

AMERISOURCEBERGEN CORP

Form 10-Q

May 06, 2011

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

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934 FOR THE QUARTERLY PERIOD ENDED March 31, 2011
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
(State or other jurisdiction of incorporation or organization)

23-3079390
(I.R.S. Employer Identification No.)

1300 Morris Drive, Chesterbrook, PA
(Address of principal executive offices)

19087-5594
(Zip Code)

(610) 727-7000

(Registrant's telephone number, including area code)

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

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

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

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

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

The number of shares of common stock of AmerisourceBergen Corporation outstanding as of April 30, 2011 was 273,962,768.

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

| <i>(in thousands, except share and per share data)</i> | March 31, 2011 (Unaudited) | September 30, 2010 |
|--|---|-------------------------------|
| ASSETS | | |
| Current assets: | | |
| Cash and cash equivalents | \$ 1,912,436 | \$ 1,658,182 |
| Accounts receivable, less allowances for returns and doubtful accounts: \$385,268 at March 31, 2011 and \$366,477 at September 30, 2010 | 3,802,240 | 3,827,484 |
| Merchandise inventories | 5,195,946 | 5,210,098 |
| Prepaid expenses and other | 45,624 | 52,586 |
| Total current assets | 10,956,246 | 10,748,350 |
| Property and equipment, at cost: | | |
| Land | 36,036 | 36,407 |
| Buildings and improvements | 308,237 | 307,448 |
| Machinery, equipment and other | 927,705 | 841,586 |
| Total property and equipment | 1,271,978 | 1,185,441 |
| Less accumulated depreciation | (516,823) | (473,729) |
| Property and equipment, net | 755,155 | 711,712 |
| Goodwill and other intangible assets | 2,846,206 | 2,845,343 |
| Other assets | 123,409 | 129,438 |
| TOTAL ASSETS | \$ 14,681,016 | \$ 14,434,843 |

LIABILITIES AND STOCKHOLDERS EQUITY

| | | |
|-----------------------------------|--------------|--------------|
| Current liabilities: | | |
| Accounts payable | \$ 8,909,481 | \$ 8,833,285 |
| Accrued expenses and other | 300,683 | 369,016 |
| Current portion of long-term debt | 278 | 422 |
| Deferred income taxes | 739,730 | 703,621 |
| Total current liabilities | 9,950,172 | 9,906,344 |

| | | |
|---|----------------------|----------------------|
| Long-term debt, net of current portion | 1,342,581 | 1,343,158 |
| Other liabilities | 255,233 | 231,044 |
| Stockholders' equity: | | |
| Common stock, \$0.01 par value authorized: 600,000,000 shares; issued and outstanding: 493,887,580 shares and 273,621,991 shares at March 31, 2011, respectively, and 489,831,248 shares and 277,521,183 shares at September 30, 2010, respectively | 4,939 | 4,898 |
| Additional paid-in capital | 4,000,713 | 3,899,381 |
| Retained earnings | 3,786,274 | 3,465,886 |
| Accumulated other comprehensive loss | (26,707) | (42,536) |
| | 7,765,219 | 7,327,629 |
| Treasury stock, at cost: 220,265,589 shares at March 31, 2011 and 212,310,065 shares at September 30, 2010 | (4,632,189) | (4,373,332) |
| Total stockholders' equity | 3,133,030 | 2,954,297 |
| TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY | \$ 14,681,016 | \$ 14,434,843 |

See notes to consolidated financial statements.

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AMERISOURCEBERGEN CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF OPERATIONS
(Unaudited)

| <i>(in thousands, except per share data)</i> | Three months ended | | Six months ended | |
|---|---------------------------|---------------|-------------------------|---------------|
| | March 31, | | March 31, | |
| | 2011 | 2010 | 2011 | 2010 |
| Revenue | \$ 19,760,257 | \$ 19,300,627 | \$ 39,648,866 | \$ 38,636,486 |
| Cost of goods sold | 19,072,921 | 18,688,559 | 38,381,298 | 37,461,048 |
| Gross profit | 687,336 | 612,068 | 1,267,568 | 1,175,438 |
| Operating expenses: | | | | |
| Distribution, selling, and administrative | 296,132 | 279,491 | 574,165 | 559,730 |
| Depreciation | 21,876 | 16,601 | 43,180 | 33,259 |
| Amortization | 4,079 | 4,086 | 8,208 | 8,225 |
| Facility consolidations, employee severance and other | | (37) | | (85) |
| Intangible asset impairments | | 700 | | 700 |
| Operating income | 365,249 | 311,227 | 642,015 | 573,609 |
| Other (income) loss | (142) | 268 | (1,809) | 545 |
| Interest expense, net | 19,056 | 19,279 | 38,200 | 36,546 |
| Income before income taxes | 346,335 | 291,680 | 605,624 | 536,518 |
| Income taxes | 131,954 | 110,672 | 230,743 | 204,203 |
| Net income | \$ 214,381 | \$ 181,008 | \$ 374,881 | \$ 332,315 |
| Earnings per share: | | | | |
| Basic | \$ 0.78 | \$ 0.64 | \$ 1.36 | \$ 1.17 |
| Diluted | \$ 0.77 | \$ 0.63 | \$ 1.34 | \$ 1.15 |
| Weighted average common shares outstanding: | | | | |
| Basic | 274,319 | 281,926 | 274,980 | 284,478 |
| Diluted | 279,766 | 287,162 | 280,247 | 289,262 |
| Cash dividends declared per share of common stock | \$ 0.10 | \$ 0.08 | \$ 0.20 | \$ 0.16 |

See notes to consolidated financial statements.

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

| <i>(in thousands)</i> | Six months ended March 31, | |
|---|-----------------------------------|-----------------|
| | 2011 | 2010 |
| OPERATING ACTIVITIES | | |
| Net income | \$ 374,881 | \$ 332,315 |
| Adjustments to reconcile net income to net cash provided by operating activities: | | |
| Depreciation, including amounts charged to cost of goods sold | 49,565 | 39,607 |
| Amortization, including amounts charged to interest expense | 10,685 | 10,785 |
| Provision for doubtful accounts | 17,340 | 16,758 |
| Provision for deferred income taxes | 50,599 | 41,475 |
| Share-based compensation | 12,122 | 16,791 |
| Other | 1,175 | 3,379 |
| Changes in operating assets and liabilities: | | |
| Accounts receivable | 6,819 | (21,006) |
| Merchandise inventories | 30,462 | (22,943) |
| Prepaid expenses and other assets | 14,169 | 23,749 |
| Accounts payable, accrued expenses, and income taxes | 1,588 | (94,583) |
| Other liabilities | 7,799 | 66 |
| NET CASH PROVIDED BY OPERATING ACTIVITIES | 577,204 | 346,393 |
| INVESTING ACTIVITIES | | |
| Capital expenditures | (93,773) | (88,037) |
| Other | | 134 |
| NET CASH USED IN INVESTING ACTIVITIES | (93,773) | (87,903) |
| FINANCING ACTIVITIES | | |
| Long-term debt borrowings | | 396,696 |
| Borrowings under revolving and securitization credit facilities | 506,306 | 561,459 |
| Repayments under revolving and securitization credit facilities | (508,211) | (780,637) |
| Purchases of common stock | (255,120) | (255,199) |
| Exercises of stock options, including excess tax benefits of \$20,846 and \$9,454 in fiscal 2011 and 2010, respectively | 89,369 | 64,496 |
| Cash dividends on common stock | (55,271) | (45,754) |
| Debt issuance costs and other | (6,250) | (9,047) |
| NET CASH USED IN FINANCING ACTIVITIES | (229,177) | (67,986) |
| INCREASE IN CASH AND CASH EQUIVALENTS | 254,254 | 190,504 |
| Cash and cash equivalents at beginning of period | 1,658,182 | 1,009,368 |

| | | |
|--|--------------|--------------|
| CASH AND CASH EQUIVALENTS AT END OF PERIOD | \$ 1,912,436 | \$ 1,199,872 |
|--|--------------|--------------|

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, 2011 and the results of operations and cash flows for the interim periods ended March 31, 2011 and 2010 have been included. Certain information and footnote disclosures normally included in financial statements presented in accordance with U.S. GAAP, but which are not required for interim reporting purposes, have been omitted. The accompanying unaudited consolidated financial statements should be read in conjunction with the financial statements and notes thereto included in the Company's Annual Report on Form 10-K for the fiscal year ended September 30, 2010.

The preparation of financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect amounts reported in the financial statements and accompanying notes. Actual amounts could differ from these estimated amounts.

