AmerisourceBergen

2005 Annual Report

Focusing on Our Strengths

AmerisourceBergen

AmerisourceBergen (NYSE:ABC) is one of the largest pharmaceutical services companies in the world. Servicing both manufacturers and healthcare providers in the pharmaceutical supply channel, the Company provides distribution and related services designed to reduce costs and improve patient outcomes.

AmerisourceBergen focuses on its strengths and expertise all along the pharmaceutical supply channel, bringing innovative programs and services to our suppliers and customers alike. We grow our business by helping our customers grow their businesses, getting pharmaceuticals to market safely, quickly and efficiently, and enabling healthcare providers to focus on their strengths — improving the health and wellness of patients.

AmerisourceBergen's service solutions range from pharmacy automation and pharmaceutical packaging to pharmacy services for skilled nursing and assisted living facilities, reimbursement and pharmaceutical consulting services, and physician education. With more than $54 billion in annual revenue, AmerisourceBergen is headquartered in Valley Forge, PA and employs more than 13,000 people.

To Our Shareholders:

AmerisourceBergen achieved record operating revenue of $50 billion and record cash flow from operations of $1.5 billion for fiscal 2005. Diluted earnings per share from continuing operations of $2.73, including $0.60 in special charges and before the cumulative effect of an accounting change, were disappointing and below our expectations. It was a year dominated by a major transition in how our Company is compensated by brand-name manufacturers for our distribution services. The good news is that we are now largely through this business model transition, and our strengths in distribution and related services in the pharmaceutical supply channel, and positive industry trends, provide substantial growth opportunities as we look ahead. >

We are focused on the Pharmaceutical Supply Channel.

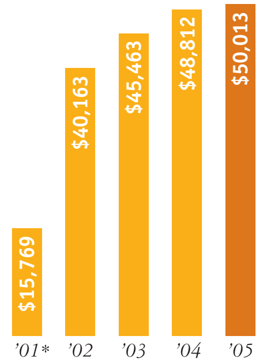
R. David Yost,
Chief Executive Officer

> Pharmaceutical distributors historically relied upon the buy-and-hold model of managing inventory and generating gross profit. Typically, a distributor bought extra inventory ahead of an expected manufacturer price increase and then sold the inventory at the higher price. In the last year, we have nearly completed our transition away from the buy-and-hold model to a fee-for-service model where we are compensated more directly by branded drug manufacturers for the distribution services we provide and are relying less on manufacturer price increases to drive gross profit. In fiscal 2006, we expect that 75 percent or more of our branded pharmaceutical manufacturer gross margin will not be contingent on manufacturer price increases.

We have already benefitted from the fee-for-service transition by dramatically reducing the amount of inventory we need to carry. The model transition has positively impacted our balance sheet as inventories have dropped from nearly $7 billion during fiscal 2003 to about $4 billion at the close of fiscal 2005, helping deliver cash from operations of $2.4 billion in the past two fiscal years. Today, we are net debt free with over $1.3 billion in cash, and debt of about $950 million.

Over the last two years we have invested nearly $400 million in improving our distribution network, repaid over $650 million in debt, repurchased about $930 million worth of our stock, made modest acquisitions totaling about $70 million and paid out $22 million in dividends. During fiscal year 2005, we refinanced all our remaining debt, achieving lower interest rates, extended maturities, and better terms. In December 2005, we doubled our dividend and split the stock two for one. Both Standard & Poor's and Fitch Ratings now rate the Company's debt as "investment grade." We continue to look at potential acquisitions in the pharmaceutical supply channel and, while we focus on opportunities in the $100 to $200 million range, our financial flexibility enables us to consider larger prospects if opportunities arise.

Our AmerisourceBergen Specialty Group (ABSG) continues to be a strength. ABSG once again outperformed the overall pharmaceutical market in fiscal 2005, growing to more than $7 billion in revenue. Approximately two-thirds of our specialty business is in oncology distribution and services. With more new oncology drugs in the pipeline than any other disease state, the oncology market's growth is expected to continue to exceed overall market growth.



Operating Revenue
(in Millions)
FY Ended September 30
**AmeriSource merged with Bergen Brunswig in August 2001.*

In October 2005, we ventured outside the U.S. market for the first time, entering the Canadian drug distribution market with the acquisition of Trent Drugs (Wholesale) Ltd., which is changing its name to AmerisourceBergen Canada. The US $13 billion Canadian market provides growth opportunities and our entry into Canada, with its large number of independent community retail pharmacies, has been well received.

In AmerisourceBergen Drug Corporation (ABDC), the Optimiz® program, through which we expect to create the lowest-cost pharmaceutical distribution network in the industry, continues on schedule and on budget. In fiscal 2005, we consolidated six distribution centers and opened two new 300,000 sq. ft. facilities. In October 2005, we opened an additional new distribution center in Kansas City, MO and expect to complete the sixth and final one in Bethlehem, PA in late spring of 2006. Installation of our new warehouse management system is already driving productivity improvements ahead of our expectations.

Our packaging business, AmerisourceBergen Packaging Group (ABPG), continued to grow both revenues and earnings. Today ABPG provides packaging services for 14 of the 15 largest pharmaceutical manufacturers. We expect large manufacturers to increase their outsourcing of packaging services, and ABPG is in an excellent position to benefit.

Our PharMerica long-term care business faces difficult market conditions. In fiscal 2005, margins were negatively impacted by aggressive market pricing and Medicaid reimbursement cuts. The business responded by lowering costs and introducing new technology to improve efficiencies and differentiate itself. While we believe PharMerica can improve >

Fellow Shareholders:

Fiscal year 2005 was a challenging year for AmerisourceBergen as we navigated a change in the way we are compensated by manufacturers for our services. That transition is largely behind us, and I am confident that Dave Yost and the management team have a solid strategy for improving shareholder value.

In addition to its active involvement in overseeing the Company's strategic direction, your Board continues to carry out its governance duties. This year under Section 404 of the Sarbanes-Oxley Act we spent considerable time addressing the effectiveness of the Company's internal control over financial reporting. I am pleased to report both management and our independent registered public accounting firm found no material weaknesses in those internal controls.

On a personal note, I have reached mandatory retirement age and will be stepping down from the Chairmanship and the Board at the Annual Meeting of Stockholders in February. I have truly enjoyed my tenure as Chairman and as a Board member. You have an excellent Board that participates in rigorous discussions of the Company's issues and represents the shareholders' interests well. Dave Yost and the management team have been a pleasure to work with. I am pleased that the Board has elected Dick Gozon to follow me as Chairman pending his reelection to the Board at the Annual Meeting. The interests of shareholders will be well served under Dick's leadership.

On behalf of your Board, thank you for your continued support.

James R. Mellor
Chairman of the Board
December 23, 2005

> over time, fiscal 2006 will be a difficult transition year as the business adjusts to Medicare Part D.

Looking ahead, the fundamental drivers of our business continue to be excellent. The population of America is aging and with that comes increased demand for the products and services we distribute and provide.

Over time, we expect to benefit from Medicare Part D, which provides drug coverage to American seniors starting in January 2006. We see a gradual build up, with little significant impact on our fiscal year 2006 and increasing volume in later years.

Another driver of note is generic pharmaceuticals. Generics offer our Company the opportunity to provide expanded services to the manufacturer in marketing and demand creation and to deliver significant value to our customers. More than $70 billion in branded pharmaceuticals may lose patent protection over the next five years and potentially enter the market as generic equivalents, providing AmerisourceBergen with significant opportunities.

The strongest performance driver continues to be the associates of AmerisourceBergen. Their disciplined execution, creativity and customer focus continue to position our Company for future growth. Day in and day out, the work of AmerisourceBergen associates reflects the fact that people's lives depend on what they do.

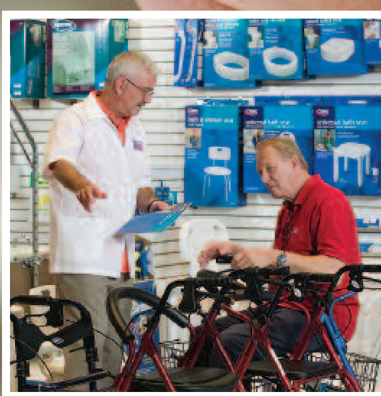
As you know, Jim Mellor is stepping down as a Board member and as Board Chairman. Jim has provided me with valuable counsel and insight during his tenure. His perspective and experience have been extremely beneficial, and our Company is clearly better positioned due to his input and Board leadership. At the same time, I welcome Dick Gozon as the Chairman-Elect. Dick brings a solid background in distribution, long-time Board membership and strong leadership skills. I look forward to working with him.

AmerisourceBergen is well-positioned in an industry with strong growth trends. Our future is bright. Thank you for your interest and continuing commitment to AmerisourceBergen.

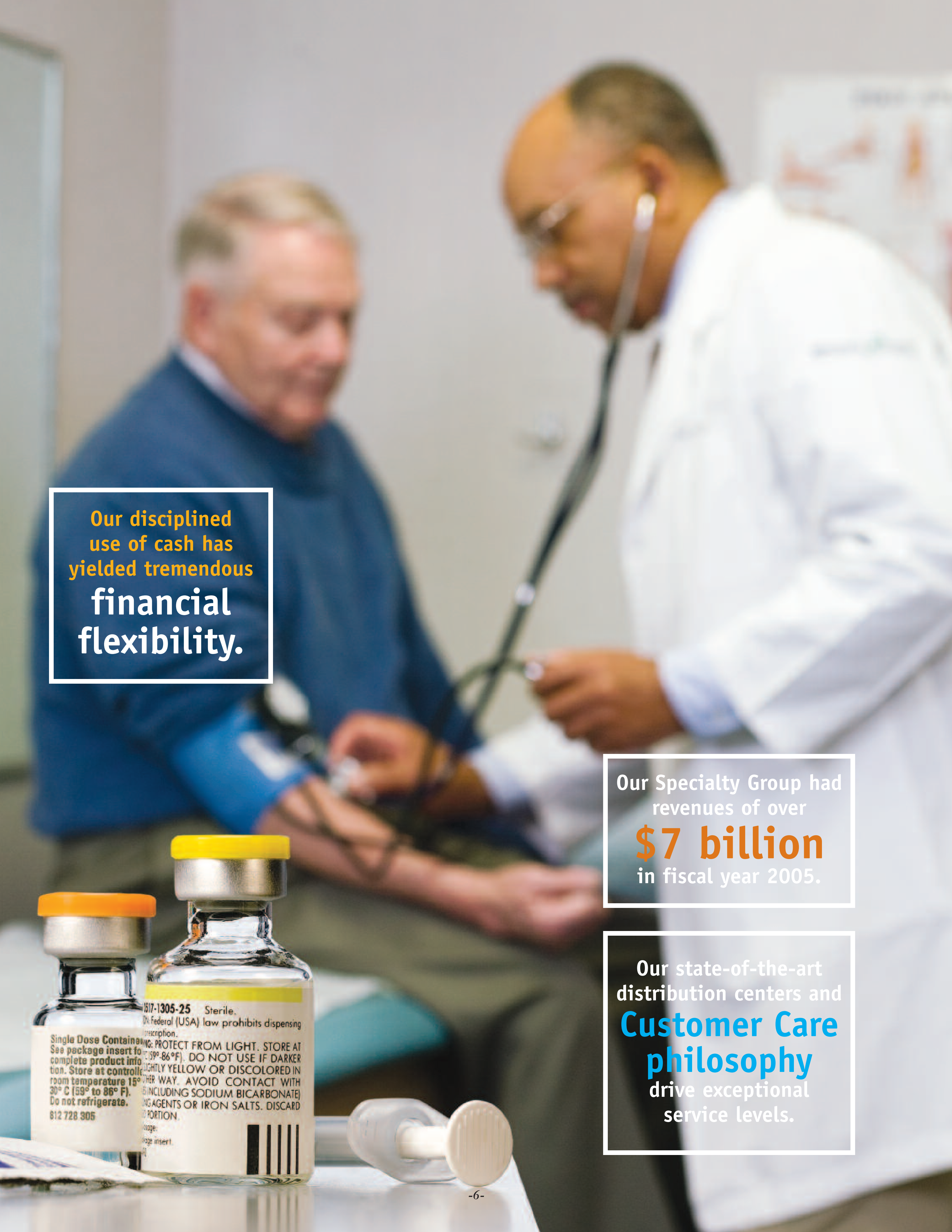
R. David Yost
Chief Executive Officer
December 23, 2005

The change to
Fee-For-Service
is largely complete.

Over **$70 billion**
in branded drugs
may lose
patent protection
in the next 5 years.



Our pharmacy automation technology enables pharmacists to spend **more time counseling patients** without sacrificing safety and efficiency.



Our disciplined use of cash has yielded tremendous **financial flexibility.**

Our Specialty Group had revenues of over **$7 billion** in fiscal year 2005.

Our state-of-the-art distribution centers and **Customer Care philosophy** drive exceptional service levels.

Focusing on Our Strengths

AmerisourceBergen is committed to the pharmaceutical supply channel. This singular focus allows us to drive unparalleled expertise and efficiency along the entire channel and ultimately deliver value to pharmaceutical manufacturers, healthcare providers, and shareholders alike. In the U.S. alone, the channel is $250 billion strong and growing, bolstered by demographics, new product introductions, and the implementation of the Medicare Modernization Act (MMA) in 2006. Market growth of high single digits is expected, and the industry is stable and healthy.

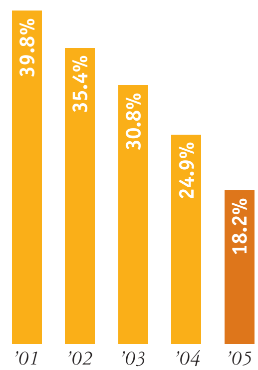
Two key factors, both with positive implications for wholesalers, impacted the industry in fiscal year 2005: increased utilization of generic pharmaceuticals and a decline in wholesaler inventories. The increased usage of lower-priced generic pharmaceuticals can dampen overall sales growth due to their lower prices. However, generics provide better profitability to pharmaceutical distributors. AmerisourceBergen aggregates demand for generic pharmaceuticals and provides broad services to generic drug manufacturers, including marketing to its broad customer base. Our value-added generics program enables our provider customers to better serve patients as well as effectively manage their own profitability. As more than $70 billion in branded pharmaceuticals come off patent over the next five years, our generic programs will continue to be an important differentiator and growth driver.

Across the industry, wholesaler inventories have declined as our business model has evolved away from the traditional buy-and-hold method of managing inventory to a fee-for-service model. The business model transformation is substantially complete, excess inventories have been worked down, and the channel has become much more efficient as a result. AmerisourceBergen's inventory levels have declined from a peak of nearly $7 billion in recent years to just over $4 billion at the end of FY 2005. That transition was the key driver to our robust operating cash flow generation of $1.5 billion in FY 2005. Our strong cash flow enabled us to either pay off, refinance, or amend each debt instrument and credit facility that we had, greatly simplifying our capital structure, lowering our financing costs, and increasing our financial flexibility.

Market Growth

With the transition to the fee-for-service business model virtually complete, the industry is well-positioned for future growth. IMS Health projects that the U.S. pharmaceutical market will grow at 8 to 9 percent in calendar year 2006, which includes the impact of several major patent expirations on branded drugs and the expected conversion to generic versions of those products. We expect the MMA to bolster growth both in prescription drug utilization generally, and especially in generic pharmaceuticals. The solid pace of industry growth will allow AmerisourceBergen to continue to strengthen its position in the markets it serves, to continue to develop new value-added programs for its pharmaceutical manufacturer and healthcare provider customers, and to leverage its scale and financial flexibility in order to grow earnings faster than revenues.

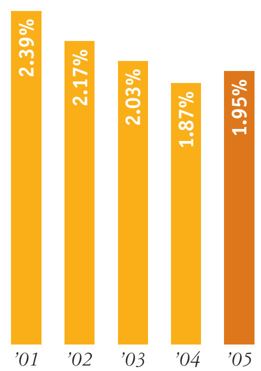
In this growing market, AmerisourceBergen focuses on services linked to the safe and secure distribution of pharmaceuticals to healthcare providers. We play a leading role in securing the supply channel against the introduction of counterfeit and adulterated products. For example, we purchase pharmaceuticals in the U.S. only from the manufacturer except in the rare case that the manufacturer requires us to purchase from their exclusive wholesaler. We work with federal, state, and local agencies and law enforcement to maintain the integrity of the channel and to constantly improve our safety systems and processes. Our state-of-the-art >



Debt-to-Total Capital Ratio
FY Ended September 30

distribution centers are equipped with the latest barcode tracking technology, and our infrastructure is prepared to accept the next generation of radio frequency identification of products as soon it becomes widely available.

Today we work with pharmaceutical manufacturers to develop best-in-class packaging solutions to further enhance product integrity and also improve patient compliance.



Total Operating Expense in Pharmaceutical Distribution
(% to Operating Revenue)
FY Ended September 30

AmerisourceBergen maintains almost 1 million square feet of packaging operations which serve both the contract packaging needs of pharmaceutical manufacturers and the specialized repackaging needs of our provider customers. We continue to invest in this growing business, which we believe will strengthen as new product tracking technologies are developed and methods to measure drug utilization and patient compliance with drug regimens improve.

Pharmaceutical Care

The cornerstone of our relationship with healthcare providers is our ability to deliver the pharmaceuticals and supplies they need on a just-in-time basis. AmerisourceBergen is also able to focus on programs and services that help our customers improve their businesses and improve the care they are providing to patients. Our Good Neighbor Pharmacy® program, for example, enables our independently owned retail pharmacy customers to actively compete in the marketplace and succeed. With over 2,300 participants, Good Neighbor Pharmacy has a national presence and solid brand recognition.

Retail pharmacies that join Good Neighbor Pharmacy receive national advertising support, merchandising assistance, and access to a managed care network that rivals that of the largest retail drug store chains. Being a member of Good Neighbor Pharmacy gives independent pharmacies access to PRxO® Generics, AmerisourceBergen's proprietary generic drug sourcing program. With PRxO® Generics, Good Neighbor Pharmacy stores benefit from AmerisourceBergen's size and scale in the marketplace, and achieve both a complete generic drug offering and competitive pricing, which they would likely not be able to match on their own.

Other robust programs such as Diabetes Shoppe® are available to AmerisourceBergen customers to help strengthen the pharmacist's role as a key healthcare provider, especially to those patients with chronic conditions. All of these provider programs work together to help position pharmacists as important and accessible healthcare leaders in the community.

AmerisourceBergen serves hospitals, health systems, and clinics with the same focus that we serve retail pharmacies — in addition to exceptional service levels, we bring unique solutions to help them improve their businesses while also improving their care to patients. Our solutions help hospitals and other acute healthcare providers enhance patient safety and improve medication outcomes to ensure clinical excellence. Our unique expertise also helps health systems uncover significant revenue opportunities and new sources of income, and our consultative services show them how to make lasting improvements.

Our pharmacy consulting expertise also drives value in our long-term care pharmacy business, PharMerica. We have focused on helping our customers prepare for the transition to MMA, and we have worked with the Centers for Medicare and Medicaid Services (CMS) to ensure that the special needs of long-term care patients are understood. On January 1, 2006, the vast majority of long-term care patients will automatically move from Medicaid benefits to the new Medicare Part D program under MMA. Accordingly, we have broadly contracted with MMA's Prescription Drug Plans participating in the long-term care market to ensure a smooth transition for our customers and no disruption in patient drug regimens.

This year we began introducing new customer facing technologies which have simplified ordering and tracking processes. We will continue to invest in the long-term care business, including further deployment of our AutoMed®

The Company and its associates contributed $1.2 million to **Katrina and Tsunami aid** through the American Red Cross.

American Red Cross

Our customer mix and ability to drive compliance are **key strengths** in our relationships with generic manufacturers.

AmerisourceBergen has invested nearly **$400 million** in its distribution network over the last 2 fiscal years.

Our Packaging Group is testing numerous RFID and product serialization initiatives to further **enhance safety.**

AmerisourceBergen offers third party payers the nation's third largest network of pharmacy providers, with over **4,100 member pharmacies.**

Over the last two fiscal years, the Company has repurchased **$931 million** of its own stock.

pharmacy automation technology into PharMerica, and streamlining pharmacy and back office operations. As the population of America ages, long-term care will continue to grow and PharMerica will be well-positioned to participate in that growth.

Specialty Pharmaceutical Services

AmerisourceBergen is unique in the size and scope of its specialty pharmaceutical distribution business. With revenues over $7 billion in fiscal 2005, the specialty business continued to grow significantly faster than the market for conventional therapies. We expect specialty distribution to continue to outpace the overall drug market, driven by new product introductions, especially in oncology. Our market leading oncology business is the cornerstone of our specialty distribution business, focusing on distributing products and related services to physician offices.

The specialty drug pipeline is rich with innovative therapies which fight cancer as well as other specific diseases that have historically not benefited from more traditional therapies. Our specialty business is not limited to the distribution of highly specialized and difficult to handle products; we also provide a host of support services to the physicians that dispense these products in their offices and to the specialty manufacturers alike. From drug commercialization services and third party logistics to accredited physician education and our market-leading reimbursement services, AmerisourceBergen offers a complete and unparalleled solution to manufacturers who want to get their products to market and physicians who want to provide their patients with the best care.

The Future

AmerisourceBergen remains singularly focused on the pharmaceutical supply channel. Within our drug corporation, we have nearly completed our Optimiz® program of distribution network consolidation and facility upgrades, with all but one of our six new distribution centers completed. The final new distribution center will be completed in the Spring of 2006.

We anticipate that following the remaining facility consolidations scheduled to occur in fiscal years 2006 and 2007, our distribution centers in the U.S. will number in the mid-twenties. The Optimiz program has remained on schedule and on budget since its inception in 2001, and it has yielded better than expected productivity improvements and other efficiencies.

In fiscal year 2005, we rolled out our Transform initiative, aimed at improving customer profitability. The progress of this program has led us to invest further in related initiatives in fiscal 2006. These initiatives include strengthening customer programs and services, enhancing our sales force, and improving contract compliance, as well as adopting some of the most successful initiatives for the long term.

As we look ahead, there are important opportunities on the horizon. In October 2005, AmerisourceBergen acquired a Canadian pharmaceutical wholesaler, Trent Drugs (Wholesale) Ltd., marking our first entrance into a non-U.S. market. The Canadian market represents approximately US $13 billion in sales, and Trent gives us a tremendous base upon which to grow the Canadian business. This acquisition is typical of the type of company we want to add to our portfolio — well-run companies with solid revenues and earnings growth that serve the pharmaceutical supply channel.

Canadian Market Facts

Population
32 million

Rx Sales
US $13 billion

Number of Drugstores
7,544

Trent FY05 sales
US $500 million

In the pharmaceutical supply channel, we will continue to use our scale in the market and our unique expertise to provide our customers with market-leading solutions. AmerisourceBergen has unprecedented financial flexibility, which we will utilize to reinvest in our business and to return value to shareholders. Our focus on our strengths allows our manufacturer and healthcare provider customers to focus on their strengths — improving the health and well-being of people across the globe.

Officers and Directors

R. David Yost

Kurt J. Hilzinger

Michael D. DiCandilo

Steven H. Collis

Terrance P. Haas

Corporate Officers

R. David Yost
Chief Executive Officer

Kurt J. Hilzinger
President and
Chief Operating Officer

Michael D. DiCandilo
Executive Vice President
and Chief Financial Officer

Steven H. Collis
Senior Vice President and
President of AmerisourceBergen
Specialty Group

Terrance P. Haas
Senior Vice President and
President of AmerisourceBergen
Drug Corporation

Leonardo DeCandia
Senior Vice President,
Supply Chain Management

Jeanne B. Fisher
Senior Vice President,
Human Resources

Thomas H. Murphy
Senior Vice President and
Chief Information Officer

William D. Sprague
Senior Vice President
and General Counsel

John G. Chou
Vice President, Deputy General
Counsel and Secretary

Tim G. Guttman
Vice President and
Corporate Controller

J.F. Quinn
Vice President and
Corporate Treasurer

David M. Senior
Vice President, Strategy and
Corporate Development

Vicki L. Bausinger
Manager, Stockholder Relations
and Assistant Secretary

Board of Directors

James R. Mellor [2,3,†]
Chairman of the Board,
AmerisourceBergen Corporation
and Chairman of USEC Inc.

Rodney H. Brady [1,4]
President and Chief Executive
Officer, Deseret Management
Corporation

Charles H. Cotros [1,4*]
Retired Chairman and
Chief Executive Officer,
Sysco Corporation

Richard C. Gozon [1,2,††]
Retired Executive Vice President,
Weyerhaeuser Company

Edward E. Hagenlocker [1*,3,4]
Retired Vice Chairman,
Ford Motor Company

Jane E. Henney, M.D. [1,4]
Senior Vice President and
Provost for Health Affairs,
University of Cincinnati

Kurt J. Hilzinger [3]
President and
Chief Operating Officer,
AmerisourceBergen Corporation

Henry W. McGee III [2]
President, HBO Video

J. Lawrence Wilson [2*,3]
Retired Chairman and
Chief Executive Officer,
Rohm and Haas Company

R. David Yost [3*]
Chief Executive Officer,
AmerisourceBergen Corporation

Committees of the Board
1 Audit and Corporate Responsibility Committee
2 Compensation and Succession Planning Committee
3 Executive and Finance Committee
4 Governance and Nominating Committee
* Denotes Committee Chairman
† Retiring February 2006
†† Board Chairman-Elect, pending reelection to Board of Directors in February 2006

Management's Discussion and Analysis of Financial Condition and Results of Operations

The following discussion should be read in conjunction with the Consolidated Financial Statements and notes thereto contained herein.

The Company is a national pharmaceutical services company providing drug distribution and related healthcare services and solutions to its customers. The Company also provides pharmaceuticals to long-term care and workers' compensation patients.

The Company is organized based upon the products and services it provides to its customers, and substantially all of its operations are located in the United States. The Company's operations are comprised of two reportable segments: Pharmaceutical Distribution and PharMerica.

Pharmaceutical Distribution

The Pharmaceutical Distribution reportable segment includes the operations of AmerisourceBergen Drug Corporation ("ABDC") and the AmerisourceBergen Specialty and Packaging groups. The operations of the former AmerisourceBergen Technology Group became a part of the overall ABDC operations in fiscal 2005. The Pharmaceutical Distribution reportable segment is comprised of two operating segments: ABDC and AmerisourceBergen Specialty Group ("ABSG"). The ABDC operating segment includes the operations of the AmerisourceBergen Packaging Group. Servicing both pharmaceutical manufacturers and healthcare providers in the pharmaceutical supply channel, the Pharmaceutical Distribution segment's operations provide drug distribution and related services designed to reduce costs and improve patient outcomes throughout the United States and Puerto Rico. The drug distribution operations of ABDC and ABSG comprised over 90% of the segment's operating revenue and over 80% of the segment's operating income in fiscal 2005.

ABDC distributes a comprehensive offering of brand name and generic pharmaceuticals, over-the-counter healthcare products, and home healthcare supplies and equipment to a wide variety of healthcare providers, including acute care hospitals and health systems, independent and chain retail pharmacies, mail order facilities, physicians, clinics and other alternate site facilities.

ABDC is in a business model transition with respect to how manufacturers compensate us for our services. Historically, supplier arrangements allowed us to generate gross profit in several ways, including cash discounts for prompt payments, inventory buying opportunities, rebates, inventory management and other agreements, vendor program arrangements, negotiated deals and other promotional opportunities. A significant portion of ABDC's gross margin had been derived from our ability to purchase merchandise inventories in advance of pharmaceutical price increases and then hold these inventories until pharmaceutical prices increase, thereby generating a larger gross margin upon sale of the inventories. Over the last two years, pharmaceutical manufacturers have been increasing their control over the pharmaceutical supply channel by using product allocation methods, including the imposition of inventory management agreements ("IMAs"). Under a typical IMA arrangement, the Company is compensated based on specific contract defined formulas for maintaining a certain level of inventory for a pre-defined period prior to, as of, or subsequent to the date of a manufacturer price increase. The payment is triggered upon the manufacturer price increase and is recognized as a reduction of cost of goods sold over the longer of the product sell-through period or post-price increase monitoring period. Because the payment trigger is the date of the manufacturer price increase and the size of the payment is typically dependent on the percentage price increase, changes in manufacturers' pricing patterns can cause significant volatility to the Company's periodic earnings. Additionally, pharmaceutical manufacturers imposed restrictions on our ability to purchase their products from alternate sources and have been requesting more product and distribution sales data from us. Effective October 1, 2005, the Company voluntarily made a decision to purchase all pharmaceuticals only from manufacturers in an effort to further protect the integrity of the supply channel.

