AMERISOURCEBERGEN CORP
Form 10-Q
February 08, 2008
Table of Contents

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 DECEMBER 31, 2007

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	**(I.R.S. Employer**
incorporation or organization)	**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 ¨

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

Large accelerated filer x Accelerated filer ¨ Non-accelerated filer ¨

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

The number of shares of common stock of AmerisourceBergen Corporation outstanding as of January 31, 2008 was 162,606,045.

Table of Contents

AMERISOURCEBERGEN CORPORATION

INDEX

2

Table of Contents

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, 2007 (Unaudited)	September 30, 2007
ASSETS		
Current assets:		
Cash and cash equivalents	$ 524,139	$ 640,204
Short-term investment securities available-for-sale		467,419
Accounts receivable, less allowances for returns and doubtful accounts: $404,650 at December 31, 2007 and $393,663 at September 30, 2007	3,461,562	3,472,358
Merchandise inventories	4,822,362	4,101,502
Prepaid expenses and other	30,773	32,817
Total current assets	8,838,836	8,714,300
Property and equipment, at cost:		
Land	35,778	35,793
Buildings and improvements	253,832	243,481
Machinery, equipment and other	537,790	512,188
Total property and equipment	827,400	791,462
Less accumulated depreciation	303,653	284,478
Property and equipment, net	523,747	506,984
Other assets:		
Goodwill	2,779,504	2,611,055
Intangibles, deferred charges and other	469,670	477,725
Total other assets	3,249,174	3,088,780
TOTAL ASSETS	$ 12,611,757	$ 12,310,064
LIABILITIES AND STOCKHOLDERS EQUITY		
Current liabilities:		
Accounts payable	$ 7,414,854	$ 6,988,782
Accrued expenses and other	332,737	338,559
Current portion of long-term debt	1,487	476
Accrued income taxes	54,807	32,099
Deferred income taxes	507,626	497,120
Total current liabilities	8,311,511	7,857,036
Long-term debt, net of current portion	1,250,284	1,227,298
Other liabilities	164,780	126,010

Stockholders equity:		
Common stock, $ 0.01 par value authorized: 600,000,000 shares; issued and outstanding: 238,055,601 shares and 162,532,931 shares at December 31, 2007, respectively, and 237,926,795 shares and 169,476,139 shares at September 30, 2007, respectively	2,381	2,379
Additional paid-in capital	3,595,051	3,583,387
Retained earnings	2,374,515	2,286,489
Accumulated other comprehensive loss	(8,035)	(5,247)
Treasury stock, at cost: 75,522,670 shares at December 31, 2007 and 68,450,656 shares at September 30, 2007	(3,078,730)	(2,767,288)
Total stockholders equity	2,885,182	3,099,720
TOTAL LIABILITIES AND STOCKHOLDERS EQUITY	$ 12,611,757	$ 12,310,064

See notes to consolidated financial statements.

Table of Contents

AMERISOURCEBERGEN CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF OPERATIONS

(Unaudited)

	Three months ended December 31,	
(in thousands, except per share data)	**2007**	**2006**
Operating revenue	$ 16,239,427	$ 15,696,539
Bulk deliveries to customer warehouses	1,133,488	1,028,854
Total revenue	17,372,915	16,725,393
Cost of goods sold	16,865,455	16,130,750
Gross profit	507,460	594,643
Operating expenses:		
Distribution, selling and administrative	289,940	356,961
Depreciation	17,375	17,799
Amortization	4,978	5,001
Facility consolidations, employee severance and other	177	6,023
Operating income	194,990	208,859
Other loss	737	66
Interest expense, net	16,424	8,143
Income before income taxes	177,829	200,650
Income taxes	68,009	78,463
Net income	$ 109,820	$ 122,187
Earnings per share:		
Basic	$ 0.67	$ 0.64
Diluted	$ 0.66	$ 0.63
Weighted average common shares outstanding:		
Basic	164,905	192,391
Diluted	167,062	194,970
Cash dividends declared per share of common stock	$ 0.075	$ 0.05

See notes to consolidated financial statements.

4

Table of Contents

AMERISOURCEBERGEN CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS (Unaudited)

(in thousands)	Three months ended December 31, 2007	2006
OPERATING ACTIVITIES		
Net income	$ 109,820	$ 122,187
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation, including amounts charged to cost of goods sold	19,746	19,634
Amortization, including amounts charged to interest expense	5,811	7,141
Provision for doubtful accounts	4,710	7,939
(Benefit from) provision for deferred income taxes	(13,495)	17,193
Share-based compensation	7,417	4,888
Other loss	737	66
Loss (gain) on disposal of property and equipment	8	(278)
Changes in operating assets and liabilities, excluding the effects of acquisitions and dispositions:		
Accounts receivable	111,852	2,954
Merchandise inventories	(609,876)	(205,735)
Prepaid expenses and other assets	3,682	(2,951)
Accounts payable, accrued expenses and income taxes	256,345	312,821
Other	2,213	2,012
NET CASH (USED IN) PROVIDED BY OPERATING ACTIVITIES	(101,030)	287,871
INVESTING ACTIVITIES		
Capital expenditures	(26,931)	(28,135)
Cost of acquired companies, net of cash acquired	(162,506)	(143,543)
Proceeds from sales of property and equipment	20	1,980
Purchases of investment securities available-for-sale	(909,105)	(1,453,403)
Proceeds from sale of investment securities available-for-sale	1,376,524	1,075,590
NET CASH PROVIDED BY (USED IN) INVESTING ACTIVITIES	278,002	(547,511)
FINANCING ACTIVITIES		
Borrowings under revolving and securitization credit facilities	1,437,954	325,603
Repayments under revolving and securitization credit facilities	(1,411,148)	(203,787)
Deferred financing costs and other	(152)	(1,605)
Purchases of common stock	(311,442)	(325,632)
Exercise of stock options, including excess tax benefits of $600 and $1,954 in fiscal 2008 and 2007, respectively	4,249	11,841
Cash dividends on common stock	(12,498)	(9,659)
NET CASH USED IN FINANCING ACTIVITIES	(293,037)	(203,239)
DECREASE IN CASH AND CASH EQUIVALENTS	(116,065)	(462,879)
Cash and cash equivalents at beginning of period	640,204	1,261,268
CASH AND CASH EQUIVALENTS AT END OF PERIOD	$ 524,139	$ 798,389

See notes to consolidated financial statements.