The Company has four operating segments, which include the operations of AmerisourceBergen Drug Corporation (ABDC), AmerisourceBergen Specialty Group (ABSG), AmerisourceBergen Consulting Services (ABCS), and AmerisourceBergen Packaging Group (ABPG). The Company has aggregated the operating results of all of its operating segments into one reportable segment, Pharmaceutical Distribution, which represents the consolidated operating results of the Company. The businesses of the Pharmaceutical Distribution operating segments are similar in that they service both healthcare providers and pharmaceutical manufacturers in the pharmaceutical supply channel. Certain reclassifications have been made to prior year amounts in order to conform to the current year presentation.

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

Note 2. Income Taxes

The Company files income tax returns in U.S. federal and state jurisdictions as well as various foreign jurisdictions. In fiscal 2010, the U.S. Internal Revenue Service (IRS) completed its examination of the Company's U.S. federal income tax returns for fiscal 2006, 2007 and 2008. No significant adjustments were made resulting from the IRS examination. In fiscal 2011, the Canada Revenue Service completed its examination of the Canadian federal income tax returns for fiscal 2007 and 2008 and no significant adjustments were made resulting from the examination.

As of March 31, 2011, 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 \$47.1 million (\$32.0 million net of federal benefit, which, if recognized, would reduce income tax expense). Included in this amount is \$10.9 million of interest and penalties, which the Company records in income tax expense. During the six months ended March 31, 2011, unrecognized tax benefits decreased by \$8.8 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 \$2.5 million.

Note 3. 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, 2011 (in thousands):

| | |
|--------------------------------|--------------|
| Goodwill at September 30, 2010 | \$ 2,544,367 |
| Foreign currency translation | 5,920 |
| Goodwill at March 31, 2011 | \$ 2,550,287 |

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

| | March 31, 2011 | | | September 30, 2010 | | |
|---|-----------------------------|-----------------------------|---------------------------|-----------------------------|-----------------------------|---------------------------|
| | Gross Carrying Amount | Accumulated Amortization | Net Carrying Amount | Gross Carrying Amount | Accumulated Amortization | Net Carrying Amount |
| Indefinite-lived intangibles-trade names | \$ 238,924 | \$ | \$ 238,924 | \$ 238,355 | \$ | \$ 238,355 |
| Finite-lived intangibles: | | | | | | |
| Customer relationships | 123,043 | (75,934) | 47,109 | 121,940 | (69,207) | 52,733 |
| Other | 38,405 | (28,519) | 9,886 | 36,330 | (26,442) | 9,888 |
| Total other intangible assets | \$ 400,372 | \$ (104,453) | \$ 295,919 | \$ 396,625 | \$ (95,649) | \$ 300,976 |

Amortization expense for other intangible assets was \$8.2 million in the six months ended March 31, 2011 and 2010. Amortization expense for other intangible assets is estimated to be \$16.5 million in fiscal 2011, \$14.3 million in fiscal 2012, \$12.0 million in fiscal 2013, \$8.5 million in fiscal 2014, \$3.9 million in fiscal 2015, and \$10.0 million thereafter.

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

Note 4. Debt

Debt consisted of the following (in thousands):

| | March 31, 2011 | September 30, 2010 |
|---|---------------------------|-------------------------------|
| Blanco revolving credit facility at 2.25% and 2.26%, respectively, due 2012 | \$ 55,000 | \$ 55,000 |
| Receivables securitization facility due 2014 | | |
| Multi-currency revolving credit facility at 3.00% due 2015 | | 907 |
| \$392,326, 5 5/8% senior notes due 2012 | 391,839 | 391,682 |
| \$500,000, 5 7/8% senior notes due 2015 | 498,693 | 498,568 |
| \$400,000, 4 7/8% senior notes due 2019 | 397,049 | 396,915 |
| Other | 278 | 508 |
| Total debt | 1,342,859 | 1,343,580 |
| Less current portion | 278 | 422 |
| Total, net of current portion | \$ 1,342,581 | \$ 1,343,158 |

In March 2011, the Company entered into a new multi-currency senior unsecured revolving credit facility for \$700 million, which expires in March 2015, (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 87.5 basis points to 192.5 basis points over LIBOR/EURIBOR/Bankers Acceptance Stamping Fee, as applicable (130 basis points over LIBOR/EURIBOR/Bankers Acceptance Stamping Fee at March 31, 2011). Additionally, interest on borrowings denominated in Canadian dollars may accrue at the greater of the Canadian prime rate plus 30 basis points 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 the Company's debt rating, ranging from 12.5 basis points to 32.5 basis points, annually, of the total commitment (20 basis points at March 31, 2011). 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.

In April 2011, the Company amended its \$700 million receivables securitization facility (Receivables Securitization Facility), which now expires in April 2014. The Company continues to have available to it an accordion feature whereby the commitment on the Receivables Securitization Facility may be increased by up to \$250 million, subject to lender approval, for seasonal needs during the December and March quarters. Interest rates are based on prevailing market rates for short-term commercial paper or LIBOR plus a program fee of 90 basis points. The Company pays an unused fee of 45 basis points, annually, to maintain the availability under the Receivables Securitization Facility. At March 31, 2011, there were no borrowings outstanding under the Receivables Securitization Facility. The Receivables Securitization Facility contains similar covenants to the Multi-Currency Revolving Credit Facility.

In April 2011, the Company amended the Blanco revolving credit facility (the Blanco Credit Facility) to extend the maturity date to April 2012. Borrowings under the Blanco Credit Facility are guaranteed by the Company. Interest on borrowings under the Blanco Credit Facility accrues at specific rates based on the Company's debt rating (200 basis points over LIBOR at March 31, 2011). Under the amended Blanco Credit Facility, interest on borrowings will accrue at 100 basis points over LIBOR.

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

Note 5. Stockholders Equity and Earnings per Share

The following table illustrates comprehensive income for the three and six months ended March 31, 2011 and 2010 (in thousands):

| | Three months ended | | Six months ended | |
|--|---------------------------|-------------|-------------------------|-------------|
| | March 31, | | March 31, | |
| | 2011 | 2010 | 2011 | 2010 |
| Net income | \$ 214,381 | \$ 181,008 | \$ 374,881 | \$ 332,315 |
| Foreign currency translation adjustments and other | 9,126 | 4,525 | 15,828 | 7,803 |
| Comprehensive income | \$ 223,507 | \$ 185,533 | \$ 390,709 | \$ 340,118 |

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

In November 2009, the Company's board of directors authorized a program allowing the Company to purchase up to \$500 million of its outstanding shares of common stock, subject to market conditions. During the fiscal year ended September 30, 2010, the Company purchased 14.4 million shares under this program for a total of \$401.9 million. During the three months ended December 31, 2010, the Company purchased 3.2 million shares for \$98.1 million to complete its authorization under this program.

In September 2010, the Company's board of directors authorized a new program allowing the Company to purchase up to \$500 million of its outstanding shares of common stock, subject to market conditions. During the six months ended March 31, 2011, the Company purchased 4.7 million shares for \$156.9 million under the new program.

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

| <i>(in thousands)</i> | Three months ended | | Six months ended | |
|--|---------------------------|-------------|-------------------------|-------------|
| | March 31, | | March 31, | |
| | 2011 | 2010 | 2011 | 2010 |
| Weighted average common shares outstanding basic | 274,319 | 281,926 | 274,980 | 284,478 |
| Effect of dilutive securities: stock options, restricted stock, and restricted stock units | 5,447 | 5,236 | 5,267 | 4,784 |
| Weighted average common shares outstanding diluted | 279,766 | 287,162 | 280,247 | 289,262 |

The potentially dilutive stock options that were antidilutive for the three months ended March 31, 2011 and 2010 were 1.8 million and 1.1 million, respectively, and for the six months ended March 31, 2011 and 2010 were 0.9 million and 0.6 million, respectively.

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

Note 6. Legal Matters and Contingencies

In the ordinary course of its business, the Company becomes involved in lawsuits, administrative proceedings, government subpoenas, and government investigations, including antitrust, commercial, environmental, product liability, intellectual property, regulatory, employment discrimination, and other matters. Significant damages or penalties may be sought from the Company in some matters, and some matters may require years for the Company to resolve. The Company establishes reserves based on its periodic assessment of estimates of probable losses; however, there can be no assurance that an adverse resolution of one or more matters during any subsequent reporting period will not have a material adverse effect on the Company's results of operations for that period or on the Company's financial condition.

