

CARDINAL HEALTH INC

FORM 10-Q (Quarterly Report)

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Address	7000 CARDINAL PLACE DUBLIN, OH 43017
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Industry	Biotechnology & Drugs
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**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION**
Washington, DC 20549

Form 10-Q

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

For the quarter ended March 31, 2010

Commission File Number 1-11373



Cardinal Health, Inc.
(Exact name of registrant as specified in its charter)

Ohio
(State or other jurisdiction of
incorporation or organization)

31-0958666
(I.R.S. Employer
Identification No.)

7000 CARDINAL PLACE, DUBLIN, OHIO 43017
(Address of principal executive offices and zip code)

(614) 757-5000
(Registrant's telephone number, including area code)

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes ☒ No ☐

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer ☒

Accelerated filer ☐

Non-accelerated filer ☐ (Do not check if a smaller reporting company)

Smaller reporting company ☐

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

The number of Registrant's Common Shares outstanding at the close of business on April 30, 2010 was as follows:

Common Shares, without par value: 362,071,984

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* Items not listed are inapplicable.

PART I. FINANCIAL INFORMATION

Item 1: Financial Statements

CARDINAL HEALTH, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF EARNINGS (Unaudited)

(in millions, except per Common Share amounts)

	Three Months Ended March 31,		Nine Months Ended March 31,	
	2010	2009	2010	2009
Revenue	\$24,342.8	\$24,089.3	\$74,043.2	\$71,644.3
Cost of products sold	23,332.7	23,102.4	71,166.6	68,841.0
Gross margin	1,010.1	986.9	2,876.6	2,803.3
Operating expenses				
Distribution, selling, general and administrative expenses	628.6	573.0	1,819.8	1,741.8
Restructuring and employee severance	13.9	31.7	84.4	69.3
Impairments and loss on sale of assets	4.2	0.7	28.2	11.2
Litigation (credits)/charges, net	(2.9)	0.6	(28.8)	0.3
Operating earnings	366.3	380.9	973.0	980.7
Other (income)/expense, net	(1.4)	6.5	(15.7)	28.7
Interest expense, net	27.7	30.3	88.9	81.9
Loss on extinguishment of debt	0.0	0.0	39.9	0.0
Gain on sale of CareFusion common stock	(23.2)	0.0	(43.3)	0.0
Earnings before income taxes and discontinued operations	363.2	344.1	903.2	870.1
Provision for income taxes	138.4	129.0	510.0	313.9
Earnings from continuing operations	224.8	215.1	393.2	556.2
Earnings/(loss) from discontinued operations, net of tax	(2.4)	97.8	25.5	322.2
Net earnings	<u>\$ 222.4</u>	<u>\$ 312.9</u>	<u>\$ 418.7</u>	<u>\$ 878.4</u>
Basic earnings/(loss) per Common Share:				
Continuing operations	\$ 0.63	\$ 0.60	\$ 1.10	\$ 1.56
Discontinued operations	(0.01)	0.28	0.07	0.90
Net basic earnings per Common Share	<u>\$ 0.62</u>	<u>\$ 0.88</u>	<u>\$ 1.17</u>	<u>\$ 2.46</u>
Diluted earnings/(loss) per Common Share:				
Continuing operations	\$ 0.62	\$ 0.60	\$ 1.09	\$ 1.54
Discontinued operations	(0.01)	0.27	0.07	0.89
Net diluted earnings per Common Share	<u>\$ 0.61</u>	<u>\$ 0.87</u>	<u>\$ 1.16</u>	<u>\$ 2.43</u>
Weighted average number of Common Shares outstanding:				
Basic	358.7	358.1	359.0	357.3
Diluted	361.8	360.9	361.2	361.0
Cash dividends declared per Common Share	\$ 0.175	\$ 0.140	\$ 0.525	\$ 0.420

See notes to condensed consolidated financial statements.

CARDINAL HEALTH, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED BALANCE SHEETS
(in millions)

	March 31, 2010 (Unaudited)	June 30, 2009
ASSETS		
Current assets:		
Cash and equivalents	\$ 2,638.8	\$ 1,221.6
Trade receivables, net	5,550.2	5,214.9
Inventories	7,214.9	6,832.8
Prepaid expenses and other	534.5	523.0
Assets from businesses held for sale and discontinued operations	138.9	7,189.4
Total current assets	<u>16,077.3</u>	<u>20,981.7</u>
Property and equipment, at cost	3,118.0	3,139.6
Accumulated depreciation and amortization	<u>(1,711.9)</u>	<u>(1,675.1)</u>
Property and equipment, net	1,406.1	1,464.5
Other assets:		
Investment in CareFusion	805.2	0.0
Goodwill and other intangibles, net	2,261.8	2,266.9
Other	719.8	405.7
Total assets	<u><u>\$21,270.2</u></u>	<u><u>\$25,118.8</u></u>
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities:		
Current portion of long-term obligations and other short-term borrowings	\$ 232.6	\$ 366.2
Accounts payable	10,766.6	9,041.9
Other accrued liabilities	1,712.9	1,496.2
Liabilities from businesses held for sale and discontinued operations	35.3	1,370.9
Total current liabilities	<u>12,747.4</u>	<u>12,275.2</u>
Long-term obligations, less current portion and other short-term borrowings	1,875.6	3,271.6
Deferred income taxes and other liabilities	1,286.3	847.3
Shareholders' equity:		
Preferred Shares, without par value: Authorized – 0.5 million shares, Issued – none	0.0	0.0
Common Shares, without par value: Authorized – 755.0 million shares, Issued – 363.6 million shares and 363.7 million shares at March 31, 2010 and June 30, 2009, respectively	2,897.2	3,031.6
Retained earnings	2,463.9	5,953.9
Common Shares in treasury, at cost: 1.9 million shares and 3.7 million shares at March 31, 2010 and June 30, 2009, respectively	(172.4)	(343.0)
Accumulated other comprehensive income	<u>172.2</u>	<u>82.2</u>
Total shareholders' equity	<u>5,360.9</u>	<u>8,724.7</u>
Total liabilities and shareholders' equity	<u><u>\$21,270.2</u></u>	<u><u>\$25,118.8</u></u>