All of the above has led to significant volatility in ABDC's gross margin and, therefore, we are continuing our efforts to shift our pharmaceutical distribution business to a fee-for-service model where we are compensated for the services we provide manufacturers versus one that is dependent upon manufacturer price increases (as is the case with the IMA model). We continue to work with our pharmaceutical manufacturer partners to define fee-for-service terms that will adequately compensate us for our services, such as our distribution services, inventory management, service level management, and other services. Under a typical fee-for-service agreement, the Company is compensated for its services based on a percentage of purchases over a defined time period. Amounts due for services rendered in the current period would typically be earned in the following month as a reduction of cost of goods sold as the related product is sold. As of September 30, 2005, we have signed agreements with a number of the large branded pharmaceutical manufacturers that we consider fee-for-service arrangements as well as some that we consider hybrid agreements with some attributes of IMAs and some attributes of fee-for-service arrangements. We believe the transition to a fee-for-service model will improve the efficiency of the supply channel and may establish a more predictable earnings pattern for ABDC, while expanding our service relationship with pharmaceutical manufacturers. The fee-for-service arrangements may establish a more predictable earnings pattern because under many of the agreements the Company earns a fee for its services performed on a monthly basis in contrast to the IMA model where earnings are largely predicated upon the timing and amount of pharmaceutical price increases. We continue to have discussions with pharmaceutical manufacturers regarding fee-for-service arrangements and expect to have agreements in place with a substantial majority of the large branded manufacturers by the end of calendar 2005. During fiscal 2006, we expect that more than 75% of ABDC's brand name manufacturer gross margin will not be contingent on manufacturer price increases. The business model transition has had the effect of reducing merchandise inventories because IMA and fee-for-service agreements both limit the amount of inventory we can carry and, as a result, we have experienced a significant increase in cash flow from operations. The majority of the reduction in merchandise inventories has been realized as of September 30, 2005 as days held in inventory have decreased from 50 days during the fourth quarter of fiscal 2003 to 42 days during the fourth quarter of fiscal 2004 to 32 days during the fourth quarter of fiscal 2005. In fiscal 2006, we would expect merchandise inventories to stabilize as the large majority of branded manufacturers are expected to be under some form of fee-for-service contract and, as a result, we would expect future cash flow from operations to track more closely to net income.

ABDC also provides 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, including group purchasing services, to physicians and alternate care providers who specialize in a variety of disease states, including oncology, nephrology, and rheumatology. ABSG also distributes vaccines, other injectables, plasma and other blood products. In addition, through its manufacturer services and physician and patient services businesses, ABSG provides a number of commercialization, third party logistics, and other services for biotech and other pharmaceutical manufacturers, reimbursement consulting, practice management, and physician education.

ABSG's business may be adversely impacted in the future by changes in the Medicare reimbursement rates for certain pharmaceuticals, including oncology drugs. The reimbursement changes that have been implemented by the U.S. Department of Health and Human Services ("HHS") pursuant to the Medicare Prescription Drug, Improvement and Modernization Act of 2003 ("Medicare Modernization Act"), and that are scheduled to be implemented in the future, may have the effect of reducing the amount and/or margins of medications purchased by physicians for administration in their offices and may force patients to other healthcare providers. Since ABSG provides a number of services to or through physicians, patient shifts from physicians to other healthcare providers may result in slower or reduced growth in revenues for ABSG. Although ABSG has contingency plans to enable it to retain and grow the business it conducts with and through physicians, there can be no assurance that it will retain or replace all of the revenue currently going through the physician channel or that such revenue will be as profitable.

The AmerisourceBergen Packaging Group consists of American Health Packaging and Anderson Packaging ("Anderson"). American Health Packaging delivers unit dose, punch card, unit-of-use and other packaging solutions to institutional and retail healthcare providers. Anderson is a leading provider of contracted packaging services for pharmaceutical manufacturers.

PharMerica

The PharMerica segment includes the operations of the PharMerica long-term care business ("Long-Term Care") and a workers' compensation-related business ("Workers' Compensation"). The PharMerica reportable segment encompasses only the PharMerica operating segment.

Long-Term Care is a leading national provider of pharmacy products and services to patients in long-term care and alternate site settings, including skilled nursing facilities, assisted living facilities and residential living communities. Long-Term Care's institutional pharmacy business involves the purchase of bulk quantities of prescription and nonprescription pharmaceuticals, principally from our Pharmaceutical Distribution segment, and the distribution of those products to residents in long-term care and alternate site facilities. Unlike hospitals, most long-term and alternate care facilities do not have onsite pharmacies to dispense prescription drugs, but depend instead on institutional pharmacies, such as Long-Term Care, to provide the necessary pharmacy products and services and to play an integral role in monitoring patient medication. Long-Term Care pharmacies dispense pharmaceuticals in patient-specific packaging in accordance with physician orders. In addition, Long-Term Care provides infusion therapy services and Medicare Part B products, as well as formulary management and other pharmacy consulting services.

The Company is currently evaluating the effect that the Medicare Modernization Act may have on the Long-Term Care business. The ongoing implementation of Medicare Part D (including coverage and reimbursement changes associated with the voluntary drug benefit program for seniors) could have an adverse effect on the Long-Term Care business. At this time, the future impact of the Medicare Modernization Act on the Long-Term Care business cannot be determined.

Workers' Compensation provides mail order and on-line pharmacy services to chronically and catastrophically ill patients under workers' compensation programs, and provides pharmaceutical claims administration services for payors. Workers' Compensation services include home delivery of prescription drugs, medical supplies and equipment and an array of computer software solutions to reduce the payor's administrative costs.

AmerisourceBergen Corporation Summary Segment Information

	Operating Revenue Fiscal year ended September 30,			2005 vs. 2004	2004 vs. 2003
(dollars in thousands)	**2005**	2004	2003	Change	Change
Pharmaceutical Distribution	**$49,319,371**	$48,113,015	$44,657,911	3%	8%
PharMerica	**1,571,369**	1,575,255	1,608,203	—	(2)
Intersegment eliminations	**(878,142)**	(875,818)	(802,714)	—	(9)
Total	**$50,012,598**	$48,812,452	$45,463,400	2%	7%

(dollars in thousands)	Operating Income Fiscal year ended September 30, 2005	2004	2003	2005 vs. 2004 Change	2004 vs. 2003 Change
Pharmaceutical Distribution	**$532,887**	$748,625	$791,216	(29)%	(5)%
PharMerica	**91,947**	121,846	103,843	(25)	17
Facility consolidations, employee severance and other	**(22,723)**	(7,517)	(8,930)	(202)	16
Gain on litigation settlements	**40,094**	38,005	—	5	n/a
Impairment charge	**(5,259)**	—	—	n/a	n/a
Total	**$636,946**	$900,959	$886,129	(29)%	2%
Percentages of operating revenue:					
Pharmaceutical Distribution					
Gross profit	**3.03%**	3.43%	3.81%		
Operating expenses	**1.95%**	1.87%	2.03%		
Operating income	**1.08%**	1.56%	1.77%		
PharMerica					
Gross profit	**28.40%**	30.45%	32.69%		
Operating expenses	**22.54%**	22.72%	26.23%		
Operating income	**5.85%**	7.74%	6.46%		
AmerisourceBergen Corporation					
Gross profit	**3.96%**	4.44%	4.90%		
Operating expenses	**2.69%**	2.59%	2.95%		
Operating income	**1.27%**	1.85%	1.95%		

Year ended September 30, 2005 compared with Year ended September 30, 2004

Consolidated Results

Operating revenue, which excludes bulk deliveries, for the fiscal year ended September 30, 2005 increased 2% to $50.0 billion from $48.8 billion in the prior fiscal year. This increase was primarily due to increased operating revenue in the Pharmaceutical Distribution segment.

The Company reports as revenue bulk deliveries to customer warehouses, whereby the Company acts as an intermediary in the ordering and delivery of pharmaceutical products. Bulk delivery transactions are arranged by the Company at the express direction of the customer, and involve either shipments from the supplier directly to customers' warehouse sites or shipments from the supplier to the Company for immediate shipment to the customers' warehouse sites. Bulk deliveries for the fiscal year ended September 30, 2005 increased 6% to $4.6 billion from $4.3 billion in the prior fiscal year due to an increase in demand from the Company's largest bulk customer. The Company is a principal to these transactions because it is the primary obligor and has general inventory risk, physical loss inventory risk, and customer credit risk. As a result, and in accordance with the Emerging Issues Task Force No. 99-19, "Reporting Revenue Gross as a Principal versus Net as an Agent," the Company records bulk deliveries to customer warehouses as gross revenues. Due to the insignificant service fees generated from bulk deliveries, fluctuations in volume have no significant impact on operating margins. However, revenue from bulk deliveries has a positive impact on the Company's cash flows due to favorable timing between the customer payments to the Company and payments by the Company to its suppliers.

In connection with the transition to a fee-for-service model, we changed our method of recognizing cash discounts and other related manufacturer incentives, effective October 1, 2004. ABDC previously recognized cash discounts as a reduction of cost of goods sold when earned, which was primarily upon payment of vendor invoices. ABDC now records cash discounts as a component of inventory cost and recognizes such discounts as a reduction of cost of goods sold upon the sale of the inventory. We believe the change in accounting method provides a more objectively determinable method of recognizing cash discounts and a better matching of inventory cost to revenue, as inventory turnover rates are expected to continue to improve.

We recorded a $10.2 million charge for the cumulative effect of change in accounting (net of tax of $6.3 million) in the consolidated statement of operations for the fiscal year ended September 30, 2005. This $10.2 million cumulative effect charge reduced diluted earnings per share by $0.09 for the fiscal year ended September 30, 2005. The accounting change is incorporated in our results of operations for the fiscal year ended September 30, 2005. The change improved earnings from continuing operations in the fiscal year ended September 30, 2005 by approximately $11.5 million, net of tax, or $0.11 per diluted share from continuing operations. The accounting change had the effect of increasing gross profit and operating income by $18.5 million for the fiscal year ended September 30, 2005.

Gross profit of $1,980.2 million in the fiscal year ended September 30, 2005 decreased 9% from $2,166.4 million in the prior fiscal year. During the fiscal years ended September 30, 2005 and 2004, the Company recognized gains of $40.1 million and $38.0 million, respectively, from antitrust litigation settlements with pharmaceutical manufacturers. These gains were recorded as reductions to cost of goods sold and contributed 2% of gross profit for the fiscal years ended September 30, 2005 and 2004. As a percentage of operating revenue, gross profit in the fiscal year ended September 30, 2005 was 3.96%, as compared to the prior-year percentage of 4.44%. The decrease in gross profit and gross profit percentage in comparison with the prior fiscal year reflects declines in both the Pharmaceutical Distribution and PharMerica segments due to a decline in profits related to pharmaceutical price increases and other buy-side profits, changes in customer mix and competitive selling price pressures.

Distribution, selling and administrative expenses, depreciation and amortization ("DSAD&A") of $1,315.3 million in the fiscal year ended September 30, 2005 reflects an increase of 4.6% from $1,258.0 million in the prior fiscal year. As a percentage of operating revenue, DSAD&A in the fiscal year ended September 30, 2005 was 2.63%, compared to 2.58% in the prior fiscal year. The increase in the DSAD&A and the DSAD&A percentage in the fiscal year ended September 30, 2005 from the prior fiscal year was due to an increase in the Pharmaceutical Distribution segment DSAD&A, including bad debt expenses. Total bad debt expense increased to $33.4 million in the fiscal year ended September 30, 2005 from a benefit of $10.3 million in the prior fiscal year. This increase was primarily due to a $15.5 million increase in bad debt expense relating to one of the operating companies within the Specialty Group. Additionally, the prior year's bad debt expense was favorably impacted by $26.6 million of customer recoveries.

In 2001, the Company developed an integration plan to consolidate its distribution network and eliminate duplicative administrative functions. During the fiscal year ended September 30, 2005, the Company decided to outsource a significant portion of its information technology activities as part of the integration plan. The Company's plan, as revised, is to have a distribution facility network numbering in the mid-20s within the next two years and to have successfully completed the outsourcing of such information technology activities by the end of fiscal 2006. The plan includes building six new facilities (four of which were operational as of September 30, 2005) and closing facilities (twenty-three of which have been closed through September 30, 2005). The fifth facility opened in October 2005 and the sixth facility is scheduled to open during fiscal 2006, thereby reducing the total number of distribution facilities to 28 by the end of fiscal 2006. During fiscal 2005 and 2004, the Company closed six and four distribution facilities, respectively. The Company anticipates closing six additional facilities in fiscal 2006.

During the fiscal year ended September 30, 2003, the Company closed six distribution facilities and eliminated certain administrative and operational functions ("the fiscal 2003 initiatives"). During the fiscal years ended September 30, 2004 and 2003, the Company recorded $0.9 million and $10.3 million, respectively, of employee severance costs relating to the fiscal 2003 initiatives. Through September 30, 2004, approximately 780 employees received termination notices as a result of the fiscal 2003 initiatives, of which substantially all have been terminated. During the fiscal year ended September 30, 2003, severance accruals of $1.8 million recorded in September 2001 were reversed into income because certain employees who were expected to be severed either voluntarily left the Company or were retained in other positions within the Company.

During the fiscal year ended September 30, 2004, the Company closed four distribution facilities and eliminated duplicative administrative functions ("the fiscal 2004 initiatives"). During the fiscal year ended September 30, 2004, the Company recorded $5.4 million of employee severance costs in connection with the fiscal 2004 initiatives.

During the fiscal year ended September 30, 2005, the Company announced plans to continue to consolidate and eliminate certain administrative functions, and to outsource a significant portion of the Company's information technology activities (the "fiscal 2005 initiatives").

As of September 30, 2005, approximately 700 employees had received termination notices as a result of the 2004 and 2005 initiatives, of which approximately 630 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.

During the fiscal year ended September 30, 2005, the Company recorded $13.3 million of employee severance and lease cancellation costs primarily related to the 2005 initiatives and $9.4 million of transition costs associated with the outsourcing of information technology activities.

The Company paid a total of $13.5 million and $9.5 million for employee severance, lease cancellation and other costs in the fiscal years ended September 30, 2005 and 2004, respectively, related to the aforementioned integration plan. Remaining unpaid amounts of $12.3 million for employee severance, lease cancellation and other costs are included in accrued expenses and other in the accompanying consolidated balance sheet at September 30, 2005. Most employees receive their severance benefits over a period of time, generally not to exceed 12 months, while others may receive a lump-sum payment.

During the fiscal year ended September 30, 2005, the Company recorded an impairment charge of $5.3 million relating to certain intangible assets within the technology operations of ABDC.

Operating income of $636.9 million for the fiscal year ended September 30, 2005 reflects a decrease of 29% compared to $901.0 million in the prior fiscal year. The Company's operating income as a percentage of operating revenue was 1.27% in the fiscal year ended September 30, 2005 compared to 1.85% in the prior fiscal year. The decline in operating income was primarily due to the decline in gross profit. The gain on litigation settlements, less the costs of facility consolidations, employee severance and other, and the impairment charge increased operating income by $12.1 million in the fiscal year ended September 30, 2005. The gain on litigation settlement, less the costs of facility consolidations, employee severance and other, increased operating income by $30.5 million in the fiscal year ended September 30, 2004.

During the fiscal year ended September 30, 2004, a technology company in which the Company had an equity investment sold substantially all of its assets and paid a liquidating dividend. As a result, the Company recorded a gain of $8.4 million in other income during the fiscal year ended September 30, 2004.

Interest expense, net, decreased 49% in the fiscal year ended September 30, 2005 to $57.2 million from $112.7 million in the prior fiscal year due to a net decline in average borrowings. Average borrowings, net of cash, under the Company's debt facilities during the fiscal year ended September 30, 2005 were $183.1 million as compared to average borrowings, net of cash, of $1.1 billion in the prior fiscal year. The reductions in average borrowings, net of cash, were achieved due to the Company's strong cash flows generated from operations, including reduced merchandise inventories resulting from the aforementioned business model transition.

During the fiscal years ended September 30, 2005 and 2004, the Company recorded $111.9 million and $23.6 million, respectively, in losses resulting from the early retirement of debt.

Income tax expense of $176.9 million in the fiscal year ended September 30, 2005 reflects an effective income tax rate of 37.7%, versus 38.4% in the prior fiscal year. The reduction in tax rates resulted from the resolution of certain federal and state income tax issues during the fiscal year ended September 30, 2005. The Company expects to have an effective income tax rate in the range of approximately 38% in future periods.

Income from continuing operations of $291.9 million for the fiscal year ended September 30, 2005 reflects a decrease of 39% from $474.9 million in the prior fiscal year primarily due to the decline in operating income and the loss from the early retirement of debt partially offset by the decrease in interest expense. Diluted earnings per share from continuing operations of $2.73 in the fiscal year ended September 30, 2005 reflects a 34% decrease from $4.12 per diluted share in the prior fiscal year. The gain on litigation settlements less the costs of facility consolidations, employee severance and other, the impairment charge and the loss on early retirement of debt decreased income from continuing operations by $64.2 million and decreased diluted earnings per share from continuing operations by $0.60 for the fiscal year ended September 30, 2005. The gain on litigation settlement less the costs of facility consolidations, employee severance and other and the loss on early retirement of debt increased income from continuing operations by $4.2 million and increased diluted earnings per share from continuing operations by $0.04 for the fiscal year ended September 30, 2004.

Loss from discontinued operations, net of tax, for the fiscal years ended September 30, 2005 and 2004, relates to the December 2004 sale of the Company's Rita Ann cosmetics distribution business as well as the sale of substantially all of the assets of Bridge Medical, Inc. ("Bridge") in July 2005. The Company incurred a $6.5 million loss, net of tax, on the sale of the Rita Ann business, and a $4.6 million loss, net of tax, on the sale of the Bridge business, both of which are reflected in the loss from discontinued operations in the fiscal year ended September 30, 2005.

Net income of $264.6 million for the fiscal year ended September 30, 2005 reflects a decrease of 43% from $468.4 million in the prior fiscal year. Diluted earnings per share of $2.48 in the fiscal year ended September 30, 2005 reflects a decrease of 39% as compared to $4.06 per share in the prior fiscal year. The decline in diluted earnings per share was less than the decline in net income due to the reduced number of weighted average common shares outstanding resulting from the Company's purchase of its common stock in connection with its stock buyback programs (see Liquidity and Capital Resources) offset in part by the increase in the number of stock option exercises.

Segment Information

Pharmaceutical Distribution Segment Results

Pharmaceutical Distribution operating revenue of $49.3 billion for the fiscal year ended September 30, 2005 increased 3% from $48.1 billion in the prior fiscal year. In fiscal 2004, the Company discontinued servicing the U.S. Department of Veterans Affairs ("VA") and AdvancePCS. These former customers contributed 4.8% and 4.4%, respectively, of the segment's operating revenue in the fiscal year ended September 30, 2004. The lost business was offset by the above market growth of the specialty pharmaceutical distribution business and the market growth of ABDC. During the fiscal year ended September 30, 2005, 57% of operating revenue was from sales to institutional customers and 43% was from sales to retail customers; this compared to a customer mix in the prior fiscal year of 59% institutional and 41% retail. In comparison with the prior-year results, sales to institutional customers were flat primarily due to the above market growth of the specialty pharmaceutical distribution business, offset by the loss of the VA and AdvancePCS business. Sales to retail customers increased 7% over the prior-year primarily due to market growth and an increase in sales to one of the Company's larger retail customers.

This segment's growth largely reflects U.S. pharmaceutical industry conditions, including increases in prescription drug utilization and higher pharmaceutical prices offset, in part, by the increased use of lower-priced generics. The segment's growth has also been impacted by industry competition and changes in customer mix. Industry sales in the United States, as estimated by industry data firm IMS Healthcare, Inc., are expected to grow between 8% and 9% in 2006 and annually between 7% and 10% through 2009. Future operating revenue growth will continue to be affected by competition within the industry, customer consolidation, changes in pharmaceutical manufacturer pricing and distribution policies and practices, changes in Federal government rules and regulations and industry growth trends, such as the likely increase in the number of generic drugs that will be available over the next few years as a result of the expiration of certain drug patents held by brand manufacturers. The Company's Specialty Group has been growing at rates in excess of overall pharmaceutical market growth. The majority of this Group's revenue is generated from the distribution of pharmaceuticals to physicians who specialize in a variety of disease states, such as oncology, nephrology, and rheumatology. Additionally, the Specialty Group distributes vaccines and blood plasma. The Specialty Group's oncology business has continued to outperform the market and continues to be the Specialty Group's most significant contributor to revenue growth. The Specialty Group's business may be adversely impacted in the future by changes in the Medicare reimbursement rates for certain pharmaceuticals, including oncology drugs. The reimbursement changes that have been implemented by HHS pursuant to the Medicare Modernization Act, or that may be proposed or implemented in the future, may have the effect of reducing the amount and/or margins of medications purchased by physicians for administration in their offices and may force patients to other healthcare providers. Since the Specialty Group provides a number of services to or through physicians, patient shifts from physicians to other healthcare providers may result in slower or reduced growth in revenues for the Specialty Group. Although the Specialty Group has contingency plans to enable it to retain and grow the business it conducts with and through physicians, there can be no assurance that it will retain or replace all of the revenue currently going through the physician channel or that such revenue will be as profitable.

Pharmaceutical Distribution gross profit of $1,493.9 million in the fiscal year ended September 30, 2005 reflects a decrease of 9% from $1,648.7 million in the prior fiscal year. As a percentage of operating revenue, gross profit in the fiscal year ended September 30, 2005 was 3.03%, as compared to 3.43% in the prior fiscal year. The decline in gross profit was primarily due to a decrease in the buy-side component of the gross margin, including a decline in inventory appreciation profits, fewer alternate source and deal opportunities and the loss of the VA business in fiscal 2004. Contributing to the decline in inventory appreciation profits were lower levels of inventory on-hand during the current fiscal year as a result of the business model transition, and fewer than expected manufacturer price increases prior to the national election in November 2004. The Company's cost of goods sold includes a last-in, first-out ("LIFO") provision that is affected by changes in inventory quantities, product mix, and manufacturer pricing practices, which may be impacted by market and other external influences. During the fiscal years ended September 30, 2005 and 2004, inventory balances declined, which resulted in liquidation of LIFO layers carried at lower costs prevailing in prior years. The effects of the liquidations in fiscal 2005 and fiscal 2004 were to decrease cost of goods sold by $30.6 million and $10.3 million, respectively.

Pharmaceutical Distribution operating expenses of $961.0 million in the fiscal year ended September 30, 2005 reflect an increase of 7% from $900.1 million in the prior fiscal year. As a percentage of operating revenue, operating expenses in the fiscal year ended September 30, 2005 were 1.95%, as compared to 1.87% in the prior fiscal year. The increases were primarily due to an increase in bad debt expense of $49.2 million (which included a $15.5 million increase in bad debt relating to one of the operating companies within the Specialty Group) and fiscal 2005 start-up costs incurred in connection with the new distribution facilities which were primarily offset by continued productivity gains achieved throughout the Company's distribution network. Additionally, prior year's bad debt expense was favorably impacted by a $17.5 million recovery from a large former customer.

Pharmaceutical Distribution operating income of $532.9 million in the fiscal year ended September 30, 2005 reflects a decrease of 29% from $748.6 million in the prior fiscal year. As a percentage of operating revenue, operating income in the fiscal year ended September 30, 2005 was 1.08%, as compared to 1.56% in the prior fiscal year. The decline from the prior-year percentage was primarily due to a reduction in gross profit. While management historically has been able to lower expense ratios, this did not occur in the fiscal year ended September 30, 2005 and there can be no assurance that reductions will occur in the future, or that expense ratio reductions, if they should occur, will offset possible declines in gross margins.

PharMerica Segment Results

PharMerica operating revenue of $1,571.4 million for the fiscal year ended September 30, 2005 was flat compared to $1,575.3 million in the prior fiscal year. PharMerica's operating revenue was impacted by competitive pressures that affected both the Long-Term Care and Workers' Compensation businesses and increasing reductions in Medicaid reimbursement rates. The future operating revenue growth rate will likely continue to be impacted by competitive pressures, changes in the regulatory environment (including the reimbursement changes that have been implemented pursuant to the Medicare Modernization Act as well as the implementation of the voluntary prescription drug benefit program for seniors thereunder) and the pharmaceutical inflation rate.

PharMerica gross profit of $446.2 million for the fiscal year ended September 30, 2005 reflects a decrease of 7% from $479.7 million in the prior fiscal year. As a percentage of operating revenue, gross profit in the fiscal year ended September 30, 2005 was 28.40%, as compared to 30.45% in the prior fiscal year. The decline in gross profit was primarily due to industry competitive pressures, and a reduction in the rates of reimbursement for the services provided by PharMerica, which continue to adversely affect gross profit margins in both the Workers' Compensation and Long-Term Care businesses.

PharMerica operating expenses of $354.3 million for the fiscal year ended September 30, 2005 decreased 1% from $357.9 million in the prior fiscal year. As a percentage of operating revenue, operating expenses decreased slightly to 22.54% in the fiscal year ended September 30, 2005 from 22.72% in the prior fiscal year. PharMerica's fiscal 2005 operating expenses were favorably impacted by aggressive cost reductions in response to the decline in operating revenue, including the consolidation of local pharmacy administrative functions to regional centers for the Long-Term Care business, a reduction in bad debt expense of $5.5 million due to continued improvements made in credit and collection practices, and continued improvements in operating practices of both the Workers' Compensation and Long-Term Care businesses. The prior year's operating expenses were favorably impacted by a $12.1 million reduction in sales and use tax liability due to favorable audit experience and other settlements.

PharMerica operating income of $91.9 million for the fiscal year ended September 30, 2005 decreased 25% from $121.8 million in the prior fiscal year. As a percentage of operating revenue, operating income in the fiscal year ended September 30, 2005 was 5.85%, as compared to 7.74% in the prior fiscal year. The decline was due to the aforementioned reduction in the gross profit margin. While management historically has been able to lower expense ratios there can be no assurance that reductions will occur in the future, or that expense ratio reductions will exceed possible further declines in gross margins.

Intersegment Eliminations

These amounts represent the elimination of the Pharmaceutical Distribution segment's sales to PharMerica. ABDC is the principal supplier of pharmaceuticals to PharMerica.

Year ended September 30, 2004 compared with Year ended September 30, 2003

Consolidated Results

Operating revenue, which excludes bulk deliveries, for the fiscal year ended September 30, 2004 increased 7% to $48.8 billion from $45.5 billion in the prior fiscal year. This increase was primarily due to increased operating revenue in the Pharmaceutical Distribution segment, offset slightly by a decline in operating revenue in the PharMerica segment.

The Company's customer sales return policy generally allows customers to return products only if the products can be resold at full value or returned to suppliers for full credit. During the fiscal year ended September 30, 2004, the Company changed its accounting policy for customer sales returns to reflect an accrual for estimated customer returns at the time of sale to the customer. Previously, the Company accounted for customer sales returns as a reduction of sales and cost of goods sold at the time of the return. As a result of this accounting policy change, operating revenue and cost of goods sold were each reduced by $316.8 million for the fiscal year ended September 30, 2004.