Table of Contents

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 material 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 for interim financial information, with 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, 2007 and the results of operations and cash flows for the interim periods ended December 31, 2007 and 2006 have been included. Certain information and footnote disclosures normally included in financial statements presented in accordance with U.S. generally accepted accounting principles, 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, 2007.

The preparation of financial statements in conformity with U.S. generally accepted accounting principles 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.

On July 31, 2007, the Company completed the spin-off of its PharMerica Long-Term Care business (Long-Term Care). Beginning August 1, 2007, the operating results of Long-Term Care are no longer included in the operating results of the Company. In accordance with Statement of Financial Accounting Standards (SFAS) No. 144, Accounting for the Impairment or Disposal of Long-Lived Assets, the historical operating results of Long-Term Care are not reported as a discontinued operation of the Company because of the significance of the continuing cash flows resulting from the pharmaceutical distribution agreement entered into between the disposed component and the Company. Accordingly, for periods prior to August 1, 2007, the Company s operating results include Long-Term Care. The Pharmaceutical Distribution segment s sales to Long-Term Care in the three months ended December 31, 2006 were $217.2 million and were eliminated in consolidation in the Company s historical operating results.

Recently Issued Financial Accounting Standards

In June 2006, the Financial Accounting Standards Board (FASB) issued Financial Interpretation (FIN) No. 48, Accounting for Uncertainty in Income Taxes, which clarifies the accounting for uncertainty in income taxes recognized in financial statements in accordance with SFAS No. 109, Accounting for Income Taxes. Effective October 1, 2007, the Company adopted the provisions of FIN No. 48. Refer to Note 3 for additional information regarding the Company s adoption of FIN No. 48.

In September 2006, the FASB issued SFAS No. 157, Fair Value Measurements, which defines fair value, establishes a framework for measuring fair value, and expands disclosures about fair value measurements. This standard applies under other accounting pronouncements that require or permit fair value measurements, but does not require any new fair value measurements. SFAS No. 157 will become effective for the Company in fiscal 2009. The Company is currently evaluating the impact of adopting this standard.

Table of Contents

AMERISOURCEBERGEN CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(UNAUDITED)

In February 2007, the FASB issued SFAS No. 159, The Fair Value Option for Financial Assets and Financial Liabilities, including an amendment of FASB Statement No. 115. SFAS No. 159 permits the Company to elect fair value as the initial and subsequent measurement attribute for certain financial assets and liabilities that are not otherwise required to be measured at fair value, on an instrument-by-instrument basis. If the Company elects the fair value option, it would be required to recognize changes in fair value in its earnings. This standard also establishes presentation and disclosure requirements designed to improve comparisons between entities that choose different measurement attributes for similar types of assets and liabilities. SFAS No. 159 is effective for fiscal 2009 although early adoption is permitted. The Company is currently evaluating the impact of adopting this standard.

In December 2007, the FASB issued SFAS No. 141R, Business Combinations, which replaces SFAS No. 141. SFAS No. 141R establishes principles and requirements for how an acquirer recognizes and measures in its financial statements the identifiable assets acquired, the goodwill acquired, the liabilities assumed, and any non-controlling interest in the acquired business. SFAS No. 141R also establishes disclosure requirements which will enable users to evaluate the nature and financial effects of the business combination. SFAS No. 141R is effective as of the beginning of an entity s fiscal year that begins after December 15, 2008, which will be the Company s fiscal year beginning October 1, 2009. The Company is currently evaluating the impact of adopting this standard.

Note 2. Acquisitions

On October 1, 2007, the Company acquired Bellco Health (Bellco) for a purchase price of $162.5 million, net of $20.7 million of cash acquired. Bellco is a pharmaceutical distributor in the Metro New York City area, where it primarily services independent retail community pharmacies. The acquisition of Bellco expands the Company s presence in this large community pharmacy market. Nationally, Bellco markets and sells generic pharmaceuticals to individual retail pharmacies, and provides pharmaceutical products and services to dialysis clinics. Bellco s revenues were $2.1 billion for its fiscal year ended June 30, 2007. The excess purchase price over the fair values of the underlying tangible assets acquired and liabilities assumed has been recorded as goodwill. The Company is currently working with a third-party appraisal firm to assist management in determining the fair values of the intangible assets acquired. The fair values of the significant tangible assets acquired and liabilities assumed were as follows: accounts receivable of $112 million, merchandise inventories of $106 million, and accounts payable and accrued expenses of $237 million.

Had the acquisition of Bellco been completed as of October 1, 2006, operating revenue, net income, and diluted earnings per share for the three months ended December 31, 2006 would not have been materially different than the amounts recorded.

Note 3. Income Taxes

Effective October 1, 2007, the Company adopted the provisions of FIN No. 48, Accounting for Uncertainty in Income Taxes. FIN No. 48 provides that a tax benefit from an uncertain tax position may be recognized when it is more likely than not that the position will be sustained upon examination, including resolutions of any related appeals or litigation processes, based on the technical merits of that position. FIN No. 48 also provides guidance, among other things, on the measurement of the income tax benefit associated with uncertain tax positions, de-recognition, classification, interest and penalties and financial statement disclosures. The cumulative effect of adoption of this interpretation resulted in a $9.3 million reduction to retained earnings.