See notes to condensed consolidated financial statements.

CARDINAL HEALTH, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(Unaudited)

(in millions)	Nine Months Ended March 31,	
	2010	2009
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net earnings	418.7	878.4
Earnings from discontinued operations	(25.5)	(322.2)
Earnings from continuing operations	393.2	556.2
Adjustments to reconcile earnings from continuing operations to net cash provided by operating activities:		
Depreciation and amortization	194.4	168.8
Loss on extinguishment of debt	39.9	0.0
Gain on sale of CareFusion common stock	(43.3)	0.0
Impairments and loss on sale of assets	28.2	11.2
Share-based payment compensation	79.0	82.6
Provision for bad debts	33.2	45.2
Change in operating assets and liabilities, net of effects from acquisitions:		
Increase in trade receivables	(365.4)	(982.4)
Increase in inventories	(381.1)	(1,343.7)
Increase in accounts payable	1,722.7	1,634.6
Other accrued liabilities and operating items, net	(38.8)	32.0
Net cash provided by operating activities – continuing operations	1,662.0	204.5
Net cash provided by operating activities – discontinued operations	147.9	624.4
Net cash provided by operating activities	<u>1,809.9</u>	<u>828.9</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Acquisition of subsidiaries, net of divestitures and cash acquired	(19.2)	(18.5)
Proceeds from sale of property and equipment	5.8	12.6
Additions to property and equipment	(141.8)	(191.6)
Proceeds from sale of CareFusion common stock	270.7	0.0
Net cash provided by/(used in) investing activities – continuing operations	115.5	(197.5)
Net cash used in investing activities – discontinued operations	(9.9)	(71.5)
Net cash provided by/(used in) investing activities	<u>105.6</u>	<u>(269.0)</u>
CASH FLOWS FROM FINANCING ACTIVITIES:		
Reduction of long-term obligations	(1,485.2)	(307.1)
Proceeds from long-term obligations, net of issuance costs	0.0	24.5
Proceeds from issuance of Common Shares	24.5	38.7
Tax expense from stock options	(14.8)	(0.2)
Payment of premiums for debt extinguishment	(66.4)	0.0
Dividends on Common Shares	(190.2)	(150.1)
Purchase of treasury shares	(50.0)	0.0
Net cash used in financing activities – continuing operations	(1,782.1)	(394.2)
Net cash provided by/(used in) financing activities – discontinued operations	1,283.8	(2.7)
Net cash used in financing activities	<u>(498.3)</u>	<u>(396.9)</u>
NET INCREASE IN CASH AND EQUIVALENTS	1,417.2	163.0
CASH AND EQUIVALENTS AT BEGINNING OF PERIOD	<u>1,221.6</u>	<u>808.8</u>
CASH AND EQUIVALENTS AT END OF PERIOD	<u><u>2,638.8</u></u>	<u><u>971.8</u></u>
SUPPLEMENTAL INFORMATION		
Non-cash investing and financing transactions for:		
Investment in CareFusion	863.1	0.0
Non-cash dividend in connection with Spin-Off	3,758.0	0.0

See notes to condensed consolidated financial statements.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES***Spin-Off of CareFusion Corporation***

Effective August 31, 2009, Cardinal Health, Inc. (the “Company”) completed the distribution to its shareholders of approximately 81% of the then outstanding common stock of CareFusion Corporation (“CareFusion”), with the Company retaining 41.4 million shares of CareFusion common stock (the “Spin-Off”). Under the requirements of the Private Letter Ruling obtained from the Internal Revenue Service, the Company is required to dispose of the retained shares of CareFusion common stock within five years of the Spin-Off. During the three and nine months ended March 31, 2010, the Company disposed of approximately 5.4 million and 10.9 million shares of CareFusion common stock, respectively. Refer to Note 6 for additional information. While Cardinal Health is a party to a separation agreement and various other agreements relating to the separation, including a transition services agreement, a tax matters agreement, an employee matters agreement, intellectual property agreements and certain other commercial agreements, the Company has determined that it has no significant continuing involvement in the operations of CareFusion. Accordingly, the net assets of CareFusion are presented separately in these condensed consolidated financial statements as assets from businesses held for sale and discontinued operations and the operating results of CareFusion are presented within discontinued operations for all periods presented through the date of the Spin-Off. The Company retained certain surgical and exam gloves, surgical drapes and apparel and fluid management businesses previously within the Clinical and Medical Products segment following the Spin-Off.

