AMERISOURCEBERGEN CORP
Form 10-Q
May 08, 2007
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# UNITED STATES

# SECURITIES AND EXCHANGE COMMISSION

**Washington, D.C. 20549**

# FORM 10-Q

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

FOR THE QUARTERLY PERIOD ENDED MARCH 31, 2007

OR

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

FOR THE TRANSITION PERIOD FROM TO

Commission file number 1-16671

# AMERISOURCEBERGEN CORPORATION

**(Exact name of registrant as specified in its charter)**

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

**(610) 727-7000**

**(Registrant s telephone number, including area code)**

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

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

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

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

The number of shares of common stock of AmerisourceBergen Corporation outstanding as of April 30, 2007 was 191,081,676.

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**PART I. FINANCIAL INFORMATION**

**ITEM 1. Financial Statements (Unaudited)**

**AMERISOURCEBERGEN CORPORATION AND SUBSIDIARIES**

**CONSOLIDATED BALANCE SHEETS**

| *(in thousands, except share and per share data)* | **March 31, 2007 (Unaudited)** | **September 30, 2006** |
|---|---|---|
| **ASSETS** | | |
| Current assets: | | |
| Cash and cash equivalents | $ 778,382 | $ 1,261,268 |
| Short-term investment securities available-for-sale | 830,455 | 67,840 |
| Accounts receivable, less allowances for returns and doubtful accounts: $410,940 at March 31, 2007 and $406,624 at September 30, 2006 | 3,633,713 | 3,427,139 |
| Merchandise inventories | 4,602,195 | 4,422,055 |
| Prepaid expenses and other | 30,065 | 32,105 |
| Total current assets | 9,874,810 | 9,210,407 |
| Property and equipment, at cost: | | |
| Land | 35,665 | 35,993 |
| Buildings and improvements | 255,377 | 251,321 |
| Machinery, equipment and other | 575,267 | 536,621 |
| Total property and equipment | 866,309 | 823,935 |
| Less accumulated depreciation | 340,737 | 314,189 |
| Property and equipment, net | 525,572 | 509,746 |
| Other assets: | | |
| Goodwill | 2,702,747 | 2,588,712 |
| Intangibles, deferred charges and other | 483,643 | 475,055 |
| Total other assets | 3,186,390 | 3,063,767 |
| **TOTAL ASSETS** | $ 13,586,772 | $ 12,783,920 |
| **LIABILITIES AND STOCKHOLDERS EQUITY** | | |
| Current liabilities: | | |
| Accounts payable | $ 7,301,994 | $ 6,499,264 |
| Accrued expenses and other | 320,221 | 403,911 |
| Current portion of long-term debt | 833 | 1,560 |
| Accrued income taxes | 68,237 | 74,607 |
| Deferred income taxes | 499,658 | 479,846 |
| Total current liabilities | 8,190,943 | 7,459,188 |

| | | |
|---|---|---|
| Long-term debt, net of current portion | 1,199,138 | 1,093,931 |
| Other liabilities | 102,007 | 89,644 |
| Stockholders equity: | | |
| Common stock, $.01 par value authorized: 600,000,000 shares; issued and outstanding: 237,478,826 shares and 190,409,715 shares at March 31, 2007, respectively, and 235,392,882 shares and 196,350,532 shares at September 30, 2006, respectively | 2,375 | 2,354 |
| Additional paid-in capital | 3,554,372 | 3,466,944 |
| Retained earnings | 2,283,702 | 2,051,212 |
| Accumulated other comprehensive loss | (16,564) | (15,303) |
| Treasury stock, at cost: 47,069,111 shares at March 31, 2007 and 39,042,350 shares at September 30, 2006 | (1,729,201) | (1,364,050) |
| Total stockholders equity | 4,094,684 | 4,141,157 |
| **TOTAL LIABILITIES AND STOCKHOLDERS EQUITY** | $ 13,586,772 | $ 12,783,920 |

See notes to consolidated financial statements.

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**AMERISOURCEBERGEN CORPORATION AND SUBSIDIARIES**

**CONSOLIDATED STATEMENTS OF OPERATIONS**

**(Unaudited)**

| *(in thousands, except per share data)* | Three months ended March 31, 2007 | Three months ended March 31, 2006 | Six months ended March 31, 2007 | Six months ended March 31, 2006 |
|---|---|---|---|---|
| Operating revenue | $ 15,283,761 | $ 14,049,175 | $ 30,980,300 | $ 27,585,029 |
| Bulk deliveries to customer warehouses | 1,228,780 | 1,171,504 | 2,257,634 | 2,288,797 |
| Total revenue | 16,512,541 | 15,220,679 | 33,237,934 | 29,873,826 |
| Cost of goods sold | 15,906,098 | 14,659,916 | 32,036,848 | 28,784,685 |
| Gross profit | 606,443 | 560,763 | 1,201,086 | 1,089,141 |
| Operating expenses: | | | | |
| Distribution, selling and administrative | 363,367 | 339,113 | 720,328 | 670,972 |
| Depreciation | 18,087 | 16,951 | 35,886 | 35,509 |
| Amortization | 3,962 | 3,198 | 8,963 | 5,727 |
| Facility consolidations, employee severance, and other | 135 | 3,577 | 6,158 | 12,404 |
| Operating income | 220,892 | 197,924 | 429,751 | 364,529 |
| Other loss (income) | 376 | (5,826) | 442 | (5,043) |
| Interest expense, net | 9,889 | 7,344 | 18,032 | 13,856 |
| Income from continuing operations before income taxes | 210,627 | 196,406 | 411,277 | 355,716 |
| Income taxes | 81,131 | 67,816 | 159,594 | 129,150 |
| Income from continuing operations | 129,496 | 128,590 | 251,683 | 226,566 |
| (Income) loss from discontinued operations, net of tax (Note 4) | | (411) | | 298 |
| Net income | $ 129,496 | $ 129,001 | $ 251,683 | $ 226,268 |
| Earnings per share: | | | | |
| Basic: | | | | |
| Continuing operations | $ 0.69 | $ 0.62 | $ 1.32 | $ 1.09 |
| Discontinued operations | | | | |
| Net income | $ 0.69 | $ 0.62 | $ 1.32 | $ 1.09 |
| Diluted: | | | | |
| Continuing operations | $ 0.68 | $ 0.61 | $ 1.30 | $ 1.08 |
| Discontinued operations | | | | |
| Rounding | | | | (0.01) |
| Net income | $ 0.68 | $ 0.61 | $ 1.30 | $ 1.07 |
| Weighted average common shares outstanding: | | | | |
| Basic | 188,772 | 208,050 | 190,607 | 208,160 |
| Diluted | 191,797 | 210,771 | 193,409 | 210,570 |
| Cash dividends declared per share of common stock | $ 0.05 | $ 0.025 | $ 0.10 | $ 0.05 |

See notes to consolidated financial statements.