The Company files income tax returns in U.S. federal and state jurisdictions as well as various foreign jurisdictions. The Company s U.S. federal income tax returns for fiscal 2004 and subsequent years remain

Table of Contents

AMERISOURCEBERGEN CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(UNAUDITED)

subject to examination by the U.S. Internal Revenue Service (IRS). The IRS is not currently examining any of the Company s tax returns. In Canada, the Company is currently under examination for fiscal years 2005 and 2006.

As of October 1, 2007, 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 $58.5 million, ($41.8 million net of federal benefit). Included in this amount is $18.5 million of interest and penalties which the Company continues to record in income tax expense. If recognized, net of federal benefit, $39.9 million of the Company s unrecognized tax benefit would reduce income tax expense and the effective tax rate. Also, if recognized, net of federal benefit, $1.9 million of the Company s unrecognized tax benefit would result in a decrease to goodwill.

During the three months ended December 31, 2007, there was a reduction in unrecognized tax benefits of $4.1 million, primarily due to the settlement of state tax issues. During the next 12 months, it is reasonably possible that state tax audit resolutions could result in a reduction of unrecognized tax benefits of $4.9 million.

Note 4. Goodwill and Other Intangible Assets

Following is a summary of the changes in the carrying value of goodwill, by reportable segment, for the three months ended December 31, 2007 (in thousands):

	Pharmaceutical Distribution	Other	Total
Goodwill at September 30, 2007	$ 2,411,949	$ 199,106	$ 2,611,055
Goodwill recognized in connection with acquisitions (see Note 2)	170,293		170,293
Foreign currency translation	(1,844)		(1,844)
Goodwill at December 31, 2007	$ 2,580,398	$ 199,106	$ 2,779,504

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

	December 31, 2007			September 30, 2007		
	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount
Indefinite-lived intangibles trade names	$ 261,078	$	$ 261,078	$ 261,337	$	$ 261,337
Finite-lived intangibles:						
Customer relationships	101,935	(36,727)	65,208	109,046	(40,566)	68,480
Other	29,154	(16,988)	12,166	31,825	(19,470)	12,355
Total other intangible assets	$ 392,167	$ (53,715)	$ 338,452	$ 402,208	$ (60,036)	$ 342,172

Amortization expense for other intangible assets was $5.0 million in the three months ended December 31, 2007 and 2006. Amortization expense for other intangible assets is estimated to be $15.8 million in fiscal 2008, $13.7 million in fiscal 2009, $13.0 million in fiscal 2010,

$12.0 million in fiscal 2011, $10.6 million in fiscal 2012, and $17.3 million thereafter. These estimates of future amortization expense do not include the potential impacts of amortizable intangible assets of Bellco, which the Company is currently in the process of valuing with the assistance of a third-party appraisal firm.

AMERISOURCEBERGEN CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(UNAUDITED)

Note 5. Debt

Debt consisted of the following (in thousands):

	December 31, 2007	September 30, 2007
Blanco revolving credit facility at 5.39% and 6.07%, respectively, due 2008	$ 55,000	$ 55,000
Multi-currency revolving credit facility at 5.71% and 5.61%, respectively, due 2011	297,736	274,716
$400,000, 5 5/8% senior notes due 2012	398,563	398,500
$500,000, 5 7/8% senior notes due 2015	497,945	497,896
Other	2,527	1,662
Total debt	1,251,771	1,227,774
Less current portion	1,487	476
Total, net of current portion	$ 1,250,284	$ 1,227,298

The Company has a $750 million five-year multi-currency senior unsecured revolving credit facility (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 (50 basis points over LIBOR/EURIBOR/Bankers Acceptance Stamping Fee at December 31, 2007). 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 (12.5 basis points at December 31, 2007). 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 that impose limitations on, among other things, indebtedness of excluded subsidiaries and asset sales. Additional covenants require compliance with financial tests, including leverage and minimum earnings to fixed charges ratios.

In November 2006, the Company amended its receivables securitization facility such that the amount to be made available to the Company was reduced from $700 million to $500 million and the expiration date was extended to November 2009. The Company has available to it an accordion feature, whereby the commitment may be increased to $750 million for seasonal needs during the December and March calendar quarters. In January 2008, the Company exercised the accordion feature to increase the commitment to its receivables securitization facility to $750 million. Interest rates are based on prevailing market rates for short-term commercial paper plus a program fee, and vary based on the Company s debt ratings. The program fee and the commitment fee are 35 basis points and 12.5 basis points, respectively, as of December 31, 2007.

The Blanco revolving credit facility (Blanco Credit Facility) is not classified in the current portion of long-term debt on the accompanying consolidated balance sheet at December 31, 2007 because the Company has the ability and intent to refinance it on a long-term basis. 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 (50 basis points over LIBOR at December 31, 2007). Additionally, the Company pays quarterly facility fees on the full amount of the facility to maintain the availability under the Blanco Credit Facility at specific rates based on the Company s debt rating (12.5 basis points at December 31, 2007).

Table of Contents

AMERISOURCEBERGEN CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(UNAUDITED)

In January 2008, the Company s debt rating was raised by one of the rating agencies. In accordance with the terms of the Multi-Currency Revolving Credit Facility and the Blanco Credit Facility, interest on borrowings will accrue at lower rates, reducing the LIBOR spread on both facilities from 50 basis points to 40 basis points, and reducing the facility fee for both facilities from 12.5 basis points to 10 basis points. In addition, the increase in the Company s debt rating will result in a reduction of the program fee under the receivables securitization facility from 35 basis points to 32.5 basis points.

Note 6. Stockholders Equity and Earnings Per Share

The following table illustrates comprehensive income for the three months ended December 31, 2007 and 2006 (in thousands):

	2007	2006
Net income	$ 109,820	$ 122,187
Foreign currency translation adjustments and other	(2,788)	(1,068)
Comprehensive income	$ 107,032	$ 121,119

In November 2007, the Company s board of directors increased the quarterly dividend by 50% and declared a dividend of $0.075 per share.