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

On April 27, 2009, the Ontario Ministry of Health and Long-Term Care (OMH) notified the Company's Canadian subsidiary, AmerisourceBergen Canada Corporation (ABCC), that it had entered a Rebate Payment Order requiring ABCC to pay C\$5.8 million to the Ontario Ministry of Finance. OMH maintains that it has reasonable grounds to believe that ABCC accepted rebates, directly or indirectly, in violation of the Ontario Drug Interchangeability and Dispensing Fee Act. OMH at the same time announced similar rebate payment orders against other wholesalers, generic manufacturers, pharmacies, and individuals. ABCC was cooperating fully with OMH prior to the entry of the Order by responding fully to requests for information and/or documents and will continue to cooperate. ABCC filed an appeal of the Order pursuant to OMH procedures in May 2009. In addition, on the same day that the Order was issued, OMH notified ABCC that it had filed a civil complaint with Health Canada (department of the Canadian government responsible for national public health) against ABCC for potential violations of the Canadian Food and Drug Act. Health Canada subsequently conducted an audit of ABCC, and ABCC has cooperated fully with Health Canada in the conduct of the audit. The Company has met several times, 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 30, 2009, 14 states (including New York and Florida) and the District of Columbia filed a complaint (the Intervention Complaint) in the United States District Court for the District of Massachusetts (the Federal District Court) naming Amgen Inc. as well as two business units of AmerisourceBergen Specialty Group, AmerisourceBergen Specialty Group, and AmerisourceBergen Corporation as defendants. The Intervention Complaint was filed to intervene in a pending civil case against the defendants filed under the qui tam provisions of the federal and various state civil False Claims Acts (the Original Qui Tam Complaint). The qui tam provisions permit a private person, known as a relator (i.e. whistleblower), to file civil actions under these statutes on behalf of the federal and state governments. The relator in the Original Complaint is a former Amgen employee. The Office of the New York Attorney General is leading the intervention on behalf of the state governments.

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

has received subpoenas for records issued by the DOJ in connection with its investigation. The Company has been cooperating with the DOJ and is producing records in response to the subpoenas.

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

Both the Intervention Complaint and the Original Qui Tam Complaint, as amended on October 30, 2009, allege that from 2002 through 2009, Amgen and two of the Company's business units offered remuneration to medical providers in violation of federal and state health laws to increase purchases and prescriptions of Amgen's anemia drug, Aranesp. Specifically with regard to the Company's business units, the complaints allege that ASD Specialty Healthcare, Inc., which is a distributor of pharmaceuticals to physician practices (ASD), and International Nephrology Network, which was a business name for one of the Company's subsidiaries and a group purchasing organization for nephrologists and nephrology practices (INN), conspired with Amgen to promote Aranesp in violation of federal and state health laws. The complaints further allege that the defendants caused medical providers to submit to state Medicaid programs false certifications and false claims for payment for Aranesp. According to the complaints, the latter conduct allegedly violated state civil False Claims Acts and constituted fraud and unjust enrichment. The Original Qui Tam Complaint, as amended, also alleges that the defendants caused medical providers to submit to other federal health programs, including Medicare, false certifications and false claims for payment for Aranesp.

On December 17, 2009, the states and the relator both filed amended complaints. The State of Texas, which was not one of the original 14 states intervening in the action, joined in the amended complaint. Between January 20, 2010 and February 23, 2010, the States of Florida, Texas, New Hampshire, Louisiana, Nevada and Delaware filed notices to voluntarily dismiss the Intervention Complaint, leaving 9 states and the District of Columbia as intervenors. On February 1, 2010, the Company filed a motion to dismiss the complaints. Amgen, Inc. filed a motion to dismiss as well. On April 23, 2010, the Federal District Court issued a written opinion and order dismissing the Original Qui Tam Complaint, as amended, and the Intervention Complaint. Five states—California, Illinois, Indiana, Massachusetts, and New York—filed notices of appeal to the U.S. Court of Appeals for the First Circuit (the First Circuit) and the relator filed a notice of appeal to the First Circuit on behalf of Georgia and New Mexico. On July 15, 2010, the First Circuit issued an order requiring the Federal District Court to provide a written statement explaining why a final judgment was entered with respect to the states in order for the First Circuit to determine whether to allow the appeals to proceed, and the Federal District Court complied with the order. The appeals were consolidated and briefing of the appeals was completed on February 16, 2011. The First Circuit heard oral argument on the appeals on April 6, 2011. The appeals remain pending. The relator also sought and received permission from the Federal District Court to file a further amended complaint (the Fourth Amended Complaint). On May 27, 2010, the relator filed a Fourth Amended Complaint with the Federal District Court, which names ASD and INN, along with Amgen, as defendants. The Fourth Amended Complaint contains many of the same allegations contained in the relator's prior complaints, but adds a count based on allegations that conduct by ASD, INN, and Amgen caused healthcare providers to submit false claims because it is alleged that the healthcare providers billed the government for amounts of Aranesp that were either not administered or administered, but medically unnecessary. On June 28, 2010, the Company and Amgen filed motions to dismiss the Fourth Amended Complaint. The motions to dismiss were denied following a hearing on July 21, 2010. The Company filed a Motion for Judgment on the Pleadings on February 18, 2011. The Motion was denied following a hearing on March 24, 2011. The Company, Amgen, and Relator filed Motions for Partial Summary Judgment on March 1, 2011. The Court heard oral argument on those motions on April 11, 2011. Those motions are currently pending. The trial date in this matter has been moved from July 2011 to October 2011.

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

The Company intends to continue to defend itself vigorously against the allegations contained in the Original Qui Tam Complaint, as amended (including the Fourth Amended Complaint), and the Intervention Complaint and against any

appeals. The Company cannot predict the outcome of either the Federal District Court action (or any appeals thereof) or the DOJ investigation or the potential outcome of any other action involving similar allegations in which any AmerisourceBergen entity is or may become a defendant.

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

Note 7. Litigation Settlements***Antitrust Settlements***

During the last several years, numerous class action lawsuits have been filed against certain brand pharmaceutical manufacturers alleging that the manufacturer, by itself or in concert with others, took improper actions to delay or prevent generic drugs from entering the market. The Company has not been a named plaintiff in any of these class actions, but has been a member of the direct purchasers class (i.e., those purchasers who purchase directly from these pharmaceutical manufacturers). None of the class actions has gone to trial, but some have settled in the past with the Company receiving proceeds from the settlement funds. During the six months ended March 31, 2010, the Company recognized a gain of \$1.5 million relating to the above-mentioned class action lawsuits. The gain, which was net of attorney fees and estimated payments due to other parties, was recorded as a reduction to cost of goods sold in the Company's consolidated statements of operations.

Note 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, 2011 and September 30, 2010 approximate fair value based upon the relatively short-term nature of these financial instruments. Within cash and cash equivalents, the Company had \$1,816.9 million and \$1,552.4 million of investments in money market accounts as of March 31, 2011 and September 30, 2010, respectively. The fair values of the money market accounts were determined based on unadjusted quoted prices in active markets for identical assets, otherwise known as Level 1 investments. The fair values of the Company's debt instruments are estimated based on market prices. The recorded amount of debt (see Note 4) and the corresponding fair value as of March 31, 2011 were \$1,342.9 million and \$1,444.0 million, respectively. The recorded amount of debt and the corresponding fair value as of September 30, 2010 were \$1,343.6 million and \$1,486.3 million, respectively.

Note 9. Selected Consolidating Financial Statements of Parent, Guarantors and Non-Guarantors

The Company's 5 5/8% senior notes due September 15, 2012 (the 2012 Notes), 5 7/8% senior notes due September 15, 2015 (the 2015 Notes), and 4 7/8% senior notes due November 15, 2019 (the 2019 Notes and, together with the 2012 Notes and 2015 Notes, the Notes) each are fully and unconditionally guaranteed on a joint and several basis by certain of the Company's subsidiaries (the subsidiaries of the Company that are guarantors of any of the Notes being referred to collectively as the Guarantor Subsidiaries). The total assets, stockholders' equity, revenue, earnings, and cash flows from operating activities of the Guarantor Subsidiaries reflect the majority of the consolidated total of such items as of or for the periods reported. The only consolidated subsidiaries of the Company that are not guarantors of any of the Notes (the Non-Guarantor Subsidiaries) are: (a) the receivables securitization special purpose entity, (b) the foreign operating subsidiaries, and (c) certain smaller operating subsidiaries. The following tables present condensed consolidating financial statements including AmerisourceBergen Corporation (the Parent), the Guarantor Subsidiaries, and the Non-Guarantor Subsidiaries. Such financial statements include balance sheets as of March 31, 2011 and September 30, 2010, statements of operations for the three and six months ended March 31, 2011 and 2010, and statements of cash flows for the six months ended March 31, 2011 and 2010.