For fiscal 2009, the Company had three reportable segments — Healthcare Supply Chain Services, Clinical and Medical Products and All Other. Effective July 1, 2009, the Company changed its reportable segments to: Pharmaceutical, Medical and CareFusion. The Pharmaceutical segment encompassed the businesses previously within the Healthcare Supply Chain Services segment that distributed pharmaceutical, radiopharmaceutical and over-the-counter healthcare products as well as the businesses previously within the All Other segment. The Medical segment encompasses the remaining businesses within the Healthcare Supply Chain Services segment as well as certain surgical and exam gloves, surgical drapes and apparel and fluid management businesses previously within the Clinical and Medical Products segment. The CareFusion segment encompasses the businesses previously within the Clinical and Medical Products segment excluding the above-referenced surgical and exam gloves, surgical drapes and apparel and fluid management businesses and includes all businesses included in the Spin-Off.

In connection with the Spin-Off, the Company reorganized its reportable segments into two segments: Pharmaceutical and Medical. See Note 15 for information about these segments.

Relationship between the Company and CareFusion

On July 22, 2009, the Company and CareFusion entered into a separation agreement to effect the Spin-Off and provide a framework for the relationship between the Company and CareFusion after the Spin-Off. In addition, on August 31, 2009, the Company and CareFusion entered into a transition services agreement, a tax matters agreement, an employee matters agreement, intellectual property agreements and certain other commercial agreements. These agreements, including the separation agreement, provide for allocation between the Company and CareFusion of the Company’s assets, employees, liabilities and obligations (including its investments, property and employee benefits and tax-related assets and liabilities) attributable to periods prior to, at and after the Spin-Off and govern certain relationships between the Company and CareFusion after the Spin-Off. The Company and CareFusion also entered into a stockholder’s and registration rights agreement pursuant to which, among other things, CareFusion agrees that, upon the request of the Company, CareFusion will use its commercially reasonable efforts to effect the registration under applicable federal and state securities laws of any shares of CareFusion common stock retained by Cardinal Health.

Pursuant to the transition services agreement, for the three months ended March 31, 2010, the Company recognized approximately \$22.3 million in transition service fee income, which approximately offsets the costs associated with providing the transition services. The Company has recognized \$77.5 million in transition service fee income year-to-date since the Spin-Off. Additionally, the Company purchased \$165.4 million of CareFusion trade receivables pursuant to an accounts receivable factoring arrangement between the Company and CareFusion during the three months ended March 31, 2010. The Company has purchased \$438.9 million of CareFusion trade receivables year-to-date since the Spin-Off.

Basis of Presentation

The condensed consolidated financial statements of the Company include the accounts of all majority-owned subsidiaries and all significant intercompany amounts have been eliminated. References to the “Company” or “Cardinal Health” in these condensed consolidated financial statements shall be deemed to be references to Cardinal Health, Inc. and its majority-owned subsidiaries unless the context otherwise requires.

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The condensed consolidated financial statements have been prepared in accordance with the U.S. Securities and Exchange Commission (“SEC”) instructions to Quarterly Reports on Form 10-Q and include all of the information and disclosures required by accounting principles generally accepted in the United States (“GAAP”) for interim financial reporting. The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect amounts reported in the condensed consolidated financial statements and accompanying notes. Actual amounts may differ from these estimated amounts. In addition, operating results presented for this fiscal 2010 interim period are not necessarily indicative of the results that may be expected for the full fiscal year ending June 30, 2010. Beginning in the first quarter of fiscal 2010, the Company changed the presentation of certain items on the condensed consolidated statements of earnings. Beginning in the third quarter of fiscal 2010, the Company began presenting the gain on sale of CareFusion common stock separately on its condensed consolidated statements of earnings. This amount had previously been included in other (income)/expense, net. Prior periods have been adjusted to conform with the new presentations.

These condensed consolidated financial statements are unaudited and are presented pursuant to the rules and regulations of the SEC. Accordingly, the condensed consolidated financial statements included in this Quarterly Report on Form 10-Q for the quarter ended March 31, 2010 (this “Form 10-Q”) should be read in conjunction with the audited consolidated financial statements and related notes contained in the Company’s Annual Report on Form 10-K for the fiscal year ended June 30, 2009, as updated by the Company’s Form 8-K filed on November 16, 2009 (“FY2009 Financial Statements”). Note 1 of the “Notes to Consolidated Financial Statements” from the FY2009 Financial Statements is specifically incorporated in this Form 10-Q by reference. In the opinion of management, all adjustments necessary for a fair presentation of the condensed consolidated financial statements have been included. Except as disclosed elsewhere in this Form 10-Q, all such adjustments are of a normal and recurring nature.