In May 2007, the Company s board of directors authorized the Company to purchase up to $850 million of its outstanding shares of common stock, subject to market conditions. In November 2007, the Company s board of directors authorized an increase to the $850 million repurchase program by $500 million, subject to market conditions. During the three months ended December 31, 2007, the Company purchased 7.1 million shares of its common stock under this program for a total of $311.4 million. As of December 31, 2007, the Company had $386.1 million of availability remaining under the share repurchase 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 and restricted stock.

	Three months ended December 31,	
(in thousands)	2007	2006
Weighted average common shares outstanding basic	164,905	192,391
Effect of dilutive securities stock options and restricted stock	2,157	2,579
Weighted average common shares outstanding diluted	167,062	194,970

Note 7. Facility Consolidations, Employee Severance and Other

The following table illustrates the charges incurred by the Company relating to facility consolidations, employee severance, and other for the three months ended December 31, 2007 and 2006 (in thousands):

	2007	2006
Facility consolidations and employee severance	$ (758)	$ 1,927
Information technology transition costs		481
Costs related to business divestitures	935	3,615
Total facility consolidations, employee severance and other	$ 177	$ 6,023

Table of Contents

AMERISOURCEBERGEN CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(UNAUDITED)

In January 2008, the Company announced its intention to divest its workers compensation business, PMSI (see Note 11). During the three months ended December 31, 2007, the Company began to incur costs, primarily professional fees, relating to this planned divestiture. During the three months ended December 31, 2006, the Company incurred costs relating to the Long-Term Care spin-off.

During the three months ended December 31, 2007, the Company reversed $0.9 million of employee severance charges previously estimated and recorded. Most employees receive their severance benefits over a period, generally not in excess of 12 months, while others may receive a lump-sum payment.

The following table displays the activity in accrued expenses and other from September 30, 2007 to December 31, 2007 (in thousands):

	Employee Severance	Lease Cancellation Costs and Other	Total
Balance as of September 30, 2007	$ 10,997	$ 4,865	$ 15,862
Expense recorded during the period	(853)	1,030	177
Payments made during the period	(67)	(327)	(394)
Balance as of December 31, 2007	$ 10,077	$ 5,568	$ 15,645

The employee severance balance set forth in the above table as of December 31, 2007 primarily consists of an accrual for the Bergen Brunswig Matter as described in Note 8 below. The lease cancellation costs and other balance set forth in the above table as of December 31, 2007 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 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. However, on the basis of information furnished by counsel and others and taking into consideration the reserves established for pending matters, the Company does not believe that the resolution of currently pending matters (including the matters specifically described below), individually or in the aggregate, will have a material adverse effect on the Company s financial condition.

New York Attorney General Subpoena

In April 2005, the Company received a subpoena from the Office of the Attorney General of the State of New York (the NYAG) requesting documents and responses to interrogatories concerning the manner and degree to which the Company purchased pharmaceuticals from other wholesalers, often referred to as the alternate source market, rather than directly from manufacturers. Similar subpoenas have been issued by the NYAG to other pharmaceutical distributors. After receiving the subpoena, the Company engaged in discussions with the NYAG, initially to clarify the scope of the subpoena and subsequently to provide background information requested by the NYAG. The Company has produced responsive information and documents and will continue to cooperate with the NYAG. Late in fiscal year 2007, the Company received a communication

AMERISOURCEBERGEN CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(UNAUDITED)

from the NYAG detailing potential theories of liability. Subsequently, the Company met with the NYAG to discuss this matter and has communicated the Company s position on this matter to the NYAG. The Company believes that it has not engaged in any wrongdoing, but cannot predict the outcome of this matter.

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 Court) claiming that Bergen Brunswig (predecessor in interest to AmerisourceBergen Corporation) had breached its obligations to him under his employment agreement. Shortly after the filing of the lawsuit, Bergen Brunswig made a California Civil Procedure Code § 998 Offer of Judgment to the executive, which the executive accepted. The resulting judgment awarded the executive damages and the continuation of certain employment benefits. Since then, the Company and the executive have engaged in litigation as to what specific benefits were included in the scope of the Offer of Judgment and the value of those benefits. The 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 Court entered a Second Order in Implementation of Judgment determining that the executive was entitled to a supplemental retirement benefit, net of the $1.9 million previously paid to him, in the amount of $19.4 million, which included interest at the rate of ten percent per annum from August 29, 2001. The Company recorded $13.9 million in June 2006 to establish the total liability of $19.4 million on its balance sheet. Subsequent to the Court s ruling, the Company had continued to accrue interest on the amount awarded to the executive by the Court. The Court refused to award the executive other benefits claimed, including an award of stock options, a severance payment and forgiveness of a loan. Both the executive and the Company appealed the ruling of the Court. On October 12, 2007, the Court of Appeal for the State of California, Fourth Appellate District made certain rulings, and reversed certain portions of the July 2006 decision of the Court in a manner that was favorable to the Company. As a result, in fiscal 2007, the Company reduced its total liability to the executive by $10.4 million. The Company continues to accrue interest on the remaining liability to the executive, pending the final resolution of this matter. The former executive filed a petition with the Supreme Court of California for review of the October 12, 2007 appellate decision. The Supreme Court of California denied the petition on January 23, 2008.