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

SUMMARY CONSOLIDATING BALANCE SHEETS:

| <i>(in thousands)</i> | March 31, 2011 | | | | Consolidated |
|---|-----------------------|---------------------------|-------------------------------|-----------------------|----------------------|
| | Parent | Guarantor Subsidiaries | Non-Guarantor Subsidiaries | Eliminations | Total |
| Current assets: | | | | | |
| Cash and cash equivalents | \$ 1,815,794 | \$ 66,394 | \$ 30,248 | \$ | \$ 1,912,436 |
| Accounts receivable, net | 182 | 1,084,346 | 2,717,712 | | 3,802,240 |
| Merchandise inventories | | 5,047,368 | 148,578 | | 5,195,946 |
| Prepaid expenses and other | 226 | 42,221 | 3,177 | | 45,624 |
| Total current assets | 1,816,202 | 6,240,329 | 2,899,715 | | 10,956,246 |
| Property and equipment, net | | 727,590 | 27,565 | | 755,155 |
| Goodwill and other intangible assets | | 2,704,427 | 141,779 | | 2,846,206 |
| Other assets | 11,703 | 109,868 | 1,838 | | 123,409 |
| Intercompany investments and advances | 2,317,670 | 2,507,293 | (100,235) | (4,724,728) | |
| Total assets | \$ 4,145,575 | \$ 12,289,507 | \$ 2,970,662 | \$ (4,724,728) | \$ 14,681,016 |
| Current liabilities: | | | | | |
| Accounts payable | \$ | \$ 8,726,754 | \$ 182,727 | \$ | \$ 8,909,481 |
| Accrued expenses and other | (275,036) | 561,488 | 14,231 | | 300,683 |
| Current portion of long-term debt | | 260 | 18 | | 278 |
| Deferred income taxes | | 739,730 | | | 739,730 |
| Total current liabilities | (275,036) | 10,028,232 | 196,976 | | 9,950,172 |
| Long-term debt, net of current portion | 1,287,581 | | 55,000 | | 1,342,581 |
| Other liabilities | | 253,146 | 2,087 | | 255,233 |
| Total stockholders' equity | 3,133,030 | 2,008,129 | 2,716,599 | (4,724,728) | 3,133,030 |
| Total liabilities and stockholders' equity | \$ 4,145,575 | \$ 12,289,507 | \$ 2,970,662 | \$ (4,724,728) | \$ 14,681,016 |

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

SUMMARY CONSOLIDATING BALANCE SHEETS:

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

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

CONDENSED CONSOLIDATING STATEMENTS OF OPERATIONS:

| <i>(in thousands)</i> | Three months ended March 31, 2011 | | | | Consolidated Total |
|--|--|---------------------------|-------------------------------|--------------|-----------------------|
| | Parent | Guarantor Subsidiaries | Non-Guarantor Subsidiaries | Eliminations | |
| 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:

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

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

CONDENSED CONSOLIDATING STATEMENTS OF OPERATIONS:

| <i>(in thousands)</i> | Six months ended March 31, 2011 | | | | | Consolidated Total |
|--|--|---------------------------|-------------------------------|--------------|--|-----------------------|
| | Parent | Guarantor Subsidiaries | Non-Guarantor Subsidiaries | Eliminations | | |
| Revenue | \$ | \$ 38,776,064 | \$ 937,683 | \$ (64,881) | | \$ 39,648,866 |
| Cost of goods sold | | 37,548,418 | 832,880 | | | 38,381,298 |
| Gross profit | | 1,227,646 | 104,803 | (64,881) | | 1,267,568 |
| Operating expenses: | | | | | | |
| Distribution, selling, and administrative | | 602,778 | 36,268 | (64,881) | | 574,165 |
| Depreciation | | 41,449 | 1,731 | | | 43,180 |
| Amortization | | 6,614 | 1,594 | | | 8,208 |
| Operating income | | 576,805 | 65,210 | | | 642,015 |
| Other (income) loss | | (1,816) | 7 | | | (1,809) |
| Interest expense, net | 920 | 32,225 | 5,055 | | | 38,200 |
| (Loss) income before income taxes and equity in earnings of subsidiaries | (920) | 546,396 | 60,148 | | | 605,624 |
| Income taxes | (322) | 209,807 | 21,258 | | | 230,743 |
| Equity in earnings of subsidiaries | 375,479 | | | (375,479) | | |
| Net income | \$ 374,881 | \$ 336,589 | \$ 38,890 | \$ (375,479) | | \$ 374,881 |

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

CONDENSED CONSOLIDATING STATEMENTS OF OPERATIONS:

| <i>(in thousands)</i> | Six months ended March 31, 2010 | | | | | Consolidated Total |
|--|--|---------------------------|-------------------------------|--------------|--|-----------------------|
| | Parent | Guarantor Subsidiaries | Non-Guarantor Subsidiaries | Eliminations | | |
| Revenue | \$ | \$ 37,791,819 | \$ 906,776 | \$ (62,109) | | \$ 38,636,486 |
| Cost of goods sold | | 36,655,488 | 805,560 | | | 37,461,048 |
| Gross profit | | 1,136,331 | 101,216 | (62,109) | | 1,175,438 |
| Operating expenses: | | | | | | |
| Distribution, selling, and administrative | | 594,460 | 27,379 | (62,109) | | 559,730 |
| Depreciation | | 31,577 | 1,682 | | | 33,259 |
| Amortization | | 6,501 | 1,724 | | | 8,225 |
| Facility consolidations, employee severance and other | | (85) | | | | (85) |
| Intangible asset impairments | | 700 | | | | 700 |
| Operating income | | 503,178 | 70,431 | | | 573,609 |
| Other loss (income) | | 550 | (5) | | | 545 |
| Interest expense, net | 1,225 | 29,400 | 5,921 | | | 36,546 |
| (Loss) income before income taxes and equity in earnings of subsidiaries | (1,225) | 473,228 | 64,515 | | | 536,518 |
| Income taxes | (429) | 181,640 | 22,992 | | | 204,203 |
| Equity in earnings of subsidiaries | 333,111 | | | (333,111) | | |
| Net income | \$ 332,315 | \$ 291,588 | \$ 41,523 | \$ (333,111) | | \$ 332,315 |

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

CONDENSED CONSOLIDATING STATEMENTS OF CASH FLOWS:

| <i>(in thousands)</i> | Six months ended March 31, 2011 | | | | Consolidated Total |
|--|--|---------------------------|-------------------------------|--------------|-----------------------|
| | Parent | Guarantor Subsidiaries | Non-Guarantor Subsidiaries | Eliminations | |
| Net income | \$ 374,881 | \$ 336,589 | \$ 38,890 | \$ (375,479) | \$ 374,881 |
| Adjustments to reconcile net income to net cash provided by (used in) operating activities | (374,357) | 385,614 | (184,413) | 375,479 | 202,323 |
| Net cash provided by (used in) operating activities | 524 | 722,203 | (145,523) | | 577,204 |
| Capital expenditures | | (92,484) | (1,289) | | (93,773) |
| Net cash used in investing activities | | (92,484) | (1,289) | | (93,773) |
| Net repayments under revolving and securitization credit facilities | | | (1,905) | | (1,905) |
| Purchases of common stock | (255,120) | | | | (255,120) |
| Exercises of stock options, including excess tax benefit | 89,369 | | | | 89,369 |
| Cash dividends on common stock | (55,271) | | | | (55,271) |
| Debt issuance costs and other | (6,802) | 557 | (5) | | (6,250) |
| Intercompany financing and advances | 490,972 | (643,582) | 152,610 | | |
| Net cash provided by (used in) financing activities | 263,148 | (643,025) | 150,700 | | (229,177) |
| Increase (decrease) in cash and cash equivalents | 263,672 | (13,306) | 3,888 | | 254,254 |
| Cash and cash equivalents at beginning of period | 1,552,122 | 79,700 | 26,360 | | 1,658,182 |
| Cash and cash equivalents at end of period | \$ 1,815,794 | \$ 66,394 | \$ 30,248 | \$ | \$ 1,912,436 |

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

CONDENSED CONSOLIDATING STATEMENTS OF CASH FLOWS:

| <i>(in thousands)</i> | Six months ended March 31, 2010 | | | | Consolidated Total |
|--|--|---------------------------|-------------------------------|--------------|-----------------------|
| | Parent | Guarantor Subsidiaries | Non-Guarantor Subsidiaries | Eliminations | |
| Net income | \$ 332,315 | \$ 291,588 | \$ 41,523 | \$ (333,111) | \$ 332,315 |
| Adjustments to reconcile net income to net cash (used in) provided by operating activities | (334,544) | 53,515 | (38,004) | 333,111 | 14,078 |
| Net cash (used in) provided by operating activities | (2,229) | 345,103 | 3,519 | | 346,393 |
| Capital expenditures | | (86,157) | (1,880) | | (88,037) |
| Other | | 22 | 112 | | 134 |
| Net cash used in investing activities | | (86,135) | (1,768) | | (87,903) |
| Long-term debt borrowings | 396,696 | | | | 396,696 |
| Net repayments under revolving and securitization credit facilities | | | (219,178) | | (219,178) |
| Purchases of common stock | (255,199) | | | | (255,199) |
| Exercises of stock options, including excess tax benefit | 64,496 | | | | 64,496 |
| Cash dividends on common stock | (45,754) | | | | (45,754) |
| Debt issuance costs and other | (8,687) | (357) | (3) | | (9,047) |
| Intercompany financing and advances | 39,345 | (261,128) | 221,783 | | |
| Net cash provided by (used in) financing activities | 190,897 | (261,485) | 2,602 | | (67,986) |
| Increase (decrease) in cash and cash equivalents | 188,668 | (2,517) | 4,353 | | 190,504 |
| Cash and cash equivalents at beginning of period | 927,049 | 58,900 | 23,419 | | 1,009,368 |
| Cash and cash equivalents at end of period | \$ 1,115,717 | \$ 56,383 | \$ 27,772 | \$ | \$ 1,199,872 |

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

Overview

The following discussion should be read in conjunction with the Consolidated Financial Statements and notes thereto contained herein and in conjunction with the financial statements and notes thereto included in our Annual Report on Form 10-K for the fiscal year ended September 30, 2010.