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**AMERISOURCEBERGEN CORPORATION AND SUBSIDIARIES**

**CONSOLIDATED STATEMENTS OF CASH FLOWS**

**(Unaudited)**

| *(in thousands)* | Six months ended March 31, 2007 | 2006 |
|---|---|---|
| **OPERATING ACTIVITIES** | | |
| Net income | $ 251,683 | $ 226,268 |
| Adjustments to reconcile net income to net cash provided by operating activities: | | |
| Depreciation, including amounts charged to cost of goods sold | 39,812 | 39,263 |
| Amortization, including amounts charged to interest expense | 11,954 | 7,660 |
| Provision on accounts receivable | 16,849 | 24,472 |
| Provision for deferred income taxes | 29,205 | 33,760 |
| Share-based compensation | 11,080 | 6,649 |
| Other income | (2,658) | (5,043) |
| Gain on disposal of property and equipment | (74) | (792) |
| Loss on sales of discontinued operations | | 468 |
| Changes in operating assets and liabilities, excluding the effects of acquisitions and dispositions: | | |
| Accounts receivable | (219,514) | (293,448) |
| Merchandise inventories | (175,537) | (305,167) |
| Prepaid expenses and other assets | 5,492 | (5,162) |
| Accounts payable, accrued expenses and income taxes | 743,278 | 975,078 |
| Other | (763) | (1,368) |
| NET CASH PROVIDED BY OPERATING ACTIVITIES | 710,807 | 702,638 |
| **INVESTING ACTIVITIES** | | |
| Capital expenditures | (57,397) | (60,149) |
| Cost of acquired companies, net of cash acquired, and other | (144,649) | (238,427) |
| Proceeds from sales of property and equipment | 4,103 | 2,199 |
| Proceeds from sale-leaseback transactions | | 28,143 |
| Proceeds from sale of equity investment and eminent domain settlement | | 7,582 |
| Purchases of investment securities available-for-sale | (2,783,528) | (1,815,672) |
| Proceeds from sale of investment securities available-for-sale | 2,020,913 | 1,299,685 |
| NET CASH USED IN INVESTING ACTIVITIES | (960,558) | (776,639) |
| **FINANCING ACTIVITIES** | | |
| Net borrowings under revolving credit facilities | 107,802 | 124,916 |
| Deferred financing costs and other | (1,920) | (992) |
| Purchases of common stock | (396,193) | (132,226) |
| Exercises of stock options, including excess tax benefits of $16,639 and $12,551 in fiscal 2007 and 2006, respectively | 77,290 | 97,804 |
| Cash dividends on common stock | (19,193) | (10,464) |
| Purchases of common stock for employee stock purchase plan | (921) | (1,037) |
| NET CASH (USED IN) PROVIDED BY FINANCING ACTIVITIES | (233,135) | 78,001 |
| (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS | (482,886) | 4,000 |
| Cash and cash equivalents at beginning of period | 1,261,268 | 966,553 |
| CASH AND CASH EQUIVALENTS AT END OF PERIOD | $ 778,382 | $ 970,553 |

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 material intercompany accounts and transactions have been eliminated in consolidation.

The accompanying unaudited consolidated financial statements have been prepared in conformity with U.S. generally accepted accounting principles for interim financial information, with the instructions to Form 10-Q and Rule 10-01 of Regulation S-X. In the opinion of management, all adjustments (consisting only of normal recurring accruals, except as otherwise disclosed herein) considered necessary to present fairly the financial position as of March 31, 2007 and the results of operations and cash flows for the interim periods ended March 31, 2007 and 2006 have been included. Certain information and footnote disclosures normally included in financial statements presented in accordance with U.S. generally accepted accounting principles, but which are not required for interim reporting purposes, have been omitted. The accompanying unaudited consolidated financial statements should be read in conjunction with the financial statements and notes thereto included in the Company s Annual Report on Form 10-K for the fiscal year ended September 30, 2006.

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

Certain reclassifications have been made to prior-year amounts in order to conform to the current-year presentation. The Company s consolidated statement of cash flows for the six months ended March 31, 2006 reflects reclassifications of net purchases of short-term investment securities of $81.2 million as an increase to net cash used in investing activities.

***Recently Issued Financial Accounting Standards***

In June 2006, the Financial Accounting Standards Board ( FASB ) issued Financial Interpretation ( FIN ) No. 48, Accounting for Uncertainty in Income Taxes, which clarifies the accounting for uncertainty in income taxes recognized in financial statements in accordance with Statement of Financial Accounting Standards Board ( SFAS ) No. 109, Accounting for Income Taxes. This interpretation prescribes a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. This interpretation also provides guidance on derecognition, classification, interest and penalties, accounting in interim periods, disclosure, and transition. FIN No. 48 is effective for fiscal years beginning after December 15, 2006. The Company is currently evaluating the impact of adopting this interpretation.

In September 2006, the FASB issued SFAS No. 158, Employers Accounting for Defined Benefit and Other Postretirement Plans, which generally requires an employer to recognize the funded status of a defined benefit postretirement plan in its statement of financial position and to recognize changes in that funded status in the year in which the changes occur through comprehensive income. This statement also generally requires an employer to measure the funded status of a plan as of the date of its year-end statement of financial position. SFAS No. 158 is effective for fiscal years ending after December 15, 2006. The Company does not believe the adoption of this statement will have a material impact on its financial position.

**Note 2. Acquisitions**

In October 2006, the Company acquired Health Advocates, Inc. ( Health Advocates ), a leading provider of Medicare set-aside cost containment services to insurance payors primarily within the workers compensation

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**AMERISOURCEBERGEN CORPORATION AND SUBSIDIARIES**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**(UNAUDITED)**

industry, for $83.8 million. Health Advocates was renamed PMSI MSA Services, Inc. ( PMSI MSA Services ) and will operate under PMSI, the Company s workers compensation business within the PharMerica reporting segment. The addition of PMSI MSA Services, combined with our leading pharmacy and clinical solutions, gives the Company s PMSI business the ability to provide its customers with a fully integrated Medicare set-aside solution. The purchase price was allocated to the underlying assets acquired and liabilities assumed based upon their fair values at the date of the acquisition. The purchase price exceeded the fair value of the net tangible and intangible assets acquired by $74.7 million, which was allocated to goodwill. Intangible assets acquired of $9.7 million primarily consist of customer relationships of $9.5 million, which are being amortized over their weighted average life of 6 years.

In October 2006, the Company acquired I.G.G. of America, Inc. ( IgG ), a specialty pharmacy and infusion services business specializing in the blood derivative intravenous immunoglobulin ( IVIG ), for $37.2 million. The purchase price is subject to a contingent payment of up to approximately $8.5 million based on IgG achieving specific earnings targets in calendar year 2008. The addition of IgG supports the Company s strategy of building its specialty pharmaceutical services to manufacturers. The purchase price was allocated to the underlying assets acquired and liabilities assumed based upon their fair values at the date of the acquisition. The purchase price exceeded the fair value of the net tangible and intangible assets acquired by $20.5 million, which was allocated to goodwill. Intangible assets acquired of $11.6 million consist of tradename of $3.3 million, non-compete agreements of $2.6 million and customer relationships of $5.7 million. Non-compete agreements and customer relationships are being amortized over their weighted average lives of 5 years and 7 years, respectively.