The Company reports as revenue bulk deliveries to customer warehouses, whereby the Company acts as an intermediary in the ordering and delivery of pharmaceutical products. Bulk delivery transactions are arranged by the Company at the express direction of the customer, and involve either shipments from the supplier directly to customers' warehouse sites or shipments from the supplier to the Company for immediate shipment to the customers' warehouse sites. Bulk deliveries for the fiscal year ended September 30, 2004 increased 5% to $4.3 billion from $4.1 billion in the prior fiscal year due to an increase in demand from the Company's largest bulk customer. The Company is a principal to these transactions because it is the primary obligor and has general inventory risk, physical loss inventory risk, and customer credit risk. As a result, and in accordance with the Emerging Issues Task Force No. 99-19, "Reporting Revenue Gross as a Principal versus Net as an Agent," the Company records bulk deliveries to customer warehouses as gross revenues. Due to the insignificant service fees generated from bulk deliveries, fluctuations in volume have no significant impact on operating margins. However, revenue from bulk deliveries has a positive impact on the Company's cash flows due to favorable timing between the customer payments to the Company and payments by the Company to its suppliers.

Gross profit of $2,166.4 million in the fiscal year ended September 30, 2004 decreased 3% from $2,225.6 million in the prior fiscal year. During the fiscal year ended September 30, 2004, the Company recognized a $38.0 million gain from an antitrust litigation settlement with a pharmaceutical manufacturer. This gain was recorded as a reduction of cost of goods sold and contributed 2% of gross profit for the fiscal year ended September 30, 2004. As a percentage of operating revenue, gross profit in the fiscal year ended September 30, 2004 was 4.44%, as compared to the prior-year percentage of 4.90%. The decrease in gross profit percentage in comparison with the prior fiscal year reflects declines in both the Pharmaceutical Distribution and PharMerica segments due to a decline in profits related to pharmaceutical manufacturer price increases, changes in customer mix and competitive selling price pressures, offset in part by the antitrust litigation settlement.

DSAD&A of $1,258.0 million in the fiscal year ended September 30, 2004 reflects a decrease of 5% compared to $1,330.6 million in the prior fiscal year. As a percentage of operating revenue, DSAD&A in the fiscal year ended September 30, 2004 was 2.58% compared to 2.93% in the prior fiscal year. The decline in the DSAD&A percentage from the prior fiscal year reflects improvements in both the Pharmaceutical Distribution and PharMerica segments due to: (a) a $56.3 million reduction of bad debt expense primarily due to a $17.5 million recovery from a former customer in the Pharmaceutical Distribution segment, a $9.1 million recovery from a customer in the PharMerica segment, and the continued improvements made in the credit and collection practices in both segments (see further discussion below); (b) a $12.1 million reduction in PharMerica's sales and use tax liability; (c) a reduction in employee headcount resulting from our integration efforts; and (d) operational efficiencies primarily derived from our integration plan.

Within Pharmaceutical Distribution, credit and collection practices improved following the consolidation and relocation of the national account credit and collection process from Orange, California to the Company's executive headquarters in Chesterbrook, Pennsylvania in early 2004. This consolidation led to increased management control and facilitated the favorable resolution of certain long-standing disputes with major national account customers. Additionally, the Company placed significant emphasis on reducing past due and disputed receivables that had accumulated at one of our distribution centers as a result of a systems conversion in fiscal 2003. PharMerica's credit and collection practices were improved by consolidating all of its billing and collections onto one pharmacy system, establishing consistent billing and collection policies and procedures, and centralizing its collection efforts for national accounts. Additionally, improvements in the financial strength of the nursing home industry had a favorable impact on PharMerica's bad debt expense.

In 2001, the Company developed an integration plan to consolidate its distribution network and eliminate duplicative administrative functions. As of September 30, 2004, this plan resulted in synergies of approximately $150 million on an annual basis. The Company's plan, as revised, is to have a distribution facility network numbering in the mid-20's within the next two years. The plan includes building six new facilities and closing facilities. During fiscal 2004 and 2003, the Company closed four and six distribution facilities, respectively.

During the fiscal year ended September 30, 2003, the Company closed six distribution facilities and eliminated certain administrative and operational functions ("the fiscal 2003 initiatives"). During the fiscal years ended September 30, 2004 and 2003, the Company recorded $0.9 million and $10.3 million, respectively, of employee severance costs relating to the fiscal 2003 initiatives. Through September 30, 2004, approximately 780 employees received termination notices as a result of the fiscal 2003 initiatives, of which substantially all have been terminated. During the fiscal year ended September 30, 2003, severance accruals of $1.8 million recorded in September 2001 were reversed into income because certain employees who were expected to be severed either voluntarily left the Company or were retained in other positions within the Company.

During the fiscal year ended September 30, 2004, the Company closed four distribution facilities and eliminated duplicative administrative functions ("the fiscal 2004 initiatives"). During the fiscal year ended September 30, 2004, the Company recorded $5.4 million of employee severance costs in connection with the termination of 230 employees relating to the fiscal 2004 initiatives. As of September 30, 2004, approximately 190 employees had been terminated and the remainder were terminated in fiscal 2005.

The Company paid a total of $9.5 million and $13.8 million for employee severance and lease and contract cancellation costs in the fiscal years ended September 30, 2004 and 2003, respectively, related to the aforementioned integration plan. Remaining unpaid amounts of $3.1 million for employee severance and lease cancellation costs are included in accrued expenses and other in the accompanying consolidated balance sheet at September 30, 2004. Most employees receive their severance benefits over a period of time, generally not to exceed 12 months, while others may receive a lump-sum payment.

Operating income of $901.0 million for the fiscal year ended September 30, 2004 increased slightly compared to $886.1 million in the prior fiscal year. The gain on litigation settlement less costs of facility consolidations and employee severance increased the Company's operating income by $30.5 million in the fiscal year ended September 30, 2004 and costs of facility consolidations and employee severance reduced the Company's operating income by $8.9 million in the prior fiscal year. The Company's operating income as a percentage of operating revenue was 1.85% in the fiscal year ended September 30, 2004 compared to 1.95% in the prior fiscal year. The gain on litigation settlement contributed approximately 8 basis points to the Company's operating income as a percentage of operating revenue for the fiscal year ended September 30, 2004. The contribution provided by the litigation settlement was offset by a decrease in gross margin in excess of the aforementioned DSAD&A expense percentage reduction.

During the fiscal year ended September 30, 2004, a technology company in which the Company had an equity investment sold substantially all of its assets and paid a liquidating dividend. As a result, the Company recorded a gain of $8.4 million in other income during the fiscal year ended September 30, 2004. During the fiscal year ended September 30, 2003, the Company recorded losses of $8.0 million, which primarily consisted of a $5.5 million charge related to the decline in fair value of its equity investment in the technology company because the decline was judged to be other-than-temporary.

Interest expense, net, decreased 22% in the fiscal year ended September 30, 2004 to $112.7 million from $144.7 million in the prior fiscal year. Average borrowings, net of cash, under the Company's debt facilities during the fiscal year ended September 30, 2004 were $1.1 billion as compared to average borrowings, net of cash, of $2.3 billion in the prior fiscal year. The reduction in average borrowings, net of cash, was achieved due to lower inventory levels in the fiscal year ended September 30, 2004 due to the impact of inventory management agreements, reductions in buy-side purchasing opportunities and the reduced number of distribution facilities as a result of the Company's integration activities.

During the fiscal years ended September 30, 2004 and 2003, the Company recorded $23.6 million and $4.2 million, respectively, in losses resulting from the early retirement of debt.

Income tax expense of $296.0 million in the fiscal year ended September 30, 2004 reflects an effective income tax rate of 38.4%, versus 39.2% in the prior fiscal year. The Company was able to lower its effective income tax rate during fiscal 2004 by implementing tax-planning strategies.

Income from continuing operations of $474.9 million for the fiscal year ended September 30, 2004 reflects an increase of 7% from $443.1 million in the prior fiscal year. Diluted earnings per share from continuing operations of $4.12 for the fiscal year ended September 30, 2004 reflects an increase of 5% from $3.91 per share in the prior fiscal year. The gain on litigation settlement less costs of facility consolidations, employee severance and other, and the loss on early retirement of debt increased income from continuing operations by $4.2 million and increased diluted earnings per share from continuing operations by $0.04 for the fiscal year ended September 30, 2004. Costs of facility consolidations and employee severance and the loss on early retirement of debt had the effect of decreasing income from continuing operations by $8.0 million and reducing diluted earnings per share from continuing operations by $0.07 for the fiscal year ended September 30, 2003.

During fiscal 2005, the Company decided to discontinue the operations of its patient safety software and cosmetics distribution businesses as a result of their divestiture. Loss from discontinued operations, net of tax, was $6.5 million and $1.8 million for the fiscal years ended September 30, 2004 and 2003, respectively.

Net income of $468.4 million for the fiscal year ended September 30, 2004 reflects an increase of 6% from $441.2 million in the prior fiscal year. Diluted earnings per share of $4.06 in the fiscal year ended September 30, 2004 reflects a 4% increase as compared to $3.89 per share in the prior fiscal year. The growth in earnings per share was less than the growth in net income for the fiscal year ended September 30, 2004 due to the effect of the issuance of Company common stock in connection with acquisitions and in connection with the exercise of stock options.

Segment Information

Pharmaceutical Distribution Segment

Pharmaceutical Distribution operating revenue of $48.1 billion for the fiscal year ended September 30, 2004 reflects an increase of 8% from $44.7 billion in the prior fiscal year. The Company's change in accounting for customer sales returns had the effect of reducing operating revenue growth by 1% for the fiscal year ended September 30, 2004. During the fiscal year ended September 30, 2004, 59% of operating revenue was from sales to institutional customers and 41% was from sales to retail customers; this compares to a customer mix in the prior fiscal year of 57% institutional and 43% retail.

In comparison with prior-year results, sales to institutional customers increased 12% in fiscal 2004 primarily due to the above market rate growth of the specialty pharmaceutical business and higher revenues from customers engaged in the mail order sale of pharmaceuticals, which was offset in part by the discontinuance of servicing the VA during the fiscal year ended September 30, 2004 as a result of losing a competitive bid process. The VA contract was terminated in May 2004 and contributed 4.8% and 7.8% of the segment's operating revenue in the fiscal years ended September 30, 2004 and 2003, respectively. In March 2004, Caremark Rx, Inc. acquired Advance PCS, one of the Company's largest customers. As a result, the Company's contract with Advance PCS was terminated in August 2004. Advance PCS accounted for approximately 4.4% and 4.8% of the segment's operating revenue in the fiscal years ended September 30, 2004 and 2003, respectively.

Sales to retail customers increased 2% over the prior fiscal year. The independent retail sector experienced strong double-digit sales growth while sales in the chain retail sector decreased by 6% due to sales declines experienced by certain large regional retail chain customers. Additionally, retail sales in the first-half of fiscal 2004 were adversely impacted by the prior fiscal year loss of a large customer.

This segment's growth largely reflects U.S. pharmaceutical industry conditions, including increases in prescription drug utilization and higher pharmaceutical prices offset, in part, by the increased use of lower-priced generics. The segment's growth has also been impacted by industry competition and changes in customer mix. The Company's Specialty Group has been growing at rates in excess of overall pharmaceutical market growth. The majority of this Group's revenue is generated from the distribution of pharmaceuticals to physicians who specialize in a variety of disease states, such as oncology, nephrology, and rheumatology. Additionally, the Specialty Group distributes vaccines and blood plasma. The Specialty Group's oncology business has continued to outperform the market and continues to be the Specialty Group's most significant contributor to revenue growth.

Pharmaceutical Distribution gross profit of $1,648.7 million in the fiscal year ended September 30, 2004 reflects a decrease of 3% from $1,700.0 million in the prior fiscal year. As a percentage of operating revenue, gross profit in the fiscal year ended September 30, 2004 was 3.43%, as compared to 3.81% in the prior fiscal year. The decline in gross profit as a percentage of operating revenue was the result of: a reduction in profits related to pharmaceutical manufacturer price increases; the VA contract loss; the continuing competitive environment, which has led to a number of contract renewals with reduced profitability; and the negative impact of a change in customer mix to a higher percentage of large institutional, mail order and chain accounts. The Company's cost of goods sold includes a last-in, first-out ("LIFO") provision that is affected by changes in inventory quantities, product mix, and manufacturer pricing practices, which may be impacted by market and other external influences.

Pharmaceutical Distribution operating expenses of $900.1 million in the fiscal year ended September 30, 2004 reflect a decrease of 1% from $908.7 million in the prior fiscal year. As a percentage of operating revenue, operating expenses in the fiscal year ended September 30, 2004 were 1.87%, as compared to 2.03% in the prior fiscal year, an improvement of 16 basis points. The decrease in the operating expense percentage reflects the changing customer mix described above, efficiencies of scale, the elimination of redundant costs through the integration processes, continued emphasis on productivity throughout the Company's distribution network, and a significant reduction in bad debt expense of $33.9 million (including a $17.5 million reduction of a previously recorded allowance for doubtful account as a result of a settlement with a former customer), as previously discussed.

Pharmaceutical Distribution operating income of $748.6 million in the fiscal year ended September 30, 2004 reflects a decrease of 5% from $791.2 million in the prior fiscal year. As a percentage of operating revenue, operating income in the fiscal year ended September 30, 2004 was 1.56%, as compared to 1.77% in the prior fiscal year. The decline over the prior-year percentage was due to a reduction in gross margin in excess of the decline in the operating expense ratio.

PharMerica Segment

PharMerica operating revenue of $1,575.3 million for the fiscal year ended September 30, 2004 reflects a decrease of 2% from $1,608.2 million in the prior fiscal year. PharMerica's decline in operating revenue was primarily due to the loss of two significant customers in the Workers' Compensation business, the discontinuance of the sale of healthcare products within the Long-Term Care business and the loss of a Long-Term Care business customer because it was acquired by a customer of a competitor.

PharMerica gross profit of $479.7 million for the fiscal year ended September 30, 2004 reflects a decrease of 9% from $525.6 million in the prior fiscal year. As a percentage of operating revenue, gross profit in the fiscal year ended September 30, 2004 was 30.45%, as compared to 32.69% in the prior fiscal year. The decline in gross profit is primarily due to industry competitive pressures, and a reduction in the rates of reimbursement for the services provided by PharMerica, which continue to adversely affect gross profit margins in both the Workers' Compensation business and the Long-Term Care business.

PharMerica operating expenses of $357.9 million for the fiscal year ended September 30, 2004 reflect a decrease of 15% from $421.8 million in the prior fiscal year. As a percentage of operating revenue, operating expenses were reduced to 22.72% in the fiscal year ended September 30, 2004 from 26.23% in the prior fiscal year. The percentage reduction was primarily due to aggressive cost reductions in response to the decline in operating revenue, a significant reduction in bad debt expense of $22.4 million (including a $9.1 million recovery from a customer) due to continued improvements made in credit and collection practices, a $12.1 million reduction in sales and use tax liability due to favorable audit experience and other settlements, and continued improvements in operating practices of both the Workers' Compensation and the Long-Term Care businesses.

PharMerica operating income of $121.8 million for the fiscal year ended September 30, 2004 increased by 17% from $103.8 million in the prior fiscal year. As a percentage of operating revenue, operating income in the fiscal year ended September 30, 2004 was 7.74%, as compared to 6.46% in the prior fiscal year. The improvement was due to the aforementioned reduction in the operating expense ratio, which was greater than the reduction in gross profit margin.

Intersegment Eliminations

These amounts represent the elimination of the Pharmaceutical Distribution segment's sales to PharMerica. ABDC is the principal supplier of pharmaceuticals to PharMerica.

Critical Accounting Policies and Estimates

Critical accounting estimates are those accounting estimates and assumptions that can have a material impact on the Company's financial position and results of operations and require the use of complex and subjective estimates based upon past experience and management's judgment. Because of the uncertainty inherent in such estimates, actual results may differ from these estimates. Below are those policies applied in preparing the Company's financial statements that management believes are the most dependent on the application of estimates and assumptions. For accounting policies, see Note 1 of "Notes to Consolidated Financial Statements."

Allowance for Doubtful Accounts

Trade receivables are primarily comprised of amounts owed to the Company for its pharmaceutical distribution and services activities and are presented net of an allowance for doubtful accounts and a reserve for customer sales returns. In determining the appropriate allowance for doubtful accounts, the Company considers a combination of factors, such as the aging of trade receivables, industry trends, its customers' financial strength and credit standing, and payment and default history. Changes in the aforementioned factors, among others, may lead to adjustments in the Company's allowance for doubtful accounts. The calculation of the required allowance requires judgment by Company management as to the impact of these and other factors on the ultimate realization of its trade receivables. Each of the Company's business units performs ongoing credit evaluations of its customers' financial condition and maintains reserves for probable bad debt losses based on historical experience and for specific credit problems when they arise. The Company writes off balances against the reserves when collectibility is deemed remote. Each business unit performs formal documented reviews of the allowance at least quarterly and the Company's largest business units perform such reviews monthly. There were no significant changes to this process during the fiscal years ended September 30, 2005, 2004 and 2003 and bad debt expense was computed in a consistent manner during these periods. The bad debt expense for any period presented is equal to the changes in the period end allowance for doubtful accounts, net of write-offs and recoveries.

Bad debt expense for the fiscal years ended September 30, 2005, 2004 and 2003 was $33.4 million, ($10.3) million and $46.0 million, respectively. During the fiscal year ended September 30, 2005, bad debt expense was significantly impacted due to a $15.5 million increase in bad debt relating to one of the operating companies within the Specialty Group. During the fiscal year ended September 30, 2004, debt expense was favorably impacted by a $17.5 million recovery from a former customer in the Pharmaceutical Distribution segment, a $9.1 million recovery from a customer in the PharMerica segment, and the continued improvements made in the credit and collection practices in both segments. An increase or decrease of 0.1% in the 2005 allowance as a percentage of trade receivables would result in an increase or decrease in the provision on accounts receivable of approximately $3.1 million.

Supplier Reserves

The Company establishes reserves against amounts due from its suppliers relating to various price and rebate incentives, including deductions or billings taken against payments otherwise due them from the Company. These reserve estimates are established based on the judgment of Company management after carefully considering the status of current outstanding claims, historical experience with the suppliers, the specific incentive programs and any other pertinent information available to the Company. The Company evaluates the amounts due from its suppliers on a continual basis and adjusts the reserve estimates when appropriate based on changes in factual circumstances. An increase or decrease of 0.1% in the 2005 supplier reserve balances as a percentage of trade payables would result in an increase or decrease in cost of goods sold by approximately $5.3 million. The ultimate outcome of any outstanding claim may be different than the Company's estimate.

Loss Contingencies

The Company accrues for loss contingencies related to litigation in accordance with Statement of Financial Accounting Standards ("SFAS") No. 5, "Accounting for Contingencies." An estimated loss contingency is accrued in the Company's consolidated financial statements if it is probable that a liability has been incurred and the amount of the loss can be reasonably estimated. Assessing contingencies is highly subjective and requires judgments about future events. The Company regularly reviews loss contingencies to determine the adequacy of the accruals and related disclosures. The amount of the actual loss may differ significantly from these estimates.

Merchandise Inventories

Inventories are stated at the lower of cost or market. Cost for approximately 87% and 92% of the Company's inventories at September 30, 2005 and 2004, respectively, are determined using the last-in, first-out ("LIFO") method. If the Company had used the first-in, first-out ("FIFO") method of inventory valuation, which approximates current replacement cost, inventories would have been approximately $159.8 million and $166.1 million higher than the amounts reported at September 30, 2005 and 2004, respectively.

During the fiscal years ended September 30, 2005 and 2004, inventory balances declined, which resulted in liquidation of LIFO layers carried at lower costs prevailing in prior years. The effect of the liquidation in fiscal 2005 was to decrease cost of goods sold by $30.6 million and increase diluted earnings per share by $0.17. The effect of the liquidation in fiscal 2004 was to decrease cost of goods sold by $10.3 million and increase diluted earnings per share by $0.05.

Goodwill and Intangible Assets

The Company accounts for purchased goodwill and intangible assets in accordance with Financial Accounting Standards Board ("FASB") SFAS No. 142 "Goodwill and Other Intangible Assets." Under SFAS No. 142, purchased goodwill and intangible assets with indefinite lives are not amortized; rather, they are tested for impairment on at least an annual basis. Intangible assets with finite lives, primarily customer relationships, non-compete agreements, patents and software technology, will continue to be amortized over their useful lives.

In order to test goodwill and intangible assets with indefinite lives under SFAS No. 142, a determination of the fair value of the Company's reporting units and intangible assets with indefinite lives is required and is based, among other things, on estimates of future operating performance of the reporting unit and/or the component of the entity being valued. The Company is required to complete an impairment test for goodwill and intangible assets with indefinite lives and record any resulting impairment losses at least on an annual basis. The Company uses an income approach to determine the fair value of its reporting units and intangible assets with indefinite lives. Changes in market conditions, among other factors, may have an impact on these fair values. The Company completed its required annual impairment tests in the fourth quarters of fiscal 2005 and 2004 and determined that there was no impairment.

During the second quarter of fiscal 2005, the Company performed an impairment test on certain intangible assets within the technology operations of ABDC due to the existence of impairment indicators. As a result, the Company recorded an impairment charge of $5.3 million relating to certain of those intangible assets. The charge has been reflected in the Company's results of operations for the fiscal year ended September 30, 2005.

Stock Options

The Company may elect to account for stock options using either Accounting Principles Board Opinion No. 25, "Accounting for Stock Issued to Employees," ("APB 25") or SFAS No. 123, "Accounting for Stock-Based Compensation." The Company has elected to use the accounting method under APB 25 and the related interpretations to account for its stock options. Under APB 25, generally, when the exercise price of the Company's stock options equals the market price of the underlying stock on the date of grant, no compensation expense is recognized. Had the Company elected to use SFAS No. 123 to account for its stock options under the fair value method, it would have been required to record compensation expense and as a result, diluted earnings per share for the fiscal years ended September 30, 2005, 2004 and 2003 would have been lower by $0.04, $0.74 and $0.16, respectively. Effective September 1, 2004, the Company vested all employee options then outstanding with an exercise price in excess of $54.10 (the closing stock price on August 31, 2004). The accelerated vesting was approved by the Compensation and Succession Planning Committee of the Company's board of directors for employee retention purposes and in anticipation of the requirements of SFAS No. 123R. As a result of the accelerated vesting, the pro-forma compensation expense and the corresponding reduction in diluted earnings per share in fiscal 2004 was significantly greater than the pro-forma compensation expense and the corresponding reduction in diluted earnings per share in fiscal 2005 and 2003.

In December 2004, the FASB issued SFAS No. 123R, "Share-Based Payment," which requires companies to measure compensation cost for all share-based payments (including employee stock options) at fair value for interim or annual periods beginning after June 15, 2005. In April 2005, the U.S. Securities and Exchange Commission issued a new rule allowing public companies to delay the adoption of SFAS No. 123R to annual periods beginning after June 15, 2005. As a result, the Company will adopt SFAS No. 123R, using the modified-prospective transition method beginning on October 1, 2005, and therefore, will begin to expense the fair value of all outstanding options over their remaining service periods to the extent the options are not fully vested as of the adoption date and will expense the fair value of all future options granted subsequent to September 30, 2005 over their service periods. The Company estimates it will record pre-tax share-based compensation expense of approximately $14 million in fiscal 2006. This estimate may be impacted by potential changes to the structure of the Company's share-based compensation plans which could impact the number of stock options granted in fiscal 2006, changes in valuation assumptions, the market price of the Company's common stock, among other things and, as a result, the actual pre-tax share-based compensation expense in fiscal 2006 may differ from the Company's current estimate.

Liquidity and Capital Resources

The following table illustrates the Company's debt structure at September 30, 2005, including availability under revolving credit facilities and the receivables securitization facility (in thousands):

	Outstanding Balance	Additional Availability
Fixed-Rate Debt:		
$400,000, 5⅝% senior notes due 2012	$398,010	$ —
$500,000, 5⅞% senior notes due 2015	497,508	—
Other	2,193	—
Total fixed-rate debt	897,711	—
Variable-Rate Debt:		
Blanco revolving credit facility due 2006	55,000	—
Revolving credit facility due 2009	—	687,985
Receivables securitization facility due 2007	—	1,050,000
Total variable-rate debt	55,000	1,737,985
Total debt, including current portion	$952,711	$1,737,985

The Company's $1.7 billion of aggregate availability under its revolving credit facility and its receivables securitization facility provide sufficient sources of capital to fund the Company's working capital requirements. The Company's aggregate availability was reduced to $1.4 billion as of October 31, 2005, because it elected to terminate the 364-day tranche under its receivables securitization facility (defined below).

In an effort to reduce its interest expense, extend maturities of its long-term debt and ease its debt covenant restrictions, the Company refinanced its long-term debt in September 2005. The Company issued $400 million of 5.625% senior notes due September

15, 2012 (the "2012 Notes") and $500 million of 5.875% senior notes due September 15, 2015 (the "2015 Notes"). The 2012 Notes and 2015 Notes each were sold at 99.5% of principal amount and have an effective yield of 5.71% and 5.94%, respectively. Interest on the 2012 Notes and the 2015 Notes is payable semiannually in arrears, commencing on March 15, 2006. Both the 2012 Notes and the 2015 Notes are redeemable at the Company's option at a price equal to the greater of 100% of the principal amount thereof, or the sum of the discounted value of the remaining scheduled payments, as defined. In addition, at any time before September 15, 2008, the Company may redeem up to an aggregate of 35% of the principal amount of the 2012 Notes or the 2015 Notes at redemption prices equal to 105.625% and 105.875%, respectively, of the principal amounts thereof, plus accrued and unpaid interest and liquidated damages, if any, to the date of redemption, with the cash proceeds of one or more equity issuances. In connection with the issuance of the 2012 Notes and the 2015 Notes, the Company incurred approximately $6.3 million and $7.9 million of costs, respectively, which were deferred and are being amortized over the terms of the notes.

The gross proceeds from the sale of the 2012 Notes and the 2015 Notes were used to finance the early retirement of the $500 million of 8⅛% senior notes due 2008 (the "8⅛% Notes") and $300 million of 7¼% senior notes due 2012 (the "7¼% Notes") in September 2005, including the payment of $102.3 million of premiums and other costs. Additionally, the Company expensed $8.5 million of deferred financing costs related to the retirement of the 7¼% Notes and the 8⅛% Notes.

In November 2005, Standard & Poor's Ratings Services ("S&P") announced that it raised its corporate credit and senior unsecured debt ratings on the Company to 'BBB-' from 'BB+'. As a result of the upgrade, the Company is entitled to substantially relaxed covenants under the indenture governing its 5.625% senior notes due 2012 and 5.875% senior notes due 2015, and to a lesser extent under its $700 million senior credit facility.

In July 2003, the Company entered into a $1.05 billion receivables securitization facility ("Receivables Securitization Facility"). In connection with the Receivables Securitization Facility, ABDC sells on a revolving basis certain accounts receivable to Amerisource Receivables Financial Corporation, a wholly owned special purpose entity, which in turn sells a percentage ownership interest in the receivables to commercial paper conduits sponsored by financial institutions. ABDC is the servicer of the accounts receivable under the Receivables Securitization Facility. After the maximum limit of receivables sold has been reached and as sold receivables are collected, additional receivables may be sold up to the maximum amount available under the facility. In December 2004, the Company amended its Receivables Securitization Facility and under the terms of the amendment, the $550 million (three-year tranche) originally scheduled to expire in July 2006 was increased to $700 million and the expiration date was extended to November 2007. Additionally, the $500 million (364-day tranche) scheduled to expire in July 2005 was reduced to $350 million and was set to expire in December 2005. In September 2005, the Company elected to terminate the 364-day tranche, effective October 31, 2005. Interest rates are based on prevailing market rates for short-term commercial paper plus a program fee, and will vary based on the Company's debt ratings. In April 2005, the Company's debt rating was raised by one of the rating agencies and in accordance with the terms of the Receivables Securitization Facility, the program fees were lowered. The program fee was 60 basis points for the three-year tranche and 35 basis points for the 364-day tranche as of September 30, 2005. Additionally, the commitment fee on any unused credit was reduced to 20 basis points for the three-year tranche and to 17.5 basis points for the 364-day tranche. At September 30, 2005, there were no borrowings under the Receivables Securitization Facility. In connection with entering into the Receivables Securitization Facility and the amendments thereto, the Company incurred approximately $2.8 million of costs, which were deferred and are being amortized over the life of the facility. The facility is a financing vehicle utilized by the Company because it offers an attractive interest rate relative to other financing sources. The Company securitizes its trade accounts, which are generally non-interest bearing, in transactions that are accounted for as borrowings under Statement of Financial Accounting Standards ("SFAS") No. 140, "Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities."