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

Pharmaceutical Distribution

Our operations are comprised of one reportable segment, Pharmaceutical Distribution. The Pharmaceutical Distribution reportable segment represents the consolidated operating results of the Company and is comprised of four operating segments, which include the operations of AmerisourceBergen Drug Corporation (ABDC), AmerisourceBergen Specialty Group (ABSG), AmerisourceBergen Consulting Services (ABCS) and AmerisourceBergen Packaging Group (ABPG). Servicing both healthcare providers and pharmaceutical manufacturers in the pharmaceutical supply channel, the Pharmaceutical Distribution segment's operations provide drug distribution and related services designed to reduce healthcare costs and improve patient outcomes. Prior to fiscal 2011, the business operations of ABCS were included within ABSG.

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

ABSG, through a number of individual operating businesses, provides pharmaceutical distribution and other services primarily to physicians who specialize in a variety of disease states, especially oncology, and to other healthcare providers, including dialysis clinics. ABSG also distributes plasma and other blood products, injectible pharmaceuticals and vaccines. Additionally, ABSG provides third party logistics and other services for biotech and other pharmaceutical manufacturers.

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

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

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Summary Financial Information

| <i>(dollars in thousands)</i> | Three months ended March 31, | | Change |
|-------------------------------|-------------------------------------|---------------|---------------|
| | 2011 | 2010 | |
| Revenue | \$ 19,760,257 | \$ 19,300,627 | 2.4% |
| Gross profit | \$ 687,336 | \$ 612,068 | 12.3% |
| Operating income | \$ 365,249 | \$ 311,227 | 17.4% |
| Percentages of revenue: | | | |
| Gross profit | 3.48% | 3.17% | |
| Operating expenses | 1.63% | 1.56% | |
| Operating income | 1.85% | 1.61% | |

| <i>(dollars in thousands)</i> | Six months ended March 31, | | Change |
|-------------------------------|-----------------------------------|---------------|---------------|
| | 2011 | 2010 | |
| Revenue | \$ 39,648,866 | \$ 38,636,486 | 2.6% |
| Gross profit | \$ 1,267,568 | \$ 1,175,438 | 7.8% |
| Operating income | \$ 642,015 | \$ 573,609 | 11.9% |
| Percentages of revenue: | | | |
| Gross profit | 3.20% | 3.04% | |
| Operating expenses | 1.58% | 1.56% | |
| Operating income | 1.62% | 1.48% | |

Results of Operations

Revenue of \$19.8 billion in the quarter ended March 31, 2011 increased 2% from the prior year quarter. The increase in revenue was due to the 4% revenue growth of ABDC, offset in part by the 2% revenue decline of ABSG. During the quarter ended March 31, 2011 and 2010, 70% of revenue was from sales to institutional customers and 30% was from sales to retail customers. Sales to institutional customers and sales to retail customers both increased 2% in comparison to the prior year quarter. Revenue of \$39.6 billion in the six months ended March 31, 2011 increased 3% from the prior year period as ABDC's revenue grew 4%, offset in part by the 3% revenue decline of ABSG.

ABDC's revenue increased by 4% from the prior year quarter and six month period due to overall pharmaceutical market growth and the above market growth of a few of our largest customers, primarily our institutional customers.

ABSG's revenue of \$3.8 billion and \$7.6 billion in the quarter and six months ended March 31, 2011 decreased 2% and 3%, respectively, from the prior year periods primarily due to the September 2010 discontinuance of its contract with a third party logistics customer that has transitioned to a direct manufacturer distribution model. ABSG's revenue decline in the quarter ended March 31, 2011 was also attributable to a decline in sales to dialysis providers, and an increase in the utilization of specialty generic products. The majority of ABSG's revenue is generated from the distribution of pharmaceuticals to physicians who specialize in a variety of disease states, especially oncology. ABSG's business may be adversely impacted in the future by changes in medical guidelines and the Medicare reimbursement rates for certain pharmaceuticals, especially oncology drugs administered by physicians and anemia drugs. Since ABSG provides a number of services to or through physicians, any changes affecting this service channel could result in slower growth or reduced revenues.

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We continue to expect to grow our revenues between 2% and 4% in fiscal 2011. Our estimated revenue growth in fiscal 2011 reflects the growth rate of the overall pharmaceutical market and the September 2010 discontinuance of our contract with an ABSG third party logistics customer, as noted above. This customer loss will impact our revenue growth and ABSG's revenue growth in fiscal 2011 by approximately 1% and 5%, respectively. Our expected growth reflects U.S. pharmaceutical industry conditions, including increases in prescription drug utilization, the introduction of new products, and higher branded pharmaceutical prices, offset, in part, by the increased use of lower-priced generics. Our growth also may be impacted, among other things, by industry competition and changes in customer mix. One of our larger retail customers, the former Long's Drugs, with annual revenue totaling approximately \$2 billion, was previously acquired by a customer of one of our competitors and did not renew its contract. As a result, we will no longer service this large retail customer after September 30, 2011. Our future revenue growth will continue to be affected by various factors such as industry growth trends, including the likely increase in the number of generic drugs that will be available over the next few years as a result of the expiration of certain drug patents held by brand-name pharmaceutical manufacturers, general economic conditions in the United States, competition within the industry, customer consolidation, changes in pharmaceutical manufacturer pricing and distribution policies and practices, increased downward pressure on reimbursement rates, and changes in Federal government rules and regulations.

Gross profit of \$687.3 million in the quarter ended March 31, 2011 increased by \$75.3 million or 12% from the prior year quarter. Gross profit of \$1.3 billion in the six months ended March 31, 2011 increased \$92.1 million or 8% from the prior year period. The increases in gross profit were in large part attributable to specialty generic product introductions (launches), our revenue growth, the continued strong growth and profitability of our non-specialty generic programs and increased contributions from our fee-for-service agreements with pharmaceutical manufacturers. All of the above was offset in part by normal competitive pressures on customer margins. Oxaliplatin, Gemcitabine, and Docetaxel (all generic oncology drugs), were launched in the quarters ended September 30, 2009, December 31, 2010, and March 31, 2011, respectively. The gross profit benefit achieved collectively from all three generic oncology drugs in the quarter and six months ended March 31, 2011 was higher than the benefit achieved from Oxaliplatin alone in the prior year periods by approximately \$47 million and \$27 million, respectively. Sales of Oxaliplatin, the largest contributor of the three specialty generic drugs, benefited our gross profit by approximately \$54 million and \$72 million in the quarter and six months ended March 31, 2011, respectively. We expect to fully deplete our inventory of this product in our third fiscal quarter ending June 30, 2011. Further quantities of Oxaliplatin are not expected to be available until the product is re-launched in August 2012. While we expect an increase in the number of brand to generic conversions in the future, the amount of gross profit attributable to each generic launch can cause significant variability in our results of operations. Additionally, in the six months ended March 31, 2011, our gross profit was impacted by a non-recurring \$12 million benefit in connection with a customer being acquired by a third party. In the prior year quarter ended March 31, 2010, we completed a reconciliation with one of our generic suppliers relating to rebate incentives owed to us. Our gross profit benefited by approximately \$12 million in the prior year quarter as a result of having completed this reconciliation. Lastly, in the prior year six-month period, we recognized a gain of \$1.5 million from antitrust litigation settlements with pharmaceutical manufacturers. This gain was recorded as a reduction to cost of goods sold. We are unable to estimate future gains, if any, we will recognize as a result of antitrust settlements (see Note 7 of the Notes to Consolidated Financial Statements).

As a percentage of revenue, our gross profit margin of 3.48% in the quarter ended March 31, 2011 improved by 31 basis points from the prior year quarter. As a percentage of revenue, our gross profit margin of 3.20% in the six months ended March 31, 2011 improved by 16 basis points from the prior year period. The gross profit margin improvements were due to the above mentioned generic oncology drug launches, the strong growth and profitability of our non-specialty generic programs and increased contributions from our fee-for-service agreements with pharmaceutical manufacturers. These factors more than offset the above market growth of some of our largest customers, who benefit from our best pricing, and normal competitive pressures on customer margins.

