AMERISOURCEBERGEN CORP
Form 10-K
November 25, 2008
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-K

x Annual Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934
For the Fiscal Year Ended September 30, 2008

OR

¨ Transition Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934
For the transition period from to

AMERISOURCEBERGEN CORPORATION

(Exact name of registrant as specified in its charter)

Commission File Number	Registrant, State of Incorporation Address and Telephone Number	I.R.S. Employer Identification No.
1-16671	AmerisourceBergen Corporation (a Delaware Corporation) 1300 Morris Drive Chesterbrook, PA 19087-5594 (610) 727-7000	23-3079390

Securities Registered Pursuant to Section 12(b) of the Act: Common Stock, $.01 par value per share

Securities Registered Pursuant to Section 12(g) of the Act: None

Indicate by check mark if the registrant is a well-known seasoned issuer (as defined in Rule 405 of the Securities Act). Yes x No ¨

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934. Yes ¨ No x

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 if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of the registrant s knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. x

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 Securities Exchange Act of 1934).

Large accelerated filer x 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 Securities Exchange Act of 1934). Yes ¨ No x

The aggregate market value of voting stock held by non-affiliates of the registrant on March 31, 2008 based upon the closing price of such stock on the New York Stock Exchange on March 31, 2008 was $6,047,584,588.

The number of shares of common stock of AmerisourceBergen Corporation outstanding as of October 31, 2008 was 156,218,779.

Documents Incorporated by Reference

Portions of the following document are incorporated by reference in the Part of this report indicated below:

Part III Registrant s Proxy Statement for the 2009 Annual Meeting of Stockholders.

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PART I

ITEM 1. BUSINESS

As used herein, the terms Company, AmerisourceBergen, we, us, or our refer to AmerisourceBergen Corporation, a Delaware corporation.

AmerisourceBergen Corporation is one of the world s largest pharmaceutical services companies, with operations in the United States, Canada and the United Kingdom. Servicing both healthcare providers and pharmaceutical manufacturers in the pharmaceutical supply channel, we provide drug distribution and related services designed to reduce healthcare costs and improve patient outcomes. More specifically, we distribute 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 in the United States and Canada, including acute care hospitals and health systems, independent and chain retail pharmacies, mail order facilities, physicians, medical clinics, long-term care and other alternate site pharmacies, and other customers. We also provide pharmaceuticals and pharmacy services to specialty drug patients. Additionally, we furnish healthcare providers and pharmaceutical manufacturers with an assortment of related services, including pharmaceutical packaging, pharmacy automation, supply management software, inventory management, reimbursement and pharmaceutical consulting services, logistics services, and physician education.

Industry Overview

Over the last several years we have benefited from the growth of the pharmaceutical industry in the United States. In fiscal 2008, our total revenue increased by 7%. According to IMS Healthcare, Inc. (IMS), an independent third party provider of information to the pharmaceutical and healthcare industry, industry sales in the United States are expected to grow between 1% and 2% in 2009 and between 3% and 6% during the five-year period ending 2012. IMS also indicated that certain sectors of the market, such as biotechnology and other specialty and generic pharmaceuticals, would grow faster than the overall market.

The factors contributing to the growth of the pharmaceutical industry in the United States, and other industry trends, include:

Aging Population. The number of individuals age 55 and over in the United States is projected to increase to more than 75 million by the year 2010. This age group suffers from more chronic illnesses and disabilities than the rest of the population and is estimated to account for approximately two-thirds of total healthcare expenditures in the United States.

Introduction of New Pharmaceuticals. Traditional research and development, as well as the advent of new research, production and delivery methods, such as biotechnology and gene therapy, continue to generate new pharmaceuticals and delivery methods that are more effective in treating diseases. We believe ongoing research and development expenditures by the leading pharmaceutical manufacturers will contribute to continued growth of the industry. In particular, we believe ongoing research and development of biotechnology and other specialty pharmaceutical drugs will provide opportunities for the continued growth of our specialty pharmaceuticals business.

Increased Use of Generic Pharmaceuticals. A significant number of patents for widely-used brand-name pharmaceutical products will expire during the next several years. In addition, increased emphasis by managed care organizations to utilize generics has accelerated their growth. We consider the increase in generic usage a favorable trend because generic pharmaceuticals have historically provided us with a greater gross profit margin opportunity than brand-name products, although their lower prices reduce revenue growth.

Increased Use of Drug Therapies. In response to rising healthcare costs, governmental and private payors have adopted cost containment measures that encourage the use of efficient drug therapies to prevent or treat

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diseases. While national attention has been focused on the overall increase in aggregate healthcare costs, we believe drug therapy has had a beneficial impact on overall healthcare costs by reducing expensive surgeries and prolonged hospital stays. Pharmaceuticals currently account for approximately 10% of overall healthcare costs. Pharmaceutical manufacturers continued emphasis on research and development is expected to result in the continuing introduction of cost-effective drug therapies and new uses for existing drug therapies.

Legislative Developments. In recent years, regulation of the healthcare industry has changed significantly in an effort to increase drug utilization and reduce costs. These changes included expansion of Medicare coverage for outpatient prescription drugs, the enrollment (beginning in 2006) of Medicare beneficiaries in prescription drug plans offered by private entities, and cuts in Medicare and Medicaid reimbursement rates. In addition, the U.S. Congress may take action in the future to modify Medicare and Medicaid drug payment policy. These policies and other legislative developments may affect our businesses directly and/or indirectly (see Government Regulation on page 7 for further details).

The Company

We currently serve our customers (healthcare providers, pharmaceutical manufacturers, and some patients) through a geographically diverse network of distribution service centers and other operations in the United States and Canada, and through packaging facilities in the United States and the United Kingdom. In our pharmaceutical distribution business, we are typically the primary source of supply of pharmaceutical and related products to our healthcare provider customers. We offer a broad range of services to our customers designed to enhance the efficiency and effectiveness of their operations, which allows them to improve the delivery of healthcare to patients and to lower overall costs in the pharmaceutical supply channel.

Strategy

Our business strategy is focused solely on the pharmaceutical supply channel where we provide value-added distribution and service solutions to healthcare providers (primarily pharmacies, health systems and physicians) and pharmaceutical manufacturers that increase channel efficiencies and improve patient outcomes. Implementing this disciplined, focused strategy has allowed us to significantly expand our business, and we believe we are well-positioned to continue to grow revenue and increase operating income through the execution of the following key elements of our business strategy:

Optimize and Grow Our Pharmaceutical Distribution and Service Businesses. We believe we are well-positioned in size and market breadth to continue to grow our distribution business as we invest to improve our operating and capital efficiencies. Distribution anchors our growth and position in the pharmaceutical supply channel, as we provide superior distribution services and deliver value-added solutions, which improve the efficiency and competitiveness of both healthcare providers and pharmaceutical manufacturers, thus allowing the pharmaceutical supply channel to better deliver healthcare to patients.

With the rapid growth of generic pharmaceuticals in the U.S. market, we have introduced strategies to enhance our position in the generic marketplace. We source generics globally, offer a value-added generic formulary program to our healthcare provider customers, and monitor our customers compliance with our generics program. We also sell data and other valuable services to our generic manufacturing customers.