In December 2004, the Company entered into a $700 million five-year senior unsecured revolving credit facility (the "Senior Revolving Credit Facility") with a syndicate of lenders. The Senior Revolving Credit Facility replaced the Senior Credit Agreement (defined below). There were no borrowings outstanding under the Senior Revolving Credit Facility at September 30, 2005. Interest on borrowings under the Senior Revolving Credit Facility accrues at specific rates based on the Company's debt rating. In April 2005, the Company's debt rating was raised by one of the rating agencies and in accordance with the terms of the Senior Revolving Credit Facility, interest on borrowings accrue at either 80 basis points over LIBOR or the prime rate at September 30, 2005. Availability under the Senior Revolving Credit Facility is reduced by the amount of outstanding letters of credit ($12.0 million at September 30, 2005). The Company pays quarterly facility fees to maintain the availability under the Senior Revolving Credit Facility at specific rates based on the Company's debt rating. In April 2005, the rate payable to maintain the availability of the $700 million commitment was reduced to 20 basis points per annum resulting from the Company's improved debt rating. In connection with entering into the Senior Revolving Credit Facility, the Company incurred approximately $2.5 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 Senior Revolving Credit Facility at any time. The Senior Revolving Credit Facility contains covenants that impose limitations on, among other things, additional indebtedness, distributions and dividends to stockholders, and investments. These covenants are less restrictive than those under the Senior Credit Agreement, thereby providing the Company with greater financial flexibility. Additional covenants require compliance with financial tests, including leverage and minimum earnings to fixed charges ratios.

The Senior Credit Agreement consisted of a $1.0 billion revolving credit facility (the "Revolving Facility") and a $300 million term loan facility (the "Term Facility"), both of which had been scheduled to mature in August 2006. The Term Facility had scheduled quarterly maturities, which began in December 2002, totaling $60 million in each of fiscal 2003 and 2004, and $80 million and $100 million in fiscal 2005 and 2006, respectively. The scheduled term loan payments were made in fiscal 2004 and 2003. In December 2004, in connection with entering into the new Senior Revolving Credit Facility, as defined above, the Company repaid the remaining $180 million outstanding under the Term Facility and there were no borrowings outstanding under the Revolving Facility. In connection with the early repayment of the Term Facility, the Company incurred a loss of $1.0 million relating to the write-off of deferred financing costs.

On October 3, 2005, the Company entered into a C$135 million senior unsecured revolving credit facility (the "Canadian Credit Facility") due December 2009 with a syndicate of lenders in connection with the Company's acquisition of Trent Drugs (Wholesale) Ltd and borrowed approximately C$92 million to complete the transaction. Interest on borrowings under the Canadian Credit Facility accrues at specific rates based on the Company's debt rating (0.675% over LIBOR or Bankers' Acceptance Stamping Fee Spread at October 3, 2005). The Company will pay quarterly facility fees to maintain the availability under the Canadian Credit Facility at specific rates based on the Company's debt rating (0.20% at October 3, 2005). The Company may choose to repay or reduce its commitments under the Canadian Credit Facility at any time. The Canadian Credit Facility contains restrictions on, among other things, additional indebtedness, distributions and dividends to stockholders, investments and capital expenditures. Additional covenants require compliance with financial tests, including leverage and minimum earnings to fixed charges ratios.

During the fiscal year ended September 30, 2005, the Company paid $100 million to redeem the Bergen 7¼% Senior Notes due June 1, 2005, upon their maturity.

In December 2000, the Company issued $300.0 million of 5% convertible subordinated notes due December 1, 2007. The notes had an annual interest rate of 5%, payable semiannually, and were convertible into common stock of the Company at $52.97 per share at any time before their maturity or their prior redemption or repurchase by the Company. In December 2004, the Company announced that it would redeem its 5% convertible subordinated notes at a redemption price of 102.143% of the principal amount of the notes plus accrued interest through the redemption date of January 3, 2005. The noteholders were given the option to accept cash or convert the notes to common stock of the Company. The notes were convertible into 5,663,730 shares of common stock, which translated to a conversion ratio of 18.8791 shares of common stock for each $1,000 principal amount of notes. Through January 3, 2005, the redemption date, the Company issued 5,663,144 shares of common stock from treasury to noteholders to redeem substantially all of the notes and paid $31,000 to redeem the remaining notes. During fiscal 2005, the Company subsequently repurchased 5.7 million shares of common stock, substantially equivalent to the number of common stock shares issued in connection with the conversion of the 5% notes.

The Company's operating results have generated cash flow, which, together with availability under its debt agreements and credit terms from suppliers, has provided sufficient capital resources to finance working capital and cash operating requirements, and to fund capital expenditures, acquisitions, repayment of debt, the payment of interest on outstanding debt and repurchases of shares of the Company's common stock. Cash flow from operations for the fiscal year ended September 30, 2005 was $1.53 billion primarily due to the significant decline in merchandise inventories and an increase in accounts payable during the fiscal year ended September 30, 2005. The significant decline in merchandise inventories during the fiscal year ended September 30, 2005 reflected the impact of the business model transition, including increasing compliance under current inventory management and fee-for-service agreements. We do not anticipate the Company will experience similar amounts of working capital reduction in future years as the Company has signed fee-for-service agreements with a substantial majority of manufacturers as of September 30, 2005. The Company expects cash flow from operations in fiscal 2006 to be between $500 million and $600 million.

The Company's primary ongoing cash requirements will be to finance working capital, fund the payment of interest on debt, finance merger integration initiatives and fund capital expenditures and routine growth and expansion through new business opportunities. Significant cash flows from operations primarily resulting from the business model transition, as discussed above, has resulted in a near record low debt-to-capital ratio of 18.2% and a net debt to total capital ratio of less than zero. The Company has been and continues to actively evaluate its alternatives to deploy its excess capital. For example, the Company plans to repurchase $750 million of its common stock and recently announced that it will double its quarterly cash dividend. Additionally, on October 5, 2005, the Company acquired Trent Drugs (Wholesale) Ltd ("Trent"), one of the largest national pharmaceutical distributors in Canada, for a purchase price of $81.7 million, which included the assumption of debt of $41.3 million. The acquisition of Trent provides the Company a solid foundation to expand its pharmaceutical distribution capability into the Canadian marketplace. The Company expects to pursue further strategic acquisitions. Future cash flows from operations and borrowings are expected to be sufficient to fund the Company's ongoing cash requirements.

Following is a summary of the Company's contractual obligations for future principal and interest payments on its debt, minimum rental payments on its noncancelable operating leases and minimum payments on its other commitments at September 30, 2005 (in thousands):

	Payments Due by Period				
	Total	Within 1 year	1-3 years	4-5 years	After 5 years
Debt, including interest payments	$1,410,053	$109,621	$104,807	$103,750	$1,091,875
Operating Leases	239,803	64,259	86,839	49,012	39,693
Other Commitments	1,272,067	47,268	218,284	262,558	743,957
Total	$2,921,923	$221,148	$409,930	$415,320	$1,875,525

The $55 million Blanco revolving credit facility, which expires in April 2006, is included in the "Within 1 year" column in the above repayment table. However, this borrowing is not classified in the current portion of long-term debt on the consolidated balance sheet at September 30, 2005 because the Company has the ability and intent to refinance it on a long-term basis.

In December 2004, the Company entered into a distribution agreement with a Canadian influenza vaccine manufacturer to distribute product through March 31, 2015. The agreement includes a commitment to purchase at least 12 million doses per year of the influenza vaccine provided the vaccine is approved and available for distribution in the United States by the Food and Drug Administration ("FDA"). The Company will be required to purchase the annual doses at market prices, as adjusted for inflation and other factors. We expect the Canadian manufacturer will receive FDA approval by the 2006/2007 influenza season; however, FDA approval may be received earlier. If the initial year of the purchase commitment begins in fiscal 2007, then the Company anticipates its purchase commitment for that year will approximate $66 million. The Company anticipates its total purchase commitment (assuming the commitment commences in fiscal 2007) will be approximately $1.1 billion. The influenza vaccine commitment is included in Other Commitments in the above table.

As of September 30, 2005, the Company has $7.1 million of remaining commitments relating to the construction of one of its new distribution facilities. This facility commitment is included in Other Commitments in the above table.

During the fiscal year ended September 30, 2005, the Company decided to outsource a significant portion of its corporate and ABDC information technology activities and entered into a ten-year commitment, effective July 1, 2005, with IBM Global Services, which will assume responsibility for performing the outsourced information technology activities following the completion of certain transition matters. The Company estimates that it will incur approximately $20 million to $25 million of transition costs in connection with this plan. These transition costs will include employee severance and other contract expenses. The Company incurred approximately one-half of these costs in the fourth quarter of fiscal 2005. The minimum commitment under the outsourcing arrangement is approximately $200 million (excluding the above-mentioned transition costs) over a ten-year period; however, the Company believes it will likely spend between $300 million and $400 million under the outsourcing arrangement to maintain and improve its information technology infrastructure during that period. The Company has included the minimum contractual commitment of $200 million in Other Commitments in the above table.

During the fiscal year ended September 30, 2005, the Company's operating activities provided $1.53 billion of cash as compared to cash provided of $825.1 million in the prior-year period. Cash provided by operations during the fiscal year ended September 30, 2005 was principally the result of a $1.1 billion decrease in merchandise inventories, a $311.4 million increase in accounts payable, accrued expenses and income taxes, non-cash items of $282.3 million, and net income of $264.6 million, partially offset by an increase in accounts receivable of $392.8 million. The inventory turnover rate for the Pharmaceutical Distribution segment improved to 10.2 times in the fiscal year ended September 30, 2005 from 8.2 times in the prior fiscal year. The improvement was derived from lower average inventory levels due to an increase in the number of fee-for-service agreements, inventory management and other vendor agreements, a reduction in buy-side profit opportunities, and a reduction in the number of distribution facilities. The increase in accounts payable, accrued expenses and income taxes is primarily due to an increase in sales volume, the timing of purchases of merchandise inventories and cash payments to our vendors. The increase in accounts receivable was largely driven by the continued strong revenue growth of ABSG, which has a significantly higher average days sales outstanding than ABDC and the timing of cash receipts from our customers. Average days sales outstanding for the PharMerica segment were 40.2 days in the fiscal year ended September 30, 2005 compared to 38.4 days in the prior-year period. Non-cash items of $282.3 million included a $111.9 million loss on early retirement of debt and $90.9 million of depreciation and amortization. Operating cash uses during the fiscal year ended September 30, 2005 included $94.2 million in interest payments and $132.6 million of income tax payments, net of refunds.

During the fiscal year ended September 30, 2004, the Company's operating activities provided $825.1 million of cash. Cash provided by operations in fiscal 2004 was principally the result of a decrease in merchandise inventories of $916.3 million, net income of $468.4 million and non-cash items of $151.5 million, offset in part, by a $432.0 million decrease in accounts payable, accrued expenses and income taxes. The Company's change in accounting for customer sales returns had the effect of increasing merchandise inventories and reducing accounts receivable by $316.8 million at September 30, 2004. Merchandise inventories have continued to decline due to an increase in the number of inventory management agreements, a reduction in buy-side profit opportunities, and a reduction in the number of distribution facilities. The turnover of merchandise inventories for the Pharmaceutical Distribution segment has improved to 8.2 times in the fiscal year ended September 30, 2004 from 6.7 times in the prior fiscal year. The $446.7 million decrease in accounts payable was primarily due to the decline of merchandise inventories. Average days sales outstanding for the Pharmaceutical Distribution segment increased slightly to 17.1 days in the fiscal year ended September 30, 2004 from 16.9 days in the prior fiscal year primarily due to the strong revenue growth of ABSG, which has a significantly higher average days sales outstanding than ABDC. Average days sales outstanding for the PharMerica segment improved to 38.4 days in the fiscal year ended September 30, 2004 from 39.3 days in the prior fiscal year as a result of the continued emphasis on receivables management. Non-cash items of $151.5 million included $87.1 million of depreciation and amortization and $48.9 million of deferred income taxes. Deferred income taxes of $48.9 million in fiscal 2004 were significantly lower than the $127.2 million in fiscal 2003 primarily due to the decline in income tax deductions associated with merchandise inventories. Operating cash uses during the fiscal year ended September 30, 2004 included $111.0 million in interest payments and $200.1 million of income tax payments, net of refunds.

During the year ended September 30, 2003, the Company's operating activities provided $354.8 million in cash. Cash provided by operations in fiscal 2003 was principally the result of net income of $441.2 million and non-cash items of $271.2 million, offset in part, by a $278.4 million increase in merchandise inventories and a $58.0 million increase in accounts receivable. The increase in merchandise inventories reflected inventory required to support the revenue increase. Accounts receivable increased only 1%, excluding changes in the allowance for doubtful accounts and customer additions due to acquired companies, in comparison to the 13% increase in operating revenues. Average days sales outstanding for the Pharmaceutical Distribution segment increased slightly to 16.9 days in the fiscal year ended September 30, 2003 from 16.4 days in the prior fiscal year primarily due to the strong revenue growth of AmerisourceBergen Specialty Group, which generally has a higher receivable investment than the core distribution business. Average days sales outstanding for the PharMerica segment improved to 39.3 days in fiscal 2002 from 43.5 days in the prior year as a result of the continued improvements in centralized billing and collection practices. Non-cash items of $271.2 million included $127.2 million of deferred income taxes. The tax planning strategies implemented by the Company enabled the Company to lower its current tax payments and liability while increasing its deferred taxes during the fiscal year ended September 30, 2003. Operating cash uses during the fiscal year ended September 30, 2003 included $134.2 million in interest payments and $118.4 million of income tax payments, net of refunds.

Capital expenditures for the fiscal years ended September 30, 2005, 2004 and 2003 were $203.4 million, $189.3 million and $90.6 million, respectively, and related principally to the construction of the new distribution facilities, investments in warehouse expansions and improvements, information technology and warehouse automation. The Company estimates that it will spend approximately $125 million to $150 million for capital expenditures during fiscal 2006.

During the fiscal year ended September 30, 2004, the Company paid $39.0 million for the remaining 40% equity interest in International Physician Networks ("IPN"), a physician education and management consulting company, that it did not previously own. Additionally, the Company paid approximately $13.7 million in cash for MedSelect, Inc., a provider of automated medication and supply dispensing cabinets, and $16.6 million in cash for Imedex, Inc., an accredited provider of continuing medical education for physicians.

During fiscal 2003, the Company acquired Anderson Packaging Inc. ("Anderson"), a leading provider of physician and retail contracted packaging services to pharmaceutical manufacturers. The purchase price was approximately $100.1 million, which included the repayment of Anderson debt of $13.8 million and $0.8 million of transaction costs associated with the acquisition. The Company paid part of the purchase price by issuing 814,145 shares of its common stock with an aggregate market value of $55.6 million. The Company paid the remaining purchase price, which was approximately $44.5 million, in cash.

During fiscal 2003, the Company acquired an additional 40% equity interest in IPN and satisfied the residual contingent obligation for its initial 20% equity interest for an aggregate $24.7 million in cash.

During fiscal 2003, the Company acquired US Bioservices Corporation ("US Bio"), a national pharmaceutical products and services provider focused on the management of high-cost complex therapies and reimbursement support for a total base purchase price of $160.2 million, which included the repayment of US Bio debt of $14.8 million and $1.5 million of transaction costs associated with this acquisition. The Company paid part of the base purchase price by issuing 2,399,091 shares of its common stock with an aggregate market value of $131.0 million. The Company paid the remaining $29.2 million of the base purchase price in cash. In July 2003, a contingent payment of $2.5 million was paid in cash by the Company.

During fiscal 2003, the Company acquired Bridge Medical, Inc., a leading provider of barcode-enabled point-of-care software designed to reduce medication errors, to enhance the Company's offerings in the pharmaceutical supply channel, for a total base purchase price of $28.4 million, which included $0.7 million of transaction costs associated with this acquisition. The Company paid part of the base purchase price by issuing 401,780 shares of its common stock with an aggregate market value of $22.9 million and the remaining base purchase price was paid with $5.5 million of cash.

During fiscal 2003, the Company also used cash of $3.0 million to purchase three smaller companies related to the Pharmaceutical Distribution segment and paid $9.8 million to eliminate the right of the former stockholders of AutoMed Technologies, Inc. ("AutoMed") to receive up to $55.0 million in contingent payments based on AutoMed achieving defined earnings targets through the end of calendar 2004.

Cash provided by investing activities for the fiscal year ended September 30, 2005 included $36.7 million from sale-leaseback transactions entered into by the Company with a financial institution. Additionally, cash provided by investing activities included $14.6 million from the sale of substantially all of the assets of Bridge Medical, Inc. and the sale of Rita Ann Distributors.

In September 2005, the Company issued its 2012 Notes and its 2015 Notes for total proceeds of $895.5 million. These proceeds were used to finance the early retirement of the 7¼% Notes and the 8⅛% Notes, including the payment of premiums and other costs, for a total of $902.3 million. Additionally, during the fiscal year ended September 30, 2005, the Company paid $100 million to redeem the Bergen 7¼% Senior Notes and repaid the remaining $180.0 million outstanding under the Term Loan Facility.

In May 2005, the Company's board of directors authorized the Company to purchase up to $450 million of its outstanding shares of common stock, subject to market conditions and to compliance with the stock repurchase restrictions contained in the indentures governing the Company's senior notes and in the credit agreement for the Company's senior credit facility. Through June 30, 2005, the Company had purchased $94.2 million of its common stock under this program for a weighted average price of $65.50. In August 2005, the Company's board of directors authorized an increase to the amount available under this program by approximately $394 million, bringing total remaining availability to $750 million, and the total repurchase program to approximately $844 million. The increase in repurchase authority was subject to the completion of the tender and repurchase of the Company's $500 million principal amount 8.125% senior notes due 2008 and $300 million principal amount 7.25% senior notes due 2012 and the offering and sale of $400 million principal amount 5.625% senior notes due 2012 and $500 million principal amount 5.875% senior notes due 2015 (collectively, the "Refinancing"). The Refinancing was completed in September 2005. As of September 30, 2005, the Company has $750 million of remaining authorization to repurchase its common stock under this program.

In February 2005, the Company's board of directors authorized the Company to purchase up to 5.7 million shares (substantially equivalent to the number of common stock shares issued in connection with the conversion of the 5% notes) of its outstanding common stock, subject to market conditions. In February 2005, the Company acquired 0.4 million shares in the open market for a total of $25.9 million. In addition, on March 30, 2005, the Company entered into an Accelerated Share Repurchase ("ASR") transaction with a financial institution to purchase the remaining 5.3 million shares immediately from the financial institution at a cost of $293.8 million. The financial institution subsequently purchased an equivalent number of shares in the open market through April 21, 2005. The ASR transaction was completed on April 21, 2005; as a result, the Company paid the financial institution a cash settlement of $16.6 million. The Company had acquired all the shares authorized under this program for a total of $336.3 million, which includes the above cash settlement of $16.6 million. The cash settlement was recorded as an adjustment to additional paid-in capital.

In August 2004, the Company's board of directors authorized the Company to purchase up to $500 million of its outstanding shares of common stock, subject to market conditions. During the fiscal year ended September 30, 2004, the Company had acquired 2.8 million shares of its Common Stock for $144.7 million. During the fiscal year ended September 30, 2005, the Company acquired 6.5 million shares of its common stock under this program for $355.3 million. As of September 30, 2005, the Company had acquired 9.3 million shares of its common stock to complete the $500 million repurchase program.

As previously described, the Company used $300 million to redeem the Subordinated Notes and $8.4 million to redeem the 6⅞% Notes during the fiscal year ended September 30, 2004. Additionally, the Company repaid $60 million of the Term Facility in fiscal 2004.

During the fiscal year ended September 30, 2003, the Company issued the aforementioned $300 million of 7¼% Notes. The Company used the net proceeds of the 7¼% Notes to repay $15 million of the Term Facility, to repay $150 million in aggregate principal of the Bergen 7⅜% senior notes and redeem the PharMerica 8⅜% senior subordinated notes due 2008 at a redemption price equal to 104.19% of the $123.5 million principal amount. The Company also repaid an additional $45 million of the Term Facility, as scheduled.

The Company has paid quarterly cash dividends of $0.025 per share on its common stock since the first quarter of fiscal 2002. On November 15, 2005, the Company's board of directors increased the quarterly dividend by 100% and declared a dividend of $0.05 per share, which will be paid on December 12, 2005 to stockholders of record as of close of business on November 25, 2005. The Company anticipates that it will continue to pay quarterly cash dividends in the future. However, the payment and amount of future dividends remain within the discretion of the Company's board of directors and will depend upon the Company's future earnings, financial condition, capital requirements and other factors.

Market Risk

The Company's most significant market risk is the effect of changing interest rates. The Company manages this risk by using a combination of fixed-rate and variable-rate debt. At September 30, 2005, the Company had $897.7 million of fixed-rate debt with a weighted average interest rate of 5.8% and $55.0 million of variable-rate debt with a weighted average interest rate of 4.5%. The amount of variable-rate debt fluctuates during the year based on the Company's working capital requirements. The Company periodically evaluates various financial instruments that could mitigate a portion of its exposure to variable interest rates. However, there are no assurances that such instruments will be available on terms acceptable to the Company. There were no such financial instruments in effect at September 30, 2005. For every $100 million of unhedged variable-rate debt outstanding, a 45 basis-point increase in interest rates (one-tenth of the average variable rate at September 30, 2005) would increase the Company's annual interest expense by $0.45 million.

Recently Issued Financial Accounting Standards

In December 2004, the FASB issued SFAS No. 123R, "Share-Based Payment," which requires companies to measure compensation cost for all share-based payments (including employee stock options) at fair value for interim or annual periods beginning after June 15, 2005. In April 2005, the U.S. Securities and Exchange Commission issued a new rule allowing public companies to delay the adoption of SFAS No. 123R to annual periods beginning after June 15, 2005. As a result, the Company will adopt SFAS No. 123R, using the modified-prospective transition method beginning on October 1, 2005, and therefore, will begin to expense the fair value of all outstanding options over their remaining vesting periods to the extent the options are not fully vested as of the adoption date and will expense the fair value of all future options granted subsequent to September 30, 2005 over their service periods. SFAS No. 123R also requires the benefits of tax deductions in excess of recognized compensation expense to be reported as a financing cash flow, rather than an operating cash flow as currently required. The Company estimates it will record pre-tax share-based compensation expense of approximately $14 million in fiscal 2006. This estimate may be impacted by potential changes to the structure of the Company's share-based compensation plans which could impact the number of stock options granted in fiscal 2006, changes in valuation assumptions, the market price of the Company's common stock, among other things and, as a result, the actual pre-tax share-based compensation expense in fiscal 2006 may differ from the Company's current estimate.

Forward-Looking Statements

Certain of the statements contained in this Management's Discussion and Analysis of Financial Condition and Results of Operations ("MD&A") and elsewhere in this report are "forward-looking statements" within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934. These statements are based on management's current expectations and are subject to uncertainty and changes in circumstances. Actual results may vary materially from the expectations contained in the forward-looking statements. The forward-looking statements herein include statements addressing management's views with respect to future financial and operating results and the benefits, efficiencies and savings to be derived from the Company's integration plan to consolidate its distribution network. Various factors, including competitive pressures, success of the Pharmaceutical Distribution segment's ability to transition its business model to fee-for-service, success of integration, restructuring or systems initiatives, market interest rates, changes in customer mix, changes in pharmaceutical manufacturers' pricing and distribution policies or practices, regulatory changes, changes in U.S. Government policies (including reimbursement changes arising from the Medicare Modernization Act), customer defaults or insolvencies, supplier defaults or insolvencies. Adverse resolution of any contract or other disputes with customers (including departments and agencies of the U.S. Government) or suppliers, operational or control issues arising from AmerisourceBergen's outsourcing of information technology activities, fluctuations in the U.S. dollar – Canadian dollar exchange rate, economic, business, competitive and/or regulatory developments in Canada, acquisition of businesses that do not perform as we expect or that are difficult for us to integrate or control, or the loss of one or more key customer or supplier relationships, could cause actual outcomes and results to differ materially from those described in forward-looking statements. Certain additional factors that management believes could cause actual outcomes and results to differ materially from those described in forward-looking statements are set forth in this MD&A, and the Company's Annual Report on Form 10-K for fiscal year ended September 30, 2005.

Consolidated Balance Sheets

(in thousands, except share and per share data)

September 30,	2005	2004
Assets		
Current assets:		
Cash and cash equivalents	**$ 1,315,683**	$ 871,343
Accounts receivable, less allowances for returns and doubtful accounts: 2005 — $420,538; 2004 — $464,354	**2,640,646**	2,260,973
Merchandise inventories	**4,003,690**	5,135,830
Prepaid expenses and other	**27,673**	27,243
Total current assets	**7,987,692**	8,295,389
Property and equipment, at cost:		
Land	**43,676**	42,959
Buildings and improvements	**267,847**	233,397
Machinery, equipment and other	**484,671**	433,555
Total property and equipment	**796,194**	709,911
Less accumulated depreciation	**281,436**	244,647
Property and equipment, net	**514,758**	465,264
Other assets:		
Goodwill	**2,431,568**	2,448,275
Intangibles, deferred charges and other	**447,156**	445,075
Total other assets	**2,878,724**	2,893,350
TOTAL ASSETS	**$11,381,174**	$11,654,003
Liabilities and Stockholders' Equity		
Current liabilities:		
Accounts payable	**$ 5,292,253**	$ 4,947,037
Accrued expenses and other	**335,650**	419,381
Current portion of long-term debt	**1,232**	281,360
Accrued income taxes	**52,093**	94,349
Deferred income taxes	**370,868**	361,781
Total current liabilities	**6,052,096**	6,103,908
Long-term debt, net of current portion	**951,479**	1,157,111
Other liabilities	**97,242**	53,939
Stockholders' equity:		
Common stock, $.01 par value — authorized: 300,000,000 shares; issued and outstanding: 2005: 115,643,326 and 104,876,420 shares, respectively; issued and outstanding: 2004: 112,454,005 shares and 109,692,505 shares, respectively	**1,156**	1,125
Additional paid-in capital	**3,315,216**	3,146,207
Retained earnings	**1,604,093**	1,350,046
Accumulated other comprehensive loss	**(24,814)**	(13,577)
Treasury stock, at cost: 2005: 10,769,906 shares; 2004: 2,761,500 shares	**(615,294)**	(144,756)
Total stockholders' equity	**4,280,357**	4,339,045
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	**$11,381,174**	$11,654,003

See notes to consolidated financial statements.

Consolidated Statements of Operations

(in thousands, except per share data)

Fiscal year ended September 30,	**2005**	2004	2003
Operating revenue	**$50,012,598**	$48,812,452	$45,463,400
Bulk deliveries to customer warehouses	**4,564,723**	4,308,339	4,120,639
Total revenue	**54,577,321**	53,120,791	49,584,039
Cost of goods sold	**52,597,137**	50,954,361	47,358,426
Gross profit	**1,980,184**	2,166,430	2,225,613
Operating expenses:			
Distribution, selling and administrative	**1,234,057**	1,184,529	1,261,357
Depreciation	**70,947**	63,464	62,165
Amortization	**10,252**	9,961	7,032
Facility consolidations, employee severance and other	**22,723**	7,517	8,930
Impairment charge	**5,259**	—	—
Operating income	**636,946**	900,959	886,129
Other (income) loss	**(990)**	(6,236)	8,015
Interest expense, net	**57,223**	112,704	144,748
Loss on early retirement of debt	**111,888**	23,592	4,220
Income from continuing operations before income taxes and cumulative effect of change in accounting	**468,825**	770,899	729,146
Income taxes	**176,903**	296,025	286,081
Income from continuing operations before cumulative effect of change in accounting	**291,922**	474,874	443,065
Loss from discontinued operations, net of tax (Note 3)	**17,105**	6,484	1,836
Cumulative effect of change in accounting, net of tax of $6,341 (Note 1)	**10,172**	—	—
Net income	**$ 264,645**	$ 468,390	$ 441,229
Earnings per share:			
Basic earnings per share:			
Continuing operations	**$ 2.76**	$ 4.25	$ 4.05
Discontinued operations	**(0.16)**	(0.06)	(0.02)
Cumulative effect of change in accounting	**(0.10)**	—	—
Rounding	**—**	0.01	—
Net income	**$ 2.50**	$ 4.20	$ 4.03
Diluted earnings per share:			
Continuing operations	**$ 2.73**	$ 4.12	$ 3.91
Discontinued operations	**(0.16)**	(0.06)	(0.02)
Cumulative effect of change in accounting	**(0.09)**	—	—
Net income	**$ 2.48**	$ 4.06	$ 3.89
Weighted average common shares outstanding:			
Basic	**105,667**	111,617	109,513
Diluted	**107,770**	117,779	115,954

See notes to consolidated financial statements.

