

---

# SECURITIES AND EXCHANGE COMMISSION

Washington, D. C. 20549

---

## FORM 10-Q

☒ QUARTERLY REPORT PURSUANT TO SECTION 13 or 15(d) OF THE  
SECURITIES EXCHANGE ACT OF 1934

For the fiscal quarter ended December 31, 1999

OR

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

For the transition period from \_\_\_\_\_ to \_\_\_\_\_

Commission file number 1-5110

### **BERGEN BRUNSWIG CORPORATION**

(Exact name of registrant as specified in its charter)

#### **New Jersey**

(State or other jurisdiction of  
incorporation or organization)

**22-1444512**

(I.R.S. Employer  
Identification No.)

#### **4000 Metropolitan Drive, Orange, California**

(Address of principal executive offices)

**92868-3510**

(Zip Code)

Registrant's telephone number, including area code

**(714) 385-4000**

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

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date:

Title of each class of <u>Common Stock</u>	Number of Shares Outstanding <u>January 31, 2000</u>
Class A Common Stock – par value \$1.50 per share	134,481,424

---

## **BERGEN BRUNSWIG CORPORATION**

### **INDEX**

	<u>Page No.</u>
Part I. Financial Information	
Item 1. Financial Statements	
Consolidated Balance Sheets, December 31, 1999 and September 30, 1999	3
Statements of Consolidated Earnings for the three months ended December 31, 1999 and 1998	5
Statements of Consolidated Cash Flows for the three months ended December 31, 1999 and 1998	6
Notes to Consolidated Financial Statements	7
Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations	16
Item 3. Quantitative and Qualitative Disclosures About Market Risk	28
Part II. Other Information	
Item 1. Legal Proceedings	29
Item 6. Exhibits and Reports on Form 8-K	34
Signatures	35
Index to Exhibits	36

PART I. FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

**BERGEN BRUNSWIG CORPORATION**  
**CONSOLIDATED BALANCE SHEETS**  
**DECEMBER 31, 1999 AND SEPTEMBER 30, 1999**  
**(dollars in thousands)**  
**(Unaudited)**

-- ASSETS --	December 31, 1999	September 30, 1999
<b>CURRENT ASSETS:</b>		
Cash and cash equivalents.....	\$ 136,183	\$ 116,356
Accounts and notes receivable, less allowance for doubtful receivables: \$143,922 at December 31, 1999 and \$135,655 at September 30, 1999.....	1,431,495	1,478,990
Inventories.....	2,008,688	1,813,716
Income taxes receivable.....	19,371	40,178
Prepaid expenses.....	20,595	18,668
Total current assets.....	3,616,332	3,467,908
<b>PROPERTY - at cost:</b>		
Land.....	18,755	11,265
Buildings and leasehold improvements.....	139,626	129,818
Equipment and fixtures.....	249,641	263,635
Total property.....	408,022	404,718
Less accumulated depreciation and amortization.....	143,786	164,273
Property - net.....	264,236	240,445
<b>OTHER ASSETS:</b>		
Goodwill - net.....	1,627,850	1,642,424
Investments.....	10,946	11,177
Noncurrent receivables.....	28,698	24,092
Deferred income taxes.....	15,195	15,504
Deferred charges and other assets.....	134,955	133,871
Total other assets.....	1,817,644	1,827,068
<b>TOTAL ASSETS.....</b>	<b>\$ 5,698,212</b>	<b>\$ 5,535,421</b>

See accompanying Notes to Consolidated Financial Statements.

**BERGEN BRUNSWIG CORPORATION**  
**CONSOLIDATED BALANCE SHEETS**  
**DECEMBER 31, 1999 AND SEPTEMBER 30, 1999**  
**(dollars in thousands)**  
**(Unaudited)**

- - LIABILITIES AND SHAREOWNERS' EQUITY - -	December 31, 1999	September 30, 1999
<b>CURRENT LIABILITIES:</b>		
Accounts payable.....	\$ 1,972,255	\$ 1,693,690
Accrued liabilities.....	176,559	229,432
Customer credit balances.....	186,154	172,106
Deferred income taxes.....	56,797	56,797
Current portion of long-term debt.....	466,958	544,557
Current portion of other long-term obligations .....	1,366	1,366
Total current liabilities.....	2,860,089	2,697,948
Long-term debt, net of current portion.....	988,530	993,344
Other long-term obligations, net of current portion.....	47,292	48,639
Total long-term obligations.....	1,035,822	1,041,983
<b>COMPANY-OBLIGATED MANDATORILY REDEEMABLE PREFERRED SECURITIES OF SUBSIDIARY TRUST HOLDING SOLELY DEBT SECURITIES OF THE COMPANY.....</b>	<b>300,000</b>	<b>300,000</b>
<b>SHAREOWNERS' EQUITY:</b>		
Capital stock:		
Preferred - authorized: 3,000,000 shares; issued: none.....	-	-
Class A Common - authorized: 300,000,000 shares; issued: 137,585,331, shares at December 31, 1999 and 137,316,182 shares at September 30, 1999.....	206,380	205,974
Paid-in capital.....	820,086	818,564
Accumulated other comprehensive income .....	532	235
Retained earnings.....	500,516	495,930
Total.....	1,527,514	1,520,703
Treasury shares at cost: 3,110,673 shares at December 31, 1999 and 3,110,671 shares at September 30, 1999.....	(25,213)	(25,213)
Total shareowners' equity.....	1,502,301	1,495,490
<b>TOTAL LIABILITIES AND SHAREOWNERS' EQUITY.....</b>	<b>\$ 5,698,212</b>	<b>\$ 5,535,421</b>

See accompanying Notes to Consolidated Financial Statements.

**BERGEN BRUNSWIG CORPORATION**  
**STATEMENTS OF CONSOLIDATED EARNINGS**  
**FOR THE THREE MONTHS ENDED**  
**DECEMBER 31, 1999 AND 1998**  
(in thousands except per share amounts)  
(Unaudited)

	1999	1998
<b><i>Consolidated earnings:</i></b>		
Net sales and other revenues:		
Excluding bulk shipments to customers' warehouses	\$ 4,833,180	\$ 3,960,106
Bulk shipments to customers' warehouses	1,095,782	1,060,212
Total net sales and other revenues	5,928,962	5,020,318
Costs and expenses:		
Cost of sales	5,574,475	4,821,690
Distribution, selling, general and administrative expenses	292,848	143,048
Total costs and expenses	5,867,323	4,964,738
Operating earnings	61,639	55,580
Net interest expense	29,343	8,718
Earnings before taxes on income and distributions on preferred securities of subsidiary trust	32,296	46,862
Taxes on income	14,106	18,979
Earnings before distributions on preferred securities of subsidiary trust	18,190	27,883
Distributions on preferred securities of subsidiary trust, net of income tax benefit of \$2,311	(3,539)	-
Net earnings	\$ 14,651	\$ 27,883
<b><i>Basic and diluted earnings per share</i></b>	\$ 0.11	\$ 0.27
<b><i>Weighted average number of shares outstanding:</i></b>		
Basic	134,247	103,170
Diluted	134,358	104,968
<b><i>Cash dividends declared per share of     Class A Common Stock</i></b>	\$ .075	\$ -

See accompanying Notes to Consolidated Financial Statements.

**BERGEN BRUNSWIG CORPORATION**  
**STATEMENTS OF CONSOLIDATED CASH FLOWS**  
**FOR THE THREE MONTHS ENDED**  
**DECEMBER 31, 1999 AND 1998**  
(in thousands)  
(Unaudited)

	1999	1998
<b>Operating Activities</b>		
Net earnings	\$ 14,651	\$ 27,883
Adjustments to reconcile net earnings to net cash flows from operating activities:		
Provision for doubtful receivables	19,588	3,361
Depreciation and amortization of property	13,947	5,557
Loss on dispositions of property	112	442
Amortization of intangible assets	14,473	2,680
Deferred compensation	1,424	1,029
Deferred income taxes	121	(64)
Effects of changes on:		
Receivables	(176,699)	(131,659)
Inventories	(194,972)	(507,959)
Income taxes receivable/payable	20,807	18,475
Prepaid expenses and other assets	(6,713)	(7,704)
Accounts payable	278,565	357,557
Accrued liabilities	(36,524)	(5,817)
Customer credit balances	14,048	22,446
Net cash flows from operating activities	(37,172)	(213,773)
<b>Investing Activities</b>		
Property acquisitions	(44,515)	(8,030)
Proceeds from sale of accounts receivable with recourse	200,000	-
Other	758	807
Net cash flows from investing activities	156,243	(7,223)
<b>Financing Activities</b>		
Net revolving bank loan activity	544,783	220,000
Net commercial paper activity	(622,281)	-
Repayment of other obligations	(7,759)	(5,909)
Distributions paid on trust preferred securities	(5,850)	-
Shareowners' equity transactions:		
Exercise of stock options and issuance of restricted shares	817	3,961
Employee stock purchase plan	1,111	-
Cash dividends paid on Common Stock	(10,065)	(7,716)
Net cash flows from financing activities	(99,244)	210,336
Net increase (decrease) in cash and cash equivalents	19,827	(10,660)
Cash and cash equivalents at beginning of period	116,356	79,004
Cash and cash equivalents at end of period	\$ 136,183	\$ 68,344
<b>Supplemental Cash Flow Disclosures</b>		
Cash paid during the period for:		
Interest	\$ 39,961	\$ 5,882
Income taxes - net of refunds	857	566

See accompanying Notes to Consolidated Financial Statements.

## **BERGEN BRUNSWIG CORPORATION**

### **NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)**

#### **1. Basis Of Presentation**

Bergen Brunswick Corporation, a New Jersey corporation formed in 1956, and its subsidiaries (collectively, the "Company") is a diversified drug and healthcare distribution organization. The Company is one of the nation's largest wholesalers of pharmaceuticals, medical-surgical supplies, and specialty healthcare products to the managed care and retail pharmacy markets, and also distributes pharmaceuticals to long-term care and seriously ill patients. The Company provides product distribution, logistics, pharmacy management programs, consulting services, and Internet fulfillment services designed to reduce costs and improve patient outcomes across the entire healthcare spectrum.

The consolidated financial statements include the accounts of the Company, after elimination of the effect of intercompany transactions and balances.

The accompanying unaudited interim consolidated financial statements have been prepared pursuant to the rules and regulations of the Securities and Exchange Commission ("SEC") for reporting on Form 10-Q and do not include all of the information and footnote disclosures normally included in financial statements prepared in accordance with generally accepted accounting principles. The accompanying unaudited interim consolidated financial statements should be read in conjunction with the audited Consolidated Financial Statements and Notes to Consolidated Financial Statements contained in the Company's Annual Report on Form 10-K for the fiscal year ended September 30, 1999. Certain reclassifications have been made in the consolidated financial statements and notes to conform to fiscal 2000 presentations.

The preparation of the Company's consolidated financial statements in conformity with generally accepted accounting principles necessarily requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the balance sheet dates and the reported amounts of revenue and expense during the reporting periods. Actual results could differ from these estimates and assumptions.

#### **2. Comprehensive Income**

The Company has adopted Statement of Financial Accounting Standards No. 130, "Reporting Comprehensive Income", which establishes standards for the reporting and display of comprehensive income and its components in financial statements. This statement defines comprehensive income as all changes in equity during a period from non-owner sources. The Company has no reported material differences between net earnings and comprehensive income. Therefore, statements of comprehensive income have not been presented.

## **BERGEN BRUNSWIG CORPORATION**

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

#### **3. Impairment of Long-lived Assets**

The Company assesses the impairment of long-lived assets used in operations when indicators of impairment are present and the undiscounted future cash flows are not sufficient to recover the assets' carrying amounts. An impairment loss is measured by comparing the fair value of an asset to its carrying amount.

#### **4. Revenue Recognition**

The Company records revenues when product is shipped or services are provided to its customers. Along with other companies in its industry, the Company reports as revenues the gross dollar amount of bulk shipments to customers' warehouses and the related costs in cost of sales. Bulk shipment transactions are arranged by the Company with its suppliers 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 Company warehouses for immediate shipment to customers' warehouse sites. Gross profit earned by the Company on bulk shipments was not material in any period presented.

#### **5. Accounts Receivable Securitization**

On December 17, 1999, the Company entered into an accounts receivable securitization program with a bank which provides additional borrowing capacity for the Company (the "Receivables Securitization Program"). Through the Receivables Securitization Program, the Company's Bergen Brunswick Drug Company subsidiary may sell, on an ongoing basis, certain of its accounts receivable to Blue Hill, Inc. ("Blue Hill"), a 100%-owned special purpose subsidiary. Blue Hill will, in turn, sell an undivided percentage ownership interest in such receivables, with recourse, to financial institutions. The program qualifies for treatment as a sale of assets under SFAS No. 125, "Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities". Sales are recorded at the estimated fair value of the receivables sold, reflecting discounts for the time value of money based on specified interest rates; the weighted average rate for the program was approximately 6.5% at December 31, 1999.

As of December 31, 1999, the Company had received \$200 million from the sale of such receivables under the Receivables Securitization Program, and this amount is reflected as a reduction of accounts receivable in the accompanying consolidated balance sheets. As sold receivables are collected, additional receivables may be sold under the program. The discount and fees of approximately \$0.6 million on the sold receivables were included in net interest expense in the accompanying statements of consolidated earnings.

The Company maintains an allowance for doubtful receivables based upon the expected bad debt losses of all consolidated accounts receivable, including receivables sold by Blue Hill.

On February 1, 2000, the Receivables Securitization Program was amended to increase the funding limit from \$200 million to \$300 million.



## **BERGEN BRUNSWIG CORPORATION**

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

#### **6. Long-Term Debt**

Long-term debt at December 31, 1999 and September 30, 1999 consisted of the following:

<i>Dollars in thousands</i>	<b>December 31, 1999</b>	<b>September 30, 1999</b>
7 3/8% senior notes due 2003	\$ 149,661	\$ 149,633
7 1/4% senior notes due 2005	99,810	99,802
8 3/8% senior subordinated notes due 2008	308,119	308,119
Revolving credit facilities averaging 6.86% and 6.00%, respectively	794,500	249,717
Commercial paper averaging 6.82% and 5.72%, respectively	70,610	692,891
7% convertible subordinated debentures due 2006	20,609	20,609
6 7/8% exchangeable subordinated debentures due 2011	8,425	8,425
10% unsecured promissory note	-	4,500
Other	3,754	4,205
Total	1,455,488	1,537,901
Less current portion	466,958	544,557
Total	<u>\$ 988,530</u>	<u>\$ 993,344</u>

The Company's unsecured credit agreement (the "Credit Facility"), which expires in April 2000, allows borrowings of up to \$600 million under a revolving line of credit and also allows borrowings under discretionary credit lines ("discretionary lines"), as available, outside of the Credit Facility. The Credit Facility has loan covenants which are identical to those of the Company's credit agreement (the "Credit Agreement"). The Company is currently in discussions with its key banks regarding the refinancing both of the Credit Facility and the Credit Agreement.

The Company's unsecured Credit Agreement, which is effective through March 2001, allows borrowings of up to \$400 million and also allows borrowings under discretionary lines, as available, outside of the Credit Agreement. The Credit Agreement has loan covenants which require the Company to maintain certain financial statement ratios. The Company is in compliance with all required ratios at December 31, 1999. The amount of credit available to the Company under the Credit Agreement and the Credit Facility is reduced dollar for dollar by the amount of outstanding Notes under the Commercial Paper Agreements (see below).

In December 1999, the Company's Credit Facility and Credit Agreement were amended to, among other things, (a) allow the Company or any of its subsidiaries to sell, transfer or convey certain trade receivables which would result in aggregate proceeds not to exceed \$400 million (see Note 5), and (b) modify certain financial covenants.

The Company's unsecured commercial paper dealer agreements (the "Commercial Paper Agreements") provide for the private placement of short-term commercial paper notes of the Company

## **BERGEN BRUNSWIG CORPORATION**

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

(the "Notes"), as available, up to a maximum of \$1 billion outstanding. The Commercial Paper Agreements allow maturities of up to 364 days from the date of issue and are backed by the Credit Agreement and Credit Facility. Currently, the Company is not able to access the Commercial Paper market due to downgrades in the Company's credit rating which occurred in November and December 1999 and February 2000.

Aggregate borrowings under the Credit Facility, Credit Agreement, discretionary lines and the Commercial Paper Agreements amounted to approximately \$865 million and \$943 million at December 31, 1999 and September 30, 1999, respectively. An aggregate of \$400 million of such outstanding borrowings at December 31, 1999 and September 30, 1999 have been classified as long-term debt based on the Company's ability and intent to finance them on a long-term basis under the Credit Agreement.

During November 1999, a \$4.5 million 10% unsecured promissory note, which the Company assumed in connection with the acquisition of PharMerica, was repaid when PharMerica agreed to offset the \$4.5 million against the outstanding accounts receivable balance of the noteholder, who is a PharMerica customer.

The Company also filed a shelf registration statement with the SEC which became effective on March 27, 1996 (the "1996 Registration Statement"). The 1996 Registration Statement allows the Company to sell senior and subordinated debt or equity securities to the public from time to time up to an aggregate maximum principal amount of \$400 million. The Company intends to use the net proceeds from any sale of such securities for general corporate purposes, which may include, without limitation, the repayment of indebtedness of the Company or of any of its subsidiaries, and entities which the Company may acquire in the future. Any offering of such securities shall be made only by means of a prospectus.

#### **7. Preferred Securities of Trust**

In May 1999, Bergen Capital I (the "Trust"), a wholly-owned subsidiary trust of the Company, issued 12,000,000 shares of 7.80% Trust Originated Preferred Securities (SM) (TOPrS(SM)) (the "Preferred Securities") at \$25 per security. The proceeds of such issuances were invested by the Trust in \$300 million aggregate principal amount of the Company's 7.80% Subordinated Deferrable Interest Notes due June 30, 2039 (the "Subordinated Notes"). The Subordinated Notes represent the sole assets of the Trust and bear interest at the annual rate of 7.80%, payable quarterly, and are redeemable by the Company beginning in May 2004 at 100% of the principal amount thereof. The obligations of the Trust related to the Preferred Securities are fully and unconditionally guaranteed by the Company.

## **BERGEN BRUNSWIG CORPORATION**

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

Holders of the Preferred Securities are entitled to cumulative cash distributions at an annual rate of 7.80% of the liquidation amount of \$25 per security. The Preferred Securities will be redeemable upon any repayment of the Subordinated Notes at 100% of the liquidation amount beginning in May 2004.

The Subordinated Notes and the related Trust investment in the Subordinated Notes have been eliminated in consolidation and the Preferred Securities are reflected as outstanding in the accompanying consolidated financial statements.

#### **8. Earnings Per Share**

Basic earnings per share ("Basic") is computed by dividing net earnings (the numerator) by the weighted average number of shares of Class A Common Stock outstanding during each period (the denominator). Diluted earnings per share is similar to the computation for Basic, except that the denominator is increased by the dilutive effect of employees' stock options outstanding, computed using the treasury stock method.

#### **9. Dividends**

On November 4, 1999, the Company declared a regular quarterly cash dividend of \$0.075 per share on the Company's Common Stock that was paid on December 1, 1999 to shareowners of record on November 16, 1999. On September 24, 1998, the Company declared a \$0.075 per share quarterly cash dividend on the Company's Common Stock that was paid on December 1, 1998 to shareowners of record as of November 2, 1998. This \$0.075 payment constituted the Company's dividend for the first quarter ended December 31, 1998. For accounting purposes, this cash dividend was recorded in the fourth fiscal quarter ended September 30, 1998, resulting in a larger than usual dividend in that quarter and no dividend during the quarter ended December 31, 1998. Regular quarterly cash dividends of \$0.075 per share of Common Stock were paid on March 1, June 1, and September 1, 1999 and recorded in the second, third and fourth quarters, respectively, of fiscal 1999.

#### **10. Business Acquisitions**

On April 26, 1999, the Company acquired PharMerica, one of the nation's largest providers of pharmaceutical products and pharmacy management services to long-term care and alternate site settings, headquartered in Tampa, Florida. The Company issued approximately 24.7 million shares of Common Stock valued at approximately \$670 million, acquired net assets (excluding debt) at fair value of approximately \$307 million, assumed debt of approximately \$600 million and incurred costs of approximately \$10 million. The Company recorded goodwill of approximately \$973 million in the transaction.

On January 21, 1999, the Company acquired Stadtlander Operating Company LLC ("Stadtlander"), a national leader in disease-specific pharmaceutical care delivery for transplant, HIV, infertility and serious mental illness patient populations and a leading provider of pharmaceutical care to

## **BERGEN BRUNSWIG CORPORATION**

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

the privatized corrections market, headquartered in Pittsburgh, Pennsylvania. The Company paid approximately \$195 million in cash and issued approximately 5.7 million shares of Common Stock, previously held as Treasury shares, valued at approximately \$140 million. The Company acquired net assets (excluding debt) at fair value of approximately \$40 million, assumed debt of approximately \$100 million and incurred costs of approximately \$10 million. The Company recorded goodwill of approximately \$405 million in the transaction.

If the acquisitions of PharMerica and Stadtlander had occurred as of the beginning of the three months ended December 31, 1998, unaudited pro forma net sales and other revenues, net earnings, and diluted earnings per share would have been as follows:

<i>Dollars in millions, except per share amounts</i>	<b>Three Months Ended December 31, 1998</b>
Net sales and other revenues	<b>\$ 5,235.4</b>
Net earnings	<b>\$ 32.2</b>
Diluted earnings per share	<b>\$ 0.24</b>

The pro forma operating results above include the results of operations for PharMerica and Stadtlander for the three months ended December 31, 1998 with increased goodwill amortization along with other relevant adjustments to reflect fair value of the acquired assets. Additionally, the pro forma operating results include pro forma interest expense on the assumed acquisition borrowings to finance the cash portion of the Stadtlander transaction; the effect of decreased interest expense attributable to PharMerica becoming a co-borrower under the Company's credit facilities; pro forma adjustments to the provision for taxes on income to reflect, primarily, higher non-deductible goodwill amortization; and pro forma issuance of the Company's Common Stock reflected in the weighted average number of shares outstanding for the computations of pro forma diluted earnings per share.

The results of operations reflected in the pro forma information above are not necessarily indicative of the results which would have been reported if the PharMerica and Stadtlander acquisitions had been effected at the beginning of the three-month period.

On February 10, 1999, the Company acquired J.M. Blanco, Inc. ("J.M. Blanco"), Puerto Rico's largest pharmaceutical distributor, headquartered in Guaynabo, Puerto Rico, for a cash purchase price of approximately \$30 million. The Company acquired net assets (excluding debt) at fair value of approximately \$24 million, assumed debt of approximately \$22 million and incurred costs of approximately \$1 million. The Company recorded goodwill of approximately \$29 million in the transaction.

On December 31, 1998, the Company acquired Medical Initiatives, Inc. ("MII"), a pre-filler of pharmaceuticals for oncology centers, located in Tampa, Florida. The Company issued approximately 200,000 shares of Common Stock, previously held as Treasury shares, valued at

## **BERGEN BRUNSWIG CORPORATION**

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

approximately \$6.0 million, acquired net assets at fair value of approximately \$0.1 million and incurred costs of \$0.2 million. The Company recorded goodwill of approximately \$6.1 million in the transaction.

Had the acquisitions of J.M. Blanco and MII occurred at the beginning of fiscal 1999, the pro forma inclusion of their operating results would not have had a significant effect on the reported consolidated net sales and other revenues and net earnings for the three months ended December 31, 1998.

Each of the aforementioned acquisitions was accounted for as a purchase for financial reporting purposes. The Company is in disagreement with the seller and the seller's independent auditors regarding the valuation of the net assets of Stadtlander. Any amounts realized from the seller would be recorded as an adjustment to the purchase price. See Part II, Item 1 entitled "Legal Proceedings."

#### **11. Business Segment Information**

The Company is organized based upon the products and services it provides to its customers. The Company's operating segments have been aggregated into three reportable segments: Pharmaceutical Distribution, Pharmaceutical Services, and Other Businesses.

The Pharmaceutical Distribution segment includes Bergen Brunswig Drug Company ("BBDC"), ASD Specialty Healthcare ("ASD") and a repackaging facility. This segment sells pharmaceuticals, over-the-counter medicines, health and beauty aids, and other health-related products to hospitals, managed care facilities, retail pharmacies, and food/drug combination stores. In addition, specialty pharmaceutical products are sold to physicians, clinics and other providers in the nephrology, oncology, plasma and vaccines sectors. This segment also provides promotional, inventory management and information services to its customers.

The Pharmaceutical Services segment includes PharMerica, Stadtlander, and Medi-Mail, a small mail service entity. This segment provides institutional pharmacy products and services to patients in long-term care and alternate site settings, including skilled nursing facilities, assisted living facilities, residential living communities, and corrections facilities. It also provides mail order and on-line pharmacy services to injured workers who are receiving workers' compensation benefits, homebound catastrophically-ill patients, and other consumers.

The Other Businesses segment principally consists of Bergen Brunswig Medical Corporation ("BBMC"), which distributes medical and surgical products to hospitals and alternate site facilities. This segment also includes three smaller entities: ICS, which provides commercial outsourcing to healthcare product manufacturers; The Lash Group, Inc., which provides healthcare reimbursement consulting services; and Choice Medical, Inc., which provides software to healthcare providers.

All of the Company's operations are located in the United States and the Commonwealth of Puerto Rico.

The following tables present segment information for the first quarter of the past two fiscal years (dollars in thousands):

**BERGEN BRUNSWIG CORPORATION****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**  
**(UNAUDITED)**

<b>Three Months Ended December 31,</b>	<b>Net Sales and Other Revenues</b>	
	<b>1999</b>	<b>1998</b>
Pharmaceutical Distribution	\$ 4,364,413	\$ 3,737,663
Pharmaceutical Services	456,408	2,154
Other Businesses	231,417	222,104
Corporate	468	85
Intersegment Eliminations	(219,526)	(1,900)
Revenue excluding bulk shipments	4,833,180	3,960,106
Bulk shipments of pharmaceuticals to customers' warehouses	1,095,782	1,060,212
Total net sales and other revenues	<u>\$ 5,928,962</u>	<u>\$ 5,020,318</u>

Management evaluates segment performance based on revenues excluding bulk shipments to customers' warehouses. For further information regarding the nature of bulk shipments, see Note 4.

<b>Three Months Ended December 31,</b>	<b>Operating Earnings, LIFO Basis</b>	
	<b>1999</b>	<b>1998</b>
Pharmaceutical Distribution	\$ 77,717	\$ 69,361
Pharmaceutical Services	245	(553)
Other Businesses	497	2,355
Corporate	(16,820)	(15,583)
Total operating earnings, LIFO basis	61,639	55,580
Net interest expense	(29,343)	(8,718)
Earnings before taxes on income and distributions on preferred securities of subsidiary trust	<u>\$ 32,296</u>	<u>\$ 46,862</u>

Segment operating profit is evaluated on both a FIFO and LIFO basis. However, the consolidated LIFO charge was only \$1.5 million in each of the quarters ended December 31, 1999 and 1998. Since the effect on the operating earnings of any segment or the consolidated total was immaterial, only the LIFO basis is presented herein. Certain corporate office expenses of a direct operational nature are charged to the segments, but general corporate overhead is not allocated. Also, interest expense is not allocated to the segments.

**12. Content of Interim Consolidated Financial Statements**

## **BERGEN BRUNSWIG CORPORATION**

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

In the opinion of management of the Company, the foregoing consolidated financial statements reflect all adjustments necessary for a fair statement of the results of the Company and its subsidiaries for the periods shown and such adjustments are of a normal recurring nature. Results of operations for the first three months of fiscal 2000 are not necessarily indicative of results to be expected for the full fiscal year or any other fiscal period.

#### **13. Subsequent Event**

On February 2, 2000, a significant customer of PharMerica filed for Chapter 11 bankruptcy protection. At this early stage, the Company is unable to determine the portion, if any, of its account receivable from that customer which may not ultimately be collectible.

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

PORTIONS OF MANAGEMENT'S DISCUSSION AND ANALYSIS PRESENTED BELOW, CONSISTING OF THOSE STATEMENTS WHICH ARE NOT HISTORICAL IN NATURE (INCLUDING, WITHOUT LIMITATION, THE COMPANY'S EXPECTATIONS REGARDING ITS MARGINS AND THE COMPANY'S YEAR 2000 DISCLOSURES), CONSTITUTE "FORWARD-LOOKING STATEMENTS" WITHIN THE MEANING OF THE PRIVATE SECURITIES LITIGATION REFORM ACT OF 1995. SUCH FORWARD-LOOKING STATEMENTS ARE SUBJECT TO RISKS, UNCERTAINTIES AND OTHER FACTORS WHICH COULD CAUSE ACTUAL RESULTS TO MATERIALLY DIFFER FROM THOSE PROJECTED OR IMPLIED. THE MOST SIGNIFICANT OF SUCH RISKS, UNCERTAINTIES AND OTHER FACTORS ARE DESCRIBED IN EXHIBIT 99(A) TO THE COMPANY'S ANNUAL REPORT ON FORM 10-K FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 1999. THE COMPANY DISCLAIMS ANY OBLIGATION TO UPDATE ANY FORWARD-LOOKING STATEMENT.

### RESULTS OF OPERATIONS

The Company reported a significant increase in revenues and operating earnings during the first fiscal quarter ended December 31, 1999 compared to the same period in the prior fiscal year due to internal growth and acquisitions. However, net earnings and diluted earnings per share trends were negatively affected by interest expense incurred during the current fiscal quarter related to certain business acquisitions consummated in fiscal 1999. The following table summarizes the Company's revenues, interest expense and earnings during these periods:

<i>Dollars in millions</i>	Three Months Ended December 31,		%
	1999	1998	Change
Net sales and other revenues	\$ 5,929.0	\$ 5,020.3	18 %
Operating earnings	\$ 61.6	\$ 55.6	11 %
Net interest expense*	\$ 29.4	\$ 8.7	238 %
Net earnings	\$ 14.7	\$ 27.9	(47) %
Diluted earnings per share	\$ 0.11	\$ 0.27	(59) %

\* Excluding distributions on preferred securities of subsidiary trust.

Fiscal 2000 first quarter earnings and diluted earnings per share declined 47% and 59%, respectively, in comparison with the same quarter of fiscal 1999. The decline in net earnings, despite higher revenues, primarily relates to higher interest expense associated with additional debt incurred or assumed in connection with certain of the fiscal 1999 acquisitions, as well as increased goodwill amortization associated with those acquisitions. Lower diluted earnings per share also reflects the effect of the Company's issuance of additional shares of Common Stock in connection with certain of those fiscal 1999 acquisitions.



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

Fluctuations in the Company's operating results are partially due to the results of entities which were acquired during the past year. Such acquisitions, which are described in more detail under the caption "Business Acquisitions" herein, are summarized as follows:

<b>Acquisition Date</b>	<b>Acquired Entity</b>	<b>Segment</b>
April 1999	PharMerica, Inc.	Pharmaceutical Services
February 1999	J.M. Blanco, Inc.	Pharmaceutical Distribution
January 1999	Stadtlander Operating Company, LLC	Pharmaceutical Services
December 1998	Medical Initiatives, Inc.	Pharmaceutical Distribution

As described below, of the acquired entities, PharMerica and Stadtlander have had the most significant impact on the Company's results of operations. Each of the transactions listed above is reflected in the Company's consolidated financial statements only from the respective acquisition date.

**Operating Earnings**

The Company reported an increase in operating earnings of 11% in the first quarter of fiscal 2000. The following table provides a summarized statement of operations on a consolidated basis, including key line item growth rates and ratios. PharMerica and Stadtlander, due to the nature of their pharmaceutical service businesses, have significantly higher gross margins and operating expense ratios than the Company's principal pharmaceutical distribution businesses. Accordingly, certain ratios in the table have also been shown excluding PharMerica and Stadtlander in order to present a more meaningful comparison with historical results.

	<b>Three Months Ended December 31,</b>		<b>% Change</b>
<i>Dollars in millions</i>	<b>1999</b>	<b>1998</b>	<b>1999</b>
Revenues excluding bulk shipments	\$ 4,833.2	\$ 3,960.1	22%
Bulk shipments	1,095.8	1,060.2	3
Total net sales and other revenues	\$ 5,929.0	\$ 5,020.3	18%
Gross profit	\$ 354.5	\$ 198.6	78%
Operating expenses	292.9	143.0	105
Operating earnings	\$ 61.6	\$ 55.6	11%
Percentage of revenues excluding bulk shipments:			
Gross profit	7.33%	5.02%	
Operating expenses	6.05%	3.62%	
Operating earnings	1.28%	1.40%	
Percentage of revenues excluding PharMerica and Stadtlander in fiscal 2000:			
Gross profit	4.72%	5.02%	
Operating expenses	3.40%	3.62%	
Operating earnings	1.32%	1.40%	

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

Revenues excluding bulk shipments increased 22% in the first quarter of fiscal 2000. Of this increase, 15% represented internal growth while 7% represented the effect of acquired entities.

Along with other companies in its industry, the Company reports bulk shipments of pharmaceuticals in revenues and cost of sales. Bulk shipment transactions are arranged by the Company with its suppliers 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 Company warehouses for immediate shipment to customers' warehouse sites. Bulk sales of pharmaceuticals do not impact the Company's inventory since the Company simply processes the orders that it receives from its suppliers directly to the customers' warehouses. The Company serves as an intermediary by paying the supplier and billing the customer for the goods. Due to the insignificant margins generated through bulk shipments, fluctuations in such revenues have an immaterial impact on the Company's operating earnings.

Gross profit as a percentage of revenues excluding bulk shipments ("gross margin") was 4.72% and 5.02% for the three months ended December 31, 1999 and 1998, respectively, excluding the effect of PharMerica and Stadtlander. Approximately half of the 30 basis point decline reflects lower margins in the Pharmaceutical Distribution segment. Such margins declined mainly due to intense price competition within the industry as well as to a change in the sales mix, with a greater proportion of revenues coming from high-volume, low-margin customers. In addition, ASD's gross margins decreased from a strong prior year quarter, in which ASD benefited from acute product shortages in the plasma and vaccine markets. The favorable effect of inventory investment buying profits partially offset the aforementioned factors. Gross margins were also lower in the Other Businesses segment, primarily due to lower medical-surgical buy-side opportunities in the current quarter.

In all of the Company's wholesale distribution businesses, it is customary to pass on manufacturers' price increases to customers. Investment buying enables distributors such as the Company to benefit by purchasing goods in advance of anticipated manufacturers' price increases. Consequently, the rate or frequency of future price increases by manufacturers, or the lack thereof, and the Company's ability to take advantage of investment buying opportunities, influences the profitability of the Company.

Management anticipates further downward pressure on gross margins in the distribution businesses in fiscal 2000 because of continued price competition influenced by high-volume customers. Management expects that these pressures may be offset to some extent by an increased sales mix of more profitable products and services and continued reduction of operating expenses as a percentage of revenues. However, no assurance can be given that such improved sales mix or expense reduction can be achieved since many of the factors that impact such results (e.g. the effect of group purchasing agreements, competitive inroads, market conditions, etc.) are outside the Company's control. Similarly, no assurance can be given that the Company will be able to offset such downward pressure through investment buying.

Operating expenses include distribution, selling, general and administrative expenses ("DSG&A"). Excluding PharMerica and Stadtlander, operating expenses as a percentage of revenues excluding bulk shipments were 3.40% and 3.62% for the three months ended December 31, 1999 and 1998, respectively. This reduction was primarily attributable to continued operating efficiencies and the spreading of fixed costs over a larger revenue base. The Company's distribution infrastructure has been able to process increasing volume without a proportionate increase in operating expenses. Also, the

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

aforementioned shift in the distribution businesses' mix towards high-volume customers reduced the operating expense ratio because these customers are generally less costly to service.

**Segment Information**

Substantially all of the Company's growth in operating earnings has been contributed by the Pharmaceutical Distribution segment. Following is a summary of revenues and operating earnings for the Company's segments:

*Dollars in millions*

	<b>Revenues Excluding Bulk Shipments</b>		<b>Growth Rate</b>
<b>Three Months Ended December 31,</b>	<b>1999</b>	<b>1998</b>	
Pharmaceutical Distribution	\$ 4,364.4	\$ 3,737.7	17%
Pharmaceutical Services	456.4	2.1	-
Other Businesses	231.4	222.1	4
Corporate	.5	.1	-
Intersegment Eliminations	(219.5)	(1.9)	-
Total	\$ 4,833.2	\$ 3,960.1	22%

	<b>Operating Earnings (Loss), LIFO Basis</b>		<b>Growth Rate</b>
<b>Three Months Ended December 31,</b>	<b>1999</b>	<b>1998</b>	
Pharmaceutical Distribution	\$ 77.7	\$ 69.4	12%
Pharmaceutical Services	.2	(.6)	-
Other Businesses	.5	2.4	(79)
Corporate	(16.8)	(15.6)	(8)
Total	\$ 61.6	\$ 55.6	11%

Operating earnings (loss) as a percentage of revenues excluding bulk shipments:

Pharmaceutical Distribution	1.78%	1.86 %
Pharmaceutical Services	.05%	(25.67) %
Other Businesses	.21%	1.06 %
Total	1.28%	1.40 %

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

### *Pharmaceutical Distribution:*

Revenues increased 17% in the first quarter of fiscal 2000, substantially all of which represented internal growth (only 2% resulted from acquisitions). BBDC's revenues increased 16% reflecting increased volume across all geographic regions and in both the retail and health systems customer categories. ASD's revenues increased 26% representing continued growth in its oncology and dialysis markets. These increases were comprised of higher shipments to existing BBDC and ASD customers as well as shipments to a significant number of new customers. National industry economic conditions were also favorable, with increases in prescription drug usage and higher pharmaceutical prices contributing to this segment's revenue growth.

Operating earnings in the first quarter of fiscal 2000 increased 12% over the first quarter of fiscal 1999 and, as a percentage of revenues, operating earnings were 1.78% and 1.86% for the three months ended December 31, 1999 and 1998, respectively. The 8 basis point reduction in the operating earnings ratio is due to lower gross margins, partially offset by operating expense efficiencies (see "Operating Earnings" section above).

### *Pharmaceutical Services:*

Substantially all of the revenue growth in the first quarter of fiscal 2000 represented sales by PharMerica (\$309.4 million) and Stadtlander (\$145.0 million). The only other activity in this segment was related to a small mail service entity. The Pharmaceutical Services segment operated at just above the breakeven level in the first quarter of fiscal 2000, with PharMerica reporting operating earnings of \$7.8 million and Stadtlander reporting an operating loss of \$6.9 million.

On a stand-alone basis, PharMerica's revenues increased 5% from the quarter ended December 31, 1998 (not yet owned by the Company) and 8% from the quarter ended September 30, 1999, despite relatively flat admissions at its customers' facilities. PharMerica's operating earnings were in line with the Company's expectations.

PharMerica's operations have been adversely affected by negative industry trends resulting from dramatically lower reimbursement to nursing homes for Medicare patients under the Prospective Payment System ("PPS"). A negative consequence of these trends has been bankruptcy reorganization filings by several long-term care providers, including the recent filing by a significant customer of PharMerica (see Note 13). The adverse effects of PPS included (1) lower occupancy by Medicare-funded patients at nursing facilities serviced by PharMerica, (2) significantly diminished acuity levels among residents of these facilities, which reduced the overall utilization of drugs, and (3) increased customer pricing pressure, thereby reducing PharMerica's gross margins. While the Company did see further stabilization of these trends in the first quarter of fiscal 2000, management expects that they will continue to affect PharMerica throughout fiscal 2000. PharMerica sees some indications that Medicare admissions to its customers' facilities are increasing. Customers are also identifying new opportunities to expand their ability to service different acuity levels and the number of patient categories admitted to their facilities. Additional reimbursement that may be available as a result of recent legislative action may improve the number of high acuity admissions.

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

Management is continuing to implement its plan designed to improve PharMerica's earnings, including (1) enabling PharMerica to participate in the Company's generic purchasing programs in order to reduce drug costs, (2) consolidation of pharmacies to streamline operations, (3) outsourcing of delivery services, (4) strengthening of billing and collections management and (5) conversion of PharMerica's long-term care pharmacies to a common proprietary AS400 computer system.

Stadtlander has shown revenue growth from its pre-acquisition period in all of its major markets. Stadtlander's revenues increased 19% from the quarter ended December 31, 1998 (not yet owned by Bergen) and 1% from the quarter ended September 30, 1999. However, Stadtlander reported an operating loss primarily due to continued high bad debt provisions and low gross margins. Stadtlander has taken steps designed to improve receivables collection going forward; for example, Stadtlander has implemented new accounts receivable software, strengthened its billing controls, outsourced certain collection activities, and engaged The Lash Group to assist in obtaining reimbursement sources for indigent patients. Although no assurances can be given, management anticipates that days sales outstanding and bad debt losses will be lower by the end of fiscal 2000. Also, Stadtlander is working with payors and pharmaceutical companies on programs which, if successful, will improve gross margins.

Stadtlander is continuing to take additional steps to improve earnings. As a result of an operational review conducted by an independent consulting firm, the Company is commencing a major restructuring initiative at Stadtlander. The restructuring initiative includes a management reorganization; process re-engineering designed to affect a significant reduction in operating expense; the reorganization of the StadtSolutions joint venture; and the reorganization of the sales department. In addition, the Company is continuing to pursue other strategic opportunities for Stadtlander.

### *Other Businesses:*

Revenues increased 4% in first quarter of fiscal 2000, principally related to a higher volume of medical-surgical shipments to both acute care and physician customers. Operating earnings decreased 79% in fiscal 2000, primarily reflecting lower gross margins in BBMC's medical-surgical business due to fewer buy-side opportunities in the current year quarter, partially offset by operating expense efficiencies. In addition, Choice is incurring higher expenses in connection with the launch of a new software product.

### *Corporate:*

Corporate expenses increased \$1.2 million, or 8%, in the first quarter of fiscal 2000, due to the incremental costs of operating the Company's expanded operations.

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

**Interest Expense and Distributions on Preferred Securities**

The Company's financing expenses are comprised of two line items on the statements of consolidated earnings:

<i>Dollars in millions</i>	<b>Three Months Ended December 31,</b>	
	<b>1999</b>	<b>1998</b>
Net interest expense (pre-tax)	\$ 29.4	\$ 8.7
Distributions on preferred securities of subsidiary Trust (\$5.8 pre-tax less \$2.3 tax benefit)	\$ 3.5	\$ -

Total financing expenses were \$35.2 million in the first quarter of fiscal 2000, including net interest expense of \$29.4 million and \$5.8 million of pre-tax distributions on the Company's Preferred Securities, representing an increase of \$26.5 million, or 304%, over the prior year. This increase was primarily due to higher borrowings under the Company's Credit Facility, Credit Agreement, Commercial Paper Agreements, debt assumed in connection with the fiscal 1999 acquisitions, and the issuance of the Preferred Securities. In addition, the Company has incurred higher interest rates on its borrowings due to both (a) increases in the prime lending rate; and (b) downgrading of the Company's credit ratings.

In the first quarter of fiscal 2000, a significant portion of the higher borrowings was related to the assumption of the debt of entities acquired in fiscal 1999 and the financing of a portion of the purchase price of certain of those entities.

**Taxes on Income**

Taxes on income, excluding the tax benefit on distributions of the Company's Preferred Securities, were 43.7% and 40.5% of pre-tax earnings in the three months ended December 31, 1999 and 1998, respectively. The 3.2% increase in the effective rate in the first quarter of fiscal 2000 primarily reflects the nondeductible goodwill amortization associated with the PharMerica and Blanco acquisitions. All of the goodwill amortization of Stadtlander is tax-deductible. The Company's total goodwill amortization in the first quarter of fiscal 2000 was \$10.7 million (of which approximately \$5.4 million was non-deductible) and its goodwill amortization in the first quarter of fiscal 1999 was \$1.9 million (of which approximately \$1.7 million was non-deductible).

**Earnings per Share**

Earnings per share fluctuations result primarily from changes in the Company's net earnings. However, during the first quarter of fiscal 2000, diluted earnings per share were also impacted by a 28% increase in the weighted average number of common shares outstanding, to 134.4 million shares from 105.0 million shares in the first quarter of fiscal 1999. The increase was primarily related to the issuance of 24.7 million shares in connection with the acquisition of PharMerica in April 1999 and the issuance of 5.7 million shares in connection with the acquisition of Stadtlander in January 1999. There were 134.5 million shares of the Company's common stock outstanding at December 31, 1999.

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

**LIQUIDITY AND CAPITAL RESOURCES**

Following is a summary of the Company's capitalization at the end of the most recent quarter and fiscal year. Except that debt is net of cash and cash equivalents herein, these percentages are calculated in accordance with the covenants set forth in the Company's Credit Agreement and Credit Facility, in which certain non-cash charges are excluded from the calculation:

	<b>December 31, 1999</b>	<b>September 30, 1999</b>
Debt, net of cash	41%	43%
Equity, including the Preferred Securities	59%	57%

The decrease in the debt percentage is mainly due to a decrease in aggregate borrowings under the Company's Credit Facility, Credit Agreement and discretionary bank lines, and Commercial Paper Agreements to \$865 million at December 31, 1999 from \$943 million at September 30, 1999. The decreased debt percentage also reflects an increase in cash and cash equivalents to \$136 million at December 31, 1999 from \$116 million at September 30, 1999.

The Company currently has \$1.0 billion of available credit under committed revolving bank credit lines, consisting of a \$400 million Credit Agreement and \$600 million Credit Facility. The Credit Agreement and the Credit Facility rank on a parity with each other. The Credit Agreement with a group of domestic and foreign banks is effective through March 2001 and allows additional borrowings under discretionary lines outside the Credit Agreement. The Credit Facility with a group of banks was initiated in April 1999 and expires in April 2000. The Company intends to replace the Credit Facility and the Credit Agreement prior to the end of the second quarter of fiscal 2000 and is in current discussions with several banks regarding the proposed terms of such new facility.

Also in April 1999, the Company entered into the Commercial Paper Agreements which provide for the private placement of short-term commercial paper notes of the Company up to a maximum of \$1.0 billion outstanding. The Commercial Paper Agreements allow maturities of up to 364 days from the date of issue and are backed by the Credit Agreement and Credit Facility. The amount of credit available under the Credit Agreement and Credit Facility is reduced dollar-for-dollar by the amount outstanding under the Commercial Paper Agreements. Currently, the Company is not able to access the Commercial Paper market due to downgrades in the Company's credit rating which occurred in November and December 1999 and February 2000.

In December 1999, the Company's Credit Agreement and Credit Facility were amended to, among other things, (a) allow the Company or any of its subsidiaries to sell, transfer or convey certain trade receivables which would result in aggregate proceeds not to exceed \$400 million, and (b) modify certain financial covenants.

Aggregate outstanding borrowings under the aforementioned agreements at December 31, 1999 totaled approximately \$865 million.

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

On December 17, 1999, the Company entered into the Receivables Securitization Program with a bank which provides additional borrowing capacity for the Company. Through the Receivables Securitization Program, BBDC may sell, on an ongoing basis, certain of its accounts receivable to Blue Hill, a 100%-owned special purpose subsidiary. Blue Hill will, in turn, sell an undivided percentage ownership interest in such receivables, with recourse, to financial institutions. The program qualifies for treatment as a sale of assets under SFAS No. 125, "Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities".

As of December 31, 1999, the Company had received \$200 million from the sale of such receivables under the Receivables Securitization Program, and this amount is reflected as a reduction of accounts receivable in the accompanying consolidated balance sheets. On February 1, 2000, the Receivables Securitization Program was amended to increase the funding limit from \$200 million to \$300 million.

On May 26, 1999, the Company's Trust issued 12,000,000 shares of its Preferred Securities at \$25 per security. The proceeds of such issuances were invested by the Trust in \$300 million aggregate principal amount of the Company's Subordinated Notes. The Subordinated Notes represent the sole assets of the Trust and bear interest at the rate of 7.80%, payable quarterly, and are redeemable by the Company beginning in May 2004 at 100% of the principal amount thereof. The obligations of the Trust related to the Preferred Securities are guaranteed by the Company.

The Company's 1996 Registration Statement, which became effective on March 27, 1996, allows the Company to sell senior and subordinated debt or equity securities to the public from time to time up to an aggregate maximum principal amount of \$400 million.

See Notes 5, 6 and 7 of the accompanying Notes to Consolidated Financial Statements for further information regarding the Receivable Securitization Program, Credit Agreement, the Credit Facility, the Commercial Paper Agreements, the Preferred Securities and the 1996 Registration Statement.

On November 4, 1999, the Company declared a regular quarterly cash dividend of \$0.075 per share on the Company's Common Stock that was paid on December 1, 1999 to shareowners of record on November 16, 1999. On September 24, 1998, the Company declared a \$0.075 per share quarterly cash dividend on the Company's Common Stock that was paid on December 1, 1998 to shareowners of record as of November 2, 1998. This \$0.075 payment constituted the Company's dividend for the first quarter ended December 31, 1998. For accounting purposes, this cash dividend was recorded in the fourth fiscal quarter ended September 30, 1998, resulting in a larger than usual dividend in that quarter and no dividend during the quarter ended December 31, 1998. Regular quarterly cash dividends of \$0.075 per share of Common Stock were paid on March 1, June 1, and September 1, 1999 and recorded in the second, third and fourth quarters, respectively, of fiscal 1999.



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

The Company's cash flows during the first quarters of fiscal 2000 and 1999 are summarized in the following table:

<i>Dollars in millions</i>	<b>Three Months Ended December 31,</b>	
	<b>1999</b>	<b>1998</b>
Net earnings excluding non-cash charges	\$ 64.3	\$ 40.9
Increases in operating assets and liabilities	(101.5)	(254.7)
Cash flows from operations	(37.2)	(213.8)
Property acquisitions	(44.5)	(8.0)
Proceeds from sale of accounts receivable with recourse	200.0	-
Proceeds of debt	544.8	220.0
Repayment of debt and other obligations	(630.0)	(5.9)
Cash dividends	(10.1)	(7.7)
Other – net	(3.2)	4.7
Net increase (decrease) in cash and cash equivalents	\$ 19.8	\$ (10.7)

During the first quarter of fiscal 2000, the Company's borrowings were significantly higher than in the first fiscal quarter of the prior year, principally related to the financing of the purchase price of certain of the 1999 acquisitions, the assumption of debt of those acquisitions and funding working capital requirements to support the Company's growing operations. The negative cash flows from operations in fiscal 2000 are primarily associated with the Pharmaceutical Distribution segment, which had higher receivables and inventory in connection with higher sales levels, largely offset by a significant benefit from accounts payable.

The Company believes that internally-generated cash flows, funds available under the Credit Agreement, the Credit Facility, the Receivables Securitization Program, and funds potentially available in the private and public capital markets will be sufficient to meet anticipated cash and capital requirements. However, actual results could differ from this forward-looking statement as a result of unanticipated capital requirements or an inability to access capital on acceptable terms when, and if, necessary. Such access to capital may be more difficult and/or expensive in the future due to the downgrading of the Company's credit ratings in November and December 1999 and February 2000. The Company is currently in discussion with its key banks regarding the refinancing of the Credit Facility and the Credit Agreement.

Working capital decreased to \$756 million at December 31, 1999 from \$770 million at September 30, 1999. The decrease primarily reflects lower accounts receivable balances (due to the Receivables Securitization Program) and higher accounts payable balances, partially offset by higher inventory balances. The current ratio decreased slightly to 1.26 at December 31, 1999 from 1.29 at September 30, 1999.

Property acquisitions relate principally to the purchase of the Company's previously-leased Corporate headquarters building; warehouse and pharmacy equipment, and data processing equipment.

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

**BUSINESS ACQUISITIONS**

On April 26, 1999, the Company acquired PharMerica, one of the nation's largest providers of pharmaceutical products and pharmacy management services to long-term care and alternate site settings, headquartered in Tampa, Florida. The Company issued approximately 24.7 million shares of Common Stock valued at approximately \$670 million, acquired net assets (excluding debt) at fair value of approximately \$307 million, assumed debt of approximately \$600 million and incurred costs of approximately \$10 million. The Company recorded goodwill of approximately \$973 million in the transaction.

On February 10, 1999, the Company acquired J.M. Blanco, Puerto Rico's largest pharmaceutical distributor, headquartered in Guaynabo, Puerto Rico, for a cash purchase price of approximately \$30 million. The Company acquired net assets (excluding debt) at fair value of approximately \$24 million, assumed debt of approximately \$22 million and incurred costs of approximately \$1 million. The Company recorded goodwill of approximately \$29 million in the transaction.

On January 21, 1999, the Company acquired Stadtlander, a national leader in disease-specific pharmaceutical care delivery for transplant, HIV, infertility and serious mental illness patient populations and a leading provider of pharmaceutical care to the privatized corrections market, headquartered in Pittsburgh, Pennsylvania. The Company paid approximately \$195 million in cash and issued approximately 5.7 million shares of Common Stock, previously held as Treasury shares, valued at approximately \$140 million. The Company acquired net assets (excluding debt) at fair value of approximately \$40 million, assumed debt of approximately \$100 million and incurred costs of approximately \$10 million. The Company recorded goodwill of approximately \$405 million in the transaction.

On December 31, 1998, the Company acquired MII, a pre-filler of pharmaceuticals for oncology centers, located in Tampa, Florida. The Company issued approximately 200,000 shares of Common Stock, previously held as Treasury shares, valued at approximately \$6.0 million, acquired net assets at fair value of approximately \$0.1 million and incurred costs of \$0.2 million. The Company recorded goodwill of approximately \$6.1 million in the transaction.

Each of the aforementioned acquisitions was accounted for as a purchase for financial reporting purposes. The Company is in disagreement with the seller and the seller's independent auditors regarding the valuation of the net assets of Stadtlander. See Part II, Item 1 entitled "Legal Proceedings."

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

**Year 2000 Readiness Disclosure**

The Company's internal information technology systems and its other business systems have not been negatively impacted by Year 2000 compliance problems. In addition, the Company is not aware of any significant Year 2000 compliance problems at its major customers, suppliers or other third parties, and it has not experienced any significant disruptions of product deliveries, services or cash flows. However, the Company will maintain a limited Year 2000 project team through the first few months of the calendar year 2000 in order to monitor any Year 2000 issues which might arise within the systems of the Company or third parties. There can be no assurance that any such Year 2000 issues will not have a material adverse effect on the Company's consolidated financial position, results of operations or cash flows.

### **ITEM 3. Quantitative and Qualitative Disclosures About Market Risk**

The Company's most significant "market risk" exposure is the effect of changing interest rates. The Company manages its interest expense by using a combination of fixed and variable-rate debt. At December 31, 1999, the Company's debt consisted of approximately \$590.4 million of fixed-rate debt with a weighted average interest rate of 7.87% and \$865.1 million of variable-rate debt (consisting of borrowings under the bank Credit Facility, Credit Agreement and discretionary lines and Commercial Paper Agreements) with a weighted average interest rate of 6.85%. The amount of the variable-rate debt fluctuates during the year based on the Company's cash requirements. If interest rates on such variable debt were to increase by 69 basis points (one-tenth of the rate at December 31, 1999), the net impact on the Company's first quarter fiscal 2000 results of operations and cash flows would be approximately \$1.5 million.

The Company also believes that its interest rate exposure may be somewhat mitigated due to the favorable effect which inflation may have on the Company, specifically, manufacturers' price inflation which may accelerate concurrent with a general increase in interest rates, to the extent that the Company can take advantage of such inflation in purchasing and selling inventory.

## **BERGEN BRUNSWIG CORPORATION**

### **PART II. OTHER INFORMATION**

#### **ITEM 1 LEGAL PROCEEDINGS**

There have been no new material developments in the legal proceedings as previously reported in Part I, Item 3 of the Company's Annual Report on Form 10-K for the fiscal year ended September 30, 1999 filed with the Securities and Exchange Commission on December 29, 1999 except as otherwise might be set forth below.

##### ***Section 1.***

As previously reported, between August 3, 1993 and February 14, 1994, the Company, along with various other pharmaceutical industry-related companies, was named as a defendant in eight separate state antitrust actions in three courts in California. These lawsuits are more fully detailed in "Item 1 - Legal Proceedings" of Part II of the Company's Quarterly Report on Form 10-Q for the quarter ended June 30, 1994 as filed with the Securities and Exchange Commission and is incorporated herein by reference. In April 1994, these California state actions were all coordinated as Pharmaceutical Cases I, II and III, and assigned to a single judge in San Francisco Superior Court. On August 22, 1994, a Consolidated Amended Complaint ("California Complaint"), which supersedes and amends the eight prior complaints, was filed in these actions.

The California Complaint alleges that the Company and 35 other pharmaceutical industry-related companies violated California's Cartwright Act, Unfair Practices Act, and the Business and Professions Code unfair competition statute. The California Complaint alleges that defendants jointly and separately engaged in secret rebating, price fixing and price discrimination between plaintiffs and plaintiffs' alleged competitors who sell pharmaceuticals to patients or retail customers. Plaintiffs seek, on behalf of themselves and a class of similarly situated California pharmacies, injunctive relief and treble damages in an amount to be determined at trial. The judge struck the class allegations from the Unfair Practices Act claims.

Between August 12, 1993 and November 29, 1993, the Company was also named in 11 separate Federal antitrust actions. All 11 actions were consolidated into one multidistrict action in the Northern District of Illinois entitled, In Re Brand-Name Prescription Drugs Antitrust Litigation, No. 94 C. 897 (MDL 997). On March 7, 1994, plaintiffs in these 11 actions filed a consolidated amended class action complaint ("Federal Complaint") which amended and superseded all previously filed Federal complaints against the Company. The Federal Complaint names as defendants the Company and 30 other pharmaceutical industry-related companies. The Federal Complaint alleges, on behalf of a nationwide class of retail pharmacies, that the Company conspired with other wholesalers and manufacturers to discriminatorily fix prices in violation of Section 1 of the Sherman Act. The Federal Complaint seeks injunctive relief and treble damages. On November 15, 1994, the Federal court certified the class defined in the Federal Complaint for the time period October 15, 1989 to the present. These lawsuits are more fully detailed in "Item 1 - Legal Proceedings" of Part II of the Company's Quarterly Report on Form 10-Q for the quarter ended June 30, 1994 as filed with the Securities and Exchange Commission and is incorporated herein by reference.

On May 2, 1994, the Company and Durr Drug Company were named as defendants, along with 25 other pharmaceutical related-industry companies, in a state antitrust class action in the Circuit Court of Greene County, Alabama entitled Durrett v. UpJohn Company, et al., No. 94-029 ("Alabama Complaint"). The Alabama Complaint alleges on behalf of a class of Alabama retail pharmacies and a class of Alabama consumers that the defendants conspired to discriminatorily fix

prices to plaintiffs at artificially high levels. The Alabama Complaint seeks injunctive relief and treble damages. On June 25, 1999, the Alabama Supreme Court held that plaintiffs' claims are not valid under the Alabama antitrust statute. On November 29, 1999 the trial court dismissed the entire action in accordance with the mandate of the Alabama Supreme Court. Similar actions were also filed against the Company and other wholesalers and manufacturers in Mississippi, *Montgomery Drug v. UpJohn, et. al.*, No. 97-0103, and in Tennessee, *Graves v. Abbott, et. al.*, No. 25,109-II. The various state actions have not yet been set for trial.

On October 21, 1994, the Company entered into a sharing agreement with five other wholesalers and 26 pharmaceutical manufacturers. Among other things, the agreement provides that: (a) if a judgment is entered against both the manufacturer and wholesaler defendants, the total exposure for joint and several liability of the Company is limited to \$1.0 million; (b) if a settlement is entered into by, between, and among the manufacturer and wholesaler defendants, the Company has no monetary exposure for such settlement amount; (c) the six wholesaler defendants will be reimbursed by the 26 pharmaceutical defendants for related legal fees and expenses up to \$9.0 million total (of which the Company will receive a proportionate share); and (d) the Company is to release certain claims which it might have had against the manufacturer defendants for the claims presented by the plaintiffs in these cases. The agreement covers the Federal court litigation, as well as the cases which have been filed in various state courts. In December 1994, plaintiffs in the Federal action had moved to set aside the agreement, but plaintiffs' motion was denied on April 25, 1995. In 1996, the class plaintiffs filed a motion for approval of a settlement with 12 of the manufacturer defendants, which would result in dismissal of claims against those manufacturers and a reduction of the potential claims against the remaining defendants, including those against the Company. The Court granted approval for the settlement. In 1998, an additional four of the manufacturer defendants settled. The effect of the settlements on the sharing agreement is that the Company's maximum potential loss would be \$1.0 million, regardless of the outcome of the lawsuits, plus possible legal fee expenses in excess of the Company's proportionate share of the \$9.0 million reimbursement of such fees or any additional amounts to be paid by the manufacturer defendants.

In September 1998, a jury trial of this action commenced in Federal Court. On November 30, 1998, the Court granted all remaining defendants a directed verdict, dismissing all class claims against the Company and other defendants. On July 13, 1999, the Court of Appeals for the Seventh Circuit affirmed the dismissal of the Company and the other wholesaler defendants from the class action litigation. Plaintiffs petition for rehearing on this issue was denied on August 9, 1999. On November 5, 1999 plaintiffs filed a petition for writ of certiorari in the United States Supreme Court. The defendants filed their opposition in January 2000.

In addition to the above-mentioned Federal class action and state court actions, the Company and other wholesale defendants have been added as defendants in a series of related antitrust lawsuits brought by certain independent pharmacies who have opted out of the class action cases and by certain chain drug and grocery stores. After a successful motion by the Company and other wholesalers, the damage period in these cases has been limited to October 1993 to the present. These lawsuits are also covered by the sharing agreement described above. Plaintiffs in these suits have requested remand to various federal courts nationwide for purposes of trial. A decision on the remand motion is pending, and no trial dates have been set.

As previously reported, in June 1998, Stadtlander became a 49% equity owner of a limited liability company formed for the purpose, among other things, of operating a specialty pharmacy business to provide services to patients diagnosed with a serious mental illness. This limited liability company is governed by an operating agreement that contains, among other things, a covenant prohibiting the members from participating in certain competing activities. In April 1999, the other member of the limited liability company brought suit in California Superior Court, San Diego County, seeking, among other things, to enjoin the PharMerica merger and to recover general, special and

punitive damages from the Company. The court refused to enjoin the merger. In January 2000, this lawsuit was settled by the parties on terms which were not material to the Company's results of operations, financial condition or liquidity.

As previously reported, in January 1999 EPA classified the Company as a de minimis party at the Casmalia Superfund Site in Santa Barbara County, California (the "Casmalia Site"), based upon the Company's alleged liability for disposing hydrocarbon-contaminated soil from certain underground tank removal activities at a site in California. Initially, EPA demanded payment of \$168,000 to release the Company from liability. Using provisions of the Superfund law that exclude petroleum-contaminated soil from the waste that is subject to Superfund liability, in June 1999, the Company submitted a Request for Waste Quantity Review ("Request") to EPA, petitioning EPA to release the Company from liability for the petroleum-contaminated soil. EPA is reviewing the Company's Request, but has not completed its review. In addition, the Company has negotiated a reduction of EPA's initial demand to approximately \$100,000. In December 1999, the Company conditionally accepted EPA's revised settlement offer, with the understanding that final acceptance and payment will be made after EPA acts on the Company's Request. If the Request is granted, the Company's liability could be reduced significantly, and is estimated to be in the \$10,000 range.

Although the amount of liability at September 30, 1999 with respect to the referenced proceedings in Section 1 above cannot be ascertained, in the opinion of the management, any resulting liability will not have a material adverse effect on the Company's consolidated financial position, results of operations or cash flows.

## ***Section 2.***

As previously reported, on October 14, 1999, the Company and certain of its subsidiaries commenced an action in the Los Angeles County Superior Court of the State of California against Counsel Corporation, Stadt Holdings, Inc., and certain of their officers and directors (the "Counsel defendants") in connection with the Company's acquisition of Stadtländer Drug Co., Inc. and its subsidiaries ("Stadtländer") on January 21, 1999. In the Counsel action, the Company alleges that the defendants devised and perpetrated a joint venture scheme with the common purpose of selling Stadtländer at a grossly inflated price. The Company contends that, by means of fraudulent adjusted journal entries and related misrepresentations and omissions, the Counsel defendants provided inaccurate financial statements and other false and misleading information to the Company in order to fraudulently induce it to consummate the Stadtländer acquisition for an excessive sales price.

In its complaint, the Company asserts causes of action against the defendants under California's securities and unfair competition laws, as well as common law and statutory claims for fraud. The Company requests the imposition of a constructive trust, an accounting, restitution and disgorgement of the defendants' ill-gotten profits and other damages, as well as other relief permitted under law, in addition to pre-judgment and post-judgment interest, costs and attorneys' fees.

Certain of the defendants made a motion to compel arbitration of the Company's claims against them, which the Court denied in January 2000. Apart from that motion, no other motions have been filed or served by any party to date. No discovery has been commenced by any party to date. A status conference is scheduled to take place in March 2000. No trial date has been set.

The Company believes its claims against the Counsel defendants have substantial merit, and intends to prosecute its claims vigorously against the Counsel defendants. However, due to the incipient stage of the litigation, its ongoing status, and the necessary uncertainties involved in all litigation, the Company does not believe it is feasible at this time to assess the likely outcome of the

litigation, the timing of its resolution, or its ultimate impact, if any, on the Company's financial condition, results of operations and cash flows.

As previously reported, following the Company's October 14, 1999 announcement that it would not meet analysts' consensus earnings estimates for its fourth quarter and fiscal year ended September 30, 1999, due to, in part, lower than expected results at Stadtlander and PharMerica, and following the Company's disclosures, in its complaint against the Counsel defendants, reported by the press on October 15, 1999, regarding the accounting irregularities involved in the Stadtlander acquisition, 10 purported shareholder class action lawsuits were commenced against the Company and certain of its officers and directors in federal court in California (the "Bergen securities cases").

The Bergen securities cases are purportedly brought on behalf of a class of the Company's shareholders who purchased or otherwise acquired Bergen's common stock from March 16, 1999 through October 14, 1999, and were allegedly damaged thereby. Some of the cases include two further sub-classes of persons who purchased or otherwise acquired the Company's common stock in connection with its acquisition of its wholly-owned subsidiary, PharMerica, Inc. ("PharMerica"), and of persons who were holders of record of PharMerica stock as of March 12, 1999, and were thereby entitled to vote, pursuant to the Company's Proxy Statement/Prospectus issued in connection with the PharMerica merger. The purported classes in a few of the cases may also consist of persons who purchased or otherwise acquired Bergen securities from September 9, 1998, through October 14, 1999.

The Bergen securities cases assert, among other things, various similar claims under sections 11, 12 and 15 of the Securities Act 1933 and sections 10(b), 14(a) and 20(a) of the Securities Exchange Act of 1934, and Rules 10b-5 and 14a-9 thereunder. In general, the Bergen securities cases allege that the Company and certain of its officers and directors made material omissions and unspecified misrepresentations in their PharMerica Proxy Statement/Prospectus, and in other public statements prior to October 14, 1999 (the end of the purported class period), by failing to disclose accounting irregularities and other fraudulent manipulations of Stadtlander's books and records which, they allege, would likely have had an material impact on the value of the Company's stock.

In addition to the Bergen securities cases, two separate lawsuits alleging violations of certain federal securities laws have been commenced in federal court in California, and another lawsuit has been commenced in federal court in Delaware, that name as defendants, along with the Company and certain of its officers and directors, Bergen Capital Trust I (the "Trust"), a wholly-owned subsidiary of the Company, as well as various investment banks (the "Trust securities cases").

The Trust securities cases are purportedly brought on behalf of a class of persons who purchased shares of the Trust's Preferred Securities pursuant to the May 26, 1999 offering of such securities, including, in two of the cases, persons who thereafter acquired any such Preferred Securities on the open market prior to October 14, 1999.

The Trust securities cases assert, among other things, claims under sections 11, 12 and 15 of the Securities Act of 1933, including, in two of the cases, among other things, claims under sections 10(b) and 20(a) of the Securities Exchange Act of 1934, and Rule 10b-5 thereunder. In general, the Trust securities cases contend that the Trust and the Company failed to fulfill a purported duty to disclose in the Company's 1999 Registration Statement, and in related offering materials with respect to the issuance of the Trust's Preferred Securities, that the financial data provided by the Company was supposedly unreliable because Stadtlander was suffering from accounting irregularities as a result of the fraud of the Counsel defendants.

The Plaintiffs in the Bergen securities cases and the Trust securities cases seek damages in an unspecified amount, and/or rescission, as well as pre-judgment and post-judgment interest, costs and attorneys' fees.



Pursuant to court order, the Bergen securities cases have been consolidated into a single action in the Southern Division of the United States District Court for the Central District of California, and "lead plaintiffs" and "lead counsel" have been appointed under the Private Securities Litigation Reform Act of 1995 (the "PSLRA"). The Plaintiffs in the Trust securities cases also have moved for the appointment of "lead plaintiffs" and "lead counsel" in the United States District Court for the District of Delaware under the PSLRA. At this juncture, based upon current information, the Company anticipates that this motion will be granted. The Company further anticipates that it will not be required to respond to any of the actions until after the filing of an amended consolidated complaint. No other motion is currently pending in any of the actions. No discovery has been commenced by any party to date in any of the actions. No status conferences have been noticed or conducted to date in any of the actions. No trial dates have been set in any of the actions.

The Company intends to vigorously defend against the claims asserted in the various purported shareholder class action lawsuits.

The Company has been informed by the State of Hawaii Medicaid Fraud Division that it has initiated an investigation into possible violations of Medicaid regulations by a pharmacy operated by PharMerica in Honolulu, Hawaii. The Company also is conducting an internal investigation in conjunction with the State. At this stage of the investigation, the Company is not able to determine the probable outcome of the investigation, including any possible resulting liability.

In addition, due to the nature of the business of PharMerica and Stadtlander that involves payments under various federal and state programs, the Company is regularly subject to audit, review and investigation processes of governmental entities, quasi-governmental entities and third-party payors.

The proceedings referenced in Section 2 are in their early stages and discovery has not been completed. The Company does not believe it is currently feasible to predict or determine the outcome or resolution of these proceedings, or to estimate the amounts of, or potential range of, loss, if any, with respect to these proceedings.

**BERGEN BRUNSWIG CORPORATION**

**PART II. OTHER INFORMATION (Continued)**

**ITEM 6. EXHIBITS AND REPORTS ON FORM 8-K**

(a) **EXHIBITS**

- 3            The By-laws as amended and restated, dated February 5, 2000.
- \*10(a)      The Fifth Amendment dated as of September 30, 1999, and the Sixth Amendment dated as of December 13, 1999, to the Amended and Restated Credit Agreement (including Joinder Agreement with PharMerica, Inc.) among Bergen Brunswig Corporation and Bank of America National Trust and Savings Association.
- \*10(b)      The First Amendment dated as of September 30, 1999, and the Second Amendment dated as of December 13, 1999, to the Credit Agreement (including Joinder Agreement with PharMerica, Inc.) among Bergen Brunswig Drug Company, Bergen Brunswig Corporation and Bank of America National Trust and Savings Association.
- \*10(c)      Receivables Sale Agreement dated as of December 17, 1999 among Blue Hill, Inc., Bergen Brunswig Drug Company, Wachovia Bank, N.A. and others
- Exhibits 10(a), 10(b) and 10(c) are set forth as Exhibits 10(w), 10(x) and 10(y), respectively, to the Company's Annual Report on Form 10-K/A for the fiscal year ended September 30, 1999, dated January 7, 2000.
- 10(d)      First Amendment to Receivables Sale Agreement among Blue Hill, Inc., Bergen Brunswig Drug Company and Wachovia Bank, N.A. and others, dated as of February 1, 2000.
- 27           Financial Data Schedule for the three months ended December 31, 1999.
- \*99          Statement Regarding Forward-Looking Information is set forth as Exhibit 99(a) to the Company's Annual Report on Form 10-K for the fiscal year ended September 30, 1999.
- \*            Document has heretofore been filed with the Securities and Exchange Commission and is incorporated herein by reference and made a part thereof.

(b) **REPORTS ON FORM 8-K:**

There were no reports filed on Form 8-K during the three months ended December 31, 1999.

## **SIGNATURES**

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

### **BERGEN BRUNSWIG CORPORATION**

By /s/ Robert E. Martini  
Robert E. Martini  
Chairman of the Board and  
Chief Executive Officer

By /s/ Neil F. Dimick  
Neil F. Dimick  
Executive Vice President,  
Chief Financial Officer  
(Principal Financial Officer and  
Principal Accounting Officer)

February 11, 2000

## **BERGEN BRUNSWIG CORPORATION**

### **INDEX TO EXHIBITS**

<b><u>EXHIBIT NUMBER</u></b>		<b><u>PAGE NUMBER</u></b>
3	The By-laws as amended and restated, dated February 5, 2000.	37
*10(a)	The Fifth Amendment dated as of September 30, 1999, and the Sixth Amendment dated as of December 13, 1999, to the Amended and Restated Credit Agreement (including Joinder Agreement with PharMerica, Inc.) among Bergen Brunswig Corporation and Bank of America National Trust and Savings Association.	
*10(b)	The First Amendment dated as of September 30, 1999, and the Second Amendment dated as of December 13, 1999, to the Credit Agreement (including Joinder Agreement with PharMerica, Inc.) among Bergen Brunswig Drug Company, Bergen Brunswig Corporation and Bank of America National Trust and Savings Association.	
*10(c)	Receivables Sale Agreement dated as of December 17, 1999 among Blue Hill, Inc., Bergen Brunswig Drug Company, Wachovia Bank, N.A. and others	
	Exhibits 10(a), 10(b) and 10(c) are set forth as Exhibits 10(w), 10(x) and 10(y), respectively, to the Company's Annual Report on Form 10-K/A for the fiscal year ended September 30, 1999, dated January 7, 2000.	
10(d)	First Amendment to Receivables Sale Agreement among Blue Hill, Inc., Bergen Brunswig Drug Company and Wachovia Bank, N.A. and others, dated as of February 1, 2000.	53
27	Financial Data Schedule for the three months ended December 31, 1999.	69
99*	Statement Regarding Forward-Looking Information is set forth as Exhibit 99(a) to the Company's Annual Report on Form 10-K for the fiscal year ended September 30, 1999.	
*	Document has heretofore been filed with the Securities and Exchange Commission and is incorporated herein by reference and made a part thereof.	

**AMENDED AND RESTATED BY-LAWS  
BERGEN BRUNSWIG CORPORATION  
AS OF NOVEMBER 13, 1998  
AS AMENDED FEBRUARY 5, 2000**

---

ARTICLE I

Office

Section 1. Principal Office. The principal office of the corporation is hereby fixed and located at 4000 Metropolitan Drive, in the City of Orange, County of Orange, and State of California. The board of directors is hereby granted full power and authority to change said principal office to another office within or without the State of California.

Section 2. Other Offices. Branch or subordinate offices may at any time be established by the board of directors at any place or places where the corporation is qualified to do business.

ARTICLE II

Meeting of Shareholders

Section 1. Place of Meetings. All meetings of shareholders shall be held at the principal office of the corporation or at such other place as may be designated by the board of directors or its executive committee and stated in the notice of the meeting.

Section 2. Annual Meetings. An annual meeting of the shareholders of the corporation shall be held on such day and at such hour as shall be fixed by the board of directors and designated in the notice of the meeting.

Section 3. Special Meetings. Special meetings of the shareholders may be called for any purpose and at any time by the chairman of the board, the president or by the board of directors or as provided in the certificate of incorporation.

Section 4. Notice of Meetings. Written notice of the time, place and purposes of annual and special meetings of shareholders shall be given to each shareholder entitled to vote at such meeting at least ten (10) days and not more than sixty (60) days before the date of such meeting, either personally or by mail, charges prepaid, addressed to such shareholder at his address appearing on the books of the corporation.

Section 5. Record Date. The board of directors shall fix the record date for determination of shareholders entitled to notice of and to vote at any annual or special meeting of shareholders. Such record date shall not be more than sixty (60) days nor less than ten (10) days before the date of such meeting.

Section 6. Nominations of Directors and Proposals of Business To Be Considered. (a) Nominations of persons for election to the board of directors of the corporation and the proposal of business to be considered by the shareholders may be made at an annual meeting of shareholders (i) pursuant to the corporation's notice of such annual meeting, (ii) by or at the direction of the board of directors or (iii) by any shareholder of the corporation who was a shareholder of record at the time of giving of the notice provided for in this Article II, Section 6 and who is entitled to vote at the meeting, provided that such shareholder has complied with the notice procedures set forth in this Article II, Section 6.

(b) For nominations or other business to be properly brought before an annual meeting by a shareholder pursuant to clause (iii) of paragraph (a) of this Article II, Section 6, the shareholder must have given timely notice thereof in writing to the secretary of the corporation. To be timely, a shareholder's notice shall be delivered to the secretary at the principal executive offices of the corporation not less than sixty (60) days nor more than ninety (90) days prior to the first anniversary of the preceding year's annual meeting; provided, however, that in the event that the date of the annual meeting is advanced by more than thirty (30) days or delayed by more than sixty (60) days from such anniversary date, notice by the shareholder to be timely must be so delivered not earlier than the ninetieth (90th) day prior to such annual meeting and not later than the close of business on the later of the sixtieth (60th) day prior to such annual meeting or the tenth (10th) day following the day on which public announcement of the date of such meeting is first made. Such shareholder's notice shall set forth (i) as to each person whom the shareholder proposes to nominate for election or reelection as a director, all information relating to such person that is required to be disclosed in solicitations of proxies for election of directors, or is otherwise required, in each case pursuant to Regulation 14A under the Securities Exchange Act of 1934, as amended (the "Exchange Act") (including, without limitation, such person's name, address and principal occupation and such person's written consent to being named in the proxy statement as a nominee and to serving as a director if elected); (ii) as to any other business that the shareholder proposes to bring before the meeting, a brief description of the business desired to be brought before the meeting, the reasons for conducting such business at the meeting and any financial or other interest in such business of such shareholder and the beneficial owner, if any, on whose behalf the proposal is made; and (iii) as to the shareholder giving the notice and the beneficial owner, if any, on whose behalf the nomination or proposal is made (1) the name and address of such shareholder, as they appear on the corporation's books, and of such beneficial owner and (2) the class and number of shares of the corporation which are owned beneficially and of record by such shareholder and such beneficial owner.

(c) Notwithstanding anything in the second sentence of paragraph (b) of this Article II, Section 6 to the contrary, in the event that the number of directors to be elected to the board of directors of the corporation is increased and there is no public announcement naming all of the nominees for

director or specifying the size of the increased board of directors made by the corporation at least seventy (70) days prior to the first anniversary of the preceding year's annual meeting, a shareholder's notice required by this Article II, Section 6 shall also be considered timely, but only with respect to nominees for any new positions created by such increase, if it shall be delivered to the secretary at the principal executive offices of the corporation not later than the close of business on the tenth (10th) day following the day on which such public announcement is first made by the corporation.

(d) Only such persons who are nominated in accordance with the procedures set forth in this Article II, Section 6 shall be eligible to serve as directors and only such business shall be conducted at an annual meeting of shareholders as shall have been brought before the meeting in accordance with the procedures set forth in this Article II, Section 6; provided, however, that the presiding officer of the meeting may elect, for good cause shown, to waive one or more of the procedures of this Article II, Section 6. The presiding officer of the meeting shall have the power and duty to determine whether a nomination or any business proposed to be brought before the meeting was made in accordance with the procedures set forth in this Article II, Section 6 and, if any proposed nomination or business is not in compliance with this Article II, Section 6 and the presiding officer elects not to waive such non-compliance, to declare that such defective proposed business or nomination shall be disregarded.

(e) For purposes of this Article II, Section 6, "public announcement" shall mean disclosure in a press release reported by the Dow Jones News Service, Associated Press or a comparable national news service or in a document publicly filed by the corporation with the Securities and Exchange Commission pursuant to Section 13, 14 or 15(d) of the Exchange Act.

(f) Notwithstanding the foregoing provisions of this Article II, Section 6, a shareholder shall also comply with all applicable requirements of the Exchange Act and the rules and regulations thereunder with respect to the matters set forth in this Article II, Section 6. Nothing in this Article II, Section 6 shall be deemed to affect any rights of shareholders to request inclusion of proposals in the corporation's proxy statement pursuant to Rule 14a-8 under the Exchange Act.

Section 7. Quorum. Except as otherwise provided in the certificate of incorporation, the presence in person or by proxy of the holders of a majority of any class or series voting separately at a meeting and a majority of any two or more classes voting together as a class at such meeting shall constitute a quorum for the transaction of business; if any matter to come before the meeting requires a vote of less than all the outstanding classes, then the presence in person or by proxy of the holders of a majority of the class or classes or series having the right to vote on such matter or matters shall constitute a quorum for the transaction of such business. The shareholders present at a duly called or held meeting at which a quorum is present may continue to do business until adjournment notwithstanding the withdrawal of enough shareholders to leave less than a quorum.

Section 8. Adjourned Meetings and Notice Thereof. Any shareholders' meeting, annual or special, whether or not a quorum is present, may be adjourned from time to time by the vote of a majority of the shares the holders of which are either present in person or represented by proxy at such meeting, but in the absence of a quorum no other business may be transacted at such meeting; provided, however, that if a quorum of any class or series is present and objects to such adjournment, the meeting shall not be adjourned.

When any shareholders' meeting, either annual or special, is adjourned for more than thirty days, notice of the adjourned meeting shall be given as in the case of an original meeting. If any such meeting is adjourned for thirty days or less, however, and the time and place of the adjourned meeting is announced at the meeting at which the adjournment is taken, and the only business transacted at the adjourned meeting is such as might have been transacted at the original meeting, no further notice of the adjourned meeting need be given to shareholders. If after the adjournment, the board of directors fixes a new record date for the adjourned meeting, however, a notice of the adjourned meeting shall be given to each shareholder of record on the new record date.

Section 9. Voting. Shareholders shall vote their stock in the manner provided in the certificate of incorporation as amended from time to time. Shares held by the corporation shall not be voted at any meeting of shareholders for any purpose.

Section 10. Proxies. Every shareholder entitled to vote at a meeting of shareholders may authorize another person or persons to act for him by proxy. Every proxy shall be executed in writing by the shareholder or his agent, except that a proxy may be given by a shareholder or his agent by telegram or cable or by any means of electronic communication which results in a writing. No proxy shall be valid after eleven months from the date of its execution unless a longer time is expressly provided therein. Unless it states that it is irrevocable and is coupled with an interest either in the stock itself or in the corporation, a proxy shall be revocable at will. A proxy shall not be revoked by the death or incapacity of the shareholder but the proxy shall continue to be in force until revoked by the personal representative or guardian of the shareholder. The presence at a meeting of any shareholder who has given a proxy does not revoke the proxy unless the shareholder files written notice of the revocation with the secretary of the meeting prior to the voting of the proxy or votes the shares subject to the proxy by written ballot. A person named in a proxy as the attorney or agent of a shareholder may, if the proxy so provides, substitute another person to act in his place, including any other person named as an attorney or agent in the same proxy. The substitution shall not be effective until an instrument effecting it is filed with the secretary of the corporation.

Section 11. Officers of Meetings. The chairman of the board, if present, shall preside at all meetings of shareholders. In his absence, the president, if present, shall preside. In his absence, the vice president of the corporation who has held that office for the longest period of those present at the meeting shall preside. The secretary of the corporation shall, if present, act as secretary of all meetings



of shareholders. In his absence, any assistant secretary of the corporation who is present shall act as secretary of the meeting. If no assistant secretary is present, a temporary secretary for that particular meeting shall be elected.

Section 12. Order of Business. The order of business at all meetings of the shareholders, unless changed by a majority vote of the shares entitled to vote at such meeting, shall be as follows: (i) call to order; (ii) proof of mailing of notice of meeting, proxy and proxy statement; (iii) report on presence of a quorum; (iv) reading or waiver of minutes of preceding meeting; (v) election of directors; (vi) vote on other proposals; (vii) report of officers; and (viii) other business and adjournment.

Section 13. Voting List. The secretary or any assistant secretary shall produce at each shareholders' meeting a list of shareholders entitled to vote at the meeting or any adjournment thereof. Such list shall (a) be arranged alphabetically within each class and series, with the address of, and the number of shares held by, each shareholder, (b) be subject to the inspection of any shareholder for reasonable periods during the meeting, and (c) be prima facie evidence as to persons who are the shareholders entitled to examine such list or to vote at the meeting.

Section 14. Action by Shareholders Without a Meeting. In order that the corporation may determine the shareholders entitled to consent to corporate action in writing without a meeting pursuant to Section 14A:5-6 of the New Jersey Business Corporation Act, any shareholder of record seeking to have the shareholders authorize or take corporate action by written consent shall, by written notice to the secretary, request that the board of directors set a record date. Upon receipt of such written notice, or in the absence of such written notice at any time at its election, the board of directors may, as it deems appropriate and in the best interests of the corporation, adopt a resolution setting a record date for purposes of determining the shareholders entitled to consent to corporate action in writing without a meeting. Any record date set by the board of directors pursuant to this Section 14 shall not precede, and shall not be more than ten (10) days after, the date on which the resolution setting the record date is adopted by the board of directors.

### ARTICLE III

#### Board of Directors

Section 1. Number of Directors<sup>1</sup> The board of directors of the corporation shall be composed of not less than nine (9) nor more than fifteen (15) until changed by an amendment of the certificate of incorporation duly adopted by the shareholders of the corporation.

The board of directors, following the adoption of these amended by-laws, shall consist of eleven (11) members and one Director Emeritus. The number of directors may be increased or decreased within the foregoing limitations by an amendment to this Section 1 of Article III duly adopted by the board of directors.

Section 2. Term of Office; Classification of Directors. The board shall be divided into three classes, which shall be denominated Classes I, II and III, respectively. The number of directors in each class shall be as nearly equal as possible

At each meeting of shareholders, directors shall be elected to fill the directorships of the Class of directors whose terms have expired. Those directors shall hold office until the third successive annual meeting of shareholders after their election and until their successors shall have been elected and qualified, so that directors elected at annual meetings of shareholders shall each be elected for a three year term, and that the term of one class of directors shall expire at each annual meeting.

Section 3. Resignation and Removal. Any director may resign at any time. Any director may be removed with or without cause as provided in the certificate of incorporation. A special meeting for the purpose of removing a director may be called for by the chairman of the board, the president or the board of directors. Notice of such meeting shall be given to all the shareholders of Class A Common Stock in the manner provided by these by-laws for any annual or special meeting. A new director to fill the vacancy caused by resignation or removal may be elected at the special meeting called for the purpose of removing such director, at any subsequent annual or special meeting of shareholders, or by the board of directors. If such director is elected at a special meeting of shareholders, he shall serve until the term of the removed director would have expired and thereafter until his successor shall have been elected and qualified.

Section 4. Vacancies. If any vacancy should occur in the board of directors for any reason whatsoever, such vacancy may be filled by a majority of the remaining directors. Each director so elected shall hold office until the next succeeding annual or special meeting of the shareholders and thereafter until his successor shall have been elected and qualified.

A vacancy or vacancies in the board of directors shall be deemed to exist in the case of the death, resignation or removal of any director, or if the authorized number of directors be increased, or if the shareholders fail at any special meeting of the shareholders at which any director or directors are elected to elect the authorized number of directors to be voted for at that meeting. No reduction of the authorized number of directors shall have the effect of removing any director prior to the expiration of his term of office.

---

<sup>1</sup> Amended 11/2/99 by the Board of Directors.

Subject to the provisions of the certificate of incorporation, the shareholders may elect a director or directors at any time to fill any vacancy or vacancies not filled by the directors. If the board of directors accepts the resignation of a director tendered to take effect at a future time, the board or the shareholders shall have the power to elect a successor to take office when the resignation is to become effective.

If the chairman of the board, the president or the board of directors shall so direct, the secretary shall promptly call a special meeting of shareholders to elect a director to fill such vacancy. Any director so elected shall hold office for a term which is not inconsistent with Section 2 of Article III of these by-laws, and thereafter until his successor shall have been elected and qualified.

If a vacancy of all directors shall occur, the president or secretary shall promptly call a special meeting of the shareholders to elect directors to fill such vacancies. The persons so elected shall hold office until the next annual meeting of shareholders and thereafter until their respective successors shall have been elected and qualified.

Section 5. Place of Meeting. The board of directors may hold its meetings at such place or places within or without the State of New Jersey as the board may from time to time determine.

Section 6. Regular Meetings. Regular meetings of the board of directors shall be held on such day in March or April, June or July and September or October as shall be determined from time to time by the board, at 10:00 a.m. or at such other time designated by the board on such day; provided, however, that should said day fall upon a legal holiday, then any such meeting shall be held at the same hour and place on the next succeeding day which is not a legal holiday. A fourth regular meeting of the board of directors shall take place immediately following the conclusion of the annual meeting of shareholders. At the regular meeting of the board held immediately following the annual meeting of shareholders, the board of directors shall organize and elect officers.

Section 7. Special Meetings. Special meetings of the board of directors for any purpose or purposes may be called at any time by the chairman of the board, the president, or by any three (3) directors.

Section 8. Notice of Meetings. Notice of the place of each regular meeting of the board, and notice of the time and place of each special meeting of the board, shall be given in writing to each director either by hand delivery, facsimile transmission, mail or national courier service such as Federal Express, to the address or facsimile number, as the case may be, of such director as shown upon the records of the corporation. If such notice is delivered by hand or by facsimile transmission, it shall be delivered or transmitted, as the case may be, at least twenty-four (24) hours prior to the time of the holding of the meeting. If such notice is delivered by mail or national courier service, it shall be sent either by overnight mail or national courier service (next day delivery), in which case it shall be deposited with the overnight mail or national courier service at least two days prior to the time of the holding of the meeting, or by airmail, in which case it shall be deposited in the United States Mails at least one week prior to the time of the holding of the meeting. Such hand delivery, facsimile transmission, mailing or national courier service delivery, as above provided, shall be due, legal and personal notice to such director.

Section 9. Waiver of Notice and Consent. The transactions of any meeting of the board, however called and noticed or wherever held, shall be as valid as though such meeting had been duly

held after a regular call and notice, if a quorum be present and if, before or after the meeting, each of the directors not present signs a written waiver of notice or a consent to the holding of such meeting or an approval of the minutes thereof. All such waivers, consents or approvals shall be filed with the corporate records or made a part of the minutes of the meeting.

Section 10. Action without Meeting. Any action required or permitted to be taken by the board of directors by law or these by-laws may be taken without a meeting, if, prior or subsequent to such action, all members of the board shall individually or collectively consent in writing to such action. Each such written consent or consents shall be filed with the minutes of the proceedings of the board. Such action by written consent shall have the same force and effect as a unanimous vote of such directors, for all purposes.

Section 11. Quorum. A majority of the entire board of directors shall constitute a quorum for the transaction of business.

Section 12. Voting. Every act or decision done or made by a majority of the directors present at a meeting duly held at which a quorum is present shall be regarded as the act of the board of directors. In determining the presence of a quorum and the result of a vote taken by the board, no distinction shall be made among the directors with respect to the class or classes or series of shareholders which elected them.

Section 13. Presiding Officer. The chairman of the board shall preside at all meetings of the board at which he is present. In the absence of the chairman of the board, the president shall preside. If the secretary of the corporation or any assistant secretary is present, he shall record the minutes of the meeting, and if neither of them is present the board shall designate a secretary to record the minutes of the meeting.

Section 14. Adjournment. A quorum of the directors may adjourn any directors' meeting to meet again at a time and place fixed in the resolutions adjourning such meeting, and no notice of the time and place of the adjourned meeting need be given if the period of adjournment does not exceed ten days in any one adjournment. A meeting of directors at which less than a quorum is present may also be adjourned until the next regular meeting of the board.

Section 15. Directors Emeritus. The title of director emeritus may be conferred by the board of directors upon any former director of the corporation or of a corporation acquired by the corporation who, in the judgment of the board, has brought credit and distinction to this corporation, or such acquired corporation, through long and faithful service. The title hereby created is honorary only and does not carry with it the powers, duties or obligations of a director of this corporation or any other power, duty or obligation. The title may be conferred upon as many persons as the board deems appropriate. A director emeritus shall not be deemed a director or member of the board of directors but may attend meetings of the board and, upon invitation of the chairman, may take part in the deliberative proceedings of the board, but may not vote.

Section 16. Fees and Compensation. Directors shall receive for attendance at each regular or special meeting of the board a fixed sum and expenses of attendance, if any, and an annual fee for service as a director, such as may be allowed by resolution of the board. The board of directors may, if it so desires, fix one fee for directors who are officers or employees of the corporation (or who are receiving retirement benefits from it or a subsidiary or under a pension trust of a subsidiary) and a higher fee for other directors. Nothing herein contained shall be construed to preclude any director from serving the corporation in any other capacity and receiving compensation therefor.

#### ARTICLE IV

##### Committees

Section 1. Establishment of Committees<sup>1</sup>. The board of directors may, by resolution adopted by a majority of the entire board, designate an executive committee, consisting of the chairman of the board, and ten (10) other directors, and may at any time designate additional committees, each of which shall consist of two (2) or more directors. Subject to the limitations contained in Section 8 of this Article IV, the executive committee shall have the maximum authority permitted by law in effect at the time of the exercise of such authority and each other committee shall have such authority, not exceeding the authority of the executive committee, as is provided by the board of directors in the resolutions creating such committee.

Section 2. Presiding Officer and Secretary<sup>2</sup>. The Chairman of the Board shall be chairman of the executive committee. In the absence of the Chairman of the Board, one of the other directors shall be selected by the committee to preside. Each other committee shall choose one of its members to act as chairman. Each committee shall from time to time designate a secretary of the committee who shall keep a record of its proceedings.

---

<sup>1</sup> Amended 11/2/99 by the Board of Directors.

<sup>2</sup> Amended 11/2/99 by the Board of Directors.

Section 3. Vacancies. Vacancies occurring from time to time in the membership of any committee may be filled by a majority of the entire board for the unexpired term of the member whose death, resignation, removal or disability causes such vacancy, and shall be so filled, if, as the result of such vacancy, there shall be less than three (3) directors on the executive committee or less than two (2) directors on any other committee, or, in the case of the executive committee, if the chief executive officer should be the one whose death, resignation, removal or disability causes such vacancy.

Section 4. Meetings. Each committee shall adopt its own rules of procedure and shall meet at such stated time as it may, by resolution, appoint, and shall also meet whenever called together by the chairman of the board or the chief executive officer.

Section 5. Notice of Meetings. If the committee established regular meeting dates, it shall not be necessary to give notice of any such regular meeting. Notice of every special meeting shall be given in the manner and within the time periods specified in Section 8 of Article III with respect to notices of special meetings of the board of directors. Notice of any special meeting may be waived in writing by all of the absent members of the committee either before or after the meeting.

Section 6. Quorum. A quorum at any meeting of any committee shall be not less than one-half (1/2) of the entire committee. In the case of the executive committee, however, a quorum shall be not less than three (3) members. Every act or decision done or made by a majority of the directors present at a committee meeting duly held at which a quorum is present shall be regarded as the act of the committee.

Section 7. Reports. Actions taken at a meeting of any committee shall be reported to the board at its next meeting following such committee meeting, except that when the meeting of the board is held within two (2) days after the committee meeting, such report shall, if not made at the first meeting, be made to the board at the second meeting following such committee meeting.

Section 8. Limitation of Powers. No committee of the board of directors shall have authority to do any of the following:

- (a) make, alter or repeal any by-law of the corporation;
- (b) elect or appoint any director, or remove any officer or director;
- (c) submit to shareholders any action that requires shareholders' approval;
- (d) amend or repeal any resolution theretofore adopted by the board which by its terms is amendable or repealable only by the board;
- (e) fix the compensation of any officer who is a member of the committee for serving as an officer of the corporation.

Section 9. Additional Powers of the Board. The board shall have the power, with respect to existing committees, to

- (a) fill any vacancy in any such committee;

- (b) appoint one or more directors to serve as alternative members of any such committee to act in the absence or disability of members of any such committee with all the powers of such absent or disabled members;
- (c) abolish any such committee at its pleasure; and
- (d) remove any director from membership on such committee at any time, with or without cause.

## ARTICLE V

### Officers

Section 1. Officers Enumerated. The Board of Directors shall designate and elect the officers of the corporation which shall include but shall not be limited to a Chairman of the Board, a Chief Executive Officer, [ a President,] two or more members of the office of the President, one or more Executive Vice Presidents, Senior Vice Presidents and Vice Presidents, a Treasurer, one or more Assistant Treasurers, a Secretary and one or more Assistant Secretaries. Any two or more offices may be held by the same person, except that no officer shall execute, acknowledge, or verify any instrument in more than one capacity as such instrument is required by law or by the By-Laws to be executed, acknowledged, or verified by two or more officers. The Chairman of the Board and the Chief Executive Officer shall be directors. The office of the President shall initially have four members, each of whom shall be an Executive Vice President of the Corporation who shall have the duties and powers normally pertaining to the President of the Corporation but shall be limited to those divisions or subsidiaries for which he or she is responsible.

Section 2. Additional Officers. The board of directors may from time to time elect such other officers as it shall deem necessary, who shall hold their offices for such terms and have such powers and perform such duties as shall be prescribed from time to time by the board.

Section 3. Election and Term of Office. Each officer shall hold office until the next annual election of officers, and until his successor has been elected and qualified, unless he is earlier removed. All officers of the corporation shall hold office at the pleasure of the board of directors.

Section 4. Vacancies. Any vacancy in an enumerated office or in any other office may be filled by the board of directors.

Section 5. Removal and Resignation. Any officer may be removed, either with or without cause, by a majority of the directors at any regular or special meeting of the board or by any officer upon whom such power of removal may be conferred by the board. Removal of an officer shall be without prejudice to his or her contract rights, if any. Election to a corporate office shall not, in and of itself, create contractual rights. Any officer may resign at any time by giving written notice to the board or to the president. Any such resignation shall take effect at the date of the receipt of such notice or at any

later time specified therein and, unless otherwise specified therein, the acceptance of such resignation shall not be necessary to make it effective.

Section 6. Powers and Duties. The officers shall each have such authority and perform such duties in the management of the corporation as from time to time may be prescribed by the board of directors or the executive committee and as may be delegated by the chairman of the board or the Chief Executive Officer. Without limiting the foregoing,

(a) Chairman of the Board. The Chairman of the Board shall preside at all meetings of shareholders and at all meetings of the directors. He shall generally possess such powers and perform such duties as usually pertain to the office of the Chairman and to the office of the Chief Executive Officer.

(b) Chief Executive Officer. The Chief Executive Officer of the Corporation shall, subject only to the direction and control of the Chairman of the Board and the Board of Directors, have general charge of, supervision over and responsibility for the business and affairs of the Corporation. The Chief Executive Officer shall generally possess such powers and perform such duties as usually pertain to the office of a President of a New Jersey business corporation. In the absence of the Chairman of Board, the Chief Executive Officer shall preside at all meetings of Shareholders and of the Board of Directors.

(c) President. The president shall generally possess such powers and perform such duties as usually pertain to the office of the president of a New Jersey business corporation, including power to supervise the business and activities of the corporation and to instruct, direct and control its other officers, agents and employees, and shall perform such other duties as the chairman of the board or the chief executive officer shall direct. In the absence of the chairman of the board and the chief executive officer, he shall preside at all meetings of shareholders and of the board of directors.

(d) Members of the Office of the President. Each member of the Office of the President shall generally possess such powers and perform such duties as usually pertain to the Office of the President but shall be limited to the divisions or businesses for which he or she has responsibility. Such powers and duties shall include the power to supervise the businesses and activities of such divisions and to instruct, direct and control the other officers, agents and employees of those divisions and to perform such other duties as the Chairman of the Board or the Chief Executive Officer shall direct.

(e) Vice President. The corporation shall have one or more vice presidents as determined by the board of directors. The board of directors may designate one or more of such vice presidents as executive vice president or senior vice president. All vice presidents shall have such authority and shall perform such duties as may be delegated from time to time by the chairman of the board, the chief executive officer or the board of directors. Unless otherwise ordered by the board of directors, any vice president may sign contracts or other instruments authorized either generally or specifically by the board of directors.



(f) Secretary. The secretary or any assistant secretary shall cause notices of all meetings to be served as prescribed in these by-laws and shall keep the minutes of all meetings of the shareholders, board of directors and all committees of the board of directors or shareholders, and shall have charge of the seal of the corporation. He shall perform such other duties and possess such other powers as pertain to his office or as are assigned to him by the chairman of the board, the chief executive officer, the president or the board of directors.

(g) Treasurer. The treasurer shall have the custody of the funds and securities of the corporation and shall keep or cause to be kept regular books of account for the corporation. He shall account to the chairman of the board, the chief executive officer or the board of directors whenever they may require concerning all his transactions as treasurer and concerning the financial condition of the corporation. The treasurer shall perform such other duties and possess such other powers as are incident to his office or as shall be assigned to him by the chairman of the board, the chief executive officer, or the board of directors.

(h) Controller. The Controller shall have the immediate responsibility for the corporation's accounting practices, maintenance of its fiscal records, preparation of its financial reports and the responsibility for general accounting, cost accounting and budgetary controls functions of the corporation. He shall be under the broad administrative direction of the Vice President, Financial and Chief Financial Officer, and shall perform such other duties and possess such other powers as are incident to his office or as shall be assigned to him by the chairman of the board, the chief executive officer, or the board of directors.

## ARTICLE VI

### Capital Stock and Other Securities

Section 1. Issuance of Stock and Other Securities. Certificates of any class of capital stock of the corporation and certificates representing any other securities of the corporation shall be signed by the president or any vice president and may be countersigned by the secretary or the treasurer or the assistant secretary. Any or all signatures upon a certificate may be a facsimile. Such certificates shall be sealed with the seal of the corporation, or shall bear a facsimile of such seal; and such certificates shall be registered in such manner as the board of directors may by resolution prescribe.

Section 2. Lost, Stolen and Destroyed Certificates. In case of lost, stolen or destroyed certificates, new certificates may be issued to take their place upon receipt by the corporation of such bond of indemnity and under such regulations as shall be prescribed by the board of directors, but the giving of a bond of indemnity may be waived by the board.

Section 3. Transfer of Securities. Shares of capital stock or any other registered securities of the corporation shall be transferable on the books of the corporation by the holder thereof in person or by his authorized attorney upon surrender for cancellation to the transfer agent for such security of an

outstanding certificate or certificates for the same number of shares or other security with an assignment and authorization to transfer endorsed thereon or attached thereto, duly executed, together with such proof of the authenticity of the signature and of the power of assignor to transfer such securities as the corporation or its agents may require.

Section 4. Record Date for Dividends or Rights. The board of directors may fix a record date in advance as of which shares of stock shall be held of record to entitle a shareholder to the payment of any dividend, to the allotment of rights, or to exercise rights in respect to any change, conversion or exchange of capital stock of the corporation. Such record date shall not precede by more than sixty (60) days the date of such dividend payment, or such allotment of rights, or the date when such change, conversion or exchange of capital stock shall take effect. Only shareholders of record on such record date shall be entitled to receive or exercise such rights or benefits when they shall accrue, notwithstanding any transfer of any stock on the books of the corporation subsequent to the record date which is fixed.

Section 5. Issue of New Shares or Sale of Treasury Stock. Shares of the capital stock of the corporation which have been authorized but not issued and treasury shares may be issued or sold from time to time and for such consideration as may be determined by the board of directors.

## ARTICLE VII

### Corporate Seal

Section 1. Form and Use. The corporate seal shall have inscribed thereon the name of the corporation, the year of its incorporation, and the words "Corporate Seal, New Jersey". The seal may be used by causing it or a facsimile thereof to be impressed or reproduced on a document or instrument, or affixed thereto.

## ARTICLE VIII

### Fiscal Year

Section 1. Time. The fiscal year of the corporation shall commence on October 1 of each calendar year.

## ARTICLE IX

### Amendments

Section 1. Amendments by Shareholders. These by-laws may be altered, amended or repealed and new by-laws may be added by the shareholders.

Section 2. Amendments by the Board of Directors. Subject to the right of the shareholders provided in Section 1 of this Article IX to adopt, amend or repeal the by-laws, the board of directors may adopt, amend or repeal these by-laws; provided, however, that a by-law or amendment thereto changing

the number of directors may be adopted, amended or repealed by the board of directors only for the purpose of fixing the exact number of directors within the limits specified in Article III, Section 1, hereof.

## ARTICLE X

### Miscellaneous

Section 1. Checks, Drafts, Etc. All checks, drafts or other orders for the payment of money, notes or other evidences of indebtedness, issued in the name of or payable to the corporation, shall be signed or endorsed by such person or persons and in such manner, manually or by facsimile signature, as shall be determined from time to time by the board of directors.

Section 2. Execution of Contracts. The board of directors may authorize any officer or officers, agent or agents, to enter into any contract or execute any instrument in the name of and on behalf of the corporation, and such authority may be general or confined to specific instances and, unless so authorized by the board of directors, no officer, agent or employee shall have any power or authority to bind the corporation by any contract or engagement or to pledge its credit or to render it liable for any purpose or for any amount.

Section 3. Voting Shares of Other Corporations. The chairman of the board, the chief executive officer or any vice president is hereby authorized to vote, represent and exercise on behalf of this corporation all rights incident to any and all shares of stock of any other corporation or corporations standing in the name of this corporation. The authority herein granted may be exercised on behalf of the corporation by such officers either in person or by proxy.

Section 4. Employee Benefit Plans. The corporation, by resolution of the board of directors, may adopt any one or more of the following plans for the benefit of some or all employees, as hereinafter defined, and their families, dependents or beneficiaries:

(a) plans providing for the sale or distribution of its shares of any class or series, held by it or issued or purchased by it for the purpose, including stock option, stock purchase, stock bonus, profit-sharing, savings, pension, retirement, deferred compensation and other plans of similar nature, whether or not such plans also provide for the distribution of cash or property other than its shares;

(b) plans providing for payments solely in cash or property other than shares of the corporation, including profit-sharing, bonus, savings, pension, retirement, deferred compensation and other plans of similar nature; and

(c) plans for the furnishing of medical service, life, sickness, accident, disability or unemployment insurance or benefits; education; housing, social and recreational service; and other similar aids and services.

The term "employees" as used in this Section means employees, officers, directors, and agents of the corporation or any subsidiary thereof, or other persons who are or have been actively engaged in

the conduct of the business of the corporation or any subsidiary thereof, including any who have retired, become disabled or died prior to the establishment of any plan heretofore or hereafter adopted.

Section 6. Director Loans. The corporation may lend money to or guarantee any obligation of, or otherwise assist any director of the corporation or of any subsidiary, whenever, in the judgment of the board of directors, such loan, guarantee or assistance may reasonably be expected to benefit the corporation. Any such loan, guarantee or other assistance may be made only when authorized by a majority of the entire board of directors and may be made with or without interest and whether unsecured or secured in such manner as the board shall approve, including, without limitation, by a pledge of shares of the corporation, and may be made upon such other terms and conditions as the board may determine. A director shall be disqualified from voting on any loan, guarantee or other assistance proposed to be made to him or her pursuant to this section. The statutory power of the board of directors to make such loans and guarantees and to provide other assistance to employees of the corporation other than directors shall not in any way be limited to this section.

By order of the board of directors of Bergen Brunswick Corporation this 13th day of November, 1998.

Secretary

[ Seal ]

**FIRST AMENDMENT**  
**Dated as of February 1, 2000**  
**to**  
**RECEIVABLES SALE AGREEMENT**  
**Dated as of December 17, 1999**

THIS AMENDMENT (the "*Amendment*"), dated as of February 1, 2000, is entered into among Blue Hill, Inc. (the "*Seller*"), Bergen Brunswig Drug Company, as the Initial Collection Agent (the "*Collection Agent*"), Wachovia Bank, N.A., as the Agent and as the Blue Ridge Purchaser Agent (the "*Agent*"), the Related Bank Purchasers (the "*Related Bank Purchasers*") from time to time party thereto, Blue Ridge Asset Funding Corporation ("*Blue Ridge*"), as a Conduit Purchaser and the other Conduit Purchasers from time to time party thereto (together with Blue Ridge and the Related Bank Purchasers, the "*Purchasers*").

Reference is hereby made to that certain Receivables Sale Agreement, dated as of December 17, 1999 (as amended, supplemented or otherwise modified through the date hereof, the "*Sale Agreement*"), among the Seller, the Collection Agent, Blue Ridge, the other Purchasers and the Agent. Terms used herein and not otherwise defined herein which are defined in the Sale Agreement or the other Transaction Documents (as defined in the Sale Agreement) shall have the same meaning herein as defined therein.

For good and valuable consideration, the receipt and adequacy of which are hereby acknowledged, the parties hereto hereby agree as follows:

*Section 1.* Subject to the following terms and conditions, including without limitation the conditions precedent set forth in Section 2, upon execution by the parties hereto in the space provided for that purpose below, the Sale Agreement shall be, and it hereby is, amended as follows:

(a) Section 1.1(d) of the Sale Agreement is hereby amended and as so amended shall be restated in its entirety to read as follows:

On each day before the Termination Date that any Collections are received by the Collection Agent and no Interim Liquidation is in effect, a Purchaser's Purchase Interest in such Collections shall automatically be used to make a Reinvestment Purchase by such Purchaser. The parties hereto agree, however, that to the extent that the aggregate Commitments of the Blue Ridge Purchaser Group have not otherwise been reduced to or below \$153,000,000 on or prior to February 29, 2000, that the Blue Ridge Purchaser Agent may at any time thereafter provide notice to the Agent, each other Purchaser Agent, the Seller and the Collection Agent that it elects to cause the Reinvestment Purchases of Purchasers in the Blue Ridge Purchaser Group (but not those of any other Purchasers) to cease until such time that the aggregate Investment of the Blue Ridge Purchaser Group is less than or equal to \$150,000,000, at which time, subject to Section 7.2, its Reinvestment Purchases shall automatically recommence.

(b) Section 1.1(e) is hereby amended and as so amended shall be restated in its entirety to read as follows:

*Security Interest.* To secure all of the Seller's obligations under the

Transaction Documents, the Seller hereby grants to the Agent (for the benefit of the Purchasers and any other Person to whom any amount is owed hereunder) a security interest in all of the Seller's rights (if any) in the Receivables, the Related Security, the Collections, and the Lock- Box Accounts and all proceeds of the foregoing as well as all of the Seller's rights under the Purchase Agreement.

(c) Section 1.6 of the Sale Agreement is hereby amended by adding the following immediately at the end of such Section:

In addition, upon a reduction of the Investment of the Blue Ridge Purchaser Group to or below \$150,000,000 pursuant to Section 1.1(d), the Commitments of the Related Bank Purchasers in the Blue Ridge Purchaser Group shall automatically be ratably reduced to an aggregate amount equal to \$153,000,000.

(d) Section 2.3(a) is hereby amended and as so amended shall be restated in its Entirety to read as follows:

*Non-Reinvestment Periods.* On each day during a period that a Purchaser in the Blue Ridge Purchase Group is not making Reinvestment Purchases (as established under Section 1.1(d)), the Collection Agent (i) shall set aside and hold solely for the benefit of the applicable Purchasers (or deliver to the applicable Purchaser Agent, if so instructed pursuant to Section 3.2(a)) each such Purchaser's Purchase Interest in all Collections received on such day and (ii) shall distribute on the last day of each Tranche Period to the applicable Purchaser Agent (for the benefit of such Purchaser) the amounts so set aside up to the amount of such Purchaser's Purchase Amount and, to the extent not already paid in full, all Discount thereon and all other amounts then due from the Seller in connection with such Purchase Amount and Tranche Period. As provided in Section 1.4(c) all Discount and other amounts payable hereunder other than the Purchase Amount are payable by the Seller. If any part of the Sold Interest in any Collections is applied to pay any such amounts pursuant to this Section 2.3(a) and after giving effect to such application the Sold Interest is greater than 100%, the Seller shall pay to the Collection Agent the amount so applied to the extent necessary so that after giving effect to such payment the Sold Interest is no greater than 100%, for distribution as part of the Purchase Interest in Collections.

(e) The opening paragraph of Section 2.3(b) of the Sale Agreement is hereby amended by striking the phrase "the Sold Interest in" appearing in the fifth line thereof.

(f) Subsections 2.3(b)(i) through (vi) are amended and as so amended shall be restated in their entirety to read as follows:

(i) *first*, ratably to each Purchase Group until all Discount due but not already paid to each Purchaser Group under the Transaction Document, has been paid in full; and

(ii) *second*, ratably to each Purchaser Group until all Purchase Amounts of each Purchaser Group under the Transaction Documents has been paid in full; and

(iii) *third*, ratably to each Purchaser Group until all amounts owed under the Transaction Documents to such Purchaser Group have been paid in full.

(iv) *fourth*, to the Agent until all amounts owed under the transaction Documents to such Person have been paid in full;

(v) *fifth*, to each Purchaser Agent until all amounts owed under the Transaction Documents to such Persons have been paid in full;

(vi) *sixth*, to any other Person to whom any amounts are owed under the Transaction Documents until all such amounts have been paid in full; and

(vii) *seventh*, to the Seller (or as otherwise required by applicable law).

(g) The third sentence of Section 3.1(a) of the Sale Agreement is hereby amended by adding the phrase “and each Purchaser Agent” immediately following the phrase “prior written notice to the Agent” in each place it occurs in such sentence.

(h) Section 5.1(i) of the Sale Agreement is hereby amended by adding the phrase “and each Purchaser Agent” immediately following the word “Agent” appearing in the third line of the second to last sentence of such Section and in the last sentence of such Section.

(i) Section 5.1 of the Sale Agreement is hereby amended by adding the following new subsection (n) immediately following subsection (m) thereof:

(n) *Restricted Payments by the Seller.* The Seller will not purchase or redeem any shares of the capital stock of the Seller, declare or pay dividends thereon (other than stock dividends), or make any distribution to stockholders or set aside any funds for any such purpose; *provided, however,* the foregoing shall not prevent the Seller from paying cash dividends on the Settlement Date, after making any payment required to be made by the Seller on such Settlement Date in accordance with the last sentence of Section 2.3(a) and Section 2.3(b) if, after giving effect to such payment, the Seller’s net worth (as determined in accordance with GAAP) would not be less than 3% of the Purchase Limit.

(j) Schedule I to the Sale Agreement is hereby amended by adding the following defined terms in their proper alphabetical order:

“*Adjusted Dilution Ratio*” means, at any time, the average of the Dilution Ratio for each of the 12 most recently completed calendar months.

“*Aggregate Reserve*” means, at any time at which such amount is calculated, the greater of (a) the sum of the Loss Reserve, Dilution Reserve and Discount Reserve and (b) the Required Reserve Floor.

“*Dilution Horizon Ratio*” means, as of any date, an amount calculated by dividing the aggregate sales of the Originator for the most recent calendar month by the aggregate outstanding balance of the Net Receivables Balance as of the last day of the most recent calendar month.

*"Dilution Volatility Component"* means an amount (expressed as a percentage) equal to the product of (a) the difference between (i) the highest three month rolling average Dilution Ratio over the past 12 months and (ii) the Adjusted Dilution Ratio and (b) a fraction, the numerator of which is the highest three month rolling average Dilution Ratio during the past 12 months and the denominator of which is the Adjusted Dilution Ratio.

*"Liberty Street"* means Liberty Street Funding Corp., a Delaware corporation.

*"Liberty Street Committed Purchasers"* means the Related Bank Purchasers for Liberty Street.

*"Liberty Street Purchaser Agent"* means The Bank of Nova Scotia.

*"Liberty Street Purchaser Group"* means Liberty Street and the Liberty Street Committed Purchasers.

*"Required Reserve Floor"* means, at any time, the product of (a) 29% and (b) the Net Receivables Balance at such time.

(k) The defined term *"Concentration Limit"* appearing in Schedule I to the Sale Agreement is hereby deleted and replaced with the following:



*“Concentration Limit”* means, with respect to any Obligor, the percentage of the Eligible Receivable Balance set forth in the table below based upon the short-term unsecured debt rating (or, in the absence of such rating, the equivalent long-term unsecured senior debt rating) currently assigned to them by S&P and Moody’s, (and, if such Obligor is rated by both agencies and has a split rating (except for an A-1+/P-1 rating), the applicable rating will be the lower of the two), (or, if larger, the Special Limit applicable to such Obligor):

S&P RATING	MOODY’S RATING	ALLOWABLE % OF ELIGIBLE RECEIVABLES
A-1+	P-1	10%
A-1	P-1	8%
A-2	P-2	6%
A-3	P-3	3%
Below A-3 or Not Rated by either S&P or Moody’s	Below P-3 or Not Rated by either S&P or Moody’s	2%

If an Obligor has neither a long-term unsecured debt rating nor a short-term unsecured debt rating by either S&P or Moody’s, that Obligor’s Concentration Limit will be 2% of the Eligible Receivables Balance.

(l) The defined term *“Default Ratio”* appearing in Schedule I to the Sale Agreement is hereby deleted and replaced with the following:

*“Default Ratio”* means the ratio (expressed as a percentage) for any calendar month of (a) the outstanding balance of all Defaulted Receivables at the end of the most recently completed calendar month to (b) the outstanding balance of all Receivables at the end of such calendar month.

(m) The defined term *“Dilution Ratio”* appearing in Schedule I to the Sale Agreement is amended in its entirety to read as follows:

*“Dilution Ratio”* means, as of any date, an amount (expressed as a percentage) equal to a fraction, (i) the numerator of which is the aggregate amount of payments owed by the Seller pursuant to the first sentence of Section 1.5(b) hereof during the previous calendar month, and (ii) the denominator of which is the amount of sales generated by the Originator during the previous calendar month.

(n) The defined term *“Dilution Reserve”* appearing in Schedule I to the Sale Agreement is hereby deleted and replaced with the following:

*"Dilution Reserve"* means, at any time, the product of (a) the greater of (i) 6%, and (ii) three times the highest Dilution Ratio (expressed as a decimal) as of the last day of each of the most recently completed twelve full calendar months for which a Periodic Report is required to have been delivered and (iii) an amount (expressed as a percentage) equal to the product of (A) the sum of (i) 2 times the Adjusted Dilution Ratio and (II) the Dilution Volatility Component and (B) the Dilution Horizon Ratio multiplied by (b) the Net Receivables Balance at such time.

(o) The defined term *"Eligible Receivable"* appearing in Schedule I to the Sale Agreement is hereby amended by adding the following subsection immediately after subsection (x) thereof and correcting the punctuation appropriately:

"(xi) for all Obligor with Special Limits and for each of the ten Obligor with the largest outstanding balances of Receivables, not more than 25% of the aggregate outstanding balance of all Receivables of such Obligor of which are Defaulted Receivables."

(p) The defined term *"Instructing Group"* appearing in Schedule I to the Sale is amended in its entirety to read as follows:

*"Instructing Group"* means all Purchaser Agents representing Purchaser Groups.

(q) The defined term *"Purchase Limit"* appearing in Schedule I to the Sale Agreement is amended in its entirety to read as follows:

*"Purchase Limit"* means \$300,000,000.

(r) The defined term *"Reserve Percentage"* appearing in Schedule I to the Sale Agreement is amended in its entirety to read as follows:

*"Reserve Percentage"* means, at any time, the quotient obtained by dividing (a) the Aggregate Reserve by (b) the Net Receivables Balance.

(s) The defined term *"Special Limit"* appearing in Schedule I of the Sale Agreement is amended in its entirety to be and to read as follows:

*“Special Limit”* means, (i) for National Rx, Inc., (*“National Rx”*) a wholly owned subsidiary of Merck-Medco Managed Care, Inc., a wholly owned subsidiary of Merck & Co., Inc. (*“Merck”*), 15% of the Eligible Receivables Balance, *provided, however*, that such Special Limit shall be automatically deemed revoked (A) at the time, if any, when Merck ceases to have a short-term unsecured senior debt rating of higher than “A-2” from S&P and a short-term unsecured senior debt rating of higher than “P-2” from Moody’s or (B) National Rx shall cease at any time to be, directly or indirectly, a wholly owned subsidiary of Merck, (ii) for Longs Drug Stores Corporation (*“Longs”*), 10% of the Eligible Receivables Balance; *provided, however*, that such Special Limit shall be automatically deemed revoked at the time, if any, when the sum of Delinquent Receivables and Defaulted Receivables to Longs exceeds 50% of the total outstanding balance of Receivables to Longs, unless in the case of either (i) or (ii), the Agent, at the direction of the Instructing Group, notifies the Seller of a different limit, (iii) for Walgreen Company, 12% of the Eligible Receivables Balance; *provided, however*, that such Special Limit shall be deemed automatically revoked at any time, if any, when Walgreen Company ceases to have a short-term unsecured senior debt rating of higher than “A-2” from S&P and a short-term unsecured senior debt rating of higher than “P-2” from Moody’s, and (iv) such other *“Special Limits”* as shall be agreed to in writing by the Instructing Group for other Obligor from time to time and approved by the required Rating Agencies. If the Special Limit for National Rx is revoked as indicated in subsection (i)(A) of this definition, the Concentration Limit for National Rx will be based on the Merck short-term unsecured senior debt ratings and the associated Concentration Limits in the table appearing in such definition. If the Special Limit for National Rx is revoked as indicated in subsection (i)(B) of this definition, the Concentration Limit for National Rx will be based on the short-term unsecured senior debt ratings of National Rx and the associated Concentration Limits in the table appearing in such definition. If the Special Limit for any other Obligor is revoked at any time, such Obligor’s Concentration Limit will be based on its short-term unsecured senior debt rating per the table appearing in the definition of “Concentration Limit.”

(t) The defined term *“Termination Date”* appearing in Schedule I to the Sale Agreement is hereby amended by (i) adding the phrase “and each Purchaser Agent” immediately following the word “Agent” appearing in subsection (a) thereof and (ii) amending subsection (c) thereof in its entirety to read *“January 30, 2001.”*

(u) The defined term *“Termination Event”* appearing in Schedule I to the Sale Agreement shall be amended as follows:

(1) Subsection (f) of such definition is amended in its entirety to read as follows:

(f) (i) the Delinquency Ratio exceeds 3.75%, (ii) (a) the Default Ratio exceeds 8.00% or (b) the average of the Default Ratio for any three consecutive calendar months exceeds 6.75% (iii) the average of the Dilution Ratio for any three consecutive calendar months exceeds 6.0%, (iv) the Loss-to Liquidation Ratio at the end of any calendar month measured for the three month period then ending exceeds 0.5%, (v) the Turnover Ratio exceeds 20 days, or (vi) the Coverage Ratio exceeds 100%; or

(2) Subsection (i) of such definition is amended in its entirety to read as follows:

(i) the Parent's long-term unsecured, unsubordinated indebtedness is rated less than BB by S&P (or such rating is withdrawn or suspended) or less than Ba2 by Moody's (or such rating is withdrawn or suspended);

(3) The following subsection (m) is inserted immediately following subsection (l) with appropriate punctuation corrections:

(m) there shall have occurred any event which materially adversely impairs in the reasonable judgment of the Agent the ability of the Initial Collection Agent to originate Receivables of a credit quality which are at least of the credit quality of the Receivables included in the initial Purchase, or any other event occurs that is reasonably likely to have a Material Adverse Effect.

(v) Schedule II to the Sale Agreement is amended in its entirety to read as set forth on Exhibit A attached hereto.

(w) The Sale Agreement shall be amended to add a new Exhibit A-1 following Exhibit A as set forth on Exhibit B attached hereto.

(x) The last paragraph of Schedule I to the Sale Agreement is amended by adding the following sentence immediately at the end thereof:

"Any reference in the Sale Agreement to any agreement, document, writing or other similar instrument shall be deemed to include a reference to any permissible amendment, restatement or other modification thereto."

*Section 2.* Section 1 of this Amendment shall become effective only once the Agent has received, in form and substance satisfactory to the Agent, all documents and certificates as the Agent may reasonably request, executed counterparts of this Amendment and such other documents and certificates, confirmation from the Rating Agencies that this Amendment will not adversely effect the Ratings and all other matters incident to the execution hereof are satisfactory to the Agent.

*Section 3.* The Sale Agreement, as amended and supplemented hereby or as contemplated herein, and all rights and powers created thereby and thereunder or under the other Transaction Documents and all other documents executed in connection therewith, are in all respects ratified and confirmed. From and after the date hereof, the Sale Agreement shall be amended and supplemented as herein provided, and, except as so amended and supplemented, the Sale Agreement, each of the other Transaction Documents and all other documents executed in connection therewith shall remain in full force and effect.

*Section 4.* This Amendment may be executed in two or more counterparts, each of which shall constitute an original but both or all of which, when taken together, shall constitute but one instrument.

*Section 5.* This Amendment shall be governed and construed in accordance with the internal laws of the State of New York.

IN WITNESS WHEREOF, the parties have caused this Amendment to be executed and delivered by their duly authorized officers as of the date first above written.

WACHOVIA BANK, N.A., as the Related Bank  
Purchaser for Blue Ridge, as the Blue  
Ridge Purchaser and as Agent

By: \_\_\_\_\_  
Title: \_\_\_\_\_

BLUE RIDGE ASSET FUNDING CORPORATION,  
as a Conduit Purchaser

By: WACHOVIA BANK, N.A., as attorney-in-fact

By: \_\_\_\_\_  
Title: \_\_\_\_\_

BLUE HILL, INC., as Seller

By: \_\_\_\_\_  
Title: \_\_\_\_\_

BERGEN BRUNSWIG DRUG COMPANY, as  
Initial  
Collection Agent

By: \_\_\_\_\_  
Title: \_\_\_\_\_

THE BANK OF NOVA SCOTIA, as the Related  
Bank Purchaser for Liberty Street, and as  
the Liberty Street Purchaser Agent

By: \_\_\_\_\_  
Title: \_\_\_\_\_

LIBERTY STREET FUNDING CORP., as a  
Conduit Purchaser

By: \_\_\_\_\_

Title: \_\_\_\_\_

**EXHIBIT A TO THE FIRST AMENDMENT TO  
RECEIVABLE SALE AGREEMENT**

**SCHEDULE II**

**RELATED BANK PURCHASERS AND  
PURCHASE COMMITMENTS OF RELATED BANK PURCHASERS  
AND PURCHASER GROUPS**

CONDUIT PURCHASER	NAME OF RELATED BANK PURCHASER	COMMITMENTS OF RELATED BANK PURCHASERS
Blue Ridge	Wachovia Bank, N.A.	\$204,000,000
Liberty Street	The Bank of Nova Scotia	\$102,000,000

**PURCHASER GROUP COMMITMENTS**

PURCHASER GROUP	COMMITMENT
Blue Ridge Purchaser Group	\$204,000,000
Liberty Street Purchaser Group	\$102,000,000



**EXHIBIT B  
TO  
THE FIRST AMENDMENT TO RECEIVABLES SALE AGREEMENT**

**EXHIBIT A-1**

**FORM OF INCREMENTAL PURCHASE REQUEST**

\_\_\_\_\_, 2000

The Bank of Nova Scotia, as Purchaser  
Agent for the Liberty Street Purchaser Group

\_\_\_\_\_  
\_\_\_\_\_

Attn: \_\_\_\_\_

Re: Receivables Sale Agreement dated as of December 17, 1999 (the  
"Sale Agreement"), among Blue Hill, Inc., as Seller, Bergen Brunswig Drug Company, as  
Initial Collection Agent,  
Wachovia Bank, N.A., as Agent, the Purchaser Agents from time to time party thereto  
and the Purchasers thereunder

Ladies and Gentlemen:

The undersigned Seller under the above-referenced Sale Agreement hereby confirms it has requested an Incremental Purchase of \$\_\_\_\_\_ by the Conduit Purchasers under the Sale Agreement. **[In the event a Conduit Purchaser is unable or unwilling to make the requested Incremental Purchase, the Seller hereby requests an Incremental Purchase of \$\_\_\_\_\_ by the Related Bank Purchasers for such Conduit Purchaser under the Sale Agreement at the [Eurodollar Rate with a Tranche Period of \_\_\_\_\_ months.] [Prime Rate]].**

Attached hereto as Schedule I is information relating to the proposed Incremental Purchase required by the Sale Agreement. If on the date of this Incremental Purchase Request ("*Notice*"), an Interim Liquidation is in effect, this Notice revokes our request for such Interim Liquidation so that Reinvestment Purchases shall immediately commence in accordance with Section 1.1(d) of the Sale Agreement.

The Seller hereby certifies that both before and after giving effect to **[each of]** the proposed Incremental Purchase**[s]** contemplated hereby and the use of the proceeds therefrom, all of the requirements of Section 7.2 of the Sale Agreement have been satisfied.

Very truly yours,  
BLUE HILL, INC.

By: \_\_\_\_\_

Title: \_\_\_\_\_

**SCHEDULE I  
TO  
INCREMENTAL PURCHASE REQUESTS**

**SUMMARY OF INFORMATION RELATING TO PROPOSED SALE(S)**

1. *Dates, Amounts, Purchaser(s), Proposed Tranche Periods*

A1	Date of Notice				_____
A2	Measurement Date (the last Business Day of the month immediately preceding the month in which the Date of Notice occurs)				_____
A3	Proposed Purchase Dates (each of which is a Business Day)	_____	_____	_____	_____
A4	Respective Proposed Incremental Purchase on each such Purchase Date (each Incremental Purchase must be in a minimum amount of \$1,000,000 and multiples thereof, or, if less, an amount equal to the Maximum Incremental Purchase Amount)	\$ _____ (A4A)	\$ _____ (A4B)	\$ _____ (A4C)	\$ _____ (A4D)
A5	Proposed Allocation among Purchasers (Pro Rata) Conduit Purchasers				
	Name of Related Bank Purchaser	\$ _____	\$ _____	\$ _____	\$ _____
A6	Used Aggregate Commitment Amount (after such Incremental Purchases)				\$ _____

Each proposed Purchase Date must be a Business Day and must occur no later than two weeks after the Measurement Date set forth above. The choice of Measurement Date is a risk undertaken by the Seller. If a selected Measurement Date is not the applicable Purchase Date, the Seller's choice and disclosure of such date shall not in any manner diminish or waive the obligation of the Seller to assure the Purchasers that, after giving effect to the proposed Purchase, the actual Sold Interest as of the date of such proposed Purchase does not exceed 100%.

<DOCUMENT><TYPE> EX-27  
 <DESCRIPTION> ARTICLE 5 FDS FOR QUARTERLY REPORT FORM 10-Q  
 <TEXT>  
 <ARTICLE> 5  
 <LEGEND>  
 THIS SCHEDULE CONTAINS SUMMARY FINANCIAL INFORMATION EXTRACTED FROM THE  
 CONSOLIDATED FINANCIAL STATEMENTS OF BERGEN BRUNSWIG CORPORATION FOR THE  
 THREE MONTH PERIOD ENDED DECEMBER 31, 1999 AND IS QUALIFIED IN ITS ENTIRETY BY  
 REFERENCE TO SUCH FINANCIAL STATEMENTS.  
 </LEGEND>  
 <MULTIPLIER> 1000  
 <CURRENCY> U.S. DOLLARS  
 <TABLE>  
 <S> <C>  
 <PERIOD-TYPE> 3-MOS  
 <FISCAL-YEAR-END> SEP-30-2000  
 <PERIOD-END> DEC-31-1999  
 <EXCHANGE-RATE> 1  
 <CASH> 136,183  
 <SECURITIES> 0  
 <RECEIVABLES> 1,575,417  
 <ALLOWANCES> 143,922  
 <INVENTORY> 2,008,688  
 <CURRENT-ASSETS> 3,616,332  
 <PP&E> 408,022  
 <DEPRECIATION> 143,786  
 <TOTAL-ASSETS> 5,698,212  
 <CURRENT-LIABILITIES> 2,860,089  
 <BONDS> 1,035,822  
 <COMMON> 206,380  
 <PREFERRED-MANDATORY> 0  
 <PREFERRED> 0  
 <OTHER-SE> 1,595,921  
 <TOTAL-LIABILITY-AND-EQUITY> 5,698,212  
 <SALES> 0  
 <TOTAL-REVENUES> 5,928,962  
 <CGS> 5,574,475  
 <TOTAL-COSTS> 5,867,323  
 <OTHER-EXPENSES> 0  
 <LOSS-PROVISION> 0  
 <INTEREST-EXPENSE> 29,343  
 <INCOME-PRETAX> 32,296  
 <INCOME-TAX> 14,106  
 <INCOME-CONTINUING> 18,190  
 <DISCONTINUED> 0  
 <EXTRAORDINARY> 3,539  
 <CHANGES> 0  
 <NET-INCOME> 14,651  
 <EPS-PRIMARY> 0.11  
 <EPS-DILUTED> 0.11  
 </TABLE>  
 </TEXT>  
 </DOCUMENT>