In November 2006, the Company acquired Access M.D., Inc. ( AMD ), a Canadian company, for $12.5 million. AMD provides services, including reimbursement support, third-party logistics and nursing support services, to manufacturers of specialty pharmaceuticals such as injectable and biological therapies. The acquisition of AMD expands the Company s specialty services businesses into Canada and complements the distribution services offered by AmerisourceBergen Canada Corporation. The purchase price was allocated to the underlying assets acquired and liabilities assumed based on their fair values at the date of the acquisition. The purchase price exceeded the fair value of the net tangible and intangible assets acquired by $9.4 million, which was allocated to goodwill. Intangible assets acquired of $2.9 million primarily consist of tradename of $1.5 million and non-compete agreements of $0.9 million. Non-compete agreements are being amortized over their weighted average lives of 5 years.

Additionally, during the six months ended March 31, 2007, in connection with its fiscal 2006 acquisition of Brecon Pharmaceuticals Limited ( Brecon ), the Company made a contingent payment in the amount of $7.6 million to the former owners of Brecon. The Company also made payments of $3.6 million in the six months ended March 31, 2007 related to certain prior period acquisitions.

Pro forma results of operations for the aforementioned acquisitions have not been presented because the effects were not material to the consolidated financial statements on either an individual or aggregate basis.

**Note 3. Divestiture of PharMerica Long-Term Care**

In October 2006, the Company and Kindred Healthcare, Inc. ( Kindred ) signed a master transaction agreement to combine their respective institutional pharmacy businesses, PharMerica Long-Term Care and Kindred Pharmacy Services ( KPS ), into a new, independent, publicly traded company. Upon closing of the proposed transaction, the new company will be named PharMerica Corporation and its headquarters will be located in Louisville, Kentucky with a major customer support center in Tampa, Florida. The proposed

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AMERISOURCEBERGEN CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(UNAUDITED)

transaction is intended to be tax-free to the stockholders of both the Company and Kindred. In March 2007, a Form 10 Registration Statement relating to the proposed transaction was filed with the Securities and Exchange Commission under the name of Safari Holding Corporation. The transaction is currently expected to be completed in the second calendar quarter of 2007. Based upon pro forma revenues of PharMerica Long-Term Care and KPS for the year ended December 31, 2006, the new company would be the second largest in the institutional pharmacy services market with annual revenues of approximately $1.9 billion and a customer base of approximately 330,000 licensed beds in over 40 states. The proposed combination does not include PMSI, the Company s workers compensation business, which is reported in the PharMerica segment.

It is expected that the transaction would begin with PharMerica Long-Term Care and KPS each borrowing $125 million and providing a one-time distribution back to their respective parents. The cash distribution is intended to be tax-free to the Company. After the borrowing and distribution, each of the institutional pharmacy businesses would be separately spun off as independent companies, each with 100 percent stock ownership by the stockholders of their respective parents, followed immediately by the independent companies combining in a stock-for-stock exchange, which would result in the Company s and Kindred s stockholders each owning 50 percent of the new company. The Company has received a private letter ruling from the Internal Revenue Service affirming the tax-free nature of the Company s spin-off of its institutional pharmacy business as well as the tax-free status of the subsequent combination creating the new company. The master transaction agreement provides that at closing of the transaction, the Company will enter into a pharmaceutical distribution agreement with the new company, and Kindred will enter into an agreement to provide information and support services to the new company. The master transaction agreement also provides that at closing, Kindred and the Company will enter into agreements with the new company for the provision of certain transition services for a limited transition period following consummation of the transaction. Consummation of the transaction is subject to a number of conditions, including the effectiveness of a registration statement with respect to the shares of the new company s common stock, and receipt of financing for the new company and for the one-time cash distributions to the Company and Kindred. There can be no assurance that all conditions to completion of the transaction will be met.

**Note 4. Discontinued Operations**

In fiscal 2005, the Company sold substantially all of the assets of Bridge Medical, Inc. ( Bridge ) and Rita Ann Distributors ( Rita Ann ), both components of its Pharmaceutical Distribution reportable segment. During the three and six months ended March 31, 2006, the Company recorded additional adjustments, net of tax, relating to the sales of Bridge and Rita Ann.

**Note 5. Goodwill and Other Intangible Assets**

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

| | Pharmaceutical Distribution | PharMerica | Total |
|---|---|---|---|
| Goodwill at September 30, 2006 | $ 2,316,800 | $ 271,912 | $ 2,588,712 |
| Goodwill recognized in connection with acquisitions (see Note 2) | 38,307 | 75,728 | 114,035 |
| Goodwill at March 31, 2007 | $ 2,355,107 | $ 347,640 | $ 2,702,747 |

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**AMERISOURCEBERGEN CORPORATION AND SUBSIDIARIES**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**(UNAUDITED)**

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

| | March 31, 2007 | | | September 30, 2006 | | |
|---|---|---|---|---|---|---|
| | Gross Carrying Amount | Accumulated Amortization | Net Carrying Amount | Gross Carrying Amount | Accumulated Amortization | Net Carrying Amount |
| Indefinite-lived intangibles trade names | $ 269,668 | $ | $ 269,668 | $ 263,202 | $ | $ 263,202 |
| Finite-lived intangibles: | | | | | | |
| Customer relationships | 103,959 | (33,455) | 70,504 | 88,078 | (27,225) | 60,853 |
| Other | 31,739 | (18,425) | 13,314 | 26,758 | (15,643) | 11,115 |
| Total other intangible assets | $ 405,366 | $ (51,880) | $ 353,486 | $ 378,038 | $ (42,868) | $ 335,170 |

Amortization expense for other intangible assets was $8.9 million and $5.7 million in the six months ended March 31, 2007 and 2006, respectively. Amortization expense for other intangible assets is estimated to be $17.9 million in fiscal 2007, $14.5 million in fiscal 2008, $12.6 million in fiscal 2009, $11.8 million in fiscal 2010, $10.8 million in fiscal 2011, and $25.1 million thereafter.