Bridge Medical Matter

In March 2004, the former stockholders of Bridge Medical, Inc. (Bridge) commenced an action against the Company in the Court of Chancery of the State of Delaware claiming that they were entitled to payment of certain contingent purchase price amounts that were provided under the terms of an agreement under which the Company acquired Bridge in January 2003. In July 2005, the Company sold substantially all of the assets of Bridge. The contingent purchase price amounts at issue were conditioned upon the achievement by Bridge of certain earnings levels in calendar 2003 and calendar 2004 (collectively, the Earnout Period). The maximum amount that was payable in respect of calendar 2003 was $21 million and the maximum amount that was payable in respect of calendar 2004 was $34 million. The former stockholders of Bridge alleged (i) that the Company did not properly adhere to the terms of the acquisition agreement in calculating that no contingent purchase price amounts were due and (ii) that the Company breached certain obligations to assist the Bridge sales force and promote the Bridge bedside point-of-care patient safety product during the Earnout Period and that such breaches

AMERISOURCEBERGEN CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(UNAUDITED)

prevented Bridge from obtaining business that Bridge otherwise would have obtained. The trial of this case and post-trial briefing were completed during May and June 2007. In September 2007, the Delaware Court of Chancery ruled that the former stockholders of Bridge were entitled to a payment of $21 million for earnout amounts, plus prejudgment interest in the amount of $5.9 million. As a result of the court s decision, the Company recorded a charge of $24.6 million, net of income taxes, in the fiscal year ended September 30, 2007. The Company expects to receive a tax benefit only with respect to interest incurred in this matter. The Company believes the decision of the Delaware Court of Chancery was in error and is appealing the court s decision. The Company cannot predict the outcome of this case at this time.

MBL Matter

In May 2007, ASD Specialty Healthcare, Inc. (ASD), a wholly-owned subsidiary of the Company, filed a lawsuit against Massachusetts Biologic Laboratories (MBL) in the 44th Judicial District Court of Dallas County, Texas. ASD alleged that MBL committed fraud by making misrepresentations to ASD in connection with the execution of a contract with ASD for the distribution of 5 million doses of tetanus diphtheria (TD) vaccines. Later that month, MBL sued ASD in the Superior Court of Suffolk County, Massachusetts, asserting breach of contract, unfair and deceptive trade practices, and other claims. MBL requested declaratory judgment, actual and consequential damages in an undetermined amount, and treble damages. ASD filed counterclaims against MBL in the Massachusetts action for breach of contract, fraudulent and negligent misrepresentation, unfair trade practices, and other claims. The Texas lawsuit was dismissed in favor of the parties proceeding in Massachusetts, but ASD filed a motion for reconsideration of the dismissal.

In the fourth quarter of fiscal 2007, the Company recorded a $27.8 million write-down to estimated net realizable value for the TD vaccines, which remained unsold as of September 30, 2007. ASD and MBL participated in a mediation of their dispute and, in January 2008, signed a binding term sheet evidencing their agreement to settle all litigation between them. As a result of the settlement, the Company does not expect to incur any further charges related to this matter.

Note 9. Litigation Settlements

Antitrust Settlements

During the last several years, numerous class action lawsuits have been filed against certain brand pharmaceutical manufacturers alleging that the manufacturer, by itself or in concert with others, took improper actions to delay or prevent generic drugs from entering the market. The Company has not been a named plaintiff in any of these class actions, but has been a member of the direct purchasers class (i.e., those purchasers who purchase directly from these pharmaceutical manufacturers). None of the class actions has gone to trial, but some have settled in the past with the Company receiving proceeds from the settlement funds. Currently, there are several such class actions pending in which the Company is a class member. During the three months ended December 31, 2007 and 2006, the Company recognized gains of $1.6 million and $1.9 million, respectively, relating to the above-mentioned class action lawsuits. These gains, which are net of attorney fees and estimated payments due to other parties, were recorded as reductions to cost of goods sold in the Company s consolidated statements of operations.

Other Settlement

During the three months ended December 31, 2007, the Company recognized a $10.0 million gain as a reduction to cost of goods sold in the Company s consolidated statement of operations resulting from a favorable litigation settlement with a major competitor related to sales activities involving an independent retail group purchasing organization.

Table of Contents

AMERISOURCEBERGEN CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(UNAUDITED)

Note 10. Business Segment Information

The Company is organized based upon the products and services it provides to its customers. The Company s operations are comprised of two reportable segments: Pharmaceutical Distribution and Other. The Pharmaceutical Distribution reportable segment is currently comprised of four operating segments, which include the operations of ABDC, the AmerisourceBergen Specialty Group (ABSG), Bellco, and the AmerisourceBergen Packaging Group (ABPG). The Company is currently in the process of integrating Bellco s separate operations within ABDC and ABSG. The Other reportable segment includes the operating results of Long-Term Care, through the July 31, 2007 spin-off date, and PMSI. Subsequent to July 31, 2007, the Other reportable segment only includes the operating results of PMSI.

The following tables illustrate reportable segment information for the three months ended December 31, 2007 and 2006 (in thousands):

	Revenue	
Three months ended December 31,	**2007**	**2006**
Pharmaceutical Distribution	$ 16,145,895	$ 15,493,123
Other	108,641	435,885
Intersegment eliminations	(15,109)	(232,469)
Operating revenue	16,239,427	15,696,539
Bulk deliveries to customer warehouses	1,133,488	1,028,854
Total revenue	$ 17,372,915	$ 16,725,393

Management evaluates segment performance based on revenues excluding bulk deliveries to customer warehouses. Intersegment eliminations represent the elimination of the Pharmaceutical Distribution segment s sales to the Other Segment. ABDC is the principal supplier of pharmaceuticals to the Other Segment.

	Operating Income	
Three months ended December 31,	**2007**	**2006**
Pharmaceutical Distribution	$ 192,018	$ 194,133
Other	1,564	18,859
Facility consolidations, employee severance and other	(177)	(6,023)
Gain on antitrust litigation settlements	1,585	1,890
Operating income	194,990	208,859
Other loss	737	66
Interest expense, net	16,424	8,143
Income before income taxes	$ 177,829	$ 200,650

Segment operating income is evaluated before other loss; interest expense, net; facility consolidations, employee severance and other; and gain on antitrust litigation settlements. All corporate office expenses are allocated to the two reportable segments.

14

AMERISOURCEBERGEN CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(UNAUDITED)

Note 11. Subsequent Event

In January 2008, the Company announced its intention to divest its workers compensation business, PMSI. The Company, with the assistance of an investment banker, has solicited potential buyers and is currently reviewing bids for the business. The Company is currently evaluating whether it will report PMSI as a discontinued operation in its quarter ending March 31, 2008.

The following table summarizes the assets and liabilities of PMSI as of December 31, 2007 (in thousands):

Assets:	
Accounts receivable, net	$ 51,816
Other current assets	6,888
Property and equipment, net	12,765
Intangibles, including goodwill	209,522
Other assets	3,914
Liabilities:	
Accounts payable and accrued expenses	(24,733)
Other liabilities	(499)
Net assets	$ 259,673

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

The Company s 5 5/8 % senior notes due September 15, 2012 (the 2012 Notes) and the 5 7/8% senior notes due September 15, 2015 (the 2015 Notes and, together with the 2012 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 the Notes being referred to collectively as the Guarantor Subsidiaries). The total assets, stockholders equity, revenues, earnings, and cash flows from operating activities of the Guarantor Subsidiaries exceeded a 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 December 31, 2007 and September 30, 2007, statements of operations for the three months ended December 31, 2007 and 2006, and statements of cash flows for the three months ended December 31, 2007 and 2006.

Table of Contents

AMERISOURCEBERGEN CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(UNAUDITED)

SUMMARY CONSOLIDATING BALANCE SHEETS:

(in thousands)	Parent	Guarantor Subsidiaries	December 31, 2007 Non-Guarantor Subsidiaries	Eliminations	Consolidated Total
Current assets:					
Cash and cash equivalents	$ 332,317	$ 99,835	$ 91,987	$	$ 524,139
Accounts receivable, net	247	1,090,811	2,370,504		3,461,562
Merchandise inventories		4,627,839	194,523		4,822,362
Prepaid expenses and other	79	28,642	2,052		30,773
Total current assets	332,643	5,847,127	2,659,066		8,838,836
Property and equipment, net		498,784	24,963		523,747
Goodwill		2,653,370	126,134		2,779,504
Intangibles, deferred charges and other	14,287	427,998	27,385		469,670
Intercompany investments and advances	3,155,503	3,298,329	(2,096,197)	(4,357,635)	
Total assets	$ 3,502,433	$ 12,725,608	$ 741,351	$ (4,357,635)	$ 12,611,757
Current liabilities:					
Accounts payable	$	$ 7,213,992	$ 200,862	$	$ 7,414,854
Accrued expenses and other	(279,257)	657,130	9,671		387,544
Current portion of long-term debt			1,487		1,487
Deferred income taxes		507,626			507,626
Total current liabilities	(279,257)	8,378,748	212,020		8,311,511
Long-term debt, net of current portion	896,508	55,225	298,551		1,250,284
Other liabilities		157,256	7,524		164,780
Total stockholders equity	2,885,182	4,134,379	223,256	(4,357,635)	2,885,182
Total liabilities and stockholders equity	$ 3,502,433	$ 12,725,608	$ 741,351	$ (4,357,635)	$ 12,611,757

16

Table of Contents

AMERISOURCEBERGEN CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(UNAUDITED)

SUMMARY CONSOLIDATING BALANCE SHEETS:

			September 30, 2007		
(in thousands)	Parent	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	Consolidated Total
Current assets:					
Cash and cash equivalents	$ 500,246	$ 58,259	$ 81,699	$	$ 640,204
Short-term investment securities	467,419				467,419
Accounts receivable, net	1,292	1,172,651	2,298,415		3,472,358
Merchandise inventories		3,952,749	148,753		4,101,502
Prepaid expenses and other	59	29,879	2,879		32,817
Total current assets	969,016	5,213,538	2,531,746		8,714,300
Property and equipment, net		481,704	25,280		506,984
Goodwill		2,483,144	127,911		2,611,055
Intangibles, deferred charges and other	14,939	434,012	28,774		477,725
Intercompany investments and advances	2,732,898	4,682,194	(1,910,967)	(5,504,125)	
Total assets	$ 3,716,853	$ 13,294,592	$ 802,744	$ (5,504,125)	$ 12,310,064
Current liabilities:					
Accounts payable	$	$ 6,816,802	$ 171,980	$	$ 6,988,782
Accrued expenses and other	(279,263)	640,945	8,976		370,658
Current portion of long-term debt			476		476
Deferred income taxes		498,396	(1,276)		497,120
Total current liabilities	(279,263)	7,956,143	180,156		7,857,036
Long-term debt, net of current portion	896,396	220	330,682		1,227,298
Other liabilities		119,842	6,168		126,010
Total stockholders equity	3,099,720	5,218,387	285,738	(5,504,125)	3,099,720
Total liabilities and stockholders equity	$ 3,716,853	$ 13,294,592	$ 802,744	$ (5,504,125)	$ 12,310,064

Table of Contents

AMERISOURCEBERGEN CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(UNAUDITED)

CONDENSED CONSOLIDATING STATEMENTS OF OPERATIONS:

	Three months ended December 31, 2007				
(in thousands)	Parent	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	Consolidated Total
Operating revenue	$	$ 15,763,642	$ 475,785	$	$ 16,239,427
Bulk deliveries to customer warehouses		1,133,485	3		1,133,488
Total revenue		16,897,127	475,788		17,372,915
Cost of goods sold		16,411,846	453,609		16,865,455
Gross profit		485,281	22,179		507,460
Operating expenses:					
Distribution, selling and administrative		300,451	(10,511)		289,940
Depreciation		16,652	723		17,375
Amortization		4,082	896		4,978
Facility consolidations, employee severance and other		177			177
Operating income		163,919	31,071		194,990
Other loss (income)		744	(7)		737
Interest expense (income), net	34,789	(51,486)	33,121		16,424
(Loss) income before income taxes and equity in earnings of subsidiaries	(34,789)	214,661	(2,043)		177,829
Income taxes	(12,176)	80,818	(633)		68,009
Equity in earnings of subsidiaries	132,433			(132,433)	
Net income (loss)	$ 109,820	$ 133,843	$ (1,410)	$ (132,433)	$ 109,820

18

Table of Contents

AMERISOURCEBERGEN CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(UNAUDITED)

CONDENSED CONSOLIDATING STATEMENTS OF OPERATIONS:

	Three months ended December 31, 2006				
(in thousands)	Parent	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	Consolidated Total
Operating revenue	$	$ 15,243,126	$ 453,413	$	$ 15,696,539
Bulk deliveries to customer warehouses		1,028,850	4		1,028,854
Total revenue		16,271,976	453,417		16,725,393
Cost of goods sold		15,698,783	431,967		16,130,750
Gross profit		573,193	21,450		594,643
Operating expenses:					
Distribution, selling and administrative		368,290	(11,329)		356,961
Depreciation		17,318	481		17,799
Amortization		4,296	705		5,001
Facility consolidations, employee severance and other		6,023			6,023
Operating income		177,266	31,593		208,859
Other loss		66			66
Interest expense (income), net	13,294	(38,575)	33,424		8,143
(Loss) income before income taxes and equity in earnings of subsidiaries	(13,294)	215,775	(1,831)		200,650
Income taxes	(4,653)	83,681	(565)		78,463
Equity in earnings of subsidiaries	130,828			(130,828)	
Net income (loss)	$ 122,187	$ 132,094	$ (1,266)	$ (130,828)	$ 122,187

Table of Contents

AMERISOURCEBERGEN CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(UNAUDITED)

CONDENSED CONSOLIDATING STATEMENTS OF CASH FLOWS:

	Three months ended December 31, 2007				
(in thousands)	Parent	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	Consolidated Total
Net income (loss)	$ 109,820	$ 133,843	$ (1,410)	$ (132,433)	$ 109,820
Adjustments to reconcile net income (loss) to net cash (used in) provided by operating activities	(130,750)	(129,370)	(83,163)	132,433	(210,850)
Net cash (used in) provided by operating activities	(20,930)	4,473	(84,573)		(101,030)
Capital expenditures		(25,486)	(1,445)		(26,931)
Cost of acquired companies, net of cash acquired		(162,506)			(162,506)
Proceeds from the sale of property and equipment		10	10		20
Purchases of investment securities available-for-sale	(909,105)				(909,105)
Proceeds from sale of investment securities available-for-sale	1,376,524				1,376,524
Net cash provided by (used in) investing activities	467,419	(187,982)	(1,435)		278,002
Borrowings under revolving and securitization credit facilities	229,000		1,208,954		1,437,954
Repayments under revolving and securitization credit facilities	(229,000)		(1,182,148)		(1,411,148)
Deferred financing costs and other		(152)			(152)
Purchases of common stock	(311,442)				(311,442)
Exercise of stock options, including excess tax benefit	4,249				4,249
Cash dividends on common stock	(12,498)				(12,498)
Intercompany financing and advances	(294,727)	225,237	69,490		
Net cash (used in) provided by financing activities	(614,418)	225,085	96,296		(293,037)
(Decrease) increase in cash and cash equivalents	(167,929)	41,576	10,288		(116,065)
Cash and cash equivalents at beginning of period	500,246	58,259	81,699		640,204
Cash and cash equivalents at end of period	$ 332,317	$ 99,835	$ 91,987	$	$ 524,139

Table of Contents

AMERISOURCEBERGEN CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(UNAUDITED)

CONDENSED CONSOLIDATING STATEMENTS OF CASH FLOWS:

	Three months ended December 31, 2006				
(in thousands)	Parent	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	Consolidated Total
Net income (loss)	$ 122,187	$ 132,094	$ (1,266)	$ (130,828)	$ 122,187
Adjustments to reconcile net income (loss) to net cash provided by operating activities	(117,770)	145,918	6,708	130,828	165,684
Net cash provided by operating activities	4,417	278,012	5,442		287,871
Capital expenditures		(27,131)	(1,004)		(28,135)
Cost of acquired companies, net of cash acquired		(131,030)	(12,513)		(143,543)
Proceeds from the sale of property and equipment		1,978	2		1,980
Purchases of investment securities available-for-sale	(1,453,403)				(1,453,403)
Proceeds from sale of investment securities available-for-sale	1,075,590				1,075,590
Net cash used in investing activities	(377,813)	(156,183)	(13,515)		(547,511)
Borrowings under revolving credit facilities			325,603		325,603
Repayments under revolving credit facilities			(203,787)		(203,787)
Deferred financing costs and other	(1,027)	(453)	(125)		(1,605)
Purchases of common stock	(325,632)				(325,632)
Exercise of stock options, including excess tax benefit	11,841				11,841
Cash dividends on common stock	(9,659)				(9,659)
Intercompany financing and advances	164,483	(64,883)	(99,600)		
Net cash (used in) provided by financing activities	(159,994)	(65,336)	22,091		(203,239)
(Decrease) increase in cash and cash equivalents	(533,390)	56,493	14,018		(462,879)
Cash and cash equivalents at beginning of period	1,125,287	43,441	92,540		1,261,268
Cash and cash equivalents at end of period	$ 591,897	$ 99,934	$ 106,558	$	$ 798,389

Table of Contents

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 AmerisourceBergen Corporation s (the Company s) Annual Report on Form 10-K for the fiscal year ended September 30, 2007.

The Company is a pharmaceutical services company providing drug distribution and related healthcare services and solutions to its pharmacy, physician, and manufacturer customers, which are based primarily in the United States and Canada. The Company also provides pharmaceuticals to workers compensation patients and related services to insurance payors. The Company is organized based upon the products and services it provides to its customers. Substantially all of the Company s operations are located in the United States and Canada. The Company also has a packaging operation in the United Kingdom.

On July 31, 2007, the Company completed the spin-off of its institutional pharmacy business, PharMerica Long-Term Care (Long-Term Care). In connection with the spin-off, the Company continues to distribute pharmaceuticals to and generate cash flows from the disposed institutional pharmacy business. The historical operating results of Long-Term Care were not reported as a discontinued operation of the Company because of the significance of the continuing cash flows resulting from the pharmaceutical distribution agreement entered into between the disposed component and the Company. Accordingly, for periods prior to August 1, 2007, the Company s operating results include Long-Term Care.

Acquisition

On October 1, 2007, the Company acquired Bellco Health (Bellco), for a purchase price of $162.5 million, net of $20.7 million of cash acquired. Bellco is a pharmaceutical distributor in the Metro New York City area, where it primarily services independent retail community pharmacies. The acquisition of Bellco expands the Company s presence in this large community pharmacy market. Nationally, Bellco markets and sells generic pharmaceuticals to individual retail pharmacies, and provides pharmaceutical products and services to dialysis clinics. Bellco s revenues were $2.1 billion for its fiscal year ended June 30, 2007.

Planned Divestiture

In January 2008, the Company announced its intention to divest its workers compensation business, PMSI. The Company, with the assistance of an investment banker, has solicited potential buyers and is currently reviewing bids for the business. The Company is currently evaluating whether it will report PMSI as a discontinued operation in its quarter ending March 31, 2008.

The following table summarizes the assets and liabilities of PMSI as of December 31, 2007 (in thousands):

Assets:	
Accounts receivable, net	$ 51,816
Other current assets	6,888
Property and equipment, net	12,765
Intangibles, including goodwill	209,522
Other assets	3,914
Liabilities:	
Accounts payable and accrued expenses	(24,733)
Other liabilities	(499)
Net assets	$ 259,673

Table of Contents

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

Reportable Segments

The Company s operations are comprised of two reportable segments: Pharmaceutical Distribution and Other. The Other reportable segment includes the operating results of Long-Term Care, through the July 31, 2007 spin-off date, and PMSI.

Pharmaceutical Distribution

The Pharmaceutical Distribution reportable segment is currently comprised of four operating segments, which include the operations of the AmerisourceBergen Drug Corporation (ABDC), the AmerisourceBergen Specialty Group (ABSG), Bellco, and the 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. The Company is currently in the process of integrating Bellco s separate operations within ABDC and 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, alternate site facilities, and other customers. ABDC also provides pharmacy management, consulting services and 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 distribution and other services primarily to physicians who specialize in a variety of disease states, especially oncology, and to other healthcare providers. ABSG also distributes vaccines, other injectables, plasma, and other blood products. In addition, through its specialty services businesses, ABSG provides a number of commercialization services, third party logistics, group purchasing, and other services for biotech and other pharmaceutical manufacturers, as well as reimbursement consulting, data analytics, practice management, and physician education.

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 trial materials (CTM) services for pharmaceutical manufacturers.

Other

Prior to its divestiture, Long-Term Care was a leading national dispenser of pharmaceutical products and services to patients in long-term care and alternate site settings, including skilled nursing facilities, assisted living facilities and residential living communities. Long-Term Care s institutional pharmacy business involved the purchase of prescription and nonprescription pharmaceuticals, principally from our Pharmaceutical Distribution segment, and the dispensing of those products to residents in long-term care and alternate site facilities.

PMSI provides mail order and on-line pharmacy services to chronically and catastrophically ill patients under workers compensation programs, and provides pharmaceutical claims administration services for payors. PMSI services include home delivery of prescription drugs, medical supplies, and equipment and an array of computer software solutions to reduce the payors administrative costs. The October 2006 addition of PMSI MSA Services has given the PMSI business the ability to provide its customers with a fully integrated Medicare set-aside solution.

Table of Contents

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

Results of Operations

AmerisourceBergen Corporation

Summary Segment Information

	Operating Revenue Three Months Ended December 31,		
(dollars in thousands)	**2007**	**2006**	**Change**
Pharmaceutical Distribution	$ 16,145,895	$ 15,493,123	4%
Other			
Long Term Care		317,955	n/m
PMSI	108,641	117,930	(8)
Total Other	108,641	435,885	(75)
Intersegment eliminations	(15,109)	(232,469)	n/m
Total	$ 16,239,427	$ 15,696,539	3%

	Operating Income Three Months Ended December 31,		
(dollars in thousands)	**2007**	**2006**	**Change**
Pharmaceutical Distribution	$ 192,018	$ 194,133	(1)%
Other			
Long Term Care		9,083	n/m
PMSI	1,564	9,776	(84)
Total Other	1,564	18,859	(92)
Facility consolidations, employee severance and other	(177)	(6,023)	(97)
Gain on antitrust litigation settlements	1,585	1,890	(16)
Total	$ 194,990	$ 208,859	(7)%
Percentages of operating revenue:			
Pharmaceutical Distribution			
Gross profit	2.99%	3.03%	
Operating expenses	1.80%	1.78%	
Operating income	1.19%	1.25%	
Other			
Long-Term Care			
Gross profit	n/a	29.63%	
Operating expenses	n/a	26.78%	
Operating income	n/a	2.86%	
PMSI			
Gross profit	21.40%	24.24%	
Operating expenses	19.96%	15.95%	
Operating income	1.44%	8.29%	

Other		
Gross profit	21.40%	28.17%
Operating expenses		