Our cost of goods sold for interim periods includes a last-in, first-out (LIFO) provision that is based on our estimated annual LIFO provision. We recorded a LIFO charge of \$13.5 million and \$10.7 million in the quarters ended

March 31, 2011 and 2010, respectively. Our LIFO charge was \$23.4 million and \$18.5 million in the six months ended March 31, 2011 and 2010, respectively. The annual LIFO provision is affected by changes in inventory quantities, product mix, and manufacturer pricing practices, which may be impacted by market and other external influences.

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In July 2010 and October 2010, we implemented the first and second phases of our Business Transformation project and our new enterprise resource planning (ERP) platform. As a result, we started to depreciate a significant portion of our capitalized project costs in the fourth quarter of fiscal 2010. Additionally, we started to incur other significant costs to support our new ERP platform as we have begun the transition from our legacy information systems to our ERP platform. This transition is expected to last through the end of calendar 2012. The incremental costs of maintaining dual information technology platforms, including depreciation, are expected to be approximately \$40 million per year during the transition period. We intend to mitigate the impact of these incremental costs by reducing expenses elsewhere, but there can be no assurance that we will be able to do so.

Operating expenses of \$322.1 million in the quarter ended March 31, 2011 increased by \$21.2 million or 7% from the prior year quarter due to the incremental costs of maintaining dual information technology platforms, including depreciation, a \$5.0 million increase in bad debt expense, and an increase in compensation costs under our annual incentive plan. Operating expenses of \$625.6 million in the six months ended March 31, 2011 increased by \$23.7 million or 4% from the prior year period primarily due to the incremental costs of maintaining dual information technology platforms, including depreciation. As a percentage of revenue, operating expenses were 1.63% and 1.58% in the quarter and six months ended March 31, 2011, respectively, and represented increases in our operating expense ratios of 7 basis points and 2 basis points, respectively, from the prior year periods due to the incremental costs of maintaining dual information technology platforms in the quarter and six months ended March 31, 2011 and the increase in bad debt expense and compensation costs under our annual incentive plan in the quarter ended March 31, 2011, all of which was offset, in part, by our operating leverage, particularly within ABDC.

Operating income of \$365.2 million and \$642.0 million in the quarter and six months ended March 31, 2011 increased 17% and 12%, respectively, from the prior year periods due to the increases in our gross profit. As a percentage of revenue, operating income increased 24 basis points to 1.85% and 14 basis points to 1.62% in the quarter and six months ended March 31, 2011, respectively, from the prior year periods due to the increase in our gross profit margins, offset in part by the increase in our operating expense margins.

Other income of \$1.8 million in the six months ended March 31, 2011 included a \$1.9 million gain resulting from payments received in excess of amounts accrued on a note receivable relating to a prior business disposition.

Interest expense, interest income, and the respective weighted-average interest rates in the quarters ended March 31, 2011 and 2010 were as follows (in thousands):

| | 2011 | | 2010 | |
|-----------------------|-----------|--------------------------------|-----------|--------------------------------|
| | Amount | Weighted-Average Interest Rate | Amount | Weighted-Average Interest Rate |
| Interest expense | \$ 19,625 | 5.34% | \$ 19,598 | 5.31% |
| Interest income | (569) | 0.20% | (319) | 0.16% |
| Interest expense, net | \$ 19,056 | | \$ 19,279 | |

Interest costs capitalized relating to our Business Transformation project of \$1.1 million and \$1.7 million in the quarters ended March 31, 2011 and 2010 had the effect of reducing interest expense for those periods, respectively. Average borrowings in the quarter ended March 31, 2011 were \$16.8 million lower than the prior year quarter. We expect to capitalize significantly less interest costs related to our Business Transformation project in fiscal 2011, since we began to implement our new ERP platform in the fourth quarter of fiscal 2010. Interest income increased from the prior year quarter due to an increase in average invested cash of \$361.3 million and an increase in the weighted-average interest rate.

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Interest expense, interest income, and the respective weighted-average interest rates in the six months ended March 31, 2011 and 2010 were as follows (in thousands):

| | 2011 | | 2010 | |
|-----------------------|---------------|---------------------------------------|---------------|---------------------------------------|
| | Amount | Weighted-Average Interest Rate | Amount | Weighted-Average Interest Rate |
| Interest expense | \$ 39,363 | 5.33% | \$ 37,240 | 5.04% |
| Interest income | (1,163) | 0.22% | (694) | 0.17% |
| Interest expense, net | \$ 38,200 | | \$ 36,546 | |

Interest expense increased from the prior six-month period due to an increase in the weighted average interest rate and a \$1.0 million decline in interest costs capitalized relating to our Business Transformation project. Interest costs capitalized relating to our Business Transformation project of \$2.0 million and \$3.0 million in the six months ended March 31, 2011 and 2010, respectively, had the effect of reducing interest expense for those periods. Interest income increased from the prior six-month period due to an increase in average invested cash of \$243.6 million and an increase in the weighted-average interest rate.

Income taxes in the quarter ended March 31, 2011 reflect an effective income tax rate of 38.1%, compared to 37.9% in the prior year quarter. Income taxes in the six months ended March 31, 2011 and 2010 reflect an effective tax rate of 38.1%. We expect that our ongoing effective tax rate will be approximately 38.4%.

Net income of \$214.4 million in the quarter ended March 31, 2011 increased 18% from the prior year quarter primarily due to the increase in operating income. Diluted earnings per share of \$0.77 in the quarter ended March 31, 2011 increased 22% from \$0.63 per share in the prior year quarter. Net income of \$374.9 million in the six months ended March 31, 2011 increased 13% from the prior year period due to the increase in operating income. Diluted earnings per share of \$1.34 in the six months ended March 31, 2011 increased 17% from \$1.15 in the prior year period. The differences between diluted earnings per share growth and the increase in net income for the quarter and six months ended March 31, 2011 was primarily due to the 3% reduction in weighted average common shares outstanding in both periods, primarily from purchases of our common stock, net of the impact of stock option exercises.

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The following table illustrates our debt structure at March 31, 2011, including availability under revolving credit facilities and the receivables securitization facility (in thousands):

| | Outstanding Balance | Additional Availability |
|---|--------------------------------|------------------------------------|
| Fixed-Rate Debt: | | |
| \$392,326, 5 5/8% senior notes due 2012 | \$ 391,839 | \$ |
| \$500,000, 5 7/8% senior notes due 2015 | 498,693 | |
| \$400,000, 4 7/8% senior notes due 2019 | 397,049 | |
| Other | 278 | |
| | | |
| Total fixed-rate debt | 1,287,859 | |
| | | |
| Variable-Rate Debt: | | |
| Blanco revolving credit facility due 2012 | 55,000 | |
| Multi-currency revolving credit facility due 2015 | | 688,411 |
| Receivables securitization facility due 2014 | | 700,000 |
| Other | | 1,603 |
| | | |
| Total variable-rate debt | 55,000 | 1,390,014 |
| | | |
| Total debt, including current portion | \$ 1,342,859 | \$ 1,390,014 |

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

In March 2011, we entered into a new multi-currency senior unsecured revolving credit facility for \$700 million, which expires in March 2015, (the Multi-Currency Revolving Credit Facility) with a syndicate of lenders. Interest on borrowings under the Multi-Currency Revolving Credit Facility accrues at specified rates based on our debt rating and ranges from 87.5 basis points to 192.5 basis points over LIBOR/EURIBOR/Bankers Acceptance Stamping Fee, as applicable (130 basis points over LIBOR/EURIBOR/Bankers Acceptance Stamping Fee at March 31, 2011). Additionally, interest on borrowings denominated in Canadian dollars may accrue at the greater of the Canadian prime rate plus 30 basis points or the CDOR rate. We pay facility fees to maintain the availability under the Multi-Currency Revolving Credit Facility at specified rates based on our debt rating, ranging from 12.5 basis points to 32.5 basis points, annually, of the total commitment (20 basis points at March 31, 2011). We may choose to repay or reduce our commitments under the Multi-Currency Revolving Credit Facility at any time. The Multi-Currency Revolving Credit Facility contains covenants, including compliance with a financial leverage ratio test, as well as others that impose limitations on, among other things, indebtedness of excluded subsidiaries and asset sales.

In April 2011, we amended our \$700 million receivables securitization facility (Receivables Securitization Facility), which now expires in April 2014. We continue to have available to us an accordion feature whereby the commitment on the Receivables Securitization Facility may be increased by up to \$250 million, subject to lender approval, for seasonal needs during the December and March quarters. Interest rates are based on prevailing market rates for short-term commercial paper or LIBOR plus a program fee of 90 basis points. We pay an unused fee of 45 basis points, annually, to maintain the availability under the Receivables Securitization Facility. At March 31, 2011, there were no borrowings outstanding under the Receivables Securitization Facility. The Receivables Securitization Facility

contains similar covenants to the Multi-Currency Revolving Credit Facility.