Revenue Recognition. The Company recognizes revenue when persuasive evidence of an arrangement exists, product delivery has occurred or the services have been rendered, the price is fixed or determinable and collectability is reasonably assured. Revenue is recognized net of sales returns and allowances.

Pharmaceutical. This segment recognizes distribution revenue when title transfers to its customers and the business has no further obligation to provide services related to such merchandise.

Revenue within this segment includes revenue from bulk customers. Most deliveries to bulk customers consist of product shipped in the same form as the product is received from the manufacturer. Bulk customers have the ability to process large quantities of products in central locations and self-distribute these products to their individual retail stores or customers. Revenue from bulk customers is recorded when title transfers to the customer and the Company has no further obligation to provide services related to such merchandise.

Revenue for deliveries that are directly shipped to customer warehouses from the manufacturer whereby the Company acts as an intermediary in the ordering and delivery of products is recorded gross in accordance with accounting standards addressing reporting revenue on a gross basis as a principal versus on a net basis as an agent. This revenue is recorded on a gross basis since the Company incurs credit risk from the customer, bears the risk of loss for incomplete shipments and does not receive a separate fee or commission for the transaction and, as such, is the primary obligor.

Radiopharmaceutical revenue is recognized upon delivery of the product to the customer. Service-related revenue, including fees received for analytical services or sales and marketing services, is recognized upon the completion of such services.

Pharmacy management and other service revenue is recognized as the services are rendered according to the contracts established. A fee is charged under such contracts through a capitation fee, a dispensing fee, a monthly management fee or an actual costs-incurred arrangement. Under certain contracts, fees for services are guaranteed by the Company not to exceed stipulated amounts or have other risk-sharing provisions. Revenue is adjusted to reflect the estimated effects of such contractual guarantees and risk-sharing provisions.

Through its Medicine Shoppe International, Inc. and Medicap Pharmacies Incorporated franchise operations (collectively, “Medicine Shoppe”), the Company has apothecary-style pharmacy franchisees from which it earns franchise and origination fees. Franchise fees represent monthly fees that are either fixed or based upon franchisees’ sales and are recognized as revenue when they are earned. Origination fees from signing new franchise agreements are recognized as revenue when the new franchise store is opened.

Medical. This segment recognizes distribution revenue when title transfers to its customers and the business has no further obligation to provide services related to such merchandise. Revenue from the sale of medical products and supplies is recognized when title and risk of loss transfers to its customers, which is typically upon delivery.

Multiple Segments or Business Units. Arrangements involving multiple segments or business units containing no software or software that is incidental to the functionality of the product or service are accounted for as revenue arrangements with multiple deliverables. If the deliverable meets the criterion of a separate unit of accounting, the arrangement revenue is allocated to each element based upon its relative fair value and recognized in accordance with the applicable revenue recognition criteria for each element.

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Recent Financial Accounting Standards

In June 2009, the Financial Accounting Standards Board (“FASB”) issued new accounting guidance on the accounting for transfers of financial assets. This guidance improves the relevance, representational faithfulness and comparability of information provided about a transfer of financial assets, the effects of a transfer of financial assets on an entity’s financial statements, and a transferor’s continuing involvement, if any, in financial assets transferred. This guidance is effective for fiscal years beginning after November 15, 2009. The Company has determined that its committed receivables sales facility will not qualify as an off-balance sheet arrangement beginning July 1, 2010, unless the facility is amended to qualify under this new accounting guidance. The Company is considering whether to amend the facility.

In June 2009, the FASB issued new accounting guidance regarding the consolidation of variable interest entities. This guidance improves the financial reporting by enterprises involved with variable interest entities. This guidance is effective for fiscal years beginning after November 15, 2009. The Company does not expect the adoption of this new accounting guidance to have a material impact on the Company’s financial position or results of operations.

In January 2010, the FASB issued new disclosure guidance regarding fair value measurements. This guidance improves the transparency of disclosures about the use of fair value measurements in financial statements. This guidance is effective for interim and annual reporting periods beginning after December 15, 2009, with the exception of certain disclosure requirements regarding gross changes in Level 3 measurements, which are not effective until fiscal years beginning after December 15, 2010. The Company adopted this new disclosure guidance in the third quarter of fiscal 2010 and has included the required additional disclosures in this Form 10-Q.

2. RESTRUCTURING AND EMPLOYEE SEVERANCE

Restructuring Policy

The Company classifies a restructuring activity as a program whereby the Company fundamentally changes its operations such as closing facilities, moving manufacturing of a product to another location or outsourcing the production of a product. Restructuring activities may also involve substantial re-alignment of the management structure of a business unit in response to changing market conditions. A liability for a cost associated with an exit or disposal activity is recognized and measured initially at its fair value in the period in which it is incurred except for a liability for a one-time termination benefit, which is recognized over its future service period.