**Note 6. Debt**

Debt consisted of the following (in thousands):

| | March 31, 2007 | September 30, 2006 |
|---|---|---|
| Blanco revolving credit facility at 5.89% and 5.94%, respectively, due 2008 | $ 55,000 | $ 55,000 |
| Receivables securitization facility due 2009 | | |
| Multi-currency revolving credit facility at 5.11% due 2011 | 246,522 | |
| Canadian revolving credit facility | | 113,506 |
| UK revolving credit facility | | 28,085 |
| $400,000, 5 5/8% senior notes due 2012 | 398,375 | 398,250 |
| $500,000, 5 7/8% senior notes due 2015 | 497,797 | 497,698 |
| Other | 2,277 | 2,952 |
| Total debt | 1,199,971 | 1,095,491 |
| Less current portion | 833 | 1,560 |
| Total, net of current portion | $ 1,199,138 | $ 1,093,931 |

In November 2006, the Company entered into a new $750 million five-year multi-currency senior unsecured revolving credit facility (the Multi-Currency Revolving Credit Facility ) with a syndicate of lenders. The Multi-Currency Revolving Credit Facility replaced the Company s senior revolving credit, UK credit and Canadian credit facilities. Interest on borrowings under the Multi-Currency Revolving Credit Facility accrues at specified rates based on the Company s debt rating (50 basis points over LIBOR/EURIBOR/Bankers Acceptance Stamping Fee at March 31, 2007). The specified rates are based on the Company s debt ratings and range from 19 basis points to 60 basis points over

LIBOR/EURIBOR/Bankers Acceptance Stamping Fee, as applicable. Additionally, interest on borrowings denominated in Canadian dollars may accrue at the greater of the Canadian prime rate or the CDOR rate. The Company pays quarterly facility fees to maintain the availability under the Multi-Currency Revolving Credit Facility at specified rates based on the Company s debt rating, ranging from 6

**AMERISOURCEBERGEN CORPORATION AND SUBSIDIARIES**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**(UNAUDITED)**

basis points to 15 basis points of the total commitment (12.5 basis points at March 31, 2007). In connection with entering into the Multi-Currency Revolving Credit Facility, the Company incurred approximately $1.0 million of costs, which were deferred and are being amortized over the life of the facility. The Company may choose to repay or reduce its commitments under the Multi-Currency Revolving Credit Facility at any time. The Multi-Currency Revolving Credit Facility contains covenants that impose limitations on, among other things, indebtedness of excluded subsidiaries and asset sales. These covenants are less restrictive than those under the prior senior revolving credit facility, thereby providing the Company with greater financial flexibility. Additional covenants require compliance with financial tests, including leverage and minimum earnings to fixed charges ratios.

Additionally, in November 2006, the Company amended its receivables securitization facility such that the amount to be made available to the Company was reduced from $700 million to $500 million and the expiration date was extended to November 2009. Interest rates are based on prevailing market rates for short-term commercial paper plus a program fee, and vary based on the Company s debt ratings. The program fee was 35 basis points at March 31, 2007. Additionally, the commitment fee on any unused credit was 12.5 basis points at March 31, 2007.

In April 2007, the Company amended the Blanco revolving credit facility (the Blanco Credit Facility ) to, among other things, extend the maturity date of the Blanco Credit Facility to April 2008. 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 (0.575% over LIBOR at March 31, 2007). Additionally, the Company pays quarterly facility fees on the full amount of the facility to maintain the availability under the Blanco Credit Facility at specific rates based on the Company s debt rating (0.175% at March 31, 2007).

**Note 7. Stockholders Equity and Earnings Per Share**

Effective as of November 9, 2006, the Company s board of directors increased the quarterly dividend by 100% and declared a dividend of $0.05 per share. In November 2005, the Company s board of directors declared a 100% increase in the Company s quarterly dividend and declared a two-for-one stock split of the Company s outstanding shares of common stock. The stock split occurred in the form of a 100% stock dividend, whereby each stockholder received one additional share for each share owned. The shares were distributed on December 28, 2005 to stockholders of record at the close of business on December 13, 2005.

In August 2006, the Company s board of directors authorized the Company to purchase up to $750 million of its outstanding shares of common stock, subject to market conditions. During the six months ended March 31, 2007, the Company purchased 8.0 million shares of common stock under this program for a total of $363.4 million. As of March 31, 2007, the Company had $386.6 million of availability remaining under the share repurchase program. Subsequent to March 31, 2007 and through May 7, 2007, the Company purchased an additional 2.3 million shares of its common stock for a total of $118.3 million.

In May 2005, the Company s board of directors authorized the Company to purchase $450 million of its outstanding shares of common stock. In August 2005, the Company s board of directors authorized an increase in the amount available under the program, bringing the then-remaining availability to $750 million, and the total repurchase program to approximately $844 million. In October 2006, the Company purchased 35 thousand shares of common stock for a total of $1.6 million to complete this program.

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**AMERISOURCEBERGEN CORPORATION AND SUBSIDIARIES**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**(UNAUDITED)**

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

| | Three months ended March 31, | | Six months ended March 31, | |
|---|---|---|---|---|
| *(in thousands)* | 2007 | 2006 | 2007 | 2006 |
| Income from continuing operations | $ 129,496 | $ 128,590 | $ 251,683 | $ 226,566 |
| Weighted average common shares outstanding basic | 188,772 | 208,050 | 190,607 | 208,160 |
| Effect of dilutive securities stock options and restricted stock | 3,025 | 2,721 | 2,802 | 2,410 |
| Weighted average common shares outstanding diluted | 191,797 | 210,771 | 193,409 | 210,570 |

**Note 8. Defined Benefit Plans**

The following table illustrates the pension expense and postretirement benefit expense recorded by the Company:

| | Three months ended March 31, | | Six months ended March 31, | |
|---|---|---|---|---|
| *(in thousands)* | 2007 | 2006 | 2007 | 2006 |
| Pension expense | $ 950 | $ 1,897 | $ 2,812 | $ 3,805 |
| Postretirement benefit expense | 207 | 366 | 415 | 605 |

The Company contributed $2.9 million and $7.8 million to its funded plans during the six months ended March 31, 2007 and 2006, respectively.

**Note 9. Share-Based Compensation**

The Company has a number of stock option plans, a restricted stock plan and an employee stock purchase plan. These plans and the Company s valuation and accounting for them, are described in Note 9 to the Consolidated Financial Statements included in the Company s Annual Report on Form 10-K for the fiscal year ended September 30, 2006.

The following tables illustrate the impact of share-based compensation on reported amounts:

| | Three months ended March 31, 2007 | | Three months ended March 31, 2006 | |
|---|---|---|---|---|
| *(in thousands, except per share data)* | | Impact of | | Impact of |

| | As Reported | Share-Based Compensation Expense | As Reported | Share-Based Compensation Expense |
|---|---|---|---|---|
| Operating income | $ 220,892 | $ 6,192 | $ 197,924 | $ 3,974 |
| Income from continuing operations | 129,496 | 3,808 | 128,590 | 2,451 |
| Net income | 129,496 | 3,808 | 129,001 | 2,451 |
| Earnings per share: | | | | |
| Basic | $ 0.69 | $ 0.02 | $ 0.62 | $ 0.01 |
| Diluted | $ 0.68 | $ 0.02 | $ 0.61 | $ 0.01 |

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**AMERISOURCEBERGEN CORPORATION AND SUBSIDIARIES**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**(UNAUDITED)**

| | Six months ended March 31, 2007 | | Six months ended March 31, 2006 | |
|---|---|---|---|---|
| *(in thousands, except per share data)* | As Reported | Impact of Share-Based Compensation Expense | As Reported | Impact of Share-Based Compensation Expense |
| Operating income | $ 429,751 | $ 11,080 | $ 364,529 | $ 6,649 |
| Income from continuing operations | 251,683 | 6,781 | 226,566 | 4,096 |
| Net income | 251,683 | 6,781 | 226,268 | 4,096 |
| Earnings per share: | | | | |
| Basic | $ 1.32 | $ 0.04 | $ 1.09 | $ 0.02 |
| Diluted | $ 1.30 | $ 0.04 | $ 1.07 | $ 0.02 |

**Note 10. Facility Consolidations, Employee Severance and Other**

In 2001, the Company developed an integration plan to consolidate its distribution network and eliminate duplicative administrative functions. In fiscal 2006, the Company completed the outsourcing of a significant portion of its information technology activities as part of the integration plan. The plan includes building six new facilities (all of which have been completed and are currently operational) and closing facilities (31 of which have been closed through March 31, 2007). The Company closed two facilities during the six months ended March 31, 2007 and, as a result, now has 26 distribution facilities in the U.S. as of March 31, 2007.

During the three and six months ended March 31, 2007, the Company incurred costs relating to facility consolidations and employee severance and incurred expenses relating to the planned spin-off of its PharMerica long-term care business (see Note 3 for further information).

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

| | Three months ended March 31, 2007 | Three months ended March 31, 2006 | Six months ended March 31, 2007 | Six months ended March 31, 2006 |
|---|---|---|---|---|
| Facility consolidations and employee severance | $ 709 | $ 1,979 | $ 2,636 | $ 4,148 |
| Information technology transition costs | 481 | 1,598 | 962 | 8,256 |
| Costs relating to the long-term care business transaction | 2,045 | | 5,660 | |
| Gain on sale of assets | (3,100) | | (3,100) | |
| Total facility consolidations, employee severance and other | $ 135 | $ 3,577 | $ 6,158 | $ 12,404 |

During the quarter and six months ended March 31, 2007, the Company sold certain retail pharmacy assets of its Long-Term Care business and, as a result, recognized a gain of $3.1 million.

As of March 31, 2007, approximately 480 employees had received termination notices as a result of fiscal 2007 and 2006 integration-related initiatives, of which approximately 450 have been terminated. Additional amounts for integration initiatives will be recognized in subsequent periods as facilities to be consolidated are identified and specific plans are approved and announced. Most employees receive their severance benefits over a period of time, generally not in excess of 12 months, while others may receive a lump-sum payment.

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**AMERISOURCEBERGEN CORPORATION AND SUBSIDIARIES**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**(UNAUDITED)**

The following table displays the activity in accrued expenses and other from September 30, 2006 to March 31, 2007 related to the integration plan discussed above (in thousands):

| | Employee Severance | Lease Cancellation Costs and Other | Total |
|---|---|---|---|
| Balance as of September 30, 2006 | $ 22,233 | $ 9,131 | $ 31,364 |
| Expense recorded during the period | 1,847 | 7,411 | 9,258 |
| Payments made during the period | (1,512) | (6,651) | (8,163) |
| Balance as of March 31, 2007 | $ 22,568 | $ 9,891 | $ 32,459 |

The employee severance balance set forth in the above table as of March 31, 2007 includes an accrual for the Bergen Brunswig Matter as described in Note 11 below.

**Note 11. Legal Matters and Contingencies**

In the ordinary course of its business, the Company becomes involved in lawsuits, administrative proceedings and governmental investigations, including antitrust, commercial, environmental, product liability, intellectual property, regulatory and other matters. Significant damages or penalties may be sought from the Company in some matters, and some matters may require years for the Company to resolve. The Company establishes reserves based on its periodic assessment of estimates of probable losses. There can be no assurance that an adverse resolution of one or more matters during any subsequent reporting period will not have a material adverse effect on the Company s results of operations for that period. However, on the basis of information furnished by counsel and others and taking into consideration the reserves established for pending matters, the Company does not believe that the resolution of currently pending matters (including the matters specifically described below), individually or in the aggregate, will have a material adverse effect on the Company s financial condition.

***New York Attorney General Subpoena***

In April 2005, the Company received a subpoena from the Office of the Attorney General of the State of New York (the NYAG ) requesting documents and responses to interrogatories concerning the manner and degree to which the Company purchased pharmaceuticals from other wholesalers, often referred to as the alternate source market, rather than directly from manufacturers. Similar subpoenas have been issued by the NYAG to other pharmaceutical distributors. The Company has not been advised of any allegations of misconduct by the Company. The Company has engaged in discussions with the NYAG, initially to clarify the scope of the subpoena and subsequently to provide background information requested by the NYAG. The Company has produced responsive information and documents and will continue to cooperate with the NYAG. The Company believes that it has not engaged in any wrongdoing, but cannot predict the outcome of this matter.

***Bergen Brunswig Matter***

A former Bergen Brunswig chief executive officer who was terminated in 1999 filed an action that year in the Superior Court of California, County of Orange (the Court ) claiming that Bergen Brunswig (predecessor in interest to AmerisourceBergen Corporation) had breached its obligations to him under his employment agreement. Shortly after the filing of the lawsuit, Bergen Brunswig made a California Civil Procedure Code § 998 Offer of Judgment to the executive, which the executive accepted. The resulting judgment awarded the executive damages and the continuation of certain employment benefits. Since then, the Company and the executive have engaged in litigation as to what specific benefits were included in the scope of the Offer of Judgment and the value of those benefits. The Court entered an Order in Implementation of Judgment on June 7, 2001, which identified the specific benefits encompassed by the Offer of Judgment. Following submission by the

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**AMERISOURCEBERGEN CORPORATION AND SUBSIDIARIES**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**(UNAUDITED)**

executive of a claim for benefits pursuant to the Bergen Brunswig Supplemental Executive Retirement Plan (the Plan ), the Company followed the administrative procedure set forth in the Plan. This procedure involved separate reviews by two independent parties, the first by the Review Official appointed by the Plan Administrator and second by the Plan Trustee, and resulted in a determination that the executive was entitled to a $1.9 million supplemental retirement benefit and such amount was paid. The executive challenged this award and on July 7, 2006, the Court entered a Second Order in Implementation of Judgment determining that the executive was entitled to a supplemental retirement benefit, net of the $1.9 million that was previously paid to him, in the amount of $19.4 million, which included interest at the rate of ten percent per annum from August 29, 2001. The Company recorded $13.9 million in June 2006 to establish the total liability of $19.4 million on its balance sheet. Subsequently, the Company has continued to accrue interest on the amount awarded to the executive by the Court. The Court refused to award the executive other benefits claimed, including an award of stock options, a severance payment and forgiveness of a loan. Both the executive and the Company have appealed the ruling of the Court.

***Bridge Medical Matter***

In March 2004, the former stockholders of Bridge Medical, Inc. ( Bridge ) commenced an action against the Company in the Court of Chancery of the State of Delaware claiming that they were entitled to payment of certain contingent purchase price amounts that were provided under the terms of the agreement under which the Company acquired Bridge in January 2003. In July 2005, the Company sold substantially all of the assets of Bridge. The contingent purchase price amounts at issue were conditioned upon the achievement by Bridge of certain earnings levels in calendar 2003 and calendar 2004 (collectively, the Earnout Period ). The maximum amount that was payable in respect of calendar 2003 was $21 million and the maximum amount that was payable in respect of calendar 2004 was $34 million. The former stockholders of Bridge allege (i) that the Company did not properly adhere to the terms of the acquisition agreement in calculating that no contingent purchase price amounts were due and (ii) that the Company breached certain obligations to assist the Bridge sales force and promote the Bridge bedside point-of-care patient safety product during the Earnout Period and that such breaches prevented Bridge from obtaining business that Bridge otherwise would have obtained. Discovery and motion practice in this case have been completed. On May 1, 2007, the Court of Chancery denied the majority of the Company s motion for summary judgment against the plaintiffs. The trial of this case is scheduled to be completed during May 2007. The Company intends to defend itself vigorously in this case but cannot predict the outcome of this case at this time.

***Drug Enforcement Administration Matter***

On April 24, 2007, the Drug Enforcement Administration (the DEA ) of the U.S. Department of Justice imposed an Order to Show Cause and Immediate Suspension on the Company s Orlando, Florida distribution center s license to distribute controlled substances and listed chemicals. The DEA asserts that the Company did not maintain effective controls against diversion of controlled substances, including hydrocodone, to internet pharmacies from January 1, 2006 through January 31, 2007. The Company has 30 days from the date of receipt of the Order to request a hearing before a DEA Administrative Law Judge on this matter. On April 26, 2007, the DEA partially lifted the suspension to permit the Company to distribute controlled substances and listed chemicals to hospitals, clinics, the Department of Defense and certain other entities from its Orlando distribution center. The Company is distributing controlled substances and listed chemicals to its other Orlando distribution center customers using alternate distribution facilities, subject to compliance with all federal and state laws. The Company has a diversion program and a DEA-approved suspicious order monitoring program in place to identify customers who are suspected of inappropriately selling products sold to them by the Company. The Company is engaged in discussions with DEA to address the concerns asserted by DEA and to resolve this matter in an appropriate manner but cannot predict the outcome of this matter at this time.

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**AMERISOURCEBERGEN CORPORATION AND SUBSIDIARIES**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**(UNAUDITED)**

**Note 12. Antitrust Litigation Settlements**

During the last several years, numerous class action lawsuits have been filed against certain brand pharmaceutical manufacturers alleging that the manufacturer, by itself or in concert with others, took improper actions to delay or prevent generic drugs from entering the market. The Company has not been a named plaintiff in any of these class actions, but has been a member of the direct purchasers class (i.e., those purchasers who purchase directly from these pharmaceutical manufacturers). None of the class actions has gone to trial, but some have settled in the past with the Company receiving proceeds from the settlement funds. Currently, there are several such class actions pending in which the Company is a class member. During the six months ended March 31, 2007 and 2006, the Company recognized gains of $3.6 million and $27.4 million, respectively, relating to the above-mentioned class action lawsuits. These gains, which are net of attorney fees and estimated payments due to other parties, were recorded as reductions to cost of goods sold in the Company s consolidated statements of operations.

**Note 13. Business Segment Information**

The Company is organized based upon the products and services it provides to its customers. The Company s operations are comprised of two reportable segments: Pharmaceutical Distribution and PharMerica. The Pharmaceutical Distribution reportable segment is comprised of three operating segments: AmerisourceBergen Drug Corporation ( ABDC ), the AmerisourceBergen Specialty Group and the AmerisourceBergen Packaging Group. The PharMerica reportable segment includes the operations of the PharMerica long-term care business and PMSI, the Company s workers compensation-related business.

The following tables illustrate reportable segment information for the three and six months ended March 31 (in thousands):

| | Revenue | | | |
|---|---|---|---|---|
| | Three months ended March 31, | | Six months ended March 31, | |
| | 2007 | 2006 | 2007 | 2006 |
| Pharmaceutical Distribution | $ 15,084,048 | $ 13,877,560 | $ 30,577,171 | $ 27,225,713 |
| PharMerica | 431,360 | 412,685 | 867,245 | 821,943 |
| Intersegment eliminations | (231,647) | (241,070) | (464,116) | (462,627) |
| Operating revenue | 15,283,761 | 14,049,175 | 30,980,300 | 27,585,029 |
| Bulk deliveries to customer warehouses | 1,228,780 | 1,171,504 | 2,257,634 | 2,288,797 |
| Total revenue | $ 16,512,541 | $ 15,220,679 | $ 33,237,934 | $ 29,873,826 |

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

| | Operating Income | | | |
|---|---|---|---|---|
| | Three months ended March 31, | | Six months ended March 31, | |
| | 2007 | 2006 | 2007 | 2006 |
| Pharmaceutical Distribution | $ 203,910 | $ 175,951 | $ 398,043 | $ 314,827 |

| | | | | |
|---|---|---|---|---|
| PharMerica | 15,364 | 16,171 | 34,223 | 34,678 |
| Facility consolidations, employee severance and other | (135) | (3,577) | (6,158) | (12,404) |
| Gain on antitrust litigation settlements | 1,753 | 9,379 | 3,643 | 27,428 |
| Operating income | 220,892 | 197,924 | 429,751 | 364,529 |
| Other loss (income) | 376 | (5,826) | 442 | (5,043) |
| Interest expense, net | 9,889 | 7,344 | 18,032 | 13,856 |
| Income from continuing operations before income taxes | $ 210,627 | $ 196,406 | $ 411,277 | $ 355,716 |

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**AMERISOURCEBERGEN CORPORATION AND SUBSIDIARIES**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**(UNAUDITED)**

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

**Note 14. Subsequent Events**

In March 2007, the Company agreed to acquire Bellco Health ( Bellco ), a privately held New York distributor of branded and generic pharmaceuticals, for a purchase price of approximately $235 million in cash. Bellco has annualized revenues of approximately $2.0 billion and is a pharmaceutical distributor in the Metro New York City area, where it primarily services independent retail community pharmacies. Nationally, Bellco markets and sells generic pharmaceuticals to individual retail pharmacies, and provides pharmaceutical products and services to dialysis clinics. In April 2007, the parties filed Hart-Scott-Rodino pre-merger notifications with the Federal Trade Commission and have cleared the requisite 30-day waiting period. On or about May 3, 2007, the Company was advised by Bellco that the DEA has suspended the license of Bellco Drug Corp. to distribute controlled substances and listed chemicals. Bellco Drug Corp. is the Bellco entity engaged in pharmaceutical distribution in the Metro New York City area and national distribution of generic pharmaceuticals. The Company has been advised by Bellco that DEA has expressed concerns about sales of controlled substances, including hydrocodone, by Bellco Drug Corp. to internet pharmacies. The acquisition was targeted to close during the quarter ending June 30, 2007, subject to satisfaction by the parties of applicable closing conditions, but the Company cannot determine at the present time what the impact, if any, the suspension will have on the pending acquisition. Bellco is assisting its customers in making alternative arrangements to obtain controlled substances and listed chemicals while the suspension is in effect.

In April 2007, the Company acquired Xcenda LLC ( Xcenda ) for a purchase price of $25.0 million. Xcenda will enhance AmerisourceBergen Specialty Group s existing manufacturer services businesses and provide additional capabilities within pharmaceutical brand services, applied health outcomes and biopharma strategies. The purchase price will be allocated to the underlying assets acquired and liabilities assumed based upon their fair values at the date of the acquisition. The Company is currently working with a third-party appraisal firm to assist management in determining the fair values of the intangible assets acquired.

In April 2007, the Company received a cash settlement from a pharmaceutical manufacturer relating to an antitrust litigation settlement and expects to realize a pre-tax gain of $17.1 million (net of attorney fees and payments due to other parties) during the fiscal quarter ending June 30, 2007.

**Note 15. Selected Consolidating Financial Statements of Parent, Guarantors and Non-Guarantors**

The Company s 5 5/8% senior notes due September 15, 2012 (the 2012 Notes ) and the 5 7/8% senior notes due September 15, 2015 (the 2015 Notes and, together with the 2012 Notes, the Notes ) each are fully and unconditionally guaranteed on a joint and several basis by certain of the Company s subsidiaries (the subsidiaries of the Company that are guarantors of the Notes being referred to collectively as the Guarantor Subsidiaries ). The total assets, stockholders equity, revenues, earnings and cash flows from operating activities of the Guarantor Subsidiaries exceeded a majority of the consolidated total of such items as of or for the periods reported. The only consolidated subsidiaries of the Company that are not guarantors of the Notes (the Non-Guarantor Subsidiaries ) are: (a) the receivables securitization special purpose entity, (b) the foreign operating subsidiaries, and c) certain smaller operating subsidiaries. The following tables present condensed consolidating financial statements including AmerisourceBergen Corporation (the Parent ), the Guarantor Subsidiaries, and the Non-Guarantor Subsidiaries. Such financial statements include balance sheets as of March 31, 2007 and September 30, 2006, statements of operations for the three and six months ended March 31, 2007 and 2006, and statements of cash flows for the six months ended March 31, 2007 and 2006.

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**AMERISOURCEBERGEN CORPORATION AND SUBSIDIARIES**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**(UNAUDITED)**

**SUMMARY CONSOLIDATING BALANCE SHEETS:**

| | March 31, 2007 | | | | |
|---|---|---|---|---|---|
| *(in thousands)* | Parent | Guarantor Subsidiaries | Non-Guarantor Subsidiaries | Eliminations | Consolidated Total |
| Current assets: | | | | | |
| Cash and cash equivalents | $ 640,592 | $ 73,294 | $ 64,496 | $ | $ 778,382 |
| Short-term investment securities | 830,455 | | | | 830,455 |
| Accounts receivable, net | 1,774 | 1,286,164 | 2,345,775 | | 3,633,713 |
| Merchandise inventories | | 4,465,798 | 136,397 | | 4,602,195 |
| Prepaid expenses and other | 99 | 26,902 | 3,064 | | 30,065 |
| Total current assets | 1,472,920 | 5,852,158 | 2,549,732 | | 9,874,810 |
| Property and equipment, net | | 501,052 | 24,520 | | 525,572 |
| Goodwill | | 2,593,262 | 109,485 | | 2,702,747 |
| Intangibles, deferred charges and other | 16,077 | 439,753 | 27,813 | | 483,643 |
| Intercompany investments and advances | 3,237,194 | 4,091,129 | (1,972,756) | (5,355,567) | |
| Total assets | $ 4,726,191 | $ 13,477,354 | $ 738,794 | $ (5,355,567) | $ 13,586,772 |
| Current liabilities: | | | | | |
| Accounts payable | $ | $ 7,171,242 | $ 130,752 | $ | $ 7,301,994 |
| Accrued expenses and other | (264,665) | 642,967 | 10,156 | | 388,458 |
| Current portion of long-term debt | | 305 | 528 | | 833 |
| Deferred income taxes | | 500,934 | (1,276) | | 499,658 |
| Total current liabilities | (264,665) | 8,315,448 | 140,160 | | 8,190,943 |
| Long-term debt, net of current portion | 896,172 | 286 | 302,680 | | 1,199,138 |
| Other liabilities | | 93,155 | 8,852 | | 102,007 |
| Stockholders equity | 4,094,684 | 5,068,465 | 287,102 | (5,355,567) | 4,094,684 |
| Total liabilities and stockholders equity | $ 4,726,191 | $ 13,477,354 | $ 738,794 | $ (5,355,567) | $ 13,586,772 |

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**AMERISOURCEBERGEN CORPORATION AND SUBSIDIARIES**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**(UNAUDITED)**

**SUMMARY CONSOLIDATING BALANCE SHEETS:**

| | | | September 30, 2006 | | |
|---|---|---|---|---|---|
| *(in thousands)* | Parent | Guarantor Subsidiaries | Non-Guarantor Subsidiaries | Eliminations | Consolidated Total |
| Current assets: | | | | | |
| Cash and cash equivalents | $ 1,125,287 | $ 43,441 | $ 92,540 | $ | $ 1,261,268 |
| Short-term investment securities | 67,840 | | | | 67,840 |
| Accounts receivable, net | 2,234 | 1,137,975 | 2,286,930 | | 3,427,139 |
| Merchandise inventories | | 4,292,398 | 129,657 | | 4,422,055 |
| Prepaid expenses and other | 57 | 29,014 | 3,034 | | 32,105 |
| Total current assets | 1,195,418 | 5,502,828 | 2,512,161 | | 9,210,407 |
| Property and equipment, net | | 485,931 | 23,815 | | 509,746 |
| Goodwill | | 2,497,019 | 91,693 | | 2,588,712 |
| Intangibles, deferred charges and other | 17,110 | 432,962 | 24,983 | | 475,055 |
| Intercompany investments and advances | 3,601,261 | 3,381,672 | (1,960,011) | (5,022,922) | |
| Total assets | $ 4,813,789 | $ 12,300,412 | $ 692,641 | $ (5,022,922) | $ 12,783,920 |
| Current liabilities: | | | | | |
| Accounts payable | $ | $ 6,310,528 | $ 188,736 | $ | $ 6,499,264 |
| Accrued expenses and other | (223,316) | 692,776 | 9,058 | | 478,518 |
| Current portion of long-term debt | | 868 | 692 | | 1,560 |
| Deferred income taxes | | 478,163 | 1,683 | | 479,846 |
| Total current liabilities | (223,316) | 7,482,335 | 200,169 | | 7,459,188 |
| Long-term debt, net of current portion | 895,948 | 75 | 197,908 | | 1,093,931 |
| Other liabilities | | 84,618 | 5,026 | | 89,644 |
| Stockholders equity | 4,141,157 | 4,733,384 | 289,538 | (5,022,922) | 4,141,157 |
| Total liabilities and stockholders equity | $ 4,813,789 | $ 12,300,412 | $ 692,641 | $ (5,022,922) | $ 12,783,920 |

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**AMERISOURCEBERGEN CORPORATION AND SUBSIDIARIES**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**(UNAUDITED)**

**CONDENSED CONSOLIDATING STATEMENTS OF OPERATIONS:**

| | Three months ended March 31, 2007 | | | | |
|---|---|---|---|---|---|
| *(in thousands)* | **Parent** | **Guarantor Subsidiaries** | **Non-Guarantor Subsidiaries** | **Eliminations** | **Consolidated Total** |
| Operating revenue | $ | $ 14,856,638 | $ 427,123 | $ | $ 15,283,761 |
| Bulk deliveries to customer warehouses | | 1,228,775 | 5 | | 1,228,780 |
| Total revenue | | 16,085,413 | 427,128 | | 16,512,541 |
| Cost of goods sold | | 15,499,620 | 406,478 | | 15,906,098 |
| Gross profit | | 585,793 | 20,650 | | 606,443 |
| Operating expenses: | | | | | |
| Distribution, selling and administrative | | 375,340 | (11,973) | | 363,367 |
| Depreciation | | 17,554 | 533 | | 18,087 |
| Amortization | | 3,090 | 872 | | 3,962 |
| Facility consolidations, employee severance and other | | 135 | | | 135 |
| Operating income | | 189,674 | 31,218 | | 220,892 |
| Other loss | | 376 | | | 376 |
| Interest expense (income), net | 16,059 | (38,538) | 32,368 | | 9,889 |
| (Loss) income before income taxes and equity in earnings of subsidiaries | (16,059) | 227,836 | (1,150) | | 210,627 |
| Income taxes | (5,621) | 86,972 | (220) | | 81,131 |
| Equity in earnings of subsidiaries | 139,934 | | | (139,934) | |
| Net income (loss) | $ 129,496 | $ 140,864 | $ (930) | $ (139,934) | $ 129,496 |

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**AMERISOURCEBERGEN CORPORATION AND SUBSIDIARIES**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**(UNAUDITED)**

**CONDENSED CONSOLIDATING STATEMENTS OF OPERATIONS:**

| | Three months ended March 31, 2006 | | | | |
|---|---|---|---|---|---|
| *(in thousands)* | Parent | Guarantor Subsidiaries | Non-Guarantor Subsidiaries | Eliminations | Consolidated Total |
| Operating revenue | $ | $ 13,793,610 | $ 255,565 | $ | $ 14,049,175 |
| Bulk deliveries to customer warehouses | | 1,171,497 | 7 | | 1,171,504 |
| Total revenue | | 14,965,107 | 255,572 | | 15,220,679 |
| Cost of goods sold | | 14,416,946 | 242,970 | | 14,659,916 |
| Gross profit | | 548,161 | 12,602 | | 560,763 |
| Operating expenses: | | | | | |
| Distribution, selling and administrative | | 350,524 | (11,411) | | 339,113 |
| Depreciation | | 16,894 | 57 | | 16,951 |
| Amortization | | 2,652 | 546 | | 3,198 |
| Facility consolidations, employee severance and other | | 3,577 | | | 3,577 |
| Operating income | | 174,514 | 23,410 | | 197,924 |
| Other income | | (5,819) | (7) | | (5,826) |
| Interest expense (income), net | 4,218 | (21,482) | 24,608 | | 7,344 |
| (Loss) income from continuing operations before income taxes and equity in earnings of subsidiaries | (4,218) | 201,815 | (1,191) | | 196,406 |
| Income taxes | 22 | 68,251 | (457) | | 67,816 |
| Equity in earnings of subsidiaries | 133,241 | | | (133,241) | |
| Income (loss) from continuing operations | 129,001 | 133,564 | (734) | (133,241) | 128,590 |
| Income from discontinued operations | | (411) | | | (411) |
| Net income (loss) | $ 129,001 | $ 133,975 | $ (734) | $ (133,241) | $ 129,001 |

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**AMERISOURCEBERGEN CORPORATION AND SUBSIDIARIES**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**(UNAUDITED)**

**CONDENSED CONSOLIDATING STATEMENTS OF OPERATIONS:**

| | | Six months ended March 31, 2007 | | | |
|---|---|---|---|---|---|
| *(in thousands)* | Parent | Guarantor Subsidiaries | Non-Guarantor Subsidiaries | Eliminations | Consolidated Total |
| Operating revenue | $ | $ 30,099,764 | $ 880,536 | $ | $ 30,980,300 |
| Bulk deliveries to customer warehouses | | 2,257,625 | 9 | | 2,257,634 |
| Total revenue | | 32,357,389 | 880,545 | | 33,237,934 |
| Cost of goods sold | | 31,198,403 | 838,445 | | 32,036,848 |
| Gross profit | | 1,158,986 | 42,100 | | 1,201,086 |
| Operating expenses: | | | | | |
| Distribution, selling and administrative | | 743,630 | (23,302) | | 720,328 |
| Depreciation | | 34,872 | 1,014 | | 35,886 |
| Amortization | | 7,386 | 1,577 | | 8,963 |
| Facility consolidations, employee severance and other | | 6,158 | | | 6,158 |
| Operating income | | 366,940 | 62,811 | | 429,751 |
| Other loss | | 442 | | | 442 |
| Interest expense (income), net | 29,353 | (77,113) | 65,792 | | 18,032 |
| (Loss) income before income taxes and equity in earnings of subsidiaries | (29,353) | 443,611 | (2,981) | | 411,277 |
| Income taxes | (10,274) | 170,653 | (785) | | 159,594 |
| Equity in earnings of subsidiaries | 270,762 | | | (270,762) | |
| Net income (loss) | $ 251,683 | $ 272,958 | $ (2,196) | $ (270,762) | $ 251,683 |

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**AMERISOURCEBERGEN CORPORATION AND SUBSIDIARIES**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**(UNAUDITED)**

**CONDENSED CONSOLIDATING STATEMENTS OF OPERATIONS:**

| | Six months ended March 31, 2006 | | | | |
|---|---|---|---|---|---|
| *(in thousands)* | **Parent** | **Guarantor Subsidiaries** | **Non-Guarantor Subsidiaries** | **Eliminations** | **Consolidated Total** |
| Operating revenue | $ | $ 27,105,802 | $ 479,227 | $ | $ 27,585,029 |
| Bulk deliveries to customer warehouses | | 2,288,786 | 11 | | 2,288,797 |
| Total revenue | | 29,394,588 | 479,238 | | 29,873,826 |
| Cost of goods sold | | 28,328,729 | 455,956 | | 28,784,685 |
| Gross profit | | 1,065,859 | 23,282 | | 1,089,141 |
| Operating expenses: | | | | | |
| Distribution, selling and administrative | | 696,609 | (25,637) | | 670,972 |
| Depreciation | | 34,910 | 599 | | 35,509 |
| Amortization | | 5,163 | 564 | | 5,727 |
| Facility consolidations, employee severance and other | | 12,404 | | | 12,404 |
| Operating income | | 316,773& | | | |