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

In April 2011, we amended the \$55 million Blanco revolving credit facility (the Blanco Credit Facility) to extend the maturity date to April 2012. Borrowings under the Blanco Credit Facility are guaranteed by us. Under the amended Blanco Credit Facility, interest on borrowings will accrue at 100 basis points over LIBOR.

In November 2009, we issued \$400 million of 4 7/8% senior notes due November 15, 2019 (the 2019 Notes). The interest on the 2019 Notes is payable semiannually. The 2019 Notes rank pari passu to the Multi-Currency Revolving Credit Facility, the 5 5/8% senior notes due 2012, and the 5 7/8% senior notes due 2015. We used the net proceeds of the 2019 Notes to repay substantially all amounts then outstanding under our Multi-Currency Revolving Credit Facility, and the remaining net proceeds were used for general corporate purposes.

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

Our primary ongoing cash requirements will be to finance working capital, fund the payment of interest on debt, fund repurchases of our common stock, fund the payment of dividends, finance acquisitions, and fund capital expenditures (including our Business Transformation project, which involves the implementation of our new ERP platform) and routine growth and expansion through new business opportunities. In September 2010, our board of directors approved a new program allowing us to purchase up to \$500 million of our outstanding shares of common stock, subject to market conditions. During the six months ended March 31, 2011, we purchased \$254.9 million of our common stock, of which \$98.1 million was purchased to close out our prior November 2009 share repurchase program and \$156.8 million was purchased under the current \$500 million share repurchase program. As of March 31, 2011, we had \$343.1 million of availability remaining on our current \$500 million share repurchase program, which we expect to complete by the end of fiscal 2011. Future cash flows from operations and borrowings are expected to be sufficient to fund our ongoing cash requirements.

Our most significant market risk historically has been the effect of fluctuations in interest rates relating to our debt. We manage interest rate risk by using a combination of fixed-rate and variable-rate debt. At March 31, 2011, we had \$55.0 million of variable-rate debt outstanding. The amount of variable-rate debt fluctuates during the year based on our working capital requirements. We periodically evaluate financial instruments to manage our exposure to fixed and variable interest rates. However, there are no assurances that such instruments will be available in the combinations we want and on terms acceptable to us. There were no such financial instruments in effect at March 31, 2011.

We also have market risk exposure to interest rate fluctuations relating to our cash and cash equivalents. We had \$1.9 billion in cash and cash equivalents at March 31, 2011. The unfavorable impact of a hypothetical decrease in interest rates on cash and cash equivalents would be partially offset by the favorable impact of such a decrease on variable-rate debt. For every \$100 million of cash invested that is in excess of variable-rate debt, a 10 basis point decrease in interest rates would increase our annual net interest expense by \$0.1 million.

We are exposed to foreign currency and exchange rate risk from our non-U.S. operations. Our largest exposure to foreign exchange rates exists primarily with the Canadian Dollar. We may utilize foreign currency denominated forward contracts to hedge against changes in foreign exchange rates. Such contracts generally have durations of less than one year. We had no foreign currency denominated forward contracts at March 31, 2011. We may use derivative instruments to hedge our foreign currency exposure, but not for speculative or trading purposes.

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Following is a summary of our contractual obligations for future principal and interest payments on our debt, minimum rental payments on our noncancelable operating leases and minimum payments on our other commitments at March 31, 2011 (in thousands):

| | Total | Payments Due by Period | | | After 5 Years |
|-----------------------------------|--------------|------------------------|------------|------------|------------------|
| | | Within 1 Year | 1-3 Years | 4-5 Years | |
| Debt, including interest payments | \$ 1,688,360 | \$ 126,187 | \$ 501,110 | \$ 583,063 | \$ 478,000 |
| Operating leases | 214,975 | 44,250 | 65,994 | 47,267 | 57,464 |
| Other commitments | 414,650 | 221,266 | 155,073 | 38,311 | |
| Total | \$ 2,317,985 | \$ 391,703 | \$ 722,177 | \$ 668,641 | \$ 535,464 |

We have commitments to purchase product from influenza vaccine manufacturers for the 2011/2012 flu season. We are required to purchase doses at prices that we believe will represent market prices. We currently estimate our remaining purchase commitment under these agreements, as amended, will be approximately \$48.3 million as of March 31, 2011. These influenza vaccine commitments are included in Other commitments in the above table.

We have commitments to purchase blood products from suppliers through December 31, 2012. We are required to purchase quantities at prices that we believe will represent market prices. We currently estimate our remaining purchase commitment under these agreements will be approximately \$199.5 million as of March 31, 2011. These blood product commitments are included in Other commitments in the above table.

We have outsourced to IBM Global Services (IBM) a significant portion of our corporate and ABDC information technology activities, including assistance with the implementation of our new ERP platform. The remaining commitment under our 10-year arrangement, as amended, which expires in June 2015, is approximately \$163.5 million as of March 31, 2011 and is included in Other commitments in the above table.

Our liability for uncertain tax positions was \$47.1 million (including interest and penalties) as of March 31, 2011. This liability represents an estimate of tax positions that we have taken in our tax returns which may ultimately not be sustained upon examination by taxing authorities. Since the amount and timing of any future cash settlements cannot be predicted with reasonable certainty, the estimated liability has been excluded from the above table.

During the six months ended March 31, 2011, our operating activities provided \$577.2 million of cash in comparison to cash provided of \$346.4 million in the prior year period. Cash provided by operations during the six months ended March 31, 2011 was principally the result of net income of \$374.9 million, non-cash items of \$141.5 million, and a decrease in merchandise inventories of \$30.5 million. Merchandise inventories decreased slightly from the September 30, 2010 balance while the average number of inventory days on hand in the six months ended March 31, 2011 decreased by nearly one day from the prior year period. Accounts receivable and accounts payable, accrued expenses, and income taxes, were relatively consistent to the September 30, 2010 balances. The average number of days sales outstanding during the quarter and six months ended March 31, 2011 was relatively consistent to the prior year periods. The average number of days payable outstanding in the quarter and six months ended March 31, 2011 decreased by 1 day from the prior year periods. Operating cash uses during the six months ended March 31, 2011 included \$37.0 million in interest payments and \$147.3 million of income tax payments, net of refunds.

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During the six months ended March 31, 2010, our operating activities provided \$346.4 million of cash in comparison to cash provided of \$32.4 million in the prior year period. Cash provided by operations during the six months ended March 31, 2010 was principally the result of net income of \$332.3 million and non-cash items of \$128.8 million, offset, in part, by a decrease in accounts payable, accrued expenses and income taxes of \$94.6 million, an increase in merchandise inventories of \$22.9 million, and an increase in accounts receivable of \$21.0 million. Despite the significant increase in revenue in the six months ended March 31, 2010, accounts receivable increased by less than 1% from September 30, 2009 as the average number of days sales outstanding during the six-months ended March 31, 2010 decreased by one day to 17.2 days from the prior year period, reflecting improved cash collection efforts and timing of customer receipts. Our accounts payable and inventory balances at September 30, 2009 were higher than normal as we made inventory purchases of approximately \$400 million in the month of September 2009, primarily relating to the purchase of generic products due to a then recent product launch and purchases made in advance of a manufacturer's temporary plant shutdown in connection with its facility consolidation efforts. Despite our higher than normal accounts payable balance at September 30, 2009, accounts payable, accrued expenses and income taxes decreased only by 1% from September 30, 2009 to March 31, 2010 due to the growth in our business. Our merchandise inventories at March 31, 2010 remained relatively flat when compared to September 30, 2009 as our strong revenue growth was offset by the reduction in the higher than normal September 30, 2009 inventory balance. The average number of inventory days on hand in the six months ended March 31, 2010 was slightly lower when compared to the prior year period. Operating cash uses during the six months ended March 31, 2010 included \$27.4 million in interest payments and \$126.4 million of income tax payments, net of refunds.

Capital expenditures for the six months ended March 31, 2011 and 2010 were \$93.8 million and \$88.0 million, respectively. Our most significant capital expenditures in the six months ended March 31, 2011 and 2010 related to our Business Transformation project, which includes a new ERP platform that we have begun to implement in ABDC and our corporate office. Other capital expenditures in the six months ended March 31, 2011 included ABDC purchases of machinery and equipment, which were previously sold to financial institutions and leased back by us, and other technology initiatives. Other capital expenditures in the six months ended March 31, 2010 included improvements made to our operating facilities and other information technology initiatives. We currently expect to spend approximately \$175 million for capital expenditures during fiscal 2011.

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

During the six months ended March 31, 2011, we purchased 7.9 million shares of our common stock for a total of \$255.1 million. During the six months ended March 31, 2010, we purchased 10.0 million shares of our common stock for a total of \$255.2 million.