Restructuring and Employee Severance

The following table summarizes activity related to the Company’s restructuring and employee severance costs during the three and nine months ended March 31, 2010 and 2009:

(in millions)	Three Months Ended March 31,		Nine Months Ended March 31,	
	2010	2009	2010	2009
Employee related costs (1)	\$ 3.4	\$ 5.3	\$ 32.7	\$ 26.4
Facility exit and other costs (2)	10.5	26.4	51.7	42.9
Total restructuring and employee severance	\$ 13.9	\$ 31.7	\$ 84.4	\$ 69.3

- (1) Employee-Related Costs. These costs primarily consist of one-time termination benefits provided to employees who have been involuntarily terminated and duplicate payroll costs during transition periods.
- (2) Facility Exit and Other Costs. Facility exit and other costs consist of accelerated depreciation, equipment relocation costs, project consulting fees and costs associated with restructuring the Company’s delivery of information technology infrastructure services.

Restructuring and employee severance for the three and nine months ended March 31, 2010 and 2009 included costs related to the following significant projects:

(in millions)	Three Months Ended March 31,		Nine Months Ended March 31,	
	2010	2009	2010	2009
Segment Realignment (1)	\$ 0.6	\$ 0.4	\$ 1.6	\$ 17.6
Spin-Off (2)	\$ 3.3	\$ 25.9	\$ 59.4	\$ 38.9

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- (1) Effective July 1, 2008, the Company consolidated its businesses into two primary operating and reportable segments to reduce costs and align resources with the needs of each segment (“Segment Realignment”). In connection with the Spin-Off, these reportable segments have since been reorganized. Refer to Notes 1 and 15 for additional information regarding the Company’s current reportable segments.
- (2) During fiscal 2009 and fiscal 2010, the Company incurred restructuring expenses related to the Spin-Off consisting of employee-related costs, share-based payment compensation, costs to evaluate and execute the transaction, costs to separate certain functions and information technology systems and other one-time transaction related costs. See Note 16 for further information regarding share-based payment compensation incurred in connection with the Spin-Off. Also included within these costs is \$18.6 million of costs related to the retirement of the Company’s former Chairman and Chief Executive Officer upon completion of the Spin-Off.

In addition to the significant restructuring programs discussed above, from time to time the Company incurs costs to implement smaller restructuring efforts for specific operations within its segments. These restructuring plans focus on various aspects of operations, including closing and consolidating certain manufacturing and distribution operations, rationalizing headcount and aligning operations in the most strategic and cost-efficient structure.

The Company estimates that it will incur additional costs in future periods associated with currently anticipated restructuring activities totaling approximately \$34.1 million. These additional costs are primarily associated with the Spin-Off.

Restructuring and Employee Severance Accrual Rollforward

The following table summarizes activity related to liabilities associated with the Company’s restructuring and employee severance activities during the nine months ended March 31, 2010:

<u>(in millions)</u>	<u>Employee Related Costs</u>	<u>Facility Exit and Other Costs</u>	<u>Total</u>
Balance at June 30, 2009	\$ 14.0	\$ 17.2	\$ 31.2
Additions	32.7	51.7	84.4
Payments and other adjustments	(33.0)	(57.0)	(90.0)
Balance at March 31, 2010	\$ 13.7	\$ 11.9	\$ 25.6

3. IMPAIRMENTS AND LOSS ON SALE OF ASSETS

During the nine months ended March 31, 2010, the Company recognized an \$18.1 million impairment loss related to the write-down of SpecialtyScripts, LLC (“SpecialtyScripts”), a business within the Pharmaceutical segment, to net expected fair value less costs to sell. See Note 4 for further information regarding the sale of SpecialtyScripts.

4. DISCONTINUED OPERATIONS AND ASSETS HELD FOR SALE

CareFusion

Effective August 31, 2009, the Company completed the distribution to its shareholders of approximately 81% of the then outstanding common stock of CareFusion, with the Company retaining 41.4 million shares of CareFusion common stock, and met the criteria for classification as discontinued operations in the Company’s financial statements. During the nine months ended March 31, 2010, the Company disposed of approximately 10.9 million shares of CareFusion common stock. The Company’s investment in CareFusion common stock does not provide the Company the ability to influence the operating or financial policies of CareFusion and accordingly does not constitute significant continuing involvement. Furthermore, while the Company is a party to a separation agreement and various other agreements relating to the separation, including a transition services agreement, a tax matters agreement, an employee matters agreement, intellectual property agreements and certain other commercial agreements, the Company has determined that the continuing cash flows generated by these agreements, which are expected to be eliminated within 5 years of the Spin-Off, and its investment in CareFusion common stock, do not constitute significant continuing involvement in the operations of CareFusion. Accordingly, the net assets of CareFusion are presented separately as discontinued operations and the operating results are presented within discontinued operations for all periods presented through the date of the Spin-Off.

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The results of CareFusion included in discontinued operations for the three and nine months ended March 31, 2010 and 2009 are summarized as follows:

(in millions)	Three Months Ended March 31,		Nine Months Ended March 31,	
	2010	2009	2010 (1)	2009
Revenue	\$ 0.0	\$ 828.4	\$592.1	\$2,669.3
Earnings before income taxes and discontinued operations	0.0	91.6	43.7	395.7
Income tax benefit/(expense)	(4.7)	6.5	(28.3)	(76.6)
Earnings/(loss) from discontinued operations	(4.7)	98.1	15.4	319.1

(1) Reflects the results of CareFusion through August 31, 2009, the effective date of the Spin-Off, and changes in certain estimates made at the time of the Spin-Off.