We believe we have one of the lowest cost operating structures among all pharmaceutical distributors. Our Optimiz® program for AmerisourceBergen Drug Corporation reduced our distribution facility network in the U.S. from 51 facilities in 2001 to 26 as of September 30, 2007. The program, which was completed in fiscal 2007, included building six new facilities and closing 31 facilities. These measures have reduced our operating costs and working capital. In addition, we believe we will continue to achieve productivity and operating income gains as we invest in and continue to implement warehouse automation technology, adopt best practices in warehousing activities, and increase operating

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leverage by increasing volume per full-service distribution facility. Furthermore, we believe that the investments that we will make related to our Business Transformation project over the next few years will reduce our operating expenses in the future (see Information Systems on page 5 for further details).

We offer value-added services and solutions to assist manufacturers and healthcare providers to improve their efficiency and their patient outcomes. Services for manufacturers include: assistance with rapid new product launches, promotional and marketing services to accelerate product sales, product data reporting and logistical support. In addition, we provide packaging services to manufacturers, including contract packaging for over-the-counter products, physician samples, and clinical trials.

Our provider solutions include: our Good Neighbor Pharmacy® program, which enables independent community pharmacies to compete more effectively through pharmaceutical benefit and merchandising programs; Good Neighbor Pharmacy Provider Network, our managed care network, which connects our retail pharmacy customers to payor plans throughout the country and is the third-largest in the U.S.; best-priced generic product purchasing services; hospital pharmacy consulting designed to improve operational efficiencies; scalable automated pharmacy dispensing equipment; and packaging services that deliver unit dose, punch card and other compliance packaging for institutional and retail pharmacy customers.

In an effort to supplement our organic growth, we continue to utilize a disciplined approach to seek acquisitions that will assist us with our strategic growth plans.

In October 2007, we acquired Bellco Health (Bellco), a privately held New York distributor of branded and generic pharmaceuticals, for a purchase price of $162.2 million, net of cash acquired. Bellco is a pharmaceutical distributor in the Metro New York City area, where it primarily services independent retail community pharmacies. The acquisition of Bellco expanded the Company s presence in this large community pharmacy market. Nationally, Bellco markets and sells generic pharmaceuticals to individual retail pharmacies, and provides pharmaceutical products and services to dialysis clinics. Bellco s revenues were $2.1 billion in fiscal 2008. The dialysis-related business now is operated as part of our specialty pharmaceuticals business, as described below.

Optimize and Grow Our Specialty Distribution and Service Businesses. Representing $14.6 billion in total revenue in fiscal 2008, which includes the dialysis-related business acquired from Bellco, our specialty pharmaceuticals business has a significant presence in this rapidly growing part of the pharmaceutical supply channel. With distribution and value-added services to physicians and a broad array of pharmaceutical and specialty services for manufacturers, our specialty pharmaceuticals business is a well-developed platform for growth. We are the leader in distribution and services to community oncologists and have leading positions in other physician administered products. We also distribute vaccines, other injectables, plasma and other blood products and are well-positioned to service and support many of the new biotech therapies, which will be coming to market in the near future.

Our specialty services businesses help pharmaceutical manufacturers, especially in the biotechnology sector, commercialize their products in the channel. We believe we are the largest provider of reimbursement services that assist pharmaceutical companies to launch drugs with targeted populations and support the products in the channel. We also provide physician education services, third party logistics and specialty pharmacy services to help speed products to market.

We continue to seek to expand our offerings in specialty distribution and services.

Most recently, our acquisition of Bellco, as noted above, allowed us to significantly increase our sales of pharmaceutical products and services to dialysis clinics in fiscal 2008.

In fiscal 2007, we acquired three specialty services businesses, beginning with I.G.G. of America, Inc. (IgG), a specialty pharmacy and infusion services business specializing in the blood derivative

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intravenous immunoglobulin (IVIG). We also acquired Access M.D., Inc. (Access M.D.), a Canadian company that provides reimbursement support and nursing support services for manufacturers of specialty pharmaceuticals, such as injectable and biological therapies. Access M.D. expands our specialty services businesses into Canada and complements the distribution services offered by AmerisourceBergen Canada. Lastly, we acquired Xcenda LLC (Xcenda), a consulting business that provides additional capabilities within pharmaceutical brand services, applied health outcomes, and biopharma strategies.

Divestitures. In order to allow us to concentrate on our strategic focus of pharmaceutical distribution and related services and specialty pharmaceutical distribution and related services, we may, from time to time, consider divestitures.

In October 2008, we sold PMSI, our workers compensation business, which had total revenues and a loss before income taxes of approximately $404 million and $216 million, respectively, in fiscal 2008.

On July 31, 2007, the Company and Kindred Healthcare, Inc. (Kindred) completed the spin-offs and subsequent combination of their institutional pharmacy businesses, PharMerica Long-Term Care (Long-Term Care) and Kindred Pharmacy Services (KPS), to form a new, independent, publicly traded company named PharMerica Corporation (PMC). The Company s and Kindred s stockholders each owned approximately 50 percent of PMC immediately after the closing of the transaction.

Operations

Operating Structure. We are organized based upon the products and services we provide to our customers. Our operations as of September 30, 2008 were comprised of two reportable segments: Pharmaceutical Distribution and Other. The Other reportable segment includes the operating results of Long-Term Care, through the July 31, 2007 spin-off date. The operating results of PMSI, which was sold in October 2008, have been reclassified to discontinued operations.

During fiscal 2008, the Pharmaceutical Distribution reportable segment was comprised of four operating segments, which included the operations of AmerisourceBergen Drug Corporation (ABDC), AmerisourceBergen Specialty Group (ABSG or Specialty Group), Bellco Health (Bellco), and AmerisourceBergen Packaging Group (ABPG or Packaging Group). We recently completed our integration of Bellco s separate operations within ABDC and ABSG and as of September 30, 2008, the Pharmaceutical Distribution reportable segment was comprised of three operating segments, which included ABDC, ABSG, and 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.

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 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 vaccines, other injectables, plasma and other blood products. In addition, through its specialty services businesses, ABSG provides a number of commercialization services, third party logistics, group purchasing, and other services for biotech and other pharmaceutical manufacturers, as well as reimbursement consulting, data analytics, practice management, and physician education. As previously noted, the dialysis-related business of Bellco has been integrated within ABSG as of September 30, 2008.

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

Sales and Marketing. ABDC has a sales force organized regionally and specialized by healthcare provider type. Customer service representatives are located in distribution facilities in order to respond to customer needs in a timely and effective manner. ABDC also has support professionals focused on its various technologies and service offerings. ABDC s national marketing organization designs and develops business management solutions for AmerisourceBergen healthcare provider customers. Tailored to specific groups, these programs can be further customized at the business unit or distribution facility level to adapt to local market conditions. ABDC s sales and marketing organization also serves national account customers through close coordination with local distribution centers and ensures that our customers are receiving service offerings that meet their needs. Our Specialty and Packaging groups each have independent sales forces and marketing organizations that specialize in their respective product and service offerings.