Consolidated Statements of Changes in Stockholders' Equity

(in thousands, except per share data)

	Common Stock	Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Loss	Treasury Stock	Total
September 30, 2002	$ 1,066	$ 2,858,596	$ 462,619	$ (5,943)	$ —	$ 3,316,338
Net income			441,229			441,229
Increase in minimum pension liability, net of tax of $5,246				(8,274)		(8,274)
Total comprehensive income						432,955
Cash dividends declared, $0.10 per share			(10,995)			(10,995)
Exercise of stock options	14	42,550				42,564
Tax benefit from exercise of stock options		14,389				14,389
Stock issued for acquisitions	40	209,409				209,449
Restricted shares earned by directors		345				345
Net shares purchased pursuant to stock purchase plan		(1,608)				(1,608)
Accelerated vesting of stock options		1,057				1,057
Amortization of unearned compensation from stock options		823				823
September 30, 2003	1,120	3,125,561	892,853	(14,217)	—	4,005,317
Net income			468,390			468,390
Reduction in minimum pension liability, net of tax of $399				640		640
Total comprehensive income						469,030
Cash dividends declared, $0.10 per share			(11,197)			(11,197)
Exercise of stock options	5	15,146				15,151
Tax benefit from exercise of stock options		4,011				4,011
Restricted shares earned		649				649
Net shares purchased pursuant to stock purchase plan		(935)				(935)
Accelerated vesting of stock options		1,028				1,028
Amortization of unearned compensation from stock options		747				747
Purchases of common stock					(144,756)	(144,756)
September 30, 2004	1,125	3,146,207	1,350,046	(13,577)	(144,756)	4,339,045
Net income			**264,645**			**264,645**
Increase in minimum pension liability, net of tax of $7,101				**(11,014)**		**(11,014)**
Other, net of tax				**(223)**		**(223)**
Total comprehensive income						**253,408**
Cash dividends declared, $0.10 per share			**(10,598)**			**(10,598)**
Exercise of stock options	**31**	**174,029**				**174,060**
Tax benefit from exercise of stock options		**15,347**				**15,347**
Restricted shares earned		**488**				**488**
Net shares purchased pursuant to stock purchase plan		**(1,565)**				**(1,565)**
Accelerated vesting of stock options		**276**				**276**
Write-off of deferred financing costs related to conversion of subordinated notes		**(3,881)**				**(3,881)**
Treasury shares issued for debt conversion		**944**			**299,025**	**299,969**
Settlement of accelerated stock repurchase agreement		**(16,629)**				**(16,629)**
Purchases of common stock					**(769,563)**	**(769,563)**
September 30, 2005	**$1,156**	**$3,315,216**	**$1,604,093**	**$(24,814)**	**$(615,294)**	**$4,280,357**

See notes to consolidated financial statements.

Consolidated Statements of Cash Flows

(in thousands)

Fiscal year ended September 30,	2005	2004	2003
Operating Activities			
Net income	**$ 264,645**	$ 468,390	$ 441,229
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation, including amounts charged to cost of goods sold	**76,546**	68,071	65,005
Amortization, including amounts charged to interest expense	**14,336**	19,017	15,438
Provision (benefit) on accounts receivable	**33,379**	(10,279)	46,012
Other loss (income)	**4,269**	(1,314)	8,015
Provision for deferred income taxes	**17,026**	48,884	127,157
Employee stock compensation	**520**	2,059	1,880
Loss on disposal of property and equipment	**1,891**	1,430	3,465
Loss on early retirement of debt	**111,888**	23,592	4,220
Loss on sales of discontinued operations	**12,262**	—	—
Cumulative effect of change in accounting, net of tax	**10,172**	—	—
Changes in operating assets and liabilities, excluding the effects of acquisitions and dispositions:			
Accounts receivable	**(392,769)**	(267,387)	(57,971)
Merchandise inventories	**1,072,577**	916,301	(278,388)
Prepaid expenses and other assets	**(11,052)**	(10,768)	(23,294)
Accounts payable, accrued expenses, and income taxes	**311,422**	(432,020)	(1,214)
Other	**(474)**	(895)	3,261
NET CASH PROVIDED BY OPERATING ACTIVITIES	**1,526,638**	825,081	354,815
Investing Activities			
Capital expenditures	**(203,376)**	(189,278)	(90,554)
Cost of acquired companies, net of cash acquired	**(4,404)**	(68,882)	(111,981)
Proceeds from sale-leaseback transactions	**36,696**	15,602	—
Proceeds from sales of discontinued operations	**14,560**	—	—
Proceeds from sales of property and equipment	**4,219**	336	726
NET CASH USED IN INVESTING ACTIVITIES	**(152,305)**	(242,222)	(201,809)
Financing Activities			
Long-term debt borrowings	**895,500**	—	300,000
Long-term debt repayments	**(1,182,339)**	(368,425)	(338,989)
Purchases of common stock	**(786,192)**	(144,756)	—
Deferred financing costs and other	**(18,859)**	(1,390)	(7,282)
Exercise of stock options	**174,060**	15,151	42,564
Cash dividends on common stock	**(10,598)**	(11,197)	(10,995)
Common stock purchases for employee stock purchase plan	**(1,565)**	(935)	(1,608)
NET CASH USED IN FINANCING ACTIVITIES	**(929,993)**	(511,552)	(16,310)
INCREASE IN CASH AND CASH EQUIVALENTS	**444,340**	71,307	136,696
Cash and cash equivalents at beginning of year	**871,343**	800,036	663,340
CASH AND CASH EQUIVALENTS AT END OF YEAR	**$1,315,683**	$ 871,343	$ 800,036

See notes to consolidated financial statements.

Notes to Consolidated Financial Statements

September 30, 2005

Note 1. Summary of Significant Accounting Policies

AmerisourceBergen Corporation (the "Company") is a national pharmaceutical services company providing drug distribution and related healthcare services and solutions to its customers. The Company also provides pharmaceuticals to long-term care and workers' compensation patients. For further information on the Company's operating segments, see Note 14.

Basis of Presentation

The accompanying consolidated financial statements include the accounts of the Company and its majority-owned subsidiaries as of the dates and for the fiscal years indicated. All material intercompany accounts and transactions have been eliminated in consolidation.

The preparation of financial statements in conformity with accounting principles generally accepted in the United States 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, principally related to the discontinued operations (see Note 3).

Business Combinations

Business combinations accounted for under the purchase method of accounting include the results of operations of the acquired businesses from the dates of acquisition. Net assets of the companies acquired are recorded at their fair value to the Company at the date of acquisition (see Note 2).

Cash Equivalents

The Company classifies highly liquid investments with maturities of three months or less at the date of purchase as cash equivalents.

Change in Accounting Method

Effective October 1, 2004, the Company changed its method of recognizing cash discounts and other related manufacturer incentives. The Company previously recognized cash discounts as a reduction of cost of goods sold when earned, which was primarily upon payment of vendor invoices. The Company now records cash discounts as a component of inventory cost and recognizes such discounts as a reduction to cost of goods sold upon the sale of the inventory. In connection with the Company's transition to a fee-for-service model, the Company believes the change in accounting method provides a more objectively determinable method of recognizing cash discounts and a better matching of inventory cost to revenue, as inventory turnover rates are expected to continue to improve.

The Company recorded a $10.2 million charge for the cumulative effect of change in accounting (net of tax of $6.3 million) in the consolidated statement of operations for the fiscal year ended September 30, 2005. The accounting change is incorporated in the Company's results of operations for the fiscal year ended September 30, 2005.

The pro forma effect of this accounting change on prior periods is as follows:

	Fiscal year ended September 30,	
(in thousands, except per share data)	2004	2003
Income from continuing operations before cumulative effect of change in accounting:		
As reported	$474,874	$443,065
Pro forma	$472,653	$433,431
Net Income:		
As reported	$468,390	$441,229
Pro forma	$466,169	$431,595
Basic earnings per share from continuing operations:		
As reported	$ 4.25	$ 4.05
Pro forma	$ 4.23	$ 3.96
Diluted earnings per share from continuing operations:		
As reported	$ 4.12	$ 3.91
Pro forma	$ 4.10	$ 3.83

Concentrations of Credit Risk and Allowance for Doubtful Accounts

The Company sells its merchandise inventories to a large number of customers in the healthcare industry, including independent retail pharmacies, chain drugstores, mail order facilities, health systems and other acute-care facilities, and alternate site facilities such as clinics, nursing homes, physicians, and other non-acute care facilities. The financial condition of the Company's customers, especially those in the health systems and nursing home sectors, can be affected by changes in government reimbursement policies as well as by other economic pressures in the healthcare industry.

The Company's trade accounts receivable are exposed to credit risk, but the risk is moderated because the customer base is diverse and geographically widespread. The Company generally does not require collateral for trade receivables. The Company performs ongoing credit evaluations of its customers' financial condition and maintains an allowance for doubtful accounts. In determining the appropriate allowance for doubtful accounts, the Company considers a combination of factors, such as the aging of trade receivables, industry trends, its customers' financial strength and credit standing, and payment and default history. Changes in these factors, among others, may lead to adjustments in the Company's allowance for doubtful accounts. The calculation of the required allowance requires judgment by Company management as to the impact of those and other factors on the ultimate realization of its trade receivables. Each of the Company's business units performs ongoing credit evaluations of its customers' financial condition and maintains reserves for probable bad debt losses based on historical experience and for specific credit problems when they arise. The Company writes off balances against the reserves when collectibility is deemed remote. Each business unit performs formal documented reviews of the allowance at least quarterly and the Company's largest business units perform such reviews monthly. There were no significant changes to this process during the fiscal years ended September 30, 2005, 2004 and 2003 and bad debt expense was computed in a consistent manner during these periods. The bad debt expense for any period presented is equal to the changes in the period end allowance for doubtful accounts, net of write-offs and recoveries. At September 30, 2005, the largest trade receivable due from a single customer represented approximately 13% of accounts receivable, net. Sales to the Company's largest non-bulk customer represented 7.5% of operating revenue in fiscal 2005. Sales to Medco Health Solutions, Inc. ("Medco") represented 6% of operating revenue and represented 93% of bulk deliveries in fiscal 2005. No other single customer accounted for more than 5% of the Company's operating revenue.

The Company maintains cash balances and cash equivalents with several large creditworthy banks and money-market funds located in the United States. The Company does not believe there is significant credit risk related to its cash and cash equivalents.

Goodwill and Intangible Assets

The Company accounts for purchased goodwill and intangible assets in accordance with Financial Accounting Standards Board ("FASB") Statement of Financial Accounting Standards ("SFAS") No. 142 "Goodwill and Other Intangible Assets." Under SFAS No. 142, purchased goodwill and intangible assets with indefinite lives are not amortized; rather, they are tested for impairment on at least an annual basis. Intangible assets with finite lives, primarily customer relationships, non-compete agreements, patents and software technology, are amortized over their useful lives.

In order to test goodwill and intangible assets with indefinite lives under SFAS No. 142, a determination of the fair value of the Company's reporting units and intangible assets with indefinite lives is required and is based, among other things, on estimates of future operating performance of the reporting unit and/or the component of the entity being valued. The Company is required to complete an impairment test for goodwill and intangible assets with indefinite lives and record any resulting impairment losses at least on an annual basis. The Company uses an income approach to determine the fair value of its reporting units and intangible assets with indefinite lives. Changes in market conditions, among other factors, may have an impact on these fair values. The Company completed its required annual impairment tests in the fourth quarters of fiscal 2005 and 2004 and determined that there was no impairment.

During the second quarter of fiscal 2005, the Company performed an impairment test on certain intangible assets within its technology operations due to the existence of impairment indicators. As a result, the Company recorded an impairment charge of $5.3 million relating to certain of those intangible assets. The charge has been reflected in the Company's results of operations for the fiscal year ended September 30, 2005.

Income Taxes

In accordance with provisions of SFAS No. 109, "Accounting for Income Taxes," the Company accounts for income taxes using the asset and liability method. The asset and liability method requires recognition of deferred tax assets and liabilities for expected future tax consequences of temporary differences that currently exist between tax bases and financial reporting bases of the Company's assets and liabilities.

Investments

The Company uses the equity method of accounting for its investments in entities in which it has significant influence; generally, this represents an ownership interest of between 20% and 50%. The Company's investments in marketable equity securities in which the Company does not have significant influence are classified as "available for sale" and are carried at fair value, with unrealized gains and losses excluded from earnings and reported in the accumulated other comprehensive loss component of stockholders' equity.

Loss Contingencies

The Company accrues for loss contingencies related to litigation in accordance SFAS No. 5, "Accounting for Contingencies." An estimated loss contingency is accrued in the Company's consolidated financial statements if it is probable that a liability has been incurred and the amount of the loss can be reasonably estimated. Assessing contingencies is highly subjective and requires judgments about future events. The Company regularly reviews loss contingencies to determine the adequacy of the accruals and related disclosures. The amount of the actual loss may differ significantly from these estimates.

Manufacturer Incentives

The Company generally accounts for fees and other incentives received from its suppliers, relating to the purchase or distribution of inventory, as a reduction to cost of goods sold, in accordance with Emerging Issues Task Force ("EITF") Issue No. 02-16, "Accounting by a Customer for Certain Consideration Received from a Vendor." The Company considers these fees to represent product discounts, and as a result, the fees are capitalized as a product cost and relieved through cost of goods sold upon the sale of the related inventory.

Merchandise Inventories

Inventories are stated at the lower of cost or market. Cost for approximately 87% and 92% of the Company's inventories at September 30, 2005 and 2004, respectively, were determined using the last-in, first-out (LIFO) method. If the Company had used the first-in, first-out (FIFO) method of inventory valuation, which approximates current replacement cost, consolidated inventories would have been approximately $159.8 million and $166.1 million higher than the amounts reported at September 30, 2005 and 2004, respectively. During the fiscal years ended September 30, 2005 and 2004, inventory balances declined, which resulted in liquidation of LIFO layers carried at lower costs prevailing in prior years. The effect of the liquidation in fiscal 2005 was to decrease cost of goods sold by $30.6 million and increase diluted earnings per share by $0.17. The effect of the liquidation in fiscal 2004 was to decrease cost of goods sold by $10.3 million and increase diluted earnings per share by $0.05.

Property and Equipment

Property and equipment are stated at cost and depreciated on the straight-line method over the estimated useful lives of the assets, which range from 3 to 40 years for buildings and improvements and from 3 to 10 years for machinery, equipment and other. The costs of repairs and maintenance are charged to expense as incurred.

Revenue Recognition

The Company recognizes revenue when products are delivered to customers. Service revenues are recognized as services are performed. Revenues as reflected in the accompanying consolidated statement of operations are net of sales returns and allowances.

The Company's customer sales return policy generally allows customers to return products only if the products can be resold at full value or returned to suppliers for full credit. During the fiscal year ended September 30, 2004, the Company changed its accounting policy for customer sales returns to reflect an accrual for estimated customer returns at the time of sale to the customer. Previously, the Company accounted for customer sales returns as a reduction of sales and cost of goods sold at the time of the return. As a result of this accounting policy change, operating revenue and cost of goods sold were each reduced by $316.8 million for the fiscal year ended September 30, 2004. Additionally, merchandise inventories were increased and accounts receivable were reduced by $316.8 million. At September 30, 2005 and 2004, the Company's accrual for customer sales returns was $280.4 million and $316.8 million, respectively.

The Company reports the gross dollar amount of bulk deliveries to customer warehouses in revenue and the related costs in cost of goods sold. Bulk delivery transactions are arranged by the Company at the express direction of the customer, and involve either shipments from the supplier directly to customers' warehouse sites or shipments from the supplier to the Company for immediate shipment to the customers' warehouse sites. The Company is a principal to these transactions because it is the primary obligor and has general inventory risk, physical loss inventory risk, and customer credit risk. As a result, and in accordance with the EITF No. 99-19, "Reporting Revenue Gross as a Principal versus Net as an Agent," the Company records bulk deliveries to customer warehouses as gross revenues. Gross profit earned by the Company on bulk deliveries was not material in any year presented.

Shipping and Handling Costs

Shipping and handling costs include all costs to warehouse, pick, pack and deliver inventory to customers. These costs, which were $380.1 million, $383.1 million and $381.8 million for the fiscal years ended September 30, 2005, 2004 and 2003, respectively, are included in distribution, selling and administrative expenses.

Supplier Reserves

The Company establishes reserves against amounts due from its suppliers relating to various price and rebate incentives, including deductions or billings taken against payments otherwise due them from the Company. These reserve estimates are established based on the judgment of Company management after carefully considering the status of current outstanding claims, historical experience with the suppliers, the specific incentive programs and any other pertinent information available to the Company. The Company evaluates the amounts due from its suppliers on a continual basis and adjusts the reserve estimates when appropriate based on changes in factual circumstances. The ultimate outcome of any outstanding claim may be different than the Company's estimate.

Recently Issued Financial Accounting Standards

In December 2004, the FASB issued SFAS No. 123R, "Share-Based Payment," which requires companies to measure compensation cost for all share-based payments (including employee stock options) at fair value for interim or annual periods beginning after June 15, 2005. In April 2005, the U.S. Securities and Exchange Commission issued a new rule allowing public companies to delay the adoption of SFAS No. 123R to annual periods beginning after June 15, 2005. As a result, the Company will adopt SFAS No. 123R, using the modified-prospective transition method beginning on October 1, 2005, and therefore, will begin to expense the fair value of all outstanding options over their remaining vesting periods to the extent the options are not fully vested as of the adoption date and will expense the fair value of all future options granted subsequent to September 30, 2005 over their service periods. SFAS No. 123R also requires the benefits of tax deductions in excess of recognized compensation expense to be reported as a financing cash flow, rather than an operating cash flow as currently required. The Company estimates it will record pre-tax share-based compensation expense of approximately $14 million in fiscal 2006. This estimate may be impacted by potential changes to the structure of the Company's share-based compensation plans which could impact the number of stock options granted in fiscal 2006, changes in valuation assumptions, the market price of the Company's common stock, among other things and, as a result, the actual pre-tax share-based compensation expense in fiscal 2006 may differ from the Company's current estimate.

Stock Related Compensation

The Company has a number of stock-related compensation plans, including stock option, stock purchase and restricted stock plans, which are described in Note 9. Through September 30, 2005, the Company accounted for its stock option and stock purchase plans using the intrinsic value method set forth in Accounting Principles Board Opinion No. 25, "Accounting for Stock Issued to Employees," ("APB No. 25") and related interpretations for these plans. Under APB No. 25, generally, when the exercise price of the Company's stock options equals the market price of the underlying stock on the date of the grant, no compensation expense is recognized. As previously noted, the Company will begin expensing stock options beginning on October 1, 2005 in accordance with SFAS No. 123R.

The fair values relating to primarily all of the 2005 option grants were estimated using a binomial option pricing model. The fair values relating to the 2004 and 2003 option grants were estimated using a Black-Scholes option pricing model.

The following assumptions were used to estimate the fair values:

	Fiscal year ended September 30,		
	2005	2004	2003
Weighted average risk-free interest rate	**4.10%**	2.74%	2.52%
Expected dividend yield	**0.17%**	0.14%	0.14%
Weighted average volatility factor of the expected market price of the Company's common stock	**28.0%**	35.7%	37.5%
Weighted average expected life of the options	**4.5 years**	5 years	5 years
Expected forfeiture rate	**5%**	—	—

The weighted average fair value of the options granted during the fiscal years ended September 30, 2005, 2004 and 2003 was $16.65, $20.28, and $20.36, respectively. Changes to the above valuation assumptions could have a significant impact on share-based compensation expense.

For purposes of pro forma disclosures, the estimated fair value of the options and shares under the employee stock purchase plan are amortized to expense over their assumed vesting periods. The following table illustrates the effect on net income and earnings per share if the Company had applied the fair value recognition provisions of SFAS No. 123, to all stock-related compensation.

(in thousands, except per share data)	Fiscal year ended September 30, 2005	2004	2003
Net income, as reported	**$264,645**	$468,390	$441,229
Add: Stock-related compensation expense included in reported net income, net of income taxes	**461**	880	770
Deduct: Stock-related compensation expense determined under the fair value method, net of income taxes	**(5,021)**	(87,339)	(19,728)
Pro forma net income	**$260,085**	$381,931	$422,271
Earnings per share:			
Basic, as reported	**$ 2.50**	$ 4.20	$ 4.03
Basic, pro forma	**$ 2.46**	$ 3.41	$ 3.86
Diluted, as reported	**$ 2.48**	$ 4.06	$ 3.89
Diluted, pro forma	**$ 2.44**	$ 3.32	$ 3.73

The SFAS No. 123 stock-related compensation expense in the above table decreased in the fiscal year ended September 30, 2005 compared to the prior years. This decline was primarily due to the Company, effective September 1, 2004, vesting all employee options then outstanding with an exercise price in excess of $54.10 (the closing stock price on August 31, 2004). The accelerated vesting was approved by the Compensation and Succession Planning Committee of the Company's board of directors for employee retention purposes and in anticipation of the requirements of SFAS No. 123R. As a result of the accelerated vesting, the pro-forma compensation expense and the corresponding reduction in diluted earnings per share in fiscal 2004 was significantly greater than the pro-forma compensation expense and the corresponding reduction in diluted earnings per share in fiscal 2005 and 2003.

The diluted earnings per share calculations consider the 5% convertible subordinated notes as if converted and, therefore, the after-tax effect of interest expense related to these notes is added back to net income in determining income available to common stockholders.

Note 2. Acquisitions

In May 2004, the Company acquired Imedex, Inc. ("Imedex"), an accredited provider of continuing medical education for physicians, for approximately $16.6 million in cash. The acquisition of Imedex continued the Company's efforts to add incremental services that support manufacturers and healthcare providers along the pharmaceutical supply channel. The purchase price has been allocated to the underlying assets acquired and liabilities assumed based upon their estimated fair values at the date of the acquisition. The purchase price exceeded the fair value of the net tangible and identified intangible assets acquired by $12.5 million, which has been allocated to goodwill.

In February 2004, the Company acquired MedSelect, Inc. ("MedSelect"), a provider of automated medication and supply dispensing cabinets, for approximately $13.7 million in cash, including transaction costs. The acquisition of MedSelect enhances the Company's ability to offer fully scalable and flexible technology solutions to its customers. The purchase price was allocated to the underlying assets acquired and liabilities assumed based upon their estimated fair values at the date of the acquisition. The purchase price exceeded the fair value of the net tangible and identified intangible assets acquired by $9.8 million, which has been allocated to goodwill.

In fiscal 2002, the Company acquired a 20% equity interest in International Physician Networks ("IPN"), a physician education and management consulting company, for $5 million in cash, which was subject to adjustment contingent on the entity achieving defined earnings targets in calendar 2002. In fiscal 2003, the Company satisfied the residual contingent obligation for the initial 20% equity interest and acquired an additional 40% equity interest for an aggregate $24.7 million in cash. In fiscal 2004, the Company paid $39.0 million for the remaining 40% equity interest. The results of operations of IPN, less minority interest, have been included in the Company's consolidated financial statements of operations for the fiscal years ended September 30, 2005, 2004 and 2003.

In June 2003, the Company acquired Anderson Packaging Inc. ("Anderson"), a leading provider of physician and retail contracted packaging services to pharmaceutical manufacturers, to expand the Company's packaging capabilities. The purchase price was $100.1 million, which included the repayment of Anderson debt of $13.8 million and $0.8 million of transaction costs associated with the acquisition. The Company paid part of the purchase price by issuing 814,145 shares of its common stock, as set forth in the acquisition agreement, with an aggregate market value of $55.6 million, which was calculated based on the Company's closing stock price on the transaction measurement date. The Company paid the remaining purchase price, which was approximately $44.5 million, in cash. In fiscal 2004, the Company paid a final post-closing working capital adjustment of $0.3 million.

In January 2003, the Company acquired US Bioservices Corporation ("US Bio"), a national pharmaceutical products and services provider focused on the management of high-cost complex therapies and reimbursement support, to expand the Company's manufacturer service offerings within the specialty pharmaceutical business. The total base purchase price was $160.2 million, which included the repayment of US Bio debt of $14.8 million and $1.5 million of transaction costs associated with the acquisition. The Company paid part of the base purchase price by issuing 2,399,091 shares of its common stock, as set forth in the acquisition agreement, with an aggregate market value of $131.0 million, which was calculated based on an average of the Company's closing stock price on the two days before and the two days after the transaction measurement date. The Company paid the remaining $29.2 million of the base purchase price in cash. In fiscal 2003, a contingent payment of $2.5 million was paid in cash by the Company.

In January 2003, the Company acquired Bridge Medical, Inc. ("Bridge"), a leading provider of barcode-enabled point-of-care software designed to reduce medication errors, to enhance the Company's offerings in the pharmaceutical supply channel. The total base purchase price was $28.4 million, which included $0.7 million of transaction costs associated with the acquisition. The Company paid part of the base purchase price by issuing 401,780 shares of its common stock with an aggregate market value of $22.9 million, which was calculated based on a 30-day average of the Company's closing stock price for the period ending three days prior to the transaction closing date, as set forth in the acquisition agreement. The remaining base purchase price was paid with $5.5 million of cash. In June 2005, the Company agreed to sell substantially all of the assets of Bridge (see Note 3).

The following table summarizes the allocation of the purchase price, including transaction costs, based on the fair values of the Imedex, MedSelect, IPN, Anderson, US Bio, and Bridge assets and liabilities at the effective dates of the respective acquisitions (in thousands):

Cash	$ 8,907
Accounts receivable	65,398
Inventory	18,952
Property and equipment	24,263
Goodwill	229,843
Intangible assets	81,612
Deferred tax assets	17,670
Other assets	3,850
Current and other liabilities	(59,772)
Fair value of net assets acquired	$390,723

Intangible assets of $81.6 million consist of $31.2 million of trade names, which have indefinite lives and are not subject to amortization, $32.1 million of customer relationships, which have a weighted average life of 12 years, $11.2 million of non-compete agreements, which have a weighted average life of 4 years, $4.8 million of software, which has a weighted average life of 3 years, and $2.3 million of patents, which has a weighted average seven-year life. Deferred tax assets principally relate to net operating losses and research and development costs incurred by Bridge prior to the acquisition. In connection with the sale of substantially all of the assets of Bridge (see Note 3), $9.4 million of previously acquired goodwill was written-off from the Company's consolidated balance sheet.

All of the goodwill associated with the aforementioned acquisitions was assigned to the Pharmaceutical Distribution segment. The goodwill associated with the US Bio and Bridge acquisitions of $109.2 million is not deductible for income tax purposes.

In June 2003, the Company amended the 2002 agreement under which it acquired AutoMed Technologies, Inc ("AutoMed"). Pursuant to the amendment, the former stockholders of AutoMed agreed to eliminate their right to receive up to $55 million in contingent payments based on AutoMed achieving defined earnings targets through the end of calendar 2004. In consideration thereof, the Company paid $9.8 million in July 2003 to the former stockholders of Automed under the amendment. This amount was recorded as additional purchase price and goodwill.

Had the aforementioned acquisitions been consummated at the beginning of the respective fiscal years, the Company's consolidated total revenue, net income and diluted earnings per share for the fiscal years ended September 30, 2004 and 2003 would not have been materially different from the reported amounts.