Interest expense was allocated to historical periods considering the debt issued by CareFusion in connection with the Spin-Off and the overall debt balance of the Company. In addition, a portion of the corporate costs previously allocated to CareFusion have been reclassified to the remaining two segments.

The following table summarizes the interest expense allocated to discontinued operations for CareFusion during the three and nine months ended March 31, 2010 and 2009:

(in millions)	Three Months Ended March 31,		Nine Months Ended March 31,	
	2010	2009	2010	2009
Interest expense allocated to CareFusion	\$ 0.0	\$ 18.2	\$ 12.8	\$ 56.3

There were no assets and liabilities from businesses held for sale for CareFusion at March 31, 2010. At June 30, 2009, the major components of assets and liabilities from businesses held for sale for CareFusion were as follows:

(in millions)	June 30, 2009
Current assets	\$1,832.0
Property and equipment	408.5
Other assets	4,774.2
Total assets	\$7,014.7
Current liabilities	469.2
Long-term debt and other	875.4
Total liabilities	\$1,344.6

Cash flows from discontinued operations are presented separately on the Company's condensed consolidated statements of cash flows.

Other

During the fourth quarter of fiscal 2007, the Company sold its businesses within the former Pharmaceutical Technologies and Services segment, other than certain generic-focused businesses (the "PTS Business"). See Note 7 of the "Notes to Consolidated Financial Statements" from the FY2009 Financial Statements for information regarding the sale of the PTS Business. The Company incurred minor amounts of activity related to the PTS Business during the three and nine months ended March 31, 2009 as a result of changes in certain estimates made at the time of the sale, activity under a transition services agreement and other adjustments.

During the fourth quarter of fiscal 2009, the Company committed to plans to sell its United Kingdom-based Martindale injectable manufacturing business ("Martindale") within its Pharmaceutical segment, and met the criteria for classification as discontinued operations in the Company's financial statements. Accordingly, the net assets of Martindale are presented separately as discontinued operations and the operating results of Martindale are presented within discontinued operations for all periods presented.

During the fourth quarter of fiscal 2009, the Company also committed to plans to sell SpecialtyScripts within its Pharmaceutical segment, and met the criteria for classification as held for sale in the Company's financial statements. During the third quarter of fiscal 2010, the Company completed the sale of SpecialtyScripts. Accordingly, the net assets of this business are presented separately as assets held for sale on the Company's condensed consolidated balance sheet through the date of sale. The results of SpecialtyScripts are reported within earnings from continuing operations on the Company's condensed consolidated statements of earnings through the date of sale because it did not satisfy the criteria for classification as discontinued operations. Additionally, the net assets held for sale of SpecialtyScripts were recorded at the net expected fair value less costs to sell, as this amount was lower than its net carrying value (see Note 3 for further information).

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The results of the PTS Business and Martindale included in discontinued operations for the three and nine months ended March 31, 2010 and 2009 are summarized as follows:

(in millions)	Three Months Ended March 31,		Nine Months Ended March 31,	
	2010	2009	2010	2009
Revenue	\$ 27.5	\$ 20.9	\$ 87.4	\$ 71.8
Earnings before income taxes and discontinued operations	4.6	0.2	17.3	9.2
Income tax expense	(2.3)	(0.5)	(7.2)	(6.1)
Earnings/(loss) from discontinued operations	2.3	(0.3)	10.1	3.1

At March 31, 2010 and June 30, 2009, the major components of assets and liabilities from businesses held for sale related to the PTS Business, Martindale and SpecialtyScripts were as follows:

(in millions)	March 31,	June 30,
	2010 (1)	2009
Current assets	\$ 64.4	\$ 74.2
Property and equipment	20.2	19.3
Other assets	54.3	81.2
Total assets	\$ 138.9	\$174.7
Current liabilities	26.7	16.5
Long-term debt and other	8.6	9.8
Total liabilities	\$ 35.3	\$ 26.3

(1) There were no assets or liabilities from businesses held for sale for SpecialtyScripts at March 31, 2010.

5. GOODWILL AND OTHER INTANGIBLE ASSETS

Goodwill

The following table summarizes the changes in the carrying amount of goodwill by segment for the nine months ended March 31, 2010:

(in millions)	Pharmaceutical	Medical	Total
Balance at June 30, 2009	\$ 1,232.8	\$963.7	\$2,196.5
Goodwill acquired—net of purchase price adjustments, foreign currency translation adjustments and other	20.4	(6.2)	14.2
Goodwill related to the divestiture or closure of businesses and assets held for sale	(1.8)	0.0	(1.8)
Balance at March 31, 2010	\$ 1,251.4	\$957.5	\$2,208.9

Due to the Spin-Off and reorganization of the reporting units, goodwill was tested for impairment in the first quarter of fiscal 2010. Based on this analysis, there was no impairment. The Company's determination of the estimated fair value of the reporting units is based on a combination of a discounted cash flow analysis, a multiple of earnings before interest, taxes, depreciation and amortization ("EBITDA") and, if available, a review of the price/earnings ratio for publicly traded companies similar in nature, scope and size to the Company's respective reporting units. The discount rates used for impairment testing are based on the risk-free rate plus an adjustment for risk factors. The EBITDA multiples used for impairment testing are judgmentally selected based on factors such as the nature, scope and size of the applicable reporting unit. The use of alternative estimates, peer groups or changes in the industry, or adjusting the discount rate, EBITDA multiples or price earnings ratios used could affect the estimated fair value of the reporting units and potentially result in goodwill impairment.