Customers. We have a diverse customer base that includes institutional and retail healthcare providers as well as pharmaceutical manufacturers. Institutional healthcare providers include acute care hospitals, health systems, mail order pharmacies, long-term care and other alternate care pharmacies and providers of pharmacy services to such facilities, and physician offices. Retail healthcare providers include national and regional retail drugstore chains, independent community pharmacies and pharmacy departments of supermarkets and mass merchandisers. We are typically the primary source of supply for our healthcare provider customers. Our manufacturing customers include branded, generic, and biotech manufacturers of prescribed pharmaceuticals as well as over-the-counter product and health and beauty aid manufacturers. In addition, we offer a broad range of value-added solutions designed to enhance the operating efficiencies and competitive positions of our customers, thereby allowing them to improve the delivery of healthcare to patients and consumers. In fiscal 2008, total revenue for our Pharmaceutical Distribution segment was comprised of 68% institutional customers and 32% retail customers.

In fiscal 2008, Medco Health Solutions, Inc., our largest customer, accounted for 17% of our total revenue. No other individual customer accounted for more than 10% of our fiscal 2008 total revenue. Our top ten customers represented approximately 42% of fiscal 2008 total revenue. In addition, we have contracts with group purchasing organizations (GPOs), each of which functions as a purchasing agent on behalf of its members, who are healthcare providers. Approximately 7% of our total revenue in fiscal 2008 was derived from our two largest GPO relationships (Novation and Premier). The loss of any major customer or GPO relationship could adversely affect future revenue and results of operations.

Suppliers. We obtain pharmaceutical and other products from manufacturers, none of which accounted for 10% or more of our purchases in fiscal 2008. The loss of a supplier could adversely affect our business if alternate sources of supply are unavailable since we are committed to be the primary source of pharmaceutical products for a majority of our customers. We believe that our relationships with our suppliers are good. The ten largest suppliers in fiscal 2008 accounted for approximately 54% of our purchases.

Information Systems. ABDC operates its full-service wholesale pharmaceutical distribution facilities in the U.S. on a centralized system. ABDC s operating system provides for, among other things, electronic order entry by customers, invoice preparation and purchasing, and inventory tracking. As a result of electronic order entry, the cost of receiving and processing orders has not increased as rapidly as sales volume. ABDC s systems are intended to strengthen customer relationships by allowing the customer to lower its operating costs and by providing a platform for a number of the basic and value-added services offered to our customers, including marketing, product demand data, inventory replenishment, single-source billing, computer price updates and price labels.

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ABDC continues to expand its electronic interface with its suppliers and currently processes a substantial portion of its purchase orders, invoices and payments electronically. ABDC continues to implement a new warehouse operating system, which has improved its productivity and operating leverage. ABDC will continue to invest in advanced information systems and automated warehouse technology. As of September 30, 2008, approximately 91% of ABDC s transactional volume is generated from our distribution facilities that have successfully implemented the new warehouse operating system.

In an effort to maintain and improve our information technology infrastructure, in 2005 we outsourced a significant portion of our information technology activities relating to ABDC and corporate functions to IBM Global Services.

ABDC plans to continue to make system investments to further improve its information capabilities and meet its customer and operational needs. For example, we began to make significant investments in fiscal 2008 relating to our Business Transformation project that will include a new enterprise resource planning (ERP) platform, which will be implemented throughout ABDC and our corporate functions, as well as the development and implementation of integrated processes to enhance our business practices and lower costs. We expect to continue to make significant investments in our Business Transformation project through fiscal 2011.

ABSG operates the majority of its business on its own common, centralized platform resulting in operating efficiencies as well as the ability to rapidly deploy new capabilities. The convenience of ordering via the Internet is very important to ABSG s customers. Over the past few years, ABSG has enhanced its web capabilities such that a significant amount of orders are initiated via the Internet.

Competition

We face a highly competitive environment in the distribution of pharmaceuticals and related healthcare services. Our largest national competitors are Cardinal Health, Inc. (Cardinal) and McKesson Corporation (McKesson). ABDC competes with both Cardinal and McKesson, as well as national generic distributors and regional distributors within pharmaceutical distribution. In addition, we compete with manufacturers who sell directly to customers, chain drugstores who manage their own warehousing, specialty distributors, and packaging and healthcare technology companies. The distribution and related service businesses in which ABSG engages are also highly competitive. ABSG s operating businesses face competition from a variety of competitors, including McKesson, FFF Enterprises, Henry Schein, Inc., Med-Path, Express Scripts, Inc., US Oncology, Inc., Covance Inc., and UPS Logistics, among others. In all areas, competitive factors include price, product offerings, value-added service programs, service and delivery, credit terms, and customer support.

Intellectual Property

We use a number of trademarks and service marks. All of the principal trademarks and service marks used in the course of our business have been registered in the United States and, in some cases, in foreign jurisdictions or are the subject of pending applications for registration.

We have developed or acquired various proprietary products, processes, software and other intellectual property that are used either to facilitate the conduct of our business or that are made available as products or services to customers. We generally seek to protect such intellectual property through a combination of trade secret, patent and copyright laws and through confidentiality and other contractually imposed protections.

We hold patents and have patent applications pending that relate to certain of our products, particularly our automated pharmacy dispensing equipment, our medication and supply dispensing equipment, and certain warehousing equipment. We seek patent protection for our proprietary intellectual property from time to time as appropriate.

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Although we believe that our patents or other proprietary products and processes do not infringe upon the intellectual property rights of any third parties, third parties may assert infringement claims against us from time to time.

Employees

As of September 30, 2008, we had approximately 10,900 employees, of which approximately 9,700 were full-time employees. Approximately 4% of full and part-time employees are covered by collective bargaining agreements. We believe that our relationship with our employees is good. If any of our employees in locations that are unionized should engage in strikes or other such bargaining tactics in connection with the negotiation of new collective bargaining agreements upon the expiration of any existing collective bargaining agreements, such tactics could be disruptive to our operations and adversely affect our results of operations, but we believe we have adequate contingency plans in place to assure delivery of pharmaceuticals to our customers in the event of any such disruptions.

Government Regulation

We are subject to oversight by various state and federal governmental entities and we are subject to, and affected by, a variety of state and federal laws, regulations and policies.

The U.S. Drug Enforcement Administration (DEA), the U.S. Food and Drug Administration (FDA) and various state regulatory authorities regulate the purchase, storage, and/or distribution of pharmaceutical products, including controlled substances. Wholesale distributors of controlled substances are required to hold valid DEA licenses, meet various security and operating standards, and comply with regulations governing their sale, marketing, packaging, holding and distribution. The DEA, FDA and state regulatory authorities have broad enforcement powers, including the ability to suspend our distribution centers from distributing controlled substances, seize or recall products and impose significant criminal, civil and administrative sanctions for violations of applicable laws and regulations. As a wholesale distributor of pharmaceuticals and certain related products, we are subject to these laws and regulations. We have all necessary licenses or other regulatory approvals and believe that we are in compliance with all applicable pharmaceutical wholesale distribution requirements needed to conduct our operations.

We and our customers are subject to fraud and abuse laws, including the federal anti-kickback statute and the Stark law. The anti-kickback statute, and the related regulations, prohibit persons from soliciting, offering, receiving or paying any remuneration in order to induce the referral of a person for the furnishing, or arranging for the furnishing, of any item or service or to induce the purchasing, leasing, ordering, or arranging for or recommending purchasing, leasing, ordering, or arranging for items or services that are in any way paid for by Medicare, Medicaid, or other federal healthcare programs. The Stark law prohibits physicians from making referrals for designated health services to certain entities with which they have a financial relationship. The fraud and abuse laws and regulations are broad in scope and are subject to frequent modification and varied interpretation. ABSG s operations are particularly subject to these laws and regulations, as are certain aspects of ABDC s operations.

In recent years, some states have passed or have proposed laws and regulations that are intended to protect the safety of the pharmaceutical supply channel. These laws and regulations are designed to prevent the introduction of counterfeit, diverted, adulterated or mislabeled pharmaceuticals into the distribution system. For example, Florida and other states are implementing pedigree requirements that require drugs to be accompanied by information tracing drugs back to the manufacturers. California has enacted a law requiring chain of custody technology using electronic pedigrees, although the effective date has been postponed until January 1, 2015 for pharmaceutical manufacturers and July 1, 2016 for pharmaceutical wholesalers and repackagers. These and other requirements are expected to increase our cost of operations. At the federal level, the FDA issued final regulations pursuant to the Prescription Drug Marketing Act that became effective in December 2006. The FDA

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regulations impose pedigree and other chain of custody requirements that increase the costs and/or burden to the Company of selling to other pharmaceutical distributors and handling product returns. In early December 2006, the federal District Court for the Eastern District of New York issued a preliminary injunction temporarily enjoining the implementation of the regulations in response to a case initiated by secondary distributors. The federal Court of Appeals for the Second Circuit affirmed this injunction on July 10, 2008. We cannot predict the ultimate outcome of this legal proceeding. These laws and regulations could increase the overall regulatory burden and costs associated with our distribution business and could adversely affect our results of operations and financial condition.

In addition, the FDA Amendments Act of 2007 requires the FDA to establish standards and identify and validate effective technologies for the purpose of securing the pharmaceutical supply chain against counterfeit drugs. These standards may include track-and-trace or authentication technologies, such as radio frequency identification and other technologies. The FDA must develop a standardized numerical identifier by April 1, 2010.

As a result of political, economic and regulatory influences, the healthcare delivery industry in the United States is under intense scrutiny and subject to fundamental changes. We cannot predict what reform proposals, if any, will be adopted, when they may be adopted, or what impact they may have on us.

The costs associated with complying with federal and state regulations could be significant and the failure to comply with any such legal requirements could have a significant impact on our results of operations and financial condition.

Medicare and Medicaid

The Medicare Prescription Drug Improvement and Modernization Act of 2003 (MMA) instituted an average sales price or ASP methodology beginning in 2005 for Medicare Part B reimbursed drugs. Under Medicare Part B, physicians have the option of continuing to obtain drugs under the traditional buy and bill approach and being reimbursed for the drugs at ASP+6% or acquiring drugs through a competitive acquisition program or CAP. Physicians who participate in CAP bill the Medicare program only for drug administration, while the CAP vendor bills Medicare for the actual CAP drug and collects applicable beneficiary copayments. We are not a CAP vendor and an insignificant number of our physician customers have elected to participate in the CAP to date. On September 10, 2008, the Centers for Medicare & Medicaid Services (CMS) announced that the 2009 CAP is being postponed indefinitely; therefore, CAP drugs will not be available from an approved CAP vendor for dates of service after December 31, 2008.

In December 2007, President Bush signed the Medicare, Medicaid, and SCHIP Extension Act of 2007 into law. Among other things, the law requires CMS to adjust Medicare Part B drug ASP calculations to use volume-weighted ASPs based on actual sales volume, effective April 1, 2008. In the future, this change could reduce Medicare reimbursement rates for some Part B drugs, which may indirectly impact the prices we can charge our customers for pharmaceuticals and result in declines in our profitability.

The MMA also significantly expanded Medicare coverage for outpatient prescription drugs through the new Medicare Part D program. Beginning in 2006, Medicare beneficiaries became eligible to enroll in outpatient prescription drug plans that are offered by private entities and became eligible for varying levels of coverage for outpatient prescription drugs. Beneficiaries who participate select from a range of stand-alone prescription drug plans or Medicare Advantage managed care plans that include prescription drug coverage along with other Medicare services (Part D Plans). The Part D Plans are required to make available certain drugs on their formularies. Each Part D Plan negotiates reimbursement for Part D drugs with pharmaceutical manufacturers.

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The new Part D Plan program has increased the use of pharmaceuticals in the supply channel, which has a positive impact on our revenues and profitability.

The Medicare Improvements for Patients and Providers Act of 2008 (MIPPA), enacted July 15, 2008, establishes timeframes for Part D Plan payments to pharmacies and long-term care pharmacy submission of claims; requires more frequent updating by Part D Plan sponsors of the drug pricing data they use to pay pharmacies; modifies statutory provisions regarding coverage of certain protected classes of drugs; limits certain Part D sales and marketing activities; and makes other Part D reforms.

Effective January 1, 2007, the Deficit Reduction Act of 2005 (DRA) changed the federal upper payment limit for Medicaid reimbursement from 150% of the lowest published price for generic pharmaceuticals (which is usually the average wholesale price) to 250% of the lowest average manufacturer price or AMP. On July 17, 2007, CMS published a final rule implementing these provisions and clarifying, among other things, the AMP calculation methodology and the DRA provision requiring manufacturers to publicly report AMP for branded and generic pharmaceuticals. In December 2007, the United States District Court for the District of Columbia issued a preliminary injunction that enjoins CMS from implementing certain provisions of the AMP rule to the extent that it affects Medicaid reimbursement rates for retail pharmacies under the Medicaid program. The order also enjoined CMS from disclosing AMP data to states and other entities. In addition, MIPPA delayed the implementation of these changes until October 1, 2009. The use of an AMP benchmark may result in a reduction in the Medicaid reimbursement rates to our customers for certain generic pharmaceuticals, which may indirectly impact the prices that we can charge our customers for generic pharmaceuticals and cause corresponding declines in our profitability. There can be no assurance that the changes under the DRA will not have an adverse impact on our business. Unless we are able to develop plans to mitigate the potential impact of these legislative and regulatory changes, these changes in reimbursement formula and related reporting requirements and other provisions of the DRA could adversely affect our results of operations.

President Bush s fiscal year 2009 budget proposal, released February 4, 2008, contained a series of proposals impacting Medicare and Medicaid, including a proposal to further reduce the Medicaid federal upper limit reimbursement for multiple source drugs to 150 percent of the AMP and replace the best price component of the Medicaid drug rebate formula with a budget-neutral flat rebate. Many of the proposed policy changes would require Congressional approval to implement. There can be no assurances that future revisions to Medicare or Medicaid payments, if enacted, will not have an adverse impact on our business.

The federal government may take action in the future to increase the Medicaid drug rebate amount for branded pharmaceuticals, amend the Medicare ASP calculation methodology, or otherwise modify Medicare/Medicaid drug payment policy.

See Risk Factors for a discussion of additional regulatory developments that may affect our results of operations and financial condition.

Health Information Practices

The Health Information Portability and Accountability Act of 1996 (HIPAA) and its accompanying federal regulations set forth health information standards in order to protect security and privacy in the exchange of individually identifiable health information. In addition, our operations, depending on their location, may be subject to additional state or foreign regulations affecting personal data protection and the manner in which information services or products are provided. Significant criminal and civil penalties may be imposed for violation of HIPAA standards and other such laws. We have a HIPAA compliance program to facilitate our ongoing effort to comply with the HIPAA regulations.

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Available Information

For more information about us, visit our website at *www.amerisourcebergen.com*. The contents of the website are not part of this Form 10-K. Our electronic filings with the Securities and Exchange Commission (including all Forms 10-K, 10-Q and 8-K, and any amendments to these reports) are available free of charge through the Investors section of our website immediately after we electronically file with or furnish them to the Securities and Exchange Commission and may also be viewed using their website at *www.sec.gov*.

ITEM 1A. RISK FACTORS

The following discussion describes certain risk factors that we believe could affect our business and prospects. These risks factors are in addition to those set forth elsewhere in this report.

Intense competition as well as industry consolidations may erode our profit margins.

The distribution of pharmaceuticals and related healthcare solutions is highly competitive. We compete with two national wholesale distributors of pharmaceuticals, Cardinal and McKesson; national generic distributors; regional and local distributors of pharmaceuticals; chain drugstores that warehouse their own pharmaceuticals; manufacturers that distribute their products directly to customers; specialty distributors; and packaging and healthcare technology companies (see Competition). In recent years, the healthcare industry has been subject to increasing consolidation. If this trend continues among our customers and suppliers, it could give the resulting enterprises greater bargaining power, which may lead to greater pressure to reduce prices for our products and services.

Our results of operations continue to be subject to the risks and uncertainties of inflation in branded pharmaceutical prices and deflation in generic pharmaceutical prices.

As part of our transition to fee-for-service, some distribution service agreements that we have entered into with branded pharmaceutical manufacturers continue to have an inflation-based compensation component to them. Arrangements with a small number of branded manufacturers continue to be solely inflation-based. As a result, approximately 15% of our gross profit from brand-name manufacturers continues to be subject to fluctuation based upon the timing and extent of price appreciation. If the frequency or rate of branded pharmaceutical price inflation slows, our results of operations could be adversely affected. In addition, we distribute generic pharmaceuticals, which are subject to price deflation. If the frequency or rate of generic pharmaceutical price deflation accelerates, our results of operations could be adversely affected.

Declining economic conditions could adversely affect our results of operations and financial condition.

Our operations and performance depend on economic conditions in the United States and other countries where we do business. Deterioration in general economic conditions could adversely affect the amount of prescriptions that are filled and the amount of pharmaceutical products purchased by consumers and, therefore, reduce purchases by our customers, which would negatively affect our revenue growth and cause a decrease in our profitability. Interest rate fluctuations, financial market volatility or credit market disruptions may also negatively affect our customers ability to obtain credit to finance their businesses on acceptable terms. Reduced purchases by our customers or changes in payment terms could adversely affect our revenue growth and cause a decrease in our cash flow from operations. Bankruptcies or similar events affecting our customers may cause us to incur bad debt expense at levels higher than historically experienced. Declining economic conditions may also increase our costs. If the economic conditions in the United States or in the regions outside the United States where we do business do not improve or continue to deteriorate, our results of operations or financial condition could be adversely affected.

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Our stock price and our ability to access credit markets may be adversely affected by the current levels of financial market volatility and disruption, which are unprecedented.

The capital and credit markets have been experiencing volatility and disruption for more than 12 months. Recently, the volatility and disruption has reached unprecedented levels. In some cases, the markets have produced downward pressure on stock prices and credit availability for certain issuers without regard to those issuers underlying financial strength. If current levels of market disruption and volatility continue or worsen, there can be no assurance that we will not experience downward movement in our stock price without regard to our financial condition or results of operations or an adverse effect, which may be material, on our ability to access credit generally, and on our business, liquidity, financial condition and results of operations.

Our receivables securitization facility expires in calendar 2009. While we did not have any borrowings outstanding under this facility as of September 30, 2008, we have historically utilized amounts available to us under this facility throughout the year to meet our business needs. In fiscal 2009, we will seek to renew this facility at available market rates, which we believe will be higher than the interest rates currently available to us. While we believe we will be able to renew this facility, there can be no assurance that we will be able to do so.

Our total revenue and results of operations may suffer upon the loss of a significant customer.

Our largest customer, Medco Health Solutions, Inc., accounted for 17% of our total revenue in fiscal 2008. Our top ten customers represented approximately 42% of fiscal 2008 total revenue. We also have contracts with group purchasing organizations (GPOs), each of which functions as a purchasing agent on behalf of its members, who are hospitals, pharmacies or other healthcare providers. Approximately 7% of our total revenue in fiscal 2008 was derived from our two largest GPO relationships (Novation and Premier). We may lose a significant customer or GPO relationship if any existing contract with such customer or GPO expires without being extended, renewed, renegotiated or replaced or is terminated by the customer or GPO prior to expiration, to the extent such early termination is permitted by the contract. A number of our contracts with significant customers or GPOs are typically subject to expiration each year and we may lose any of these customers or GPO relationships if we are unable to extend, renew, renegotiate or replace the contracts. The loss of any significant customer or GPO relationship could adversely affect our total revenue and results of operations.

Our total revenue and results of operations may suffer upon the bankruptcy, insolvency or other credit failure of a significant customer.

Most of our customers buy pharmaceuticals and other products and services from us on credit. Credit is made available to customers based on our assessment and analysis of creditworthiness. Although we often try to obtain a security interest in assets and other arrangements intended to protect our credit exposure, we generally are either subordinated to the position of the primary lenders to our customers or substantially unsecured. The continued volatility of the capital and credit markets may adversely affect the solvency or creditworthiness of our customers. The bankruptcy, insolvency or other credit failure of any customer that has a substantial amount owed to us could have a material adverse affect on our operating revenue and results of operations. At September 30, 2008, the largest trade receivable balance due from a single customer, which was our largest customer, represented approximately 9% of accounts receivable, net.

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Our results of operations may suffer upon the bankruptcy, insolvency or other credit failure of a significant supplier.

Our relationships with pharmaceutical suppliers give rise to substantial amounts that are due to us from the suppliers, including amounts owed to us for returned goods or defective goods and amounts due to us for services provided to the suppliers. The continued volatility of the capital and credit markets may adversely affect the solvency or creditworthiness of our suppliers. The bankruptcy, insolvency or other credit failure of any supplier at a time when the supplier has a substantial account payable balance due to us could have a material adverse affect on our results of operations.

Increasing governmental efforts to regulate the pharmaceutical supply channel may increase our costs and reduce our profitability.

The healthcare industry is highly regulated at the federal and state level. Consequently, we are subject to the risk of changes in various federal and state laws, which include operating and security standards of the DEA, the FDA, various state boards of pharmacy and comparable agencies. In recent years, some states have passed or have proposed laws and regulations, including laws and regulations obligating pharmaceutical distributors to provide prescription drug pedigrees, that are intended to protect the safety of the supply channel but that also may substantially increase the costs and burden of pharmaceutical distribution. For example, the Florida Prescription Drug Pedigree laws and regulations that became effective in July 2006 imposed obligations upon us to deliver prescription drug pedigrees to various categories of customers. In order to comply with the Florida requirements, we implemented an e-pedigree system at our distribution center in Florida that required significant capital outlays. Other states have adopted laws and regulations that would require us to implement pedigree capabilities in those other states similar to the pedigree capabilities implemented for Florida. For example, California has enacted a law requiring the implementation of costly track and trace chain of custody technologies, such as radio frequency identification (RFID) technologies although the effective date of the law has been postponed until January 1, 2015 for pharmaceutical manufacturers and until July 1, 2016 for pharmaceutical wholesalers and repackagers. At the federal level, the FDA issued final regulations pursuant to the Prescription Drug Marketing Act that became effective in December 2006. The regulations impose pedigree and other chain of custody requirements that increase the costs and/or burden to us of selling to other pharmaceutical distributors and handling product returns. In December 2006, the federal District Court for the Eastern District of New York issued a preliminary injunction temporarily enjoining the implementation of certain provisions of the regulations in response to a case initiated by secondary distributors. The federal Court of Appeals for the Second Circuit affirmed this injunction on July 10, 2008. We cannot predict the ultimate outcome of this legal proceeding.

In addition, the FDA Amendments Act of 2007 requires the FDA to establish standards and identify and validate effective technologies for the purpose of securing the pharmaceutical supply chain against counterfeit drugs. These standards may include track-and-trace or authentication technologies, such as RFID and other technologies. The FDA must develop a standardized numerical identifier by April 1, 2010. The increased costs of complying with these pedigree and other supply chain custody requirements could increase our costs or otherwise significantly affect our results of operations.

The suspension or revocation by the DEA of any of the registrations that must be in effect for our distribution facilities to purchase, store and distribute controlled substances or the refusal by DEA to issue a registration to any such facility that requires such registration may adversely affect our reputation, our business and our results of operations.

The DEA, FDA and various state regulatory authorities regulate the distribution of pharmaceuticals and controlled substances. We are required to hold valid DEA and state-level licenses, meet various security and operating standards and comply with the Controlled Substance Act and its accompanying regulations governing the sale, marketing, packaging, holding and distribution of controlled substances. The DEA, FDA and state

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regulatory authorities have broad enforcement powers, including the ability to suspend our distribution centers licenses to distribute pharmaceutical products (including controlled substances), seize or recall products and impose significant criminal, civil and administrative sanctions for violations of these laws and regulations.

On April 24, 2007, the DEA suspended our Orlando, Florida distribution center s license to distribute controlled substances and listed chemicals, alleging that the distribution center did not maintain effective controls against diversion of controlled substances to certain internet pharmacies. On June 22, 2007, we signed an agreement with the DEA, which led to the reinstatement of our Orlando, Florida distribution center s license to distribute controlled substances and listed chemicals effective August 25, 2007. As required by the agreement, we implemented an enhanced and more sophisticated order-monitoring program in all of our ABDC distribution centers by June 30, 2007. In addition, in June 2007, one of our subsidiaries, Bellco Drug Corp., entered into a consent judgment with the DEA following the suspension of Bellco Drug s DEA license in May 2007 prior to our acquisition of the business. The DEA had alleged that Bellco Drug had failed to maintain effective controls against the diversion of controlled substances as required by federal law. In the consent judgment, Bellco Drug voluntarily surrendered its DEA registration with leave to apply for a new registration. Bellco Drug received its new DEA registration on February 12, 2008 and resumed distribution of controlled substances. While we expect to continue to comply with all of the DEA s requirements, there can be no assurance that the DEA will not require further controls against the diversion of controlled substances in the future or will not take similar action against any other of our distribution centers in the future.

Legal and regulatory changes reducing reimbursement rates for pharmaceuticals and/or medical treatments or services may reduce our profitability and adversely affect our business and results of operations.

Both our own profit margins and the profit margins of our customers may be adversely affected by laws and regulations reducing reimbursement rates for pharmaceuticals and/or medical treatments or services or changing the methodology by which reimbursement levels are determined. Many of our contracts with healthcare providers are multi-year contracts from which we derive profit based upon reimbursement rates and methodologies in place at the time such contracts were entered into. Many of these contracts cannot be terminated or amended in the event of such legal and regulatory changes. Accordingly, such changes may have the effect of reducing, or even eliminating, our profitability on such contracts until the end of the applicable contract periods.

ABSG s business may be adversely affected in the future by changes in Medicare reimbursement rates for certain pharmaceuticals, including oncology drugs administered by physicians. Since ABSG provides a number of services to or through physicians, this could result in slower growth or lower revenues for ABSG.

The Deficit Reduction Act of 2005 (DRA) was intended to reduce net Medicare and Medicaid spending by approximately $11 billion over five years. Effective January 1, 2007, the DRA changed the federal upper payment limit for Medicaid reimbursement from 150% of the lowest published price for generic pharmaceuticals (which is usually the average wholesale price) to 250% of the lowest average manufacturer price (AMP). On July 17, 2007, CMS published a final rule implementing these provisions and clarifying, among other things, the AMP calculation methodology and the DRA provision requiring manufacturers to publicly report AMP for branded and generic pharmaceuticals. In December 2007, the United States District Court for the District of Columbia issued a preliminary injunction that enjoins CMS from implementing certain provisions of the AMP rule to the extent that it affects Medicaid reimbursement rates for retail pharmacies under the Medicaid program. The order also enjoins CMS from disclosing AMP data to states and other entities. On July 15, 2008, Congress enacted the Medicaid Improvements for Patients and Providers Act of 2008 (MIPPA). MIPPA delays the adoption of CMS s July 17, 2007 rule and prevents CMS from publishing AMP data until October 1, 2009. We expect the use of an AMP benchmark to result in a reduction in the Medicaid reimbursement rates to our customers for certain generic pharmaceuticals, which may indirectly impact the prices that we can charge our customers for generic pharmaceuticals and cause corresponding declines in our profitability. There can be no assurance that the changes under the DRA will not have an adverse impact on our business. Unless we are able to

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develop plans to mitigate the potential impact of these legislative and regulatory changes, these changes in reimbursement formula and related reporting requirements and other provisions of the DRA could adversely affect our results of operations.

In December 2007, President Bush signed the Medicare, Medicaid, and SCHIP Extension Act of 2007 into law. Among other things, the law requires CMS to adjust Medicare Part B drug average sales price (ASP) calculations to use volume-weighed ASPs based on actual sales volume, effective April 1, 2008. This change could reduce Medicare reimbursement rates for some Part B drugs, which may indirectly impact the prices we can charge our customers for pharmaceuticals and result in reductions in our profitability.

President Bush s fiscal year 2009 budget proposal, released February 4, 2008, contains a series of proposals that affect Medicare and Medicaid, including a proposal to further reduce the upper limit reimbursement for multiple source drugs to 150% of the AMP and replace the best price component of the Medicaid drug rebate formula with a budget-neutral flat rebate. Many of the proposed policy changes would require Congressional approval to implement. There can be no assurance that future revisions to Medicare or Medicaid payments, if enacted, will not have an adverse impact on our business.

Our revenue growth rate has been negatively impacted by a reduction in sales of certain anemia drugs, primarily those used in oncology, and may, in the future, be adversely affected by any further reductions in sales or restrictions on the use of anemia drugs or a decrease in Medicare reimbursement for these drugs. Several developments contributed to the decline in sales of anemia drugs, including expanded warning and other product safety labeling requirements, more restrictive federal policies governing Medicare reimbursement for the use of these drugs to treat oncology patients with kidney failure and dialysis, and changes in regulatory and clinical medical guidelines for recommended dosage and use. In addition, the FDA has announced that it is reviewing new clinical study data concerning the possible risks associated with erythropoiesis stimulating agents and may take additional action with regard to these drugs. CMS has indicated that it may impose additional restrictions on Medicare coverage in the future. Also, on July 30, 2008, CMS announced it is considering a review of national Medicare coverage policy for these drugs for patients who have cancer or pre-dialysis chronic kidney disease. Any further changes in the recommended dosage or use of anemia drugs or reductions in reimbursement for such drugs could result in slower growth or lower revenues.

First DataBank, Inc. publishes drug databases that contain drug information and pricing data. The pricing data includes average wholesale price, or AWP, which is a pricing benchmark widely used to calculate a portion of the Medicaid and Medicare Part D reimbursements payable to pharmacy providers. AWP is also used to establish the pricing of pharmaceuticals to certain of our pharmaceutical distribution customers in Puerto Rico. First DataBank is involved in class action litigation concerning the way it calculates AWP pricing data. On May 29, 2008, the plaintiffs and First DataBank filed an amended settlement (following an original proposed settlement in 2006) that would, among other things, adjust its AWP reporting practices for certain prescription drugs by applying a reduced markup factor (20% versus 25%) to approximately 1,400 national drug codes. On June 3, 2008, the federal district court overseeing the litigation granted preliminary approval to the revised settlement and subsequently approved the process for class notification. The matter is still subject to opposition by others, a fairness hearing, which has been scheduled for December 17, 2008, and final court approval. First DataBank also announced that, independent of the settlement, it would reduce to 20% the markup on all drugs with a mark-up higher than 20% and stop publishing AWP within two years after the mark-up changes are implemented. We continue to evaluate the potential impact that a proposed settlement could have on the business of our customers and our business. If a revised settlement or other resolution of the case is approved, we will evaluate the potential impact of such settlement or other resolution on us at that time. There can be no assurance that a settlement or other resolution, if approved, would not have an adverse impact on the business of our customers and/or our business.

The federal government may adopt measures in the future that would further reduce Medicare and/or Medicaid spending or impose additional requirements on health care entities. At this time, we can provide no assurances that such changes, if adopted, would not have an adverse effect on our business.

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The changing United States healthcare environment may negatively impact our business and our profitability.

Our products and services are intended to function within the structure of the healthcare financing and reimbursement system currently existing in the United States. In recent years, the healthcare industry has undergone significant changes in an effort to reduce costs and government spending. These changes include an increased reliance on managed care; cuts in certain Medicare funding affecting our healthcare provider customer base; consolidation of competitors, suppliers and customers; and the development of large, sophisticated purchasing groups. We expect the healthcare industry to continue to change significantly in the future. Some of these potential changes, such as a reduction in governmental funding for certain healthcare services or adverse changes in legislation or regulations governing prescription drug pricing, healthcare services or mandated benefits, may cause healthcare industry participants to reduce the amount of our products and services they purchase or the price they are willing to pay for our products and services. We expect continued government and private payor pressure to reduce pharmaceutical pricing. Changes in pharmaceutical manufacturers pricing or distribution policies could also significantly reduce our profitability.

If we fail to comply with laws and regulations in respect of healthcare fraud and abuse, we could suffer penalties or be required to make significant changes to our operations.

We are subject to extensive and frequently changing federal and state laws and regulations relating to healthcare fraud and abuse. The federal government continues to strengthen its position and scrutiny over practices involving healthcare fraud affecting Medicare, Medicaid and other government healthcare programs. Our relationships with healthcare providers and pharmaceutical manufacturers subject our business to laws and regulations on fraud and abuse which, among other things, (i) prohibit persons from soliciting, offering, receiving or paying any remuneration in order to induce the referral of a patient for treatment or the ordering or purchasing of items or services that are in any way paid for by Medicare, Medicaid or other government-sponsored healthcare programs and (ii) impose a number of restrictions upon referring physicians and providers of designated health services under Medicare and Medicaid programs. Legislative provisions relating to healthcare fraud and abuse give federal enforcement personnel substantially increased funding, powers and remedies to pursue suspected fraud and abuse. While we believe that we are in compliance with all applicable laws and regulations, many of the regulations applicable to us, including those relating to marketing incentives offered in connection with pharmaceutical sales, are vague or indefinite and have not been interpreted by the courts. They may be interpreted or applied by a prosecutorial, regulatory or judicial authority in a manner that could require us to make changes in our operations. If we fail to comply with applicable laws and regulations, we could suffer civil and criminal penalties, including the loss of licenses or our ability to participate in Medicare, Medicaid and other federal and state healthcare programs.

Our results of operations and financial condition may be adversely affected if we undertake acquisitions of businesses that do not perform as we expect or that are difficult for us to integrate.

We expect to continue to implement our growth strategy, in part, by acquiring companies. At any particular time, we may be in various stages of assessment, discussion and negotiation with regard to one or more potential acquisitions, not all of which will be consummated. We make public disclosure of pending and completed acquisitions when appropriate and required by applicable securities laws and regulations.

Acquisitions involve numerous risks and uncertainties. If we complete one or more acquisitions, our results of operations and financial condition may be adversely affected by a number of factors, including: the failure of the acquired businesses to achieve the results we have projected in either the near or long term; the assumption of unknown liabilities; the fair value of assets acquired and liabilities assumed; the difficulties of imposing adequate financial and operating controls on the acquired companies and their management and the potential liabilities that might arise pending the imposition of adequate controls; the difficulties in the integration of the operations, technologies, services and products of the acquired companies; and the failure to achieve the strategic objectives of these acquisitions.

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Our results of operations and our financial condition may be adversely affected by foreign operations.

We have pharmaceutical distribution operations based in Canada and provide contract packaging and clinical trials materials services in the United Kingdom. We may consider additional foreign acquisitions in the future. Our existing foreign operations and any operations we may acquire in the future carry risks in addition to the risks of acquisition, as described above. At any particular time, foreign operations may encounter risks and uncertainties regarding the governmental, political, economic, business and competitive environment within the countries in which those operations are based. Additionally, foreign operations expose us to foreign currency fluctuations that could impact our results of operations and financial condition based on the movements of the applicable foreign currency exchange rates in relation to the U.S. dollar.

Risks generally associated with our sophisticated information systems may adversely affect our business and results of operations.

Our businesses rely on sophisticated information systems to obtain, rapidly process, analyze, and manage data to facilitate the purchase and distribution of thousands of inventory items from numerous distribution centers; to receive, process, and ship orders on a timely basis; to account for other product and service transactions with customers; to manage the accurate billing and collections for thousands of customers; and to process payments to suppliers. Our business and results of operations may be adversely affected if these systems are interrupted or damaged by unforeseen events or if they fail for any extended period of time, including due to the actions of third parties. A third party service provider (IBM) is responsible for managing a significant portion of ABDC s information systems. Our business and results of operations may be adversely affected if the third party service provider does not perform satisfactorily.

Certain of our businesses continue to make substantial investments in information systems. To the extent the implementation of these systems fail, our business and results of operations may be adversely affected.

Risks generally associated with implementation of an enterprise resource planning (ERP) system may adversely affect our business and results of operations or the effectiveness of internal control over financial reporting.

We are preparing to implement an ERP system to handle the business and financial processes within ABDC s operations and our corporate functions. ERP implementations are complex and time-consuming projects that involve substantial expenditures on system software and implementation activities that can continue for several years. ERP implementations also require transformation of business and financial processes in order to reap the benefits of the ERP system. Our business and results of operations may be adversely affected if we experience operating problems and/or cost overruns during the ERP implementation process or if the ERP system, and the associated process changes, do not give rise to the benefits that we expect.

Additionally, if the Company does not effectively implement the ERP system or if the system does not operate as intended, it could adversely affect the effectiveness of our internal controls over financial reporting.

Tax legislation initiatives or challenges to our tax positions could adversely affect our results of operations and financial condition.

We are a large corporation with operations in the United States, Puerto Rico, Canada and the United Kingdom. As such, we are subject to tax laws and regulations of the United States federal, state and local governments and of many foreign jurisdictions. From time to time, various legislative initiatives may be proposed that could adversely affect our tax positions. There can be no assurance that our effective tax rate or tax payments will not be adversely affected by these initiatives. In addition, United States federal, state and local, as well as foreign, tax laws and regulations, are extremely complex and subject to varying interpretations. There can be no assurance that our tax positions will not be challenged by relevant tax authorities or that we would be successful in any such challenge.

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ITEM 1B. UNRESOLVED STAFF COMMENTS

None.

ITEM 2. PROPERTIES

As of September 30, 2008, we conducted our business from office and operating facilities at owned and leased locations throughout the United States, Canada, the United Kingdom, and Puerto Rico. In the aggregate, our facilities occupy approximately 8.3 million square feet of office and warehouse space, which is either owned or leased under agreements that expire from time to time through 2018.

We have 26 full-service ABDC wholesale pharmaceutical distribution facilities in the United States, ranging in size from approximately 54,000 square feet to 310,000 square feet, with an aggregate of approximately 4.7 million square feet. Leased facilities are located in Puerto Rico plus the following states: Arizona, California, Colorado, Florida, Hawaii, Minnesota, New York, New Jersey, North Carolina, Utah, and Washington. Owned facilities are located in the following states: Alabama, California, Georgia, Illinois, Kentucky, Massachusetts, Michigan, Missouri, Ohio, Pennsylvania, Texas and Virginia. As of September 30, 2008, ABDC had 11 wholesale pharmaceutical distribution facilities in Canada. Two of these facilities are owned and are located in the provinces of Newfoundland and Ontario. Nine of these locations are leased and located in the provinces of Alberta, British Columbia, Nova Scotia, Ontario, and Quebec. We consider our operating properties to be in satisfactory condition.

As of September 30, 2008, the Specialty Group s operations were conducted in 20 locations, two of which are owned, comprising of approximately 1.0 million square feet. The Specialty Group s largest leased facility consisted of approximately 276,000 square feet. Its headquarters are located in Texas and it has significant operations in the states of Alabama, Kentucky, Nevada, North Carolina, and Ohio.

As of September 30, 2008, the Packaging Group s operations in the U.S. consisted of 3 owned facilities and 4 leased facilities totaling approximately 1.3 million square feet. The Packaging Group s operations in the U.S. are primarily located in the states of Illinois and Ohio. The Packaging Group s operations in the United Kingdom are located in 6 owned and 2 leased building units comprising a total of 103,000 square feet. The two leased building units were acquired by us in October 2008.

We lease approximately 154,000 square feet in Chesterbrook, Pennsylvania for our corporate and ABDC headquarters.

We consider all of our operating office properties to be in satisfactory condition.

ITEM 3. LEGAL PROCEEDINGS

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

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RxUSA Matter

In 2001, the Company sued one of its former customers, RxUSA International, Inc. and certain related companies (RxUSA), seeking over $300,000 for unpaid invoices. The matter is pending in the United States District Court for the Eastern District of New York (the Federal District Court). Thereafter, RxUSA filed counterclaims alleging breach of contract claiming that it was overbilled for products by over $400,000. RxUSA also alleged violations of the federal and New York antitrust laws, tortious interference with business relations and defamation. The Federal District Court has granted summary judgment for the Company on the antitrust and defamation counterclaims, but denied the motion on the breach of contract and tortious interference counterclaims. In connection with its tortious interference counterclaim, RxUSA asserts compensatory damages of $61 million plus punitive damages. The case is scheduled for trial on January 26, 2009. The Company intends to vigorously prosecute its claim for unpaid invoices and does not believe that the counterclaims asserted by RxUSA have merit, but cannot predict the ultimate outcome of this matter.

New York Attorney General Subpoena

In fiscal 2005, the Company received a subpoena from the Office of the Attorney General of the State of New York (the NYAG) requesting documents and responses to interrogatories concerning the manner and degree to which the Company purchased pharmaceuticals from other wholesalers, often referred to as the alternate source market, rather than directly from manufacturers. Similar subpoenas have been issued by the NYAG to other pharmaceutical distributors. After receiving the subpoena, the Company engaged in discussions with the NYAG, initially to clarify the scope of the subpoena and subsequently to provide background information requested by the NYAG. The Company has produced responsive information and documents and will continue to cooperate with the NYAG. Late in fiscal year 2007, the Company received a communication from the NYAG detailing potential theories of liability. Subsequently, the Company met with the NYAG to discuss this matter and has communicated the Company s position on this matter to the NYAG. The Company believes that it has not engaged in any wrongdoing, but cannot predict the outcome of this matter.

Bergen Brunswig Matter

A former Bergen Brunswig chief executive officer who was terminated in 1999 filed an action that year in the Superior Court of the State of California, County of Orange (the Superior 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 Superior Court entered an Order in Implementation of Judgment on June 7, 2001, which identified the specific benefits encompassed by the Offer of Judgment. Following submission by the executive of a claim for benefits pursuant to the Bergen Brunswig Supplemental Executive Retirement Plan (the Plan), the Company followed the administrative procedure set forth in the Plan. This procedure involved separate reviews by two independent parties, the first by the Review Official appointed by the Plan Administrator and second by the Plan Trustee, and resulted in a determination that the executive was entitled to a $1.9 million supplemental retirement benefit and such amount was paid. The executive challenged this award and on July 7, 2006, the Superior Court entered a Second Order in Implementation of Judgment determining that the executive was entitled to a supplemental retirement benefit, net of the $1.9 million previously paid to him, in the amount of $19.4 million, which included interest at the rate of ten percent per annum from August 29, 2001. The Company recorded a charge of $13.9 million in fiscal 2006 to establish the total liability of $19.4 million on its balance sheet. The Court refused to award the executive other benefits claimed, including an award of stock options, a severance payment and forgiveness of a loan. Both the executive and the Company appealed the ruling of the Superior Court. On October 12, 2007, the Court of Appeal for the State of California, Fourth Appellate District (the Cou