162	274,319	258,316	274,980
Effect of dilutive securities: stock options, restricted stock, and restricted stock units	4,201	5,447	4,413	5,267
Weighted average common shares outstanding - diluted	262,363	279,766	262,729	280,247

The potentially dilutive stock options that were antidilutive for the three months ended March 31, 2012 and 2011 were 4.3 million and 1.8 million, respectively, and for the six months ended March 31, 2012 and 2011 were 3.8 million and 0.9 million, respectively.

Note 7. 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.

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, including most recently in April 2011, 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 24, 2011, the Company announced that it had reached a preliminary agreement for a civil settlement (the Preliminary Settlement) with the United States Attorney s Office for the Eastern District of New York, the plaintiff states and the relator (collectively, the Plaintiffs) of claims against two of the Company s business units, ASD Specialty Healthcare, Inc. (ASD)

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and International Nephrology Network (INN), who were named, along with Amgen Inc., in a civil case filed under the qui tam provisions of the federal and various state civil False Claims Acts. The civil case was administratively closed after the Preliminary Settlement was reached. The Preliminary Settlement is subject to completion and approval of an executed written settlement agreement with the Plaintiffs, which the Company expects to finalize in its fiscal year ending September 30, 2012. The Company does not expect INN or ASD to admit any liability in connection with the settlement. The Company recorded a $16 million charge in the fiscal year ended September 30, 2011 in connection with the Preliminary Settlement.

The qui tam provisions of False Claims Acts permit a private person, known as a relator, to file civil actions under these statutes on behalf of the federal and state governments. The qui tam complaint against Amgen, ASD and INN was initially filed under seal by a former Amgen employee in the United States District Court for the District of Massachusetts (the District of Massachusetts case). The Company first learned of the matter on January 21, 2009 when it received notice that the United States Attorney for the Eastern District of New York was investigating allegations in the sealed civil complaint. On October 30, 2009, 14 states filed a complaint to intervene in the case. However, following the resolution of a number of motions, including a motion to dismiss, filed in the United States District Court for the District of Massachusetts and appeals filed in the United States Court of Appeals for the First Circuit in connection with the matter, only six states (California, Illinois, Indiana, Massachusetts, New Mexico and New York) and the relator were permitted to proceed with their complaints until the case was administratively closed in connection with the Preliminary Settlement. The allegations in the closed case related to the distribution and sale of Amgen s anemia drug, Aranesp. ASD is a distributor of pharmaceuticals to physician practices and INN is a group purchasing organization for nephrologists and nephrology practices. The plaintiff states and/or the relator alleged that from 2002 through 2009 Amgen, ASD and INN offered remuneration to medical providers in violation of federal and state health laws to increase purchases and prescriptions of Aranesp and that these violations caused medical providers to submit false certifications and false claims for payment in violation of the federal and state civil False Claims Acts. Amgen, ASD and INN were also alleged to have caused healthcare providers to bill federal and state healthcare programs for Aranesp that was either not administered or administered, but medically unnecessary.

The Company has learned that there are prior and subsequent filings in one or more federal district courts, including a complaint filed by one of its former employees, that are under seal and involve allegations against the Company (and/or subsidiaries or businesses of the Company, including its group purchasing organization for oncologists and its oncology distribution business) similar to those raised in the District of Massachusetts case. The Preliminary Settlement encompasses resolution of one of these other filings. The Company cannot predict the outcome of any other pending action in which any AmerisourceBergen entity is or may become a defendant.

Note 8. Fair Value of Financial Instruments

The recorded amounts of the Company s cash and cash equivalents, accounts receivable and accounts payable at March 31, 2012 and September 30, 2011 approximate fair value based upon the relatively short-term nature of these financial instruments. Within cash and cash equivalents, the Company had $1,438.1 million and $491.1 million of investments in money market accounts as of March 31, 2012 and September 30, 2011, 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 recorded amount of debt (see Note 5) and the corresponding fair value, which is estimated based on quoted market prices, as of March 31, 2012 were $1,882.1 million and $2,032.9 million, respectively. The recorded amount of debt and the corresponding fair value, which is estimated based on quoted market prices, as of September 30, 2011 were $1,365.0 million and $1,507.0 million, respectively.

Note 9. Subsequent Event

On April 30, 2012, the Company acquired World Courier Group, Inc. (World Courier) for a purchase price of $520 million, subject to a working capital adjustment. World Courier is a leading global specialty transportation and logistics provider for the biopharmaceutical industry. World Courier further strengthens the Company s service offerings to global pharmaceutical manufacturers and provides an established platform for the introduction of our specialty services outside North America. It operates in over 50 countries and has approximately 2,500 employees. World Courier s revenues are estimated to be approximately $500 million in calendar 2012.

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AMERISOURCEBERGEN CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(UNAUDITED)

Note 10. 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), 4 7/8% senior notes due November 15, 2019 (the 2019 Notes), and 3 1/2% senior notes due November 15, 2021 (the 2021 Notes and, together with the 2012 Notes, 2015 Notes, and 2019 Notes, the Notes) each are fully and unconditionally guaranteed on a joint and several basis by certain of the Company s subsidiaries (the subsidiaries of the Company that are guarantors of any of the Notes being referred to collectively as the Guarantor Subsidiaries). The total assets, stockholders equity, revenue, earnings, and cash flows from operating activities of the Guarantor Subsidiaries reflect the majority of the consolidated total of such items as of or for the periods reported. The only consolidated subsidiaries of the Company that are not guarantors of the Notes (the Non-Guarantor Subsidiaries) are: (a) the receivables securitization special purpose entity, (b) the foreign operating subsidiaries, and (c) certain smaller operating subsidiaries. The following tables present condensed consolidating financial statements including AmerisourceBergen Corporation (the Parent), the Guarantor Subsidiaries, and the Non-Guarantor Subsidiaries. Such financial statements include balance sheets as of March 31, 2012 and September 30, 2011, statements of operations for the three and six months ended March 31, 2012 and 2011, and statements of cash flows for the six months ended March 31, 2012 and 2011.

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AMERISOURCEBERGEN CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(UNAUDITED)

SUMMARY CONSOLIDATING BALANCE SHEETS:

		March 31, 2012			
(in thousands)	Parent	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	Consolidated Total
Current assets:					
Cash and cash equivalents	$ 1,667,961	$ 566,124	$ 93,009	$	$ 2,327,094
Accounts receivable, net	168	1,587,956	2,280,523		3,868,647
Merchandise inventories		5,006,581	347,757		5,354,338
Prepaid expenses and other	7,128	28,176	18,258		53,562
Total current assets	1,675,257	7,188,837	2,739,547		11,603,641
Property and equipment, net		756,717	46,702		803,419
Goodwill and other intangible assets		2,972,247	136,171		3,108,418
Other assets	14,384	107,681	7,493		129,558
Intercompany investments and advances	2,771,139	1,885,639	260,879	(4,917,657)	
Total assets	$ 4,460,780	$ 12,911,121	$ 3,190,792	$ (4,917,657)	$ 15,645,036
Current liabilities:					
Accounts payable	$	$ 8,955,548	$ 294,218	$	$ 9,249,766
Accrued expenses and other	(273,489)	677,432	8,656		412,599
Current portion of long-term debt	392,164				392,164
Deferred income taxes		860,471			860,471
Total current liabilities	118,675	10,493,451	302,874		10,915,000
Long-term debt, net of current portion	1,395,630		94,341		1,489,971
Other liabilities		294,396	(806)		293,590
Total stockholders equity	2,946,475	2,123,274	2,794,383	(4,917,657)	2,946,475
Total liabilities and stockholders equity	$ 4,460,780	$ 12,911,121	$ 3,190,792	$ (4,917,657)	$ 15,645,036

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AMERISOURCEBERGEN CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(UNAUDITED)

SUMMARY CONSOLIDATING BALANCE SHEETS:

		September 30, 2011			
(in thousands)	Parent	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	Consolidated Total
Current assets:					
Cash and cash equivalents	$ 1,299,181	$ 467,820	$ 58,989	$	$ 1,825,990
Accounts receivable, net	35	1,235,505	2,601,663		3,837,203
Merchandise inventories		5,299,041	167,493		5,466,534
Prepaid expenses and other	2,483	82,214	3,199		87,896
Total current assets	1,301,699	7,084,580	2,831,344		11,217,623
Property and equipment, net		746,782	26,134		772,916
Goodwill and other intangible assets		2,731,881	131,203		2,863,084
Other assets	10,316	116,351	2,381		129,048
Intercompany investments and advances	2,576,456	2,465,540	(10,222)	(5,031,774)	
Total assets	$ 3,888,471	$ 13,145,134	$ 2,980,840	$ (5,031,774)	$ 14,982,671
Current liabilities:					
Accounts payable	$	$ 9,025,761	$ 176,354	$	$ 9,202,115
Accrued expenses and other	(266,399)	682,305	7,011		422,917
Current portion of long-term debt	392,000	89			392,089
Deferred income taxes		837,999			837,999
Total current liabilities	125,601	10,546,154	183,365		10,855,120
Long-term debt, net of current portion	896,012		76,851		972,863
Other liabilities		284,199	3,631		287,830
Total stockholders equity	2,866,858	2,314,781	2,716,993	(5,031,774)	2,866,858
Total liabilities and stockholders equity	$ 3,888,471	$ 13,145,134	$ 2,980,840	$ (5,031,774)	$ 14,982,671

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AMERISOURCEBERGEN CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(UNAUDITED)

CONDENSED CONSOLIDATING STATEMENTS OF OPERATIONS:

	Three months ended March 31, 2012				
(in thousands)	Parent	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	Consolidated Total
Revenue	$	$ 19,572,848	$ 530,813	$ (32,390)	$ 20,071,271
Cost of goods sold		18,896,389	479,757		19,376,146
Gross profit		676,459	51,056	(32,390)	695,125
Operating expenses:					
Distribution, selling, and administrative		292,442	24,586	(32,390)	284,638
Depreciation		26,475	1,296		27,771
Amortization		4,868	720		5,588
Employee severance, litigation and other		9,027			9,027
Operating income		343,647	24,454		368,101
Other (income) loss		(134)	3		(131)
Interest expense, net	(1,781)	23,580	2,107		23,906
Income before income taxes and equity in earnings of subsidiaries	1,781	320,201	22,344		344,326
Income taxes	652	123,026	8,543		132,221
Equity in earnings of subsidiaries	210,976			(210,976)	
Net income	$ 212,105	$ 197,175	$ 13,801	$ (210,976)	$ 212,105

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AMERISOURCEBERGEN CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(UNAUDITED)

CONDENSED CONSOLIDATING STATEMENTS OF OPERATIONS:

	Three months ended March 31, 2011				
(in thousands)	Parent	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	Consolidated Total
Revenue	$	$ 19,324,254	$ 468,439	$ (32,436)	$ 19,760,257
Cost of goods sold		18,657,279	415,642		19,072,921
Gross profit		666,975	52,797	(32,436)	687,336
Operating expenses:					
Distribution, selling, and administrative		307,379	21,189	(32,436)	296,132
Depreciation		20,996	880		21,876
Amortization		3,270	809		4,079
Operating income		335,330	29,919		365,249
Other (income) loss		(150)	8		(142)
Interest expense, net	531	16,015	2,510		19,056
(Loss) income before income taxes and equity in earnings of subsidiaries	(531)	319,465	27,401		346,335
Income taxes	(186)	122,571	9,569		131,954
Equity in earnings of subsidiaries	214,726			(214,726)	
Net income	$ 214,381	$ 196,894	$ 17,832	$ (214,726)	$ 214,381

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AMERISOURCEBERGEN CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(UNAUDITED)

CONDENSED CONSOLIDATING STATEMENTS OF OPERATIONS:

	Six months ended March 31, 2012				
(in thousands)	**Parent**	**Guarantor Subsidiaries**	**Non-Guarantor Subsidiaries**	**Eliminations**	**Consolidated Total**
Revenue	$	$ 39,407,744	$ 1,089,564	$ (65,392)	$ 40,431,916
Cost of goods sold		38,160,481	983,217		39,143,698
Gross profit		1,247,263	106,347	(65,392)	1,288,218
Operating expenses:					
Distribution, selling, and administrative		578,869	45,026	(65,392)	558,503
Depreciation		51,478	2,109		53,587
Amortization		9,056	1,471		10,527
Employee severance, litigation, and other		12,586			12,586
Operating income		595,274	57,741		653,015
Other (income) loss		(134)	2		(132)
Interest expense, net	(2,816)	45,071	4,242		