The allocations of the purchase price related to a small acquisitions are not yet finalized and are subject to adjustment as the Company completes the valuation analyses for these acquisitions.

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Intangible Assets

Intangible assets with definite lives are amortized over their useful lives, which range from three to twenty years. The detail of other intangible assets by class as of June 30, 2009 and March 31, 2010 is as follows:

<u>(in millions)</u>	<u>Gross</u>	<u>Accumulated</u>	<u>Net</u>
	<u>Intangible</u>	<u>Amortization</u>	<u>Intangible</u>
June 30, 2009			
Unamortized intangibles:			
Trademarks and patents	\$ 11.4	\$ 0.0	\$ 11.4
Total unamortized intangibles	11.4	0.0	11.4
Amortized intangibles:			
Trademarks and patents	30.2	12.9	17.3
Non-compete agreements	3.9	2.5	1.4
Customer relationships	46.6	35.1	11.5
Other	66.2	37.4	28.8
Total amortized intangibles	146.9	87.9	59.0
Total intangibles	\$ 158.3	\$ 87.9	\$ 70.4
March 31, 2010			
Unamortized intangibles:			
Trademarks and patents	\$ 9.4	\$ 0.0	\$ 9.4
Total unamortized intangibles	\$ 9.4	\$ 0.0	\$ 9.4
Amortized intangibles:			
Trademarks and patents	22.2	13.6	8.6
Non-compete agreements	4.1	2.8	1.3
Customer relationships	49.7	39.9	9.8
Other	66.1	42.3	23.8
Total amortized intangibles	142.1	98.6	43.5
Total intangibles	\$ 151.5	\$ 98.6	\$ 52.9

There were no significant acquisitions of other intangible assets during the periods presented.

The following table summarizes amortization expense during the three and nine months ended March 31, 2010 and 2009:

<u>(in millions)</u>	<u>Three Months Ended</u>		<u>Nine Months Ended</u>	
	<u>March 31,</u>		<u>March 31,</u>	
	<u>2010</u>	<u>2009</u>	<u>2010</u>	<u>2009</u>
Amortization expense	\$ 2.7	\$ 3.8	\$ 8.7	\$ 10.9

Amortization expense for each of the next five fiscal years is estimated to be:

<u>(in millions)</u>	<u>Fiscal Year Ended</u>				
	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>2013</u>	<u>2014</u>
Amortization expense	\$11.6	\$10.8	\$6.2	\$4.7	\$3.1

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6. INVESTMENT IN CAREFUSION

The following table provides a summary of the Company's investment in CareFusion, which is classified as available-for-sale, as of March 31, 2010:

(in millions)	Available-for-Sale Securities			Estimated Fair Value
	Cost (2)	Gross Unrealized Gains	Gross Unrealized Losses	
Equity securities (1)	\$634.1	\$ 171.1	\$ 0.0	\$ 805.2
Total	\$634.1	\$ 171.1	\$ 0.0	\$ 805.2

- (1) Equity securities consist of the Company's ownership of approximately 30.5 million shares of the 41.4 million shares of CareFusion common stock that the Company held immediately after the Spin-Off. These securities are stated at fair value with unrealized gains and losses reported in other comprehensive income. Realized gains and losses and declines in fair value deemed to be other-than-temporary are recognized in net earnings immediately. During the three months ended March 31, 2010, the Company disposed of approximately 5.4 million shares of CareFusion common stock, resulting in proceeds of approximately \$135.7 million and a pre-tax realized gain of approximately \$23.2 million. During the nine months ended March 31, 2010, the Company disposed of approximately 10.9 million shares of CareFusion common stock resulting in proceeds of approximately \$270.7 million and a pre-tax realized gain of approximately \$43.3 million. Refer to Note 14 for the amounts reclassified out of accumulated other comprehensive income and into earnings in connection with these sales.
- (2) Represents the Company's cost investment in the net book value of CareFusion's assets immediately following the Spin-Off adjusted for the sale of securities during the nine months ended March 31, 2010.

7. LONG-TERM OBLIGATIONS AND OTHER SHORT-TERM BORROWINGS

On September 24, 2009, the Company completed a debt tender announced on August 27, 2009 for an aggregate purchase price, including an early tender premium but excluding accrued interest, fees and expenses, of up to \$1.2 billion of the following series of debt securities (listed in order of acceptance priority): (i) 7.80% Debentures due October 15, 2016 of Allegiance Corporation; (ii) 6.75% Notes due February 15, 2011 of the Company; (iii) 6.00% Notes due June 15, 2017 of the Company; (iv) 7.00% Debentures due October 15, 2026 of Allegiance Corporation; (v) 5.85% Notes due December 15, 2017 of the Company; (vi) 5.80% Notes due October 15, 2016 of the Company; (vii) 5.65% Notes due June 15, 2012 of the Company; (viii) 5.50% Notes due June 15, 2013 of the Company; and (ix) 4.00% Notes due June 15, 2015 of the Company. The Company purchased more than \$1.1 billion pursuant to the offer using the order of priority set forth above. In connection with the debt tender, the Company incurred a pre-tax loss for the early extinguishment of debt of approximately \$39.9 million, which included an early tender premium of \$66.4 million, the write-off of \$5.3 million of unamortized debt issuance costs, and an offsetting \$31.8 million fair value adjustment to the respective debt related to previously terminated interest rate swaps.