Note 3. Discontinued Operations

In June 2005, the Company agreed to sell substantially all of the assets of Bridge, a component of the Company's Pharmaceutical Distribution reportable segment, for $11.0 million. The Bridge sale closed in July 2005 and is subject to a working capital adjustment. The Company recorded an estimated loss on sale of the business of $4.6 million, net of tax.

In December 2004, the Company sold Rita Ann Distributors ("Rita Ann"), its cosmetics distribution business, which was a component of its Pharmaceutical Distribution reportable segment, for $3.6 million, subject to a working capital adjustment. The Company recorded an estimated loss on sale of Rita Ann of $6.5 million, net of tax.

Operating revenue of Bridge and Rita Ann was $12.3 million, $58.2 million, and $73.3 million during the fiscal years ended September 30, 2005, 2004 and 2003, respectively, and loss (income) before income taxes was $7.8 million, $10.5 million, and ($3.0) million during the fiscal years ended September 30, 2005, 2004, and 2003, respectively.

Note 4. Income Taxes

The income tax provision is as follows (in thousands):

	Fiscal year ended September 30,		
	2005	2004	2003
Current provision:			
Federal	**$138,699**	$224,320	$139,765
State and local	**21,178**	24,369	19,458
	159,877	248,689	159,223
Deferred provision:			
Federal	**19,076**	37,243	111,421
State and local	**(2,050)**	10,093	15,437
	17,026	47,336	126,858
Provision for income taxes	**$176,903**	$296,025	$286,081

A reconciliation of the statutory federal income tax rate to the effective income tax rate is as follows:

	Fiscal year ended September 30,		
	2005	2004	2003
Statutory federal income tax rate	**35.0%**	35.0%	35.0%
State and local income tax rate, net of federal tax benefit	**3.1**	3.2	3.2
Other	**(0.4)**	0.2	1.0
Effective income tax rate	**37.7%**	38.4%	39.2%

Deferred income taxes reflect the future tax consequences of differences between the tax bases of assets and liabilities and their financial reporting amounts. Significant components of the Company's deferred tax liabilities (assets) are as follows (in thousands):

	September 30, 2005	2004
Inventory	**$ 486,791**	$ 481,813
Property and equipment	**19,114**	12,517
Goodwill	**63,904**	47,470
Other	**936**	6,708
Gross deferred tax liabilities	**570,745**	548,508
Net operating loss and tax credit carryforwards	**(51,075)**	(44,977)
Capital loss carryforwards	**(3,924)**	(1,723)
Allowance for doubtful accounts	**(68,892)**	(60,160)
Accrued expenses	**(13,800)**	(31,834)
Employee and retiree benefits	**(30,052)**	(28,339)
Other	**(27,292)**	(48,502)
Gross deferred tax assets	**(195,035)**	(215,535)
Valuation allowance for deferred tax assets	**33,490**	34,115
Deferred tax assets, after allowance	**(161,545)**	(181,420)
Net deferred tax liability	**$ 409,200**	$ 367,088

In fiscal 2005, 2004 and 2003, tax benefits of $15.3 million, $4.0 million and $14.4 million, respectively, related to the exercise of employee stock options were recorded as additional paid-in capital.

As of September 30, 2005, the Company had $31.2 million of potential tax benefits from federal net operating loss carryforwards expiring in 16 to 17 years, and $17.8 million of potential tax benefits from state operating loss carryforwards expiring in 1 to 20 years. As of September 30, 2005, the Company had $2.1 million of federal and state alternative minimum tax credit carryforwards, and $3.9 million of potential tax benefits from capital loss carryforwards expiring in 1 to 4 years.

In fiscal year 2005, the Company decreased the valuation allowance on deferred tax assets by $0.6 million primarily due to the use of certain state net operating loss carryforwards. In fiscal year 2004, the Company decreased the valuation allowance on deferred tax assets by $7.7 million due to the expiration of capital loss carryforwards. At September 30, 2005, $31.1 million of the remaining valuation allowance has been recorded as a component of goodwill, down from $33.7 million at September 30, 2004 due to the use of state net operating loss carryforwards. Under current accounting rules, any future reduction of this valuation allowance, due to the realization of the related deferred tax assets, will reduce goodwill.

Income tax payments, net of refunds, were $132.6 million, $200.1 million and $118.4 million in the fiscal years ended September 30, 2005, 2004 and 2003, respectively.

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 fiscal years ended September 30, 2005 and 2004 (in thousands):

	Pharmaceutical Distribution	PharMerica	Total
Goodwill at September 30, 2003	$ 2,121,757	$ 268,956	$ 2,390,713
Goodwill recognized in connection with the acquisition of Imedex, MedSelect, and IPN	56,410	—	56,410
Goodwill recognized in connection with the acquisition of other businesses	1,152	—	1,152
Goodwill at September 30, 2004	2,179,319	268,956	2,448,275
Goodwill recognized in connection with an acquisition of a business	**2,357**	**—**	**2,357**
Adjustment to goodwill due to purchase price adjustments	**733**	**—**	**733**
Sale of Bridge	**(9,357)**	**—**	**(9,357)**
Adjustment to goodwill relating to deferred tax assets	**(5,130)**	**(5,310)**	**(10,440)**
Goodwill at September 30, 2005	**$2,167,922**	**$263,646**	**$2,431,568**

During the fiscal year ended September 30, 2005, in connection with the sale of substantially all of the assets of Bridge, $9.4 million of previously acquired goodwill was removed from the Company's consolidated balance sheet. Additionally, the Company reduced goodwill at September 30, 2005 to record acquired deferred tax assets at their estimated net realizable value.

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

	September 30, 2005			September 30, 2004		
	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount
Unamortized intangibles — trade names	**$254,782**	**$ —**	**$254,782**	$257,652	$ —	$257,652
Amortized intangibles — customer lists and other	**75,504**	**(29,188)**	**46,316**	89,852	(26,701)	63,151
Total other intangible assets	**$330,286**	**$(29,188)**	**$301,098**	$347,504	$(26,701)	$320,803

During the fiscal year September 30, 2005, the Company recorded an impairment charge of $5.3 million relating to certain intangible assets within its technology operations.

Amortization expense for other intangible assets was $10.3 million, $10.0 million and $7.0 million in the fiscal years ended September 30, 2005, 2004 and 2003, respectively. Amortization expense for other intangible assets is estimated to be $10.1 million in fiscal 2006, $8.8 million in fiscal 2007, $5.0 million in fiscal 2008, $3.3 million in fiscal 2009, $3.2 million in fiscal 2010, and $15.9 million thereafter.

Note 6. Debt

Debt consisted of the following:

	September 30,	
(dollars in thousands)	**2005**	2004
Blanco revolving credit facility at 4.53% and 3.34%, respectively, due 2006	**$ 55,000**	$ 55,000
AmerisourceBergen securitization financing due 2007	**—**	—
Revolving credit facility due 2009	**—**	—
$400,000, $5\frac{5}{8}$% senior notes due 2012	**398,010**	—
$500,000, $5\frac{7}{8}$% senior notes due 2015	**497,508**	—
Term loan facility at 3.02%	**—**	180,000
Bergen $7\frac{1}{4}$% senior notes due 2005	**—**	99,939
$8\frac{1}{8}$% senior notes due 2008	**—**	500,000
$7\frac{1}{4}$% senior notes due 2012	**—**	300,000
AmeriSource 5% convertible subordinated notes due 2007	**—**	300,000
Other	**2,193**	3,532
Total debt	**952,711**	1,438,471
Less current portion	**1,232**	281,360
Total, net of current portion	**$951,479**	$1,157,111

Long-Term Debt

In September 2005, the Company issued $400 million of 5.625% senior notes due September 15, 2012 (the "2012 Notes") and $500 million of 5.875% senior notes due September 15, 2015 (the "2015 Notes"). The 2012 Notes and 2015 Notes each were sold at 99.5% of principal amount and have an effective interest yield of 5.71% and 5.94%, respectively. Interest on the 2012 Notes and the 2015 Notes is payable semiannually in arrears, commencing on March 15, 2006. Both the 2012 Notes and the 2015 Notes are redeemable at the Company's option at a price equal to the greater of 100% of the principal amount thereof, or the sum of the discounted value of the remaining scheduled payments, as defined. In addition, at any time before September 15, 2008, the Company may redeem up to an aggregate of 35% of the principal amount of the 2012 Notes or the 2015 Notes at redemption prices equal to 105.625% and 105.875%, respectively, of the principal amounts thereof, plus accrued and unpaid interest and liquidated damages, if any, to the date of redemption, with the cash proceeds of one or more equity issuances. In connection with the issuance of the 2012 Notes and the 2015 Notes, the Company incurred approximately $6.3 million and $7.9 million of costs, respectively, which were deferred and are being amortized over the terms of the notes.

The gross proceeds from the sale of the 2012 Notes and the 2015 Notes were used to finance the early retirement of the $500 million of $8\frac{1}{8}$% senior notes due 2008 and $300 million of $7\frac{1}{4}$% senior notes due 2012 in September 2005, including the payment of $102.3 million of premiums and other costs. Additionally, the Company expensed $8.5 million of deferred financing costs related to the retirement of the $7\frac{1}{4}$% Notes and the $8\frac{1}{8}$% Notes.

In December 2004, the Company entered into a $700 million five-year senior unsecured revolving credit facility (the "Senior Revolving Credit Facility") with a syndicate of lenders. The Senior Revolving Credit Facility replaced the Senior Credit Agreement, as defined below. There were no borrowings outstanding under the Senior Revolving Credit Facility at September 30, 2005. Interest on borrowings under the Senior Revolving Credit Facility accrues at specific rates based on the Company's debt rating. In April 2005, the Company's debt rating was raised by one of the rating agencies and in accordance with the terms of the Senior Revolving Credit Facility, interest on borrowings accrue at either 80 basis points over LIBOR or the prime rate at September 30, 2005. Availability under the Senior Revolving Credit Facility is reduced by the amount of outstanding letters of credit ($12.0 million at September 30, 2005). The Company pays quarterly facility fees to maintain the availability under the Senior Revolving Credit Facility at specific rates based on the Company's debt rating. In April 2005, the rate payable to maintain the availability of the $700 million commitment was reduced to 20 basis points per annum resulting from the Company's improved debt rating. In connection with entering into the Senior Revolving Credit Facility, the Company incurred approximately $2.5 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 Senior Revolving Credit Facility at any time. The Senior Revolving Credit Facility contains covenants that impose limitations on, among other things, additional indebtedness, distributions and dividends to stockholders, and investments. Additional covenants require compliance with financial tests, including leverage and minimum earnings to fixed charges ratios.

In August 2001, the Company had entered into a senior secured credit agreement (the "Senior Credit Agreement") with a syndicate of lenders. The Senior Credit Agreement consisted of a $1.0 billion revolving credit facility (the "Revolving Facility") and a $300 million term loan facility (the "Term Facility"), both of which had been scheduled to mature in August 2006. The Term Facility had scheduled quarterly maturities, which began in December 2002, totaling $60 million in each of fiscal 2003 and 2004, $80 million in fiscal 2005 and $100 million in fiscal 2006. The company previously paid the scheduled quarterly maturities of $60 million in fiscal 2004 and 2003.

In December 2004, in connection with entering into the Senior Revolving Credit Facility, as defined above, the Company repaid the remaining $180 million outstanding under the Term Facility and there were no borrowings under the Revolving Facility. In connection with the early repayment of the Term Facility, the Company incurred a loss of $1.0 million relating to the write-off of deferred financing costs.

In April 2005, the Company entered into a new $55 million Blanco revolving credit facility, which replaced the previously existing facility. The Blanco facility is not classified in the current portion of long-term debt in the accompanying consolidated balance sheet at September 30, 2005 because the Company has the ability and intent to refinance it on a long-term basis. Borrowings under the new Blanco revolving credit facility are guaranteed by the Company, whereas borrowings on the previous facility were secured by the Senior Revolving Credit Facility (defined above). The new facility expires in April 2006 and borrowings under the new facility will bear interest at LIBOR plus 90 basis points.

During the fiscal year ended September 30, 2005, the Company paid $100 million to redeem the Bergen 7¼% Senior Notes due June 1, 2005, upon their maturity.

In November 2002, the Company issued $300 million of 7¼% senior notes due November 15, 2012 (the "7¼% Notes"). The 7¼% Notes were redeemable at the Company's option at any time before maturity at a redemption price equal to 101% of the principal amount thereof plus accrued and unpaid interest and liquidated damages, if any, to the date of redemption and, under some circumstances, a redemption premium. The Company used the net proceeds of the 7¼% Notes to repay $15.0 million of the Term Facility in December 2002, to repay $150.0 million in aggregate principal of the Bergen 7⅜% senior notes in January 2003 and redeem the PharMerica 8⅜% senior subordinated notes due 2008 (the "8⅜% Notes") at a redemption price equal to 104.19% of the $123.5 million principal amount in April 2003. The cost of the redemption premium of $5.2 million, less $1.0 million representing the unamortized premium on the 8⅜% Notes, was reflected in the Company's consolidated statement of operations for the fiscal year ended September 30, 2003 as a loss on the early retirement of debt. In connection with the issuance of the 7¼% Notes, the Company incurred approximately $5.7 million of costs which were deferred and were being amortized over the ten-year term of the notes. As previously mentioned, the 7¼% Notes were repaid in September 2005.

In August 2001, the Company issued $500 million of 8⅛% senior notes due September 1, 2008 (the "8⅛% Notes"). The 8⅛% Notes were redeemable at the Company's option at any time before maturity at a redemption price equal to 101% of the principal amount thereof plus accrued and unpaid interest and liquidated damages, if any, to the date of redemption and, under some circumstances, a redemption premium. As previously mentioned, the 8⅛% Notes were repaid in September 2005.

In December 2004, the Company announced that it would redeem its 5% convertible subordinated notes at a redemption price of 102.143% of the principal amount of the notes plus accrued interest through the redemption date of January 3, 2005. The noteholders were given the option to accept cash or convert the notes to common stock of the Company. The notes were convertible into 5,663,730 shares of common stock, which translated to a conversion ratio of 18.8791 shares of common stock for each $1,000 principal amount of notes. In connection with the redemption, the Company issued 5,663,144 shares of common stock from treasury to noteholders to redeem substantially all of the notes and paid $31,000 to redeem the remaining notes.

The indentures governing the 2012 Notes, the 2015 Notes, and the Senior Revolving Credit Facility contain restrictions and covenants which include limitations on additional indebtedness; distributions and dividends to stockholders; the repurchase of stock and the making of other restricted payments; issuance of preferred stock; creation of certain liens; capital expenditures; transactions with subsidiaries and other affiliates; and certain corporate acts such as mergers, consolidations, and the sale of substantially all assets. Additional covenants require compliance with financial tests, including leverage and fixed charge coverage ratios, and maintenance of minimum tangible net worth.

Receivables Securitization Financing

In fiscal 2003, the Company entered into a new $1.05 billion receivables securitization facility ("Securitization Facility") and terminated the AmeriSource and Bergen securitization facilities. In connection with the Securitization Facility, AmerisourceBergen Drug Corporation ("ABDC") sells on a revolving basis certain accounts receivable to AmeriSource Receivables Financial Corporation, a wholly-owned special purpose entity, which in turn sells a percentage ownership interest in the receivables commercial paper conduits sponsored by financial institutions. ABDC is the servicer of the accounts receivable under the Securitization Facility. After the maximum limit of receivables sold has been reached and as sold receivables are collected, additional receivables may be sold up to the maximum amount available under the facility. In December 2004, the Company amended the Securitization Facility and under the terms of the amendment the $550 million (three-year tranche) originally scheduled to expire in July 2006 was increased to $700 million and the expiration date was extended to November 2007. Additionally, the $500 million (364-day tranche) scheduled to expire in July 2005 was reduced to $350 million and the expiration date was extended to December 2005. In September 2005, the Company elected to terminate the 364-day tranche, effective October 31, 2005. Interest rates are based on prevailing market rates for short-term commercial paper plus a program fee, and will vary based on the Company's debt ratings. The program fee is 60 basis points for the three-year tranche and 35 basis points for the 364-day tranche at September 30, 2005. Additionally, the commitment fee on any unused credit was reduced to 20 basis points for the three-year tranche and to 17.5 basis points for the 364-day tranche at September 30, 2005. At September 30, 2005, there were no borrowings outstanding under the Securitization Facility. In connection with entering into the Securitization Facility and the amendments thereto, the Company incurred approximately $2.8 million of costs, which were deferred and are being amortized over the life of the facility. The Company securitizes its trade accounts, which are generally non-interest bearing, in transactions that are accounted for as borrowings under SFAS No. 140, "Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities."

The agreement governing the Securitization Facility contains restrictions and covenants which include limitations on the incurrence of additional indebtedness, making of certain restricted payments, issuance of preferred stock, creation of certain liens, and certain corporate acts such as mergers, consolidations and sale of substantially all assets.

The Company previously utilized the receivables securitization facilities initiated by AmeriSource (the "ARFC Securitization Facility") and Bergen (the "Blue Hill Securitization Program").

The ARFC Securitization Facility previously provided a total borrowing capacity of $400 million. In connection with the ARFC Securitization Facility, ABDC sold on a revolving basis certain accounts receivable to ARFC, which in turn sold a percentage ownership interest in the receivables to a commercial paper conduit sponsored by a financial institution. ABDC was the servicer of the accounts receivable under the ARFC Securitization Facility. The ARFC Securitization Facility had an expiration date of May 2004, prior to its termination.

The Blue Hill Securitization Program previously provided a total borrowing capacity of $450 million. In connection with the Blue Hill Securitization Program, ABDC sold on a revolving basis certain accounts receivable to a 100%-owned special purpose entity ("Blue Hill"), which in turn sold a percentage ownership interest in the receivables to a commercial paper conduit sponsored by a financial institution. ABDC was the servicer of the accounts receivable under the Blue Hill Securitization Program. The Blue Hill Securitization Program had an expiration date of December 2005, prior to its termination.

Transactions under the ARFC Securitization Facility and the Blue Hill Securitization Program were accounted for as borrowings in accordance with SFAS No. 140.

Other Information

Scheduled future principal payments of long-term debt are $56.2 million in fiscal 2006, $0.5 million in fiscal 2007, $0.5 million in fiscal 2008, $400.0 million in fiscal 2012 and $500.0 million in fiscal 2015.

Interest paid on the above indebtedness during the fiscal years ended September 30, 2005, 2004 and 2003 was $94.2 million, $111.0 million and $134.2 million, respectively.

Total amortization of financing fees and expenses, as well as the premiums and discounts related to the adjustment of the carrying values of certain debt to fair value in connection with the merger and original issue discounts for the fiscal years ended September 30, 2005, 2004 and 2003 was $4.1 million, $7.4 million, and $7.4 million, respectively. These amounts are included in interest expense in the accompanying consolidated statements of operations.

Note 7. Stockholders' Equity and Earnings per Share

The authorized capital stock of the Company consists of 300,000,000 shares of common stock, par value $0.01 per share (the "Common Stock"), and 10,000,000 shares of preferred stock, par value $0.01 per share (the "Preferred Stock").

The board of directors are authorized to provide for the issuance of shares of Preferred Stock in one or more series with various designations, preferences and relative, participating, optional or other special rights and qualifications, limitations or restrictions. Except as required by law, or as otherwise provided by the board of directors of the Company, the holders of Preferred Stock will have no voting rights and will not be entitled to notice of meetings of stockholders. Holders of Preferred Stock will be entitled to receive, when declared by the board of directors, out of legally available funds, dividends at the rates fixed by the board of directors for the respective series of Preferred Stock, and no more, before any dividends will be declared and paid, or set apart for payment, on Common Stock with respect to the same dividend period. No shares of Preferred Stock have been issued as of September 30, 2005.

The holders of the Company's Common Stock are entitled to one vote per share and have the exclusive right to vote for the board of directors and for all other purposes as provided by law. Subject to the rights of holders of the Company's Preferred Stock, holders of Common Stock are entitled to receive ratably on a per share basis such dividends and other distributions in cash, stock or property of the Company as may be declared by the board of directors from time to time out of the legally available assets or funds of the Company. The Company has paid quarterly dividends of $0.025 per share on Common Stock since the first quarter of fiscal 2002.

In May 2005, the Company's board of directors authorized the Company to purchase up to $450 million of its outstanding shares of Common Stock, subject to market conditions and to compliance with the stock repurchase restrictions contained in the indentures governing the Company's senior notes and in the credit agreement for the Company's senior credit facility. In August 2005, the Company's board of directors authorized an increase to the amount available under this program by approximately $394 million, bringing the total remaining availability to $750 million, and the total repurchase program to approximately $844 million. During fiscal 2005, the Company purchased approximately $94 million of its Common Stock under this program for a weighted average price of $65.50. As of September 30, 2005, the Company has $750 million of remaining authorization to repurchase its Common Stock under this program.

In February 2005, the Company's board of directors authorized the repurchase up to an aggregate amount of 5.7 million shares of the Company's Common Stock, subject to market conditions. In February 2005, the Company acquired 0.4 million shares in the open market for a total of $25.9 million. In addition, on March 30, 2005, the Company entered into an Accelerated Share Repurchase ("ASR") transaction with a financial institution to purchase the remaining 5.3 million shares immediately from the financial institution at a cost of $293.8 million. The financial institution subsequently purchased an equivalent number of shares in the open market through April 21, 2005. The ASR transaction was completed on April 21, 2005; as a result, the Company paid the financial institution a cash settlement of $16.6 million. As of September 30, 2005, the Company had acquired all the shares authorized under this program for a total of $336.3 million, which includes the above cash settlement of $16.6 million. The cash settlement was recorded as an adjustment to additional paid-in capital.

In August 2004, the Company's board of directors authorized the repurchase of Common Stock up to an aggregate amount of $500 million, subject to market conditions. During the fiscal year ended September 30, 2004, the Company had acquired 2.8 million shares of its Common Stock for $144.7 million. During the fiscal year ended September 30, 2005, the Company acquired 6.5 million shares of its Common Stock for $355.3 million to complete this program.

Basic earnings per share is computed on the basis of the weighted average number of shares of Common Stock outstanding during the periods presented. Diluted earnings per share is computed on the basis of the weighted average number of shares of Common Stock outstanding during the periods plus the dilutive effect of stock options. Additionally, the diluted calculations consider the 5% convertible subordinated notes (see Note 6) as if converted during the periods that the notes were outstanding and, therefore, the after-tax effect of interest expense related to these notes is added back to income from continuing operations in determining income from continuing operations available to common stockholders for the periods that the notes were outstanding. On January 3, 2005, the Company completed the redemption of the 5% convertible subordinated notes. Subsequent to the redemption, a number of shares substantially equal to the shares of Common Stock issued in connection with the 5% note redemption were repurchased by the Company under the 5.7 million share repurchase program described above. The following table (in thousands) is a reconciliation of the numerator and denominator of the computation of basic and diluted earnings per share.

	Fiscal year ended September 30,		
	2005	2004	2003
Income from continuing operations, before cumulative effect of change in accounting	**$291,922**	$474,874	$443,065
Interest expense — convertible subordinated notes, net of income taxes	**2,539**	10,141	9,997
Income from continuing operations available to common stockholders	**$294,461**	$485,015	$453,062
Weighted average common shares outstanding — basic	**105,667**	111,617	109,513
Effect of dilutive securities:			
Options to purchase Common Stock	**658**	498	777
Convertible subordinated notes	**1,445**	5,664	5,664
Weighted average common shares outstanding — diluted	**107,770**	117,779	115,954

Note 8. Pension and Other Benefit Plans

The Company sponsors various retirement benefit plans, including defined benefit pension plans, defined contribution plans, postretirement medical plans and a deferred compensation plan covering eligible employees. The expense of these plans was $17.4 million in fiscal year 2005, $21.6 million in fiscal year 2004, and $26.9 million in fiscal year 2003. The Company uses a June 30 measurement date for its pension and other postretirement benefit plans.

Defined Benefit Plans

The Company provides a benefit for the majority of its former AmeriSource employees under three different noncontributory defined benefit pension plans consisting of a salaried plan, a union plan and a supplemental executive retirement plan. For each employee, the benefits are based on years of service and average compensation. Pension costs, which are computed using the projected unit credit cost method, are funded to at least the minimum level required by government regulations. During fiscal 2002, the salaried and the supplemental executive retirement plans were closed to new participants and benefits that can be earned by active participants in the plan were limited.

The Company has an unfunded supplemental executive retirement plan for its former Bergen officers and key employees. This plan is a "target" benefit plan, with the annual lifetime benefit based upon a percentage of salary during the five final years of pay at age 62, offset by several other sources of income including benefits payable under a prior supplemental retirement plan. During fiscal 2002, the plan was closed to new participants and benefits that can be earned by active participants were limited.

The following table sets forth (in thousands) a reconciliation of the changes in the Company-sponsored defined benefit pension plans:

	Fiscal year ended September 30,	
	2005	2004
Change in Projected Benefit Obligations:		
Benefit obligation at beginning of year	**$ 98,986**	$ 99,011
Service cost	**2,954**	3,834
Interest cost	**5,885**	5,866
Actuarial (gains) losses	**16,104**	(2,786)
Benefit payments	**(6,937)**	(6,939)
Benefit obligation at end of year	**$116,992**	$ 98,986
Change in Plan Assets:		
Fair value of plan assets at beginning of year	**$ 64,210**	$ 56,605
Actual return on plan assets	**5,121**	6,115
Employer contributions	**12,039**	9,230
Expenses	**(1,223)**	(801)
Benefit payments	**(6,937)**	(6,939)
Fair value of plan assets at end of year	**$ 73,210**	$ 64,210
Funded Status and Amounts Recognized:		
Funded status	**$ (43,782)**	$(34,776)
Unrecognized net actuarial loss	**41,816**	25,562
Unrecognized prior service cost	**77**	199
Net amount recognized	**$ (1,889)**	$ (9,015)
Amounts recognized in the balance sheets consist of:		
Accrued benefit liability	**$ (42,305)**	$(31,322)
Intangible asset	**77**	199
Accumulated other comprehensive loss	**40,339**	22,108
Net amount recognized	**$ (1,889)**	$ (9,015)

Weighted average assumptions used (as of the end of the fiscal year) in computing the benefit obligation were as follows:

	2005	2004
Discount rate	**5.25%**	6.25%
Rate of increase in compensation levels	**4.00%**	4.00%
Expected long-term rate of return on assets	**8.00%**	8.00%

The expected rate of return for the plans represents the average rate of return to be earned on plan assets over the period the benefits included in the benefit obligation are to be paid.

The following table provides components of net periodic benefit cost for the Company-sponsored defined benefit pension plans together with contributions charged to expense for multi-employer union-administered defined benefit pension plans that the Company participates in (in thousands):

	Fiscal year ended September 30,		
	2005	2004	2003
Components of Net Periodic Benefit Cost:			
Service cost	**$ 3,178**	$ 4,029	$ 4,735
Interest cost on projected benefit obligation	**5,885**	5,866	5,644
Expected return on plan assets	**(5,754)**	(5,102)	(5,082)
Amortization of prior service cost	**137**	132	150
Recognized net actuarial loss	**1,329**	1,738	722
Loss due to curtailments and settlements	**137**	696	—
Net periodic pension cost of defined benefit pension plans	**4,912**	7,359	6,169
Net pension cost of multi-employer plans	**1,752**	1,824	1,673
Total pension expense	**$ 6,664**	$ 9,183	$ 7,842

Weighted average assumptions used (as of the beginning of the fiscal year) in computing the net periodic benefit cost were as follows:

	2005	2004	2003
Discount rate	**6.25%**	6.00%	7.00%
Rate of increase in compensation levels	**4.00%**	4.00%	5.50%
Expected long-term rate of return on assets	**8.00%**	8.00%	8.75%

To determine the expected long-term rate of return on assets, the Company considered the current and expected asset allocations, as well as historical and expected returns on various categories of plan assets.

The board of directors of the Company has a Compensation and Succession Planning Committee (the "Committee"). The Committee is responsible for establishing the investment policy of any retirement plan, including the selection of acceptable asset classes, allowable ranges of holdings, the definition of acceptable securities within each class, and investment performance expectations. Additionally, the Committee has established rules for the rebalancing of assets between asset classes and among individual investment managers.

The investment portfolio contains a diversified portfolio of investment categories, including equities, fixed income securities and cash. Securities are also diversified in terms of domestic and international securities and large cap and small cap stocks. The actual and target asset allocations expressed as a percentage of the plans' assets at the measurement date are as follows:

	Pension Benefits Allocation		Target Allocation	
	2005	2004	2005	2004
Asset Category:				
Equity securities	**48%**	51%	**50%**	50%
Debt securities	**50**	49	**50**	50
Other	**2**	—	**—**	—
Total	**100%**	100%	**100%**	100%

Subsequent to the June 30 measurement date, the Committee approved a change in the target allocation for 2006, such that 70% of the plans' assets will be allocated to equity securities and 30% will be allocated to debt securities.

The investment goals are to achieve the optimal return possible within the specific risk parameters and, at a minimum, produce results which achieve the plans' assumed interest rate for funding the plans over a full market cycle. High levels of risk and volatility are avoided by maintaining diversified portfolios. Allowable investments include government-backed fixed income securities, equity, and cash equivalents. Prohibited investments include unregistered or restricted stock, commodities, margin trading, options and futures, short-selling, venture capital, private placements, real estate and other high risk investments.

As of September 30, 2005 and 2004, all of the Company-sponsored defined benefit pension plans had projected and accumulated benefit obligations in excess of plan assets that consist of the following (in thousands):

	2005	2004
Accumulated benefit obligation	**$115,515**	$95,624
Projected benefit obligation	**116,992**	98,986
Plan assets at fair value	**73,210**	64,210

Contributions to the pension plans during fiscal 2006 are expected to be the minimum required of $7.5 million. Expected benefit payments over the next ten years, which reflect expected future service, are anticipated to be paid as follows (in thousands):

	Pension Benefits
Fiscal Year:	
2006	$ 6,592
2007	4,485
2008	4,451
2009	4,682
2010	4,270
2011-2015	29,344
Total	$53,824

Expected benefit payments are based on the same assumptions used to measure the benefit obligations and include estimated future employee service.

The Company owns life insurance covering substantially all of the participants in the Bergen supplemental retirement plans. At September 30, 2005, the policies have an aggregate cash surrender value of approximately $37.9 million (which is included in other assets in the accompanying consolidated balance sheet) and an aggregate death benefit of approximately $58.2 million.

Postretirement Benefit Plans

The Company provides medical benefits to certain retirees, principally former employees of Bergen. Employees became eligible for such postretirement benefits after meeting certain age and years of service criteria. During fiscal 2002, the plans were closed to new participants and benefits that can be earned by active participants were limited. As a result of special termination benefit packages previously offered, the Company also provides dental and life insurance benefits to a limited number of retirees and their dependents. These benefit plans are unfunded.

The following table sets forth (in thousands) a reconciliation of the changes in the Company-sponsored postretirement benefit plans:

	Fiscal year ended September 30,	
	2005	2004
Change in Accumulated Benefit Obligations:		
Benefit obligation at beginning of year	**$ 16,055**	$ 20,561
Interest cost	**1,142**	1,213
Actuarial losses (gains)	**4,298**	(4,194)
Benefit payments	**(2,079)**	(1,525)
Benefit obligation at end of year	**$ 19,416**	$ 16,055
Change in Plan Assets:		
Fair value of plan assets at beginning of year	**$ —**	$ —
Employer contributions	**2,079**	1,525
Benefit payments	**(2,079)**	(1,525)
Fair value of plan assets at end of year	**$ —**	$ —
Funded Status and Amounts Recognized:		
Funded status	**$(19,416)**	$(16,055)
Unrecognized net actuarial loss (gain)	**3,972**	(479)
Net amount recognized	**$(15,444)**	$(16,534)
Amounts recognized in the balance sheets consist of:		
Accrued benefit liability	**$(15,444)**	$(16,534)

Weighted average assumptions used (as of the end of the fiscal year) in computing the funded status of the plans were as follows:

	2005	2004
Discount rate	**5.25%**	6.25%
Health care trend rate assumed for next year	**11.0%**	12.0%
Rate to which the cost trend rate is assumed to decline	**5%**	5%
Year that the rate reaches the ultimate trend rate	**2014**	2014

Assumed health care trend rates have a significant effect on the amounts reported for the health care plans. A one-percentage-point change in assumed health care cost trend rates would have the following effects (in thousands):

	One Percentage Point	
	Increase	Decrease
Effect on total service and interest cost components	$ 95	$ (79)
Effect on benefit obligation	1,805	(1,504)

The following table provides components of net periodic benefit cost for the Company-sponsored postretirement benefit plans (in thousands):

	Fiscal year ended September 30,		
	2005	2004	2003
Components of Net Periodic Benefit Cost:			
Interest cost on projected benefit obligation	**$1,142**	$1,213	$1,374
Amortization of prior service cost	**—**	—	133
Recognized net actuarial (gain) loss	**(153)**	139	(28)
Total postretirement benefit expense	**$ 989**	$1,352	$1,479

Weighted average assumptions used (as of the beginning of the fiscal year) in computing the net periodic benefit cost were as follows:

	2005	2004	2003
Discount rate	**6.25%**	6%	7%
Health care trend rate assumed for next year	**12%**	13%	11%
Rate to which the cost trend rate is assumed to decline	**5%**	5%	5%
Year that the rate reaches the ultimate trend rate	**2014**	2014	2015

Expected postretirement benefit payments over the next ten years are anticipated to be paid as follows (in thousands):

	Postretirement Benefits
Fiscal Year:	
2006	$ 1,924
2007	2,291
2008	2,133
2009	1,937
2010	1,835
2011-2015	6,586
Total	$16,706

Defined Contribution Plans

The Company sponsors the AmerisourceBergen Employee Investment Plan, as amended and restated July 1, 2002, which is a defined contribution 401(k) plan covering salaried and certain hourly employees. Eligible participants may contribute to the plan from 2% to 18% of their regular compensation before taxes. The Company contributes $1.00 for each $1.00 invested by the participant up to the participant's investment of 3% of salary, and $0.50 for each additional $1.00 invested by the participant up to the participant's investment of an additional 2% of salary. An additional discretionary contribution, in an amount not to exceed the limits established by the Internal Revenue Code, may also be made depending upon the Company's performance. All contributions are invested at the direction of the employee in one or more funds. All contributions vest immediately except for the discretionary contributions made by the Company that vest in full after five years of credited service.

PharMerica sponsors the PharMerica, Inc. 401(k) Profit Sharing Plan, which is a defined contribution 401(k) plan, that is generally available to its employees with 90 days of service and excludes those employees covered under a collective bargaining agreement. Eligible participants may contribute 1% to 50% of their pretax compensation (1% to 15% prior to January 1, 2004). PharMerica contributes $1.00 for each $1.00 invested by the participant up to the first 3% of the participant's contribution and $0.50 for each additional $1.00 invested by the participant of an additional 2% of salary. The employee and employer contributions, collectively, may not exceed limits established by the Internal Revenue Code. All contributions are invested at the direction of the employee in one or more investment funds. All contributions vest immediately.

Costs of the defined contribution plans charged to expense for the fiscal years ended September 30, 2005, 2004 and 2003 were $9.2 million, $10.3 million and $15.9 million, respectively.

Deferred Compensation Plan

The Company also sponsors the AmerisourceBergen Corporation 2001 Deferred Compensation Plan, as amended and restated November 1, 2002. This unfunded plan, under which 740,000 shares of Common Stock are authorized for issuance, allows eligible officers, directors and key management employees to defer a portion of their annual compensation. The amount deferred may be allocated by the employee to cash, mutual funds or stock credits. Stock credits, including dividend equivalents, are equal to the full and fractional number of shares of Common Stock that could be purchased with the participant's compensation allocated to stock credits based on the average of closing prices of Common Stock during each month, plus, at the discretion of the board of directors, up to one-half of a share of Common Stock for each full share credited. Stock credit distributions are made in shares of Common Stock. No shares of Common Stock have been issued under the deferred compensation plan through September 30, 2005.

Note 9. Stock Compensation Plans

Stock Option Plans

In accordance with SFAS No. 123, "Accounting for Stock-Based Compensation," the Company elected to account for stock-based compensation under APB No. 25 and its related interpretations for these plans until its adoption of SFAS No. 123R. Under APB 25, generally, when the exercise price of the Company's employee stock options equals the market price of the underlying stock on the date of grant, no compensation expense is recognized.

The Company currently has seven employee stock option plans that provide for the granting of incentive and nonqualified stock options to acquire shares of Common Stock to employees at a price not less than the fair market value of the Common Stock on the date the option is granted. Option terms and vesting periods are determined at the date of grant by a committee of the board of directors. Options generally vest over four years and expire in ten years. The Company also has six non-employee director stock option plans that provide for the granting of nonqualified stock options to acquire shares of Common Stock to non-employee directors at the fair market value of the Common Stock on the date of the grant. Vesting periods for the non-employee director plans range from immediate vesting to three years and options expire in ten years.

At September 30, 2005, there were outstanding options to purchase 8.1 million shares of Common Stock under the aforementioned plans. Options for an additional 0.9 million shares may be granted under one of the employee stock option plans and options for an additional 0.2 million shares may be granted under one of the non-employee director stock option plans.

All outstanding stock options granted prior to February 15, 2001 under the above plans became fully vested in August 2001, and generally became exercisable in August 2002. As a result of the accelerated vesting of stock options, the Company recorded a charge of $0.3 million, $1.0 million and $1.1 million in fiscal 2005, 2004, and 2003, respectively. These charges were recorded within distribution, selling and administrative expenses in the accompanying consolidated statements of operations.

Effective September 1, 2004, the Company vested all employee options then outstanding with an exercise price in excess of $54.10 (the closing stock price on August 31, 2004). The accelerated vesting was approved by the Compensation and Succession Planning Committee of the Company's board of directors for employee retention purposes and in anticipation of the requirements of SFAS No. 123R. In accordance with APB No. 25, the Company did not incur a charge related to this accelerated vesting because the exercise price of all the accelerated options was greater than $54.10.

A summary of the Company's stock option activity and related information for its option plans for the fiscal years ended September 30, 2005, 2004 and 2003 were as follows:

	2005		2004		2003	
	Options (000's)	Weighted Average Exercise Price	Options (000's)	Weighted Average Exercise Price	Options (000's)	Weighted Average Exercise Price
Outstanding at beginning of year	**9,402**	**$57**	8,255	$56	7,801	$53
Granted	**2,134**	**62**	2,405	58	2,430	56
Exercised	**(3,187)**	**55**	(433)	35	(1,385)	33
Forfeited	**(287)**	**66**	(825)	62	(591)	67
Outstanding at end of year	**8,062**	**$59**	9,402	$57	8,255	$56
Exercisable at end of year	**5,962**	**$57**	9,249	$57	3,616	$49

A summary of the status of options outstanding at September 30, 2005 follows:

	Outstanding Options			Exercisable Options	
Exercise price Range	Number (000's)	Weighted Average Remaining Contractual Life	Weighted Average Exercise Price	Number (000's)	Weighted Average Exercise Price
$12 – $50	998	4 years	$33	998	$33
$51 – $60	2,564	8 years	56	2,492	56
$61 – $65	2,888	8 years	63	860	64
$66 – $70	1,512	6 years	70	1,512	70
$71 – $103	100	5 years	81	100	81
Total	8,062	7 years	$59	5,962	$57

Employee Stock Purchase Plan

In February 2002, the stockholders approved the adoption of the AmerisourceBergen 2002 Employee Stock Purchase Plan, under which up to an aggregate of 4,000,000 shares of Common Stock may be sold to eligible employees (generally defined as employees with at least 30 days of service with the Company). Under this plan, the participants may elect to have the Company withhold up to 25% of base salary to purchase shares of the Company's Common Stock at a price equal to 85% of the fair market value of the stock on the first or last business day of each six-month purchase period, whichever is lower. Each participant is limited to $25,000 of purchases during each calendar year. During the fiscal years ended September 30, 2005 and 2004, the Company acquired 104,309 shares and 115,281 shares, respectively, from the open market for issuance to participants in this plan. As of September 30, 2005, the Company has withheld $1.3 million from eligible employees for the purchase of additional shares of Common Stock.

Note 10. Leases and Other Commitments

At September 30, 2005, future minimum payments totaling $239.8 million under noncancelable operating leases with remaining terms of more than one fiscal year were due as follows: 2006 — $64.3 million; 2007 — $48.4 million; 2008 — $38.4 million; 2009 — $28.6 million; 2010 — $20.4 million; and thereafter — $39.7 million. In the normal course of business, operating leases are generally renewed or replaced by other leases. Certain operating leases include escalation clauses. Total rental expense was $63.4 million in fiscal 2005, $63.2 million in fiscal 2004 and $61.2 million in fiscal 2003.

During the fiscal year ended September 30, 2005, the Company entered into three sale-leaseback agreements with a financial institution relating to certain equipment located at two of the Company's new distribution facilities and certain equipment located at one of the Company's existing distribution facilities that was significantly expanded. The net book value of all of the equipment under the three leases totaled $35.3 million and was sold for $36.7 million. During fiscal 2004, the Company entered into a sale-leaseback agreement with a financial institution relating to certain equipment located at one of the Company's new distribution facilities. The net book value of the equipment, totaling $15.1 million was sold for $15.6 million. The Company deferred the gains associated with these sale-leaseback agreements, which are being amortized as a reduction of lease expense over the respective operating lease terms.

In December 2004, the Company entered into a distribution agreement with a Canadian influenza vaccine manufacturer to distribute product through March 31, 2015. The agreement includes a commitment to purchase at least 12 million doses per year of the influenza vaccine provided the vaccine is approved and available for distribution in the United States by the Food and Drug Administration ("FDA"). The Company will be required to purchase the annual doses at market prices, as adjusted for inflation and other factors. We expect the Canadian manufacturer will receive FDA approval by the 2006/2007 influenza season; however, FDA approval may be received earlier. If the initial year of the purchase commitment begins in fiscal 2007, then the Company anticipates its purchase commitment for that year will approximate $66 million. The Company anticipates its total purchase commitment (assuming the commitment commences in fiscal 2007) will be approximately $1.1 billion.

During the fiscal year ended September 30, 2005, the Company decided to outsource a significant portion of its information technology activities and entered into a ten-year commitment, effective July 1, 2005, with IBM Global Services, which will assume responsibility for performing the outsourced information technology activities following the completion of certain transition matters. The minimum commitment under the outsourcing arrangement is approximately $200 million (excluding the above-mentioned transition costs) over a ten-year period; however, the Company believes it will likely spend between $300 million and $400 million under the outsourcing arrangement to maintain and improve its information technology infrastructure during that period.

Note 11. Facility Consolidations, Employee Severance and Other

In 2001, the Company developed an integration plan to consolidate its distribution network and eliminate duplicative administrative functions. During the fiscal year ended September 30, 2005, the Company decided to outsource a significant portion of its information technology activities as part of the integration plan. The Company's plan, as revised, is to have a distribution facility network numbering in the mid-20's within the next two years and to have successfully completed the outsourcing of such information technology activities by the end of fiscal 2006. The plan includes building six new facilities (four of which were operational as of September 30, 2005) and closing facilities (twenty-three of which have been closed through September 30, 2005). The fifth facility opened in October 2005 and the sixth facility is scheduled to open during fiscal 2006, thereby reducing the Company's total number of distribution facilities to 28 by the end of fiscal 2006. During fiscal 2005 and 2004, the Company closed six and four distribution facilities, respectively. The Company anticipates closing six additional facilities in fiscal 2006.

In September 2001, the Company announced plans to close seven distribution facilities in fiscal 2002, consisting of six former AmeriSource facilities and one former Bergen facility. A charge of $10.9 million was recognized in the fourth quarter of fiscal 2001 related to the AmeriSource facilities, and included $6.2 million of severance for approximately 260 warehouse and administrative personnel to be terminated, $2.3 million in lease and contract cancellations, and $2.4 million for the write-down of assets related to the facilities to be closed. During the fiscal year ended September 30, 2003, severance accruals of $1.8 million recorded in September 2001 were reversed into income because certain employees who were expected to be severed either voluntarily left the Company or were retained in other positions within the Company.

During the fiscal year ended September 30, 2002, the Company announced further integration initiatives relating to the closure of Bergen's repackaging facility and the elimination of certain Bergen administrative functions, including the closure of a related office facility. The cost of these initiatives of approximately $19.2 million, which included $15.8 million of severance for approximately 310 employees to be terminated, $1.6 million for lease cancellation costs, and $1.8 million for the write-down of assets related to the facilities to be closed, resulted in additional goodwill being recorded during fiscal 2002. At September 30, 2003, all of the employees had been terminated.

During the fiscal year ended September 30, 2003, the Company closed six distribution facilities and eliminated certain administrative and operational functions ("the fiscal 2003 initiatives"). During the fiscal years ended September 30, 2004 and 2003, the Company recorded $0.9 million and $10.3 million, respectively, of employee severance costs relating to the fiscal 2003 initiatives. Approximately 780 employees received termination notices as a result of the fiscal 2003 initiatives, of which substantially all have been terminated.

During the fiscal year ended September 30, 2004, the Company closed four distribution facilities and eliminated duplicative administrative functions ("the fiscal 2004 initiatives"). During the fiscal year ended September 30, 2004, the Company recorded $5.4 million of employee severance costs in connection with the fiscal 2004 initiatives.

During the fiscal year ended September 30, 2005, the Company announced plans to continue to consolidate and eliminate certain administrative functions, and to outsource a significant portion of the Company's information technology activities (the "fiscal 2005 initiatives"). The Company plans to have successfully completed the outsourcing of such information technology activities by the end of fiscal 2006. During the fiscal year ended September 30, 2005, the Company recorded $13.3 million of employee severance and lease cancellation costs primarily related to the 2005 initiatives and $9.4 million of transition costs associated with the outsourcing of information technology activities.

As of September 30, 2005, approximately 700 employees had received termination notices as a result of the 2004 and 2005 initiatives, of which approximately 630 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 to exceed 12 months, while others may receive a lump-sum payment.

The following table displays the activity in accrued expenses and other from September 30, 2003 to September 30, 2005 related to the integration plan discussed above (in thousands):

	Employee Severance	Lease Cancellation Costs and Other	Total
Balance as of September 30, 2003	$ 4,935	$ 81	$ 5,016
Expense recorded during the period	6,324	1,193	7,517
Payments made during the period	(8,275)	(1,206)	(9,481)
Balance as of September 30, 2004	2,984	68	3,052
Expense recorded during the period	10,580	12,143	22,723
Payments made during the period	(8,328)	(5,128)	(13,456)
Balance as of September 30, 2005	$ 5,236	$ 7,083	$ 12,319

Note 12. Legal Matters and Contingencies

In the ordinary course of its business, the Company becomes involved in lawsuits, administrative proceedings and governmental investigations, including antitrust, environmental, product liability, 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 those matters specifically described below), individually or in the aggregate, will have a material adverse effect on the Company's financial condition.

Stockholder Derivative Lawsuit

The Company has been named as a nominal defendant in a stockholder derivative action on behalf of the Company under Delaware law that was filed in March 2004 in the U.S. District Court for the Eastern District of Pennsylvania. Also named as defendants in the action are all of the individuals who were serving as directors of the Company prior to the date of filing of the action and certain current and former officers of the Company and its predecessors. The derivative action alleged, among other things, breach of fiduciary duty, abuse of control and gross mismanagement against all the individual defendants. It further alleged, among other things, waste of corporate assets, unjust enrichment and usurpation of corporate opportunity against certain of the individual defendants. The derivative action sought compensatory and punitive damages in favor of the Company, attorneys' fees and costs, and further relief as may be determined by the court. The defendants believe that this derivative action is wholly without merit. In May 2004, the defendants filed a motion to dismiss the action on both procedural and substantive grounds. In February 2005, the District Court granted the defendants' motion to dismiss the entire action. Following the dismissal of the action, the derivative plaintiff made demand upon the Company to inspect the Company's books and records. The Company believes that the demand is improper under Delaware law and has refused to allow the inspection. The derivative plaintiff obtained the right from the District Court to file an amended complaint within 30 days after resolution of the inspection demand and, thereafter, filed a complaint in the Delaware Chancery Court seeking to compel inspection of certain of the Company's books and records. On November 30, 2005, the Delaware Chancery Court denied the plaintiff's request to inspect the Company's books and records.

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 purchases 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 continues to produce responsive information and documents and to cooperate with the NYAG. The Company believes that it has not engaged in any wrongdoing, but cannot predict the outcome of this matter.

Note 13. Antitrust Litigation Settlements

During the fiscal years ended September 30, 2005 and 2004, the Company recognized gains of $40.1 million and $38.0 million, respectively, from antitrust litigation settlements with pharmaceutical manufacturers. 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 for the fiscal year ended September 30, 2005 and 2004, respectively.

Note 14. Business Segment Information

The Company is organized based upon the products and services it provides to its customers, and substantially all of its operations are located in the United States. The Company's operations are comprised of two reportable segments: Pharmaceutical Distribution and PharMerica.

The Pharmaceutical Distribution reportable segment includes the operations of ABDC and AmerisourceBergen Specialty and Packaging groups. The operations of the former AmerisourceBergen Technology Group became a part of the overall ABDC operations in fiscal 2005. The Pharmaceutical Distribution reportable segment is comprised of two operating segments: ABDC and the AmerisourceBergen Specialty Group ("ABSG"). The ABDC operating segment includes the operations of the AmerisourceBergen Packaging Group.

The PharMerica reportable segment includes the operations of the PharMerica long-term care business ("Long-Term Care") and a workers' compensation-related business ("Workers' Compensation"). The PharMerica reportable segment encompasses only the PharMerica operating segment.

In accordance with FAS 131, we have aggregated the operating segment of ABDC and the operating segment of ABSG into one reportable segment, the Pharmaceutical Distribution segment. Our decision to aggregate these two operating segments into one reportable segment was based on:

- the objective and basic principles of FAS 131,
- the Aggregation Criteria as noted in paragraph 17 of FAS 131 and
- the fact that ABDC and ABSG have similar economic characteristics.

The chief operating decision maker for the Pharmaceutical Distribution segment is the President and Chief Operating Officer of the Company whose function is to allocate resources to, and assess the performance of, the ABDC and ABSG operating segments. The President of ABDC and the President of ABSG each function as operating segment managers whose roles include reporting directly to the President and Chief Operating Officer of the Company on their respective operating segment's business activities, financial results and operating plans.

The businesses of the Pharmaceutical Distribution operating segments are similar. These segments service both pharmaceutical manufacturers and healthcare providers in the pharmaceutical supply channel. The warehousing and distribution of pharmaceutical drugs, which are purchased from the same suppliers, is the primary business activity of both operating segments. The distribution of pharmaceutical drugs represented approximately 98.0%, 98.3%, and 98.8% of the Pharmaceutical Distribution segment's total operating revenue for the fiscal years ended September 30, 2005, 2004 and 2003, respectively. ABDC and ABSG both operate in a high volume and low margin environment and, as a result, their economic characteristics are similar. Both operating segments warehouse and distribute products in a similar manner. Additionally, both operating segments are subject to the same extensive regulatory environment under which the pharmaceutical distribution industry operates.

ABDC distributes a comprehensive offering of brand name and generic pharmaceuticals, over-the-counter healthcare products, and home healthcare supplies and equipment to a wide variety of healthcare providers, including acute care hospitals and health systems, independent and chain retail pharmacies, mail order facilities, physicians, clinics and other alternate site facilities, and skilled nursing and assisted living centers.

ABSG, through a number of individual operating businesses, provides distribution and other services, including group purchasing services, to physicians and alternate care providers who specialize in a variety of disease states, including oncology, nephrology, and rheumatology. ABSG also distributes vaccines, other injectables and plasma. In addition, through its manufacturer services and physician and patient services businesses, ABSG provides a number of commercialization and other services for biotech and other pharmaceutical manufacturers, third party logistics, reimbursement consulting, practice management, and physician education.

ABDC also provides scalable automated pharmacy dispensing equipment, medication and supply dispensing cabinets and supply management software to a variety of retail and institutional healthcare providers.

The AmerisourceBergen Packaging Group consists of American Health Packaging and Anderson Packaging ("Anderson"). American Health Packaging delivers unit dose, punch card, unit-of-use and other packaging solutions to institutional and retail healthcare providers. Anderson is a leading provider of contracted packaging services for pharmaceutical manufacturers.

Long-Term Care is a leading national provider of pharmacy products and services to patients in long-term care and alternate site settings, including skilled nursing facilities, assisted living facilities and residential living communities. Long-Term Care's institutional pharmacy business involves the purchase of bulk quantities of prescription and nonprescription pharmaceuticals, principally from our Pharmaceutical Distribution segment, and the distribution of those products to residents in long-term care and alternate site facilities. Unlike hospitals, most long-term and alternate care facilities do not have onsite pharmacies to dispense prescription drugs, but depend instead on institutional pharmacies, such as Long-Term Care, to provide the necessary pharmacy products and services and to play an integral role in monitoring patient medication. Long-Term Care pharmacies dispense pharmaceuticals in patient-specific packaging in accordance with physician orders. In addition, Long-Term Care provides infusion therapy services and Medicare Part B products, as well as formulary management and other pharmacy consulting services.

Workers' Compensation provides mail order and on-line pharmacy services to chronically and catastrophically ill patients under workers' compensation programs, and provides pharmaceutical claims administration services for payors. Workers' Compensation services include home delivery of prescription drugs, medical supplies and equipment and an array of computer software solutions to reduce the payor's administrative costs.

The following tables present reportable segment information for the periods indicated (dollars in thousands):

	Revenue		
Fiscal year ended September 30,	**2005**	2004	2003
Pharmaceutical Distribution	**$49,319,371**	$48,113,015	$44,657,911
PharMerica	**1,571,369**	1,575,255	1,608,203
Intersegment eliminations	**(878,142)**	(875,818)	(802,714)
Operating revenue	**50,012,598**	48,812,452	45,463,400
Bulk deliveries to customer warehouses	**4,564,723**	4,308,339	4,120,639
Total revenue	**$54,577,321**	$53,120,791	$49,584,039

Management evaluates segment performance based on revenues excluding bulk deliveries to customer warehouses. For further information regarding the nature of bulk deliveries, which only occur in the Pharmaceutical Distribution segment, see Note 1. 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		
Fiscal year ended September 30,	**2005**	2004	2003
Pharmaceutical Distribution	**$532,887**	$748,625	$791,216
PharMerica	**91,947**	121,846	103,843
Facility consolidations, employee severance and other	**(22,723)**	(7,517)	(8,930)
Gain on litigation settlements	**40,094**	38,005	—
Impairment charge	**(5,259)**	—	—
Operating income	**636,946**	900,959	886,129
Other (income) loss	**(990)**	(6,236)	8,015
Interest expense, net	**57,223**	112,704	144,748
Loss on early retirement of debt	**111,888**	23,592	4,220
Income from continuing operations before taxes and cumulative effect of change in accounting	**$468,825**	$770,899	$729,146

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

	Assets	
At September 30,	**2005**	2004
Pharmaceutical Distribution	**$10,803,578**	$11,093,798
PharMerica	**577,596**	560,205
Total assets	**$11,381,174**	$11,654,003

	Depreciation & Amortization		
Fiscal year ended September 30,	**2005**	2004	2003
Pharmaceutical Distribution	**$64,404**	$58,358	$51,604
PharMerica	**16,795**	15,067	17,593
Total depreciation and amortization	**$81,199**	$73,425	$69,197

Depreciation and amortization includes depreciation and amortization of property and equipment and intangible assets, but excludes amortization of deferred financing costs and other debt-related items, which is included in interest expense.

	Capital Expenditures		
Fiscal year ended September 30,	**2005**	2004	2003
Pharmaceutical Distribution	**$182,347**	$174,004	$70,207
PharMerica	**21,029**	15,274	20,347
Total capital expenditures	**$203,376**	$189,278	$90,554

Note 15. Disclosure About Fair Value of Financial Instruments

The recorded amounts of the Company's cash and cash equivalents, accounts receivable and accounts payable at September 30, 2005 and 2004 approximate fair value. The fair values of the Company's debt instruments are estimated based on market prices. The recorded amount of debt (see Note 6) and the corresponding fair value as of September 30, 2005 were $952,711 and $941,568 respectively. The recorded amount of debt (see Note 6) and the corresponding fair value as of September 30, 2004 were $1,438,471 and $1,539,846, respectively.

Note 16. Quarterly Financial Information (Unaudited)

(in thousands, except per share amounts)

	Fiscal year ended September 30, 2005				
	First Quarter (a)(b)	Second Quarter (c)	Third Quarter	Fourth Quarter	Fiscal Year
Operating revenue	$12,202,109	$12,241,739	$12,603,893	$12,964,857	$50,012,598
Bulk deliveries to customer warehouses	1,434,727	948,428	1,228,073	953,496	4,564,723
Total revenue	13,636,836	13,190,167	13,831,966	13,918,353	54,577,321
Gross profit (d)	454,592	501,750	502,069	521,774	1,980,184
Distribution, selling and administrative expenses, depreciation and amortization	315,374	315,398	329,714	354,770	1,315,256
Facility consolidations, employee severance and other (see Note 11)	5,133	1,837	3,747	12,006	22,723
Impairment charge	—	5,259	—	—	5,259
Operating income	$ 134,085	$ 179,256	$ 168,608	$ 154,998	$ 636,946
Loss on early retirement of debt	$ 1,015	$ —	$ —	$ 110,873	$ 111,888
Income from continuing operations, before cumulative effect of change in accounting	$ 69,023	$ 101,713	$ 99,844	$ 21,342	$ 291,922
Loss from discontinued operations, net of tax	$ 7,905	$ 2,291	$ 5,067	$ 1,842	$ 17,105
Net income	$ 50,946	$ 99,422	$ 94,777	$ 19,500	$ 264,645
Earnings per share from continuing operations:					
Basic	$ 0.65	$ 0.93	$ 0.96	$ 0.21	$ 2.76
Diluted	$ 0.64	$ 0.92	$ 0.96	$ 0.19	$ 2.73
Earnings per share:					
Basic	$ 0.48	$ 0.91	$ 0.91	$ 0.20	$ 2.50
Diluted	$ 0.48	$ 0.90	$ 0.91	$ 0.19	$ 2.48

(a) During fiscal 2005, the Company changed its method of recognizing cash discounts and other related manufacturer incentives, effective October 1, 2004. As a result, the Company restated its first quarter operating results to include the $10.2 million cumulative effect of change in accounting charge (net of tax benefit) and recorded a $3.3 million charge (net of tax benefit) to incorporate the effect of the change in accounting on the first quarter. This $10.2 million cumulative effect charge reduced diluted earnings per share by $0.09 for the fiscal year ended September 30, 2005.

(b) Income from continuing operations, before cumulative effect of change in accounting reported on Form 10-Q for the first quarter was higher by $1.8 million than the amount presented above as the amounts presented above have been restated to reflect the change in accounting discussed in footnote (a) and the reporting of Bridge as discontinued operations. The change in accounting had the effect of reducing income from continuing operations by $3.3 million, while the reclassification of the operations of Bridge as discontinued operations had the effect of increasing income from continuing operations by $1.5 million.

(c) Income from continuing operations, before cumulative effect of change in accounting reported on Form 10-Q for the second quarter was lower by $1.7 million than the amount presented above as the amounts presented above have been restated to reflect the reporting of Bridge as discontinued operations.

(d) The first and third quarters of fiscal 2005 include $18.8 million and $21.3 million gains, respectively, from antitrust litigation settlements.

Note 16. Quarterly Financial Information (Unaudited) *continued*

(in thousands, except per share amounts)

	Fiscal year ended September 30, 2004				
	First Quarter (a)	Second Quarter (b)	Third Quarter	Fourth Quarter	Fiscal Year
Operating revenue (c)	$12,251,758	$12,330,036	$12,099,815	$12,130,843	$48,812,452
Bulk deliveries to customer warehouses	1,089,434	1,018,919	956,598	1,243,388	4,308,339
Total revenue	13,341,192	13,348,955	13,056,413	13,374,231	53,120,791
Gross profit (d)	524,996	578,671	572,068	490,695	2,166,430
Distribution, selling and administrative expenses, depreciation and amortization	309,788	316,106	318,202	313,858	1,257,954
Facility consolidations, employee severance and other (see Note 11)	1,553	2,216	1,550	2,198	7,517
Operating income	$ 213,655	$ 260,349	$ 252,316	$ 174,639	$ 900,959
Loss on early retirement of debt	$ —	$ —	$ 23,592	$ —	$ 23,592
Income from continuing operations	$ 110,429	$ 143,383	$ 127,175	$ 93,887	$ 474,874
Loss from discontinued operations, net of tax	$ 1,955	$ 1,231	$ 1,400	$ 1,898	$ 6,484
Net income	$ 108,474	$ 142,152	$ 125,775	$ 91,989	$ 468,390
Earnings per share from continuing operations:					
Basic	$ 0.99	$ 1.28	$ 1.13	$ 0.85	$ 4.25
Diluted	$ 0.96	$ 1.24	$ 1.10	$ 0.82	$ 4.12
Earnings per share:					
Basic	$ 0.97	$ 1.27	$ 1.12	$ 0.83	$ 4.20
Diluted	$ 0.94	$ 1.23	$ 1.09	$ 0.81	$ 4.06

(a) Income from continuing operations reported on Form 10-Q for the first quarter was lower by $1.4 million than the amount presented above as the amounts presented above have been restated to reflect the reporting of Bridge as discontinued operations.

(b) Income from continuing operations reported on Form 10-Q for the second quarter was lower by $0.7 million than the amount presented above as the amounts presented above have been restated to reflect the reporting of Bridge as discontinued operations.

(c) During the third quarter of fiscal 2004, the Company changed its accounting policy for customer sales returns, and, as a result, operating revenue and cost of goods sold were reduced by $320.4 million.

(d) The third quarter of fiscal 2004 includes a $38.0 million gain from an antitrust litigation settlement.

Note 17. Subsequent Events

In October 2005, the Company acquired Trent Drugs (Wholesale) Ltd ("Trent"), one of the largest national pharmaceutical distributors in Canada for a purchase price of $81.7 million, which included the assumption of debt of $41.3 million. The purchase price is subject to a working capital adjustment. The acquisition of Trent provides the Company a solid foundation to expand its pharmaceutical distribution capability into the Canadian marketplace. The purchase price has been 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 market value of the net tangible and intangible assets acquired by $29.1 million, which will be allocated to goodwill.

In October 2005, the Company entered into a C$135 million senior unsecured revolving credit facility (the "Canadian Credit Facility") due December 2009 with a syndicate of lenders in connection with the Company's acquisition of Trent Drugs (Wholesale) Ltd and borrowed approximately C$92 million to complete the transaction. Interest on borrowings under the Canadian Credit Facility accrues at specific rates based on the Company's debt rating (0.675% over LIBOR or Bankers' Acceptance Stamping Fee Spread at October 3, 2005). The Company will pay quarterly facility fees to maintain the availability under the Canadian Credit Facility at specific rates based on the Company's debt rating (0.20% at October 3, 2005). The Company may choose to repay or reduce its commitments under the Canadian Credit Facility at any time. The Canadian Credit Facility contains restrictions on, among other things, additional indebtedness, distributions and dividends to stockholders, investments and capital expenditures. Additional covenants require compliance with financial tests, including leverage and minimum earnings to fixed charges ratios.

In November 2005, Standard & Poor's Ratings Services ("S&P") announced that it raised its corporate credit and senior unsecured debt ratings on the Company to 'BBB-' from 'BB+'. As a result of the upgrade, the Company is entitled to substantially relaxed covenants under the indenture governing its 5.625% senior notes due 2012 and 5.875% senior notes due 2015, and to a lesser extent, under its $700 million senior credit facility.

On November 15, 2005, the Company's board of directors declared a 100% increase in the quarterly dividend rate to $0.05 per common share from $0.025 per common share and will be paid on December 12, 2005 to stockholders of record as of close of business on November 25, 2005. Additionally, the Company declared a two-for-one stock split of the Company's outstanding shares of Common Stock. The stock split will occur in the form of a stock dividend, where each stockholder receives one additional share for each share owned. The stock dividend is payable on December 28, 2005 to stockholders of record at the close of business on December 13, 2005. Subsequent quarterly cash dividends will be adjusted to reflect the two-for-one stock split.

The Company's historical earnings per share for the fiscal years ended September 30, 2005, 2004 and 2003 on a pro forma basis, assuming the stock dividend had occurred as of October 1, 2002, would be as follows (unaudited):

Fiscal year ended September 30,	**2005**	2004	2003
Earnings per share:			
Basic earnings per share:			
Continuing operations	**$ 1.38**	$ 2.13	$ 2.02
Discontinued operations	**(0.08)**	(0.03)	(0.01)
Cumulative effect of change in accounting	**(0.05)**	—	—
Net income	**$ 1.25**	$ 2.10	$ 2.01
Diluted earnings per share:			
Continuing operations	**$ 1.37**	$ 2.06	$ 1.95
Discontinued operations	**(0.08)**	(0.03)	(0.01)
Cumulative effect of change in accounting	**(0.05)**	—	—
Rounding	**—**	—	0.01
Net income	**$ 1.24**	$ 2.03	$ 1.95

Report of Independent Registered Public Accounting Firm

The Board of Directors and Stockholders of AmerisourceBergen Corporation

We have audited the accompanying consolidated balance sheets of AmerisourceBergen Corporation and subsidiaries as of September 30, 2005 and 2004, and the related consolidated statements of operations, changes in stockholders' equity, and cash flows for each of the three years in the period ended September 30, 2005. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of AmerisourceBergen Corporation and subsidiaries at September 30, 2005 and 2004, and the consolidated results of their operations and their cash flows for each of the three years in the period ended September 30, 2005, in conformity with U.S. generally accepted accounting principles.

As discussed in Note 1 to the consolidated financial statements, AmerisourceBergen Corporation changed its method of recognizing cash discounts effective at the beginning of fiscal year 2005.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the effectiveness of AmerisourceBergen Corporation's internal control over financial reporting as of September 30, 2005, based on criteria established in Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated December 8, 2005 expressed an unqualified opinion thereon.

Ernst & Young LLP

Philadelphia, Pennsylvania
December 8, 2005

Management's Report on Internal Control Over Financial Reporting

The management of AmerisourceBergen Corporation ("AmerisourceBergen" or the "Company") is responsible for establishing and maintaining adequate internal control over financial reporting as defined in Rules 13a-15(f) and 15d-15(f) under the Securities Exchange Act of 1934, as amended. AmerisourceBergen's internal control over financial reporting is designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. The Company's internal control over financial reporting includes those policies and procedures that:

(i) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the Company;

(ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with U.S. generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the Company; and

(iii) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of the company's assets that could have a material effect on the financial statements.

Because of inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

AmerisourceBergen's management assessed the effectiveness of AmerisourceBergen's internal control over financial reporting as of September 30, 2005. In making this assessment, management used the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) in Internal Control-Integrated Framework. Based on management's assessment and those criteria, management has concluded that AmerisourceBergen's internal control over financial reporting was effective as of September 30, 2005. AmerisourceBergen's independent registered public accounting firm, Ernst & Young LLP, has issued an audit report on management's assessment and the effectiveness of AmerisourceBergen's internal control over financial reporting. This report is set forth on the next page.

Report of Independent Registered Public Accounting Firm on Internal Control Over Financial Reporting

The Board of Directors and Stockholders of AmerisourceBergen Corporation

We have audited management's assessment, included in the accompanying Management's Report on Internal Control Over Financial Reporting, that AmerisourceBergen Corporation and subsidiaries maintained effective internal control over financial reporting as of September 30, 2005, based on criteria established in Internal Control—Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (the COSO criteria). AmerisourceBergen Corporation's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting. Our responsibility is to express an opinion on management's assessment and an opinion on the effectiveness of the company's internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, evaluating management's assessment, testing and evaluating the design and operating effectiveness of internal control, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, management's assessment that AmerisourceBergen Corporation and subsidiaries maintained effective internal control over financial reporting as of September 30, 2005, is fairly stated, in all material respects, based on the COSO criteria. Also, in our opinion, AmerisourceBergen Corporation and subsidiaries maintained, in all material respects, effective internal control over financial reporting as of September 30, 2005, based on the COSO criteria.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheets of AmerisourceBergen Corporation and subsidiaries as of September 30, 2005 and 2004, and the related consolidated statements of operations, changes in stockholders' equity, and cash flows for each of the three years in the period ended September 30, 2005 of AmerisourceBergen Corporation and subsidiaries and our report dated December 8, 2005 expressed an unqualified opinion thereon.

Ernst & Young LLP

Philadelphia, Pennsylvania
December 8, 2005

New York Stock Exchange Annual CEO Certification for 2005

As required by Section 303A.12(a) of the new York Stock Exchange (the "NYSE") Listed Company Manual, AmerisourceBergen's Chief Executive Officer, R. David Yost, certified to the NYSE within 30 days after AmerisourceBergen's 2005 Annual Meeting of Stockholders that he was not aware of any violation by AmerisourceBergen of the NYSE Corporate Governance listing standards.

Reprinted below are the certifications pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 that were filed with the SEC as part of the Company's Annual Report on Form 10-K for the Fiscal Year Ended September 30, 2005.

Rule 13a-14(a)/15d-14(a) Certification of Chief Executive Officer

I, R. David Yost, certify that:

1. I have reviewed this Annual Report on Form 10-K (the "Report") of AmerisourceBergen Corporation (the "Registrant");
2. Based on my knowledge, this Report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this Report;
3. Based on my knowledge, the financial statements, and other financial information included in this Report, fairly present in all material respects the financial condition, results of operations and cash flows of the Registrant as of, and for, the periods presented in this Report;
4. The Registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the Registrant and have:
   (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the Registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this Report is being prepared;
   (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
   (c) Evaluated the effectiveness of the Registrant's disclosure controls and procedures and presented in this Report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this Report based on such evaluation; and
   (d) Disclosed in this Report any change in the Registrant's internal control over financial reporting that occurred during the Registrant's most recent fiscal quarter (the Registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the Registrant's internal control over financial reporting; and
5. The Registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the Registrant's auditors and the audit committee of Registrant's board of directors:
   (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the Registrant's ability to record, process, summarize and report financial information; and
   (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the Registrant's internal control over financial reporting.

Date: December 9, 2005

R. David Yost

R. David Yost, Chief Executive Officer

Rule 13a-14(a)/15d-14(a) Certification of Chief Financial Officer

I, Michael D. DiCandilo, certify that:

1. I have reviewed this Annual Report on Form 10-K (the "Report") of AmerisourceBergen Corporation (the "Registrant");
2. Based on my knowledge, this Report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this Report;
3. Based on my knowledge, the financial statements, and other financial information included in this Report, fairly present in all material respects the financial condition, results of operations and cash flows of the Registrant as of, and for, the periods presented in this Report;
4. The Registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the Registrant and have:
   (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the Registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this Report is being prepared;
   (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
   (c) Evaluated the effectiveness of the Registrant's disclosure controls and procedures and presented in this Report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this Report based on such evaluation; and
   (d) Disclosed in this Report any change in the Registrant's internal control over financial reporting that occurred during the Registrant's most recent fiscal quarter (the Registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the Registrant's internal control over financial reporting; and
5. The Registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the Registrant's auditors and the audit committee of Registrant's board of directors:
   (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the Registrant's ability to record, process, summarize and report financial information; and
   (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the Registrant's internal control over financial reporting.

Date: December 9, 2005

Michael D. DiCandilo

Michael D. DiCandilo, Executive Vice President and Chief Financial Officer

Reprinted below are the certifications pursuant to Section 1350 of the Sarbanes-Oxley Act of 2002 that were filed with the SEC as part of the Company's Annual Report on Form 10-K for the Fiscal Year Ended September 30, 2005.

Section 1350 Certification of Chief Executive Officer

In connection with the Annual Report of AmerisourceBergen Corporation (the "Company") on Form 10-K for the fiscal year ended September 30, 2005 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, R. David Yost, Chief Executive Officer of the Company, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that to the best of my knowledge:

(1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

(2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

R. David Yost, Chief Executive Officer
December 9, 2005

Section 1350 Certification of Chief Financial Officer

In connection with the Annual Report of AmerisourceBergen Corporation (the "Company") on Form 10-K for the fiscal year ended September 30, 2005 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Michael D. DiCandilo, Executive Vice President and Chief Financial Officer of the Company, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that to the best of my knowledge:

(1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

(2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Michael D. DiCandilo, Executive Vice President and Chief Financial Officer
December 9, 2005

Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities

The Company's common stock is traded on the New York Stock Exchange under the trading symbol "ABC." As of November 30, 2005, there were 2,974 record holders of the Company's common stock. The following table sets forth the high and low closing sale prices of the Company's common stock for the periods indicated.

PRICE RANGE OF COMMON STOCK

	High	Low
Fiscal Year Ended September 30, 2005		
First Quarter	**$63.68**	**$50.45**
Second Quarter	**62.78**	**54.03**
Third Quarter	**69.15**	**56.36**
Fourth Quarter	**78.43**	**69.20**

	High	Low
Fiscal Year Ended September 30, 2004		
First Quarter	$65.89	$55.00
Second Quarter	59.15	52.56
Third Quarter	61.64	54.20
Fourth Quarter	56.58	49.91

The Company has paid quarterly cash dividends of $0.025 per share on its common stock since the first quarter of fiscal 2002. On November 15, 2005, the Company's board of directors increased the quarterly dividend by 100% and declared a dividend of $0.05 per share, which will be paid on December 12, 2005 to stockholders of record as of close of business on November 25, 2005. The Company anticipates that it will continue to pay quarterly cash dividends in the future. However, the payment and amount of future dividends remain within the discretion of the Company's board of directors and will depend upon the Company's future earnings, financial condition, capital requirements and other factors.

Additionally, on November 15, 2005, the Company declared a two-for-one stock split of the Company's outstanding shares of common stock. The stock split will occur in the form of a stock dividend, where each stockholder receives one additional share for each share owned. The stock dividend is payable on December 28, 2005 to stockholders of record at the close of business on December 13, 2005. Subsequent quarterly cash dividends will be adjusted to reflect the two-for-one stock split.

Issuer Purchases of Equity Securities

In May 2005, the Company's board of directors authorized the Company to purchase up to $450 million of its outstanding shares of common stock, subject to market conditions and to compliance with the stock repurchase restrictions contained in the indentures governing the Company's senior notes and in the credit agreement for the Company's senior credit facility. Through June 30, 2005, the Company had purchased $94.2 million of its common stock under this program for a weighted average price of $65.50. In August 2005, the Company's board of directors authorized an increase in the amount available under this program by approximately $394 million, bringing the total remaining availability to $750 million, and the total repurchase program to approximately $844 million. The increase in repurchase authority was subject to the completion of the tender and repurchase of the Company's $500 million principal amount 8.125% senior notes due 2008 and $300 million principal amount 7.25% senior notes due 2012 and the offering and sale of $400 million principal amount 5.625% senior notes due 2012 and $500 million principal amount 5.875% senior notes due 2015 (collectively, the "Refinancing"). The Refinancing was completed in September 2005. As of September 30, 2005, the Company has $750 million of remaining authorization to repurchase its common stock under this program.

In February 2005, the Company's board of directors authorized the Company to purchase up to 5.7 million shares of its outstanding common stock, subject to market conditions. The Company completed the purchase of all the shares authorized under this program for a total of $319.7 million in March 2005. In April 2005, the Company paid $16.6 million to settle the purchase of the 5.7 million shares. See Note 7 (Stockholders' Equity and Earnings Per Share) of the Notes to the Consolidated Financial Statements.

In August 2004, the Company's board of directors authorized the Company to purchase up to $500 million of its outstanding shares of common stock, subject to market conditions. The Company completed the purchase of $500 million of its common stock under this program in February 2005 for a weighted average price of $53.81.

The following tables set forth the number of shares purchased during the fiscal year ended September 30, 2005, the average price paid per share, and the dollar value that may yet be purchased under these programs.

$844 Million Repurchase Program:

	Total Number of Shares Purchased	Average Price Paid per Share	Total Number of Shares Purchased as Part of the $844 Million Repurchase Program	Maximum Dollar Value of Shares that May Yet Be Purchased Under the $844 Million Repurchase Program
May 1 to May 31	443,000	$64.92	443,000	$815,411,688
June 1 to June 30	994,700	$65.76	1,437,700	750,000,000
Total	1,437,700	$65.50	1,437,700	750,000,000

From October 1, 2005 to November 30, 2005, the Company purchased an additional 844,674 shares of its common stock for a total cost of $62.9 million.

5.7 Million Share Repurchase Program:

	Total Number of Shares Purchased	Average Price Paid per Share	Total Number of Shares Purchased as Part of the 5.7 Million Repurchase Program	Maximum Number of Shares that May Yet Be Purchased Under the 5.7 Million Repurchase Program
February 1 to February 28	435,600	$59.46	435,600	5,264,400
March 1 to March 31	5,264,400	$55.80	5,700,000	—
Total	5,700,000	$56.08	5,700,000	—

$500 Million Repurchase Program:

	Total Number of Shares Purchased	Average Price Paid per Share	Total Number of Shares Purchased as Part of the $500 Million Repurchase Program	Maximum Dollar Value of Shares that May Yet Be Purchased Under the $500 Million Repurchase Program
October 1 to October 31	4,818,000	$52.52	7,579,500	$102,280,881
January 1 to January 31	100,000	$55.99	7,679,500	96,681,403
February 1 to February 28	1,612,850	$59.94	9,292,350	—
Total	6,530,850	$54.41	9,292,350	—

Selected Financial Data

On August 29, 2001, AmeriSource and Bergen merged to form the Company. The merger was accounted for as an acquisition of Bergen under the purchase method of accounting. Accordingly, the financial data for the fiscal year ended September 30, 2001 reflects the operating results for the full year of AmeriSource and approximately one month of Bergen, and the financial position of the combined company. The following table should be read in conjunction with the Consolidated Financial Statements, including the notes thereto, and Management's Discussion and Analysis of Financial Condition and Results of Operations beginning on the next page of this report.

	Fiscal year ended September 30,				
(amounts in thousands, except per share amounts)	**2005(a)**	2004(b)	2003(c)	2002(d)	2001(e)
Statement of Operations Data:					
Operating revenue	**$50,012,598**	$48,812,452	$45,463,400	$40,163,387	$15,768,511
Bulk deliveries to customer warehouses	**4,564,723**	4,308,339	4,120,639	4,994,080	368,718
Total revenue	**54,577,321**	53,120,791	49,584,039	45,157,467	16,137,229
Gross profit	**1,980,184**	2,166,430	2,225,613	2,009,821	692,265
Operating expenses	**1,343,238**	1,265,471	1,339,484	1,294,209	431,452
Operating income	**636,946**	900,959	886,129	715,612	260,813
Income from continuing operations	**291,922**	474,874	443,065	343,243	124,683
Net income	**264,645**	468,390	441,229	344,941	123,796
Earnings per share from continuing operations — diluted (f) (g)	**2.73**	4.12	3.91	3.14	2.11
Earnings per share — diluted (f) (g)	**2.48**	4.06	3.89	3.16	2.10
Cash dividends declared per common share	**$ 0.10**	$ 0.10	$ 0.10	$ 0.10	$ —
Weighted average common shares outstanding — diluted	**107,770**	117,779	115,954	112,228	62,807
Balance Sheet Data:					
Cash and cash equivalents	**$ 1,315,683**	$ 871,343	$ 800,036	$ 663,340	$ 297,626
Accounts receivable — net (h)	**2,640,646**	2,260,973	2,295,437	2,222,156	2,142,663
Merchandise inventories (h)	**4,003,690**	5,135,830	5,733,837	5,437,878	5,056,257
Property and equipment — net	**514,758**	465,264	353,170	282,578	289,569
Total assets	**11,381,174**	11,654,003	12,040,125	11,213,012	10,291,245
Accounts payable	**5,292,253**	4,947,037	5,393,769	5,367,837	4,991,884
Long-term debt, including current portion	**952,711**	1,438,471	1,784,154	1,817,313	1,874,379
Stockholders' equity	**4,280,357**	4,339,045	4,005,317	3,316,338	2,838,564
Total liabilities and stockholders' equity	**11,381,174**	11,654,003	12,040,125	11,213,012	10,291,245

(a) Includes $14.0 million of facility consolidations and employee severance costs, net of income tax benefit of $8.7 million, a $71.4 million loss on early retirement of debt, net of income tax benefit of $40.5 million, a $24.7 million gain from antitrust litigation settlements, net of income tax expense of $15.4 million and an impairment charge of $3.2 million, net of income tax benefit of $2.1 million.

(b) Includes $4.6 million of facility consolidations and employee severance costs, net of income tax benefit of $2.9 million, a $14.5 million loss on early retirement of debt, net of income tax benefit of $9.1 million, and a $23.4 million gain from an antitrust litigation settlement, net of income tax expense of $14.6 million.

(c) Includes $5.4 million of facility consolidations and employee severance costs, net of income tax benefit of $3.5 million and a $2.6 million loss on early retirement of debt, net of income tax benefit of $1.6 million.

(d) Includes $14.6 million of merger costs, net of income tax benefit of $9.6 million.

(e) Includes $8.0 million of merger costs, net of income tax benefit of $5.1 million, $6.8 million of costs related to facility consolidations and employee severance, net of income tax benefit of $4.1 million, and a $1.7 million reduction in an environmental liability, net of income tax expense of $1.0 million.

(f) Effective October 1, 2004, the Company changed its method of recognizing cash discounts and other related manufacturer incentives. The Company recorded a $10.2 million charge for the cumulative effect of change in accounting (net of income tax benefit of $6.3 million) in the consolidated statement of operations for the fiscal year ended September 30, 2005. This $10.2 million cumulative effect charge reduced diluted earnings per share by $0.09 for the fiscal year ended September 30, 2005.

Had the Company used its current method of accounting for recognizing cash discounts and other related manufacturer incentives for each of the four fiscal years ended September 30, 2004, diluted earnings per share from continuing operations would have been higher by $0.05 for fiscal 2001, higher by $0.02 for fiscal 2002, lower by $0.08 for fiscal 2003, and lower by $0.02 for fiscal 2004.

(g) Includes the amortization of goodwill, net of income taxes, during fiscal 2001. Had the Company not amortized goodwill, diluted earnings per share would have been $0.02 higher in fiscal 2001.

(h) Balances as of September 30, 2004 reflect a change in accounting to accrue for customer sales returns. The impact of the accrual was to decrease accounts receivable, increase merchandise inventories, and decrease operating revenue and cost of goods sold by $316.8 million. The accrual for customer sales returns had no impact on net income.

Corporate Information

Shareholder Services

Our transfer agent, The Bank of New York, can help you with a variety of shareholder services, including:

- Change of address
- Lost stock certificates
- Stock transfer
- Account consolidation

The Bank of New York can be reached at:

Telephone: 800-524-4458, 610-382-7833, or TDD 888-269-5221
Internet: www.stockbny.com
Email: shareowners@bankofny.com
Mail: The Bank of New York
Shareholder Relations Department
P.O. Box 11258
Church Street Station
New York, NY 10286

Additional Information

Financial documents, such as our Annual Report on Form 10-K, quarterly reports on Form 10-Q, the Company's Code of Ethics and Business Conduct and other reports and filings may be obtained from the Company website at www.amerisourcebergen.com, or by calling the Company's Investor Relations department at 610-727-7429.

Investor Relations

Shareholders, security analysts, portfolio managers, and other investors desiring further information about the Company should contact Michael N. Kilpatric, Vice President, Corporate & Investor Relations at 610-727-7118, or mkilpatric@amerisourcebergen.com.

Annual Meeting

AmerisourceBergen shareholders are invited to attend our annual meeting on February 9, 2006 at 2:00 pm Eastern Time at The Four Seasons Hotel, One Logan Square, Philadelphia, Pennsylvania.

Independent Registered Public Accounting Firm

Ernst & Young LLP, Philadelphia, PA

Stock Listing

AmerisourceBergen Corporation is listed on The New York Stock Exchange under the symbol ABC.

AmerisourceBergen®

AmerisourceBergen Corporation
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