In November 2009, our board of directors increased the quarterly cash dividend by 33% to \$0.08 per share. In November 2010, our board of directors increased the quarterly cash dividend again by 25% to \$0.10 per share. We anticipate that we will continue to pay quarterly cash dividends in the future. However, the payment and amount of future dividends remains within the discretion of our board of directors and will depend upon our future earnings, financial condition, capital requirements, and other factors.

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

Certain of the statements contained in this Management's Discussion and Analysis of Financial Condition and Results of Operations and elsewhere in this report are forward-looking statements within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934, as amended (the Exchange Act). These statements are based on management's current expectations and are subject to uncertainty and changes in circumstances. Actual results may vary materially from the expectations contained in the forward-looking statements. The following factors, among others, could cause actual results to differ materially from those described in any forward-looking statements: changes in pharmaceutical market growth rates; the loss of one or more key customer or supplier relationships; changes in customer mix; customer delinquencies, defaults or insolvencies; supplier defaults or insolvencies; changes in pharmaceutical manufacturers' pricing and distribution policies or practices; adverse resolution of any contract or other dispute with customers or suppliers; federal and state government enforcement initiatives to detect and prevent suspicious orders of controlled substances and the diversion of controlled substances; qui tam litigation for alleged violations of fraud and abuse laws and regulations and/or laws and regulations governing the marketing, sale and purchase of pharmaceutical products or any related litigation, including shareholder derivative lawsuits; changes in federal and state legislation or regulatory action affecting pharmaceutical product pricing or reimbursement policies, including under Medicaid and Medicare; changes in regulatory or clinical medical guidelines and/or labeling for the pharmaceutical products we distribute, including certain anemia products; price inflation in branded pharmaceuticals and price deflation in generics; greater or less than anticipated benefit from launches of the generic versions of previously patented pharmaceutical products; significant breakdown or interruption of our information technology systems; our inability to continue to implement an enterprise resource planning (ERP) system to handle business and financial processes and transactions (including processes and transactions related to our customers and suppliers) of AmerisourceBergen Drug Corporation operations and our corporate functions as intended without functional problems, unanticipated delays and/or cost overruns; success of integration, restructuring or systems initiatives; interest rate and foreign currency exchange rate fluctuations; economic, business, competitive and/or regulatory developments in Canada, the United Kingdom and elsewhere outside of the United States, including changes and/or potential changes in Canadian provincial legislation affecting pharmaceutical product pricing or service fees or regulatory action by provincial authorities in Canada to lower pharmaceutical product pricing and service fees; the impact of divestitures or the acquisition of businesses that do not perform as we expect or that are difficult for us to integrate or control; our inability to successfully complete any other transaction that we may wish to pursue from time to time; changes in tax legislation or adverse resolution of challenges to our tax positions; increased costs of maintaining, or reductions in our ability to maintain, adequate liquidity and financing sources; volatility and deterioration of the capital and credit markets; and other economic, business, competitive, legal, tax, regulatory and/or operational factors affecting our business generally. Certain additional factors that management believes could cause actual outcomes and results to differ materially from those described in forward-looking statements are set forth (i) elsewhere in this report, (ii) in Item 1A (Risk Factors) in the Company's Annual Report on Form 10-K for the fiscal year ended September 30, 2010 and elsewhere in that report and (iii) in other reports filed by the Company pursuant to the Exchange Act.

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ITEM 3. Quantitative and Qualitative Disclosures About Market Risk

The Company's most significant market risks are the effects of changing interest rates and foreign currency risk. See the discussion under "Liquidity and Capital Resources" in Item 2 on page 26.

ITEM 4. Controls and Procedures

Evaluation of Disclosure Controls and Procedures

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

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

Changes in Internal Control over Financial Reporting

During the fiscal quarter ended December 31, 2010, the Company began to implement and use a new Enterprise Resource Planning (ERP) system, which, when completed, will handle the business and financial processes within ABDC's operations and its corporate and administrative functions. The Company has modified and will continue to modify its internal controls relating to its business and financial processes throughout the entire ERP system implementation, which is expected to progress through the end of calendar 2012. While the Company believes that this new system and the related changes to internal controls will ultimately strengthen its internal controls over financial reporting, there are inherent risks in implementing any new ERP system and the Company will continue to evaluate and test control changes in order to provide certification as of its fiscal year ending September 30, 2011 on the effectiveness, in all material respects, of its internal controls over financial reporting.

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

See Note 6 (Legal Matters and Contingencies) of the Notes to the Consolidated Financial Statements set forth under Item 1 of Part I of this report for the Company's current description of legal proceedings.

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

The following table sets forth the number of shares purchased, the average price paid per share, the total number of shares purchased as part of publicly announced programs, and the approximate dollar value of shares that may yet be purchased under the programs during each month in the quarter ended March 31, 2011.

| Period | Total Number of Shares Purchased | Average Price Paid per Share | Total Number of Shares Purchased as Part of Publicly Announced Programs | Approximate Dollar Value of Shares that May Yet Be Purchased Under the Programs |
|---------------------------|---|---|--|--|
| January 1 to January 31 | | \$ | | \$ 412,869,237 |
| February 1 to February 28 | 95,704 | \$ 37.39 | | \$ 412,869,237 |
| March 1 to March 31 | 1,902,616 | \$ 36.64 | 1,902,616 | \$ 343,149,418 |
| Total | 1,998,320 | | 1,902,616 | |

- a) In September 2010, the Company announced a new program to purchase up to \$500 million of its outstanding shares of common stock, subject to market conditions. During the six months ended March 31, 2011, the Company purchased 4.7 million shares under this program for \$156.8 million. There is no expiration date related to this new program.
- b) Employees surrendered 95,704 shares in February 2011 to meet tax-withholding obligations upon vesting of restricted stock.

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ITEM 6. Exhibits

(a) Exhibits:

- 3.1 Amended and Restated Certificate of Incorporation of AmerisourceBergen Corporation, as amended (pursuant to Item 601(b)(3)(i) of Regulation S-K, this Exhibit 3.1 contains a complete copy of the Amended and Restated Certificate of Incorporation of the Registrant, as amended to date and as currently in effect).
- 3.2 Amended and Restated Bylaws of AmerisourceBergen Corporation, amended and restated as of February 17, 2011 (incorporated by reference to Exhibit 3.1 to the Registrant's Current Report on Form 8-K filed on February 22, 2011).
- 10.1 Credit Agreement, dated as of March 18, 2011, among AmerisourceBergen Corporation, the Borrowing Subsidiaries party thereto, the Lenders party thereto, and JPMorgan Chase Bank, N.A., as Administrative Agent (incorporated by reference to Exhibit 10.1 to the Registrant's Current Report on Form 8-K filed on March 24, 2011).
- 10.2 AmerisourceBergen Corporation 2011 Employee Stock Purchase Plan.
- 10.3 AmerisourceBergen Corporation Equity Incentive Plan, as amended and restated effective as of January 1, 2011.
- 31.1 Rule 13a-14(a)/15d-14(a) Certification of Chief Executive Officer
- 31.2 Rule 13a-14(a)/15d-14(a) Certification of Chief Financial Officer
- 32.1 Section 1350 Certification of Chief Executive Officer
- 32.2 Section 1350 Certification of Chief Financial Officer
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SIGNATURES

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

AMERISOURCEBERGEN CORPORATION

May 6, 2011

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

May 6, 2011

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

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EXHIBIT INDEX

| Exhibit Number | Description |
|---------------------------|---|
| 3.1 | Amended and Restated Certificate of Incorporation of AmerisourceBergen Corporation, as amended (pursuant to Item 601(b)(3)(i) of Regulation S-K, this Exhibit 3.1 contains a complete copy of the Amended and Restated Certificate of Incorporation of the Registrant, as amended to date and as currently in effect). |
| 3.2 | Amended and Restated Bylaws of AmerisourceBergen Corporation, amended and restated as of February 17, 2011 (incorporated by reference to Exhibit 3.1 to the Registrant's Current Report on Form 8-K filed on February 22, 2011). |
| 10.1 | Credit Agreement, dated as of March 18, 2011, among AmerisourceBergen Corporation, the Borrowing Subsidiaries party thereto, the Lenders party thereto, and JPMorgan Chase Bank, N.A., as Administrative Agent (incorporated by reference to Exhibit 10.1 to the Registrant's Current Report on Form 8-K filed on March 24, 2011). |
| 10.2 | AmerisourceBergen Corporation 2011 Employee Stock Purchase Plan. |
| 10.3 | AmerisourceBergen Corporation Equity Incentive Plan, as amended and restated effective as of January 1, 2011. |
| 31.1 | Rule 13a-14(a)/15d-14(a) Certification of Chief Executive Officer |
| 31.2 | Rule 13a-14(a)/15d-14(a) Certification of Chief Financial Officer |
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