Long-term obligations and other short-term borrowings consist of the following as of March 31, 2010 and June 30, 2009:

(in millions)	March 31,	
	2010	June 30, 2009
4.00% Notes due 2015	\$ 519.3	\$ 523.8
5.50% Notes due 2013	299.3	300.0
5.65% Notes due 2012	215.1	317.1
5.80% Notes due 2016	309.4	526.4
5.85% Notes due 2017	158.0	500.0
6.00% Notes due 2017	214.0	350.4
6.75% Notes due 2011	218.3	494.6
7.80% Debentures due 2016	44.1	75.7
7.00% Debentures due 2026	124.5	192.0
Floating Rate Notes due 2009	0.0	350.0
Other obligations	6.2	7.8
Total	2,108.2	3,637.8
Less: current portion and other short-term borrowings	232.6	366.2
Long-term obligations, less current portion and other short-term borrowings	\$1,875.6	\$3,271.6

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8. INCOME TAXES

Applicable accounting guidance provides that a tax benefit from an uncertain tax position may be recognized when it is more likely than not that the position will be sustained upon examination, including resolutions of any related appeals or litigation processes, based on the technical merits. The amount recognized is measured as the largest amount of tax benefit that is greater than 50% likely of being realized upon settlement. This interpretation also provides guidance on measurement, derecognition, classification, interest and penalties, accounting in interim periods, disclosure and transition.

The balance of unrecognized tax benefits and the amount of interest and penalties were as follows as of March 31, 2010 and June 30, 2009:

	March 31,	June 30,
(in millions)	2010	2009
Unrecognized tax benefits (1) (2) (3)	\$ 708.7	\$848.8
Portion that, if recognized, would reduce tax expense and effective tax rate (2)	342.3	610.9
Accrued penalties and interest (2) (3) (4)	228.1	247.0

- (1) The Company includes the full amount of unrecognized tax benefits in deferred income taxes and other liabilities in the condensed consolidated balance sheets.
- (2) Due to the anticipated repatriation of certain foreign earnings, taxes associated with a special purpose entity transaction no longer represent uncertain tax benefits and have been classified at March 31, 2010 as deferred tax liabilities.
- (3) The March 31, 2010 balance includes unrecognized tax benefits related to CareFusion. In accordance with indemnification provisions of the tax matters agreement entered into between the Company and CareFusion, the Company is entitled to reimbursement from CareFusion. The Company has recorded a long-term receivable of approximately \$216.7 million from CareFusion for these amounts (net of any tax refund claims).
- (4) Balances are gross amounts before any tax benefits and are included in deferred income taxes and other liabilities in the condensed consolidated balance sheets.

Upon completion of the Spin-Off, the Company recorded a tax charge of approximately \$171.9 million related to the anticipated repatriation of a portion of cash currently loaned to the Company's entities within the United States from its international subsidiaries. This charge is included within earnings from continuing operations for the nine months ended March 31, 2010.

The Company files income tax returns in the U.S. federal jurisdiction, various U.S. state jurisdictions and various foreign jurisdictions. With few exceptions, the Company is subject to audit by taxing authorities for fiscal years ended June 30, 2001 through the current fiscal year.

The Internal Revenue Service ("IRS") is currently conducting audits of fiscal years 2001 through 2007. During the three months ended March 31, 2008, the Company received Notices of Proposed Adjustment ("NPA's") from the IRS related to fiscal years 2001 through 2005 challenging deductions arising from the sale of trade receivables to a special purpose accounts receivable and financing entity. The amount of additional tax, excluding penalties and interest, proposed by the IRS in these notices was \$178.9 million. The Company anticipates that this transaction could be the subject of proposed adjustments by the IRS in tax audits of fiscal years 2006 to 2009. As discussed above, the Company recorded a charge of \$171.9 million during the first quarter of fiscal 2010 to reflect the anticipated repatriation of earnings from the special purpose entity. Due to the anticipated repatriation of the earnings, the tax associated with the transaction, including the tax assessed by the IRS, no longer represents an uncertain tax benefit. Taxes associated with this transaction, including both the charge taken in the first quarter of fiscal 2010 and the amount previously accrued as an unrecognized tax benefit, are classified as deferred tax liabilities or current taxes payable.

During fiscal 2009, the Company received a Revenue Agent's Report for tax years 2003 through 2005, which included new NPA's related to the Company's transfer pricing arrangements between foreign and domestic subsidiaries and the transfer of intellectual property among subsidiaries of an acquired entity prior to its acquisition by the Company. The amount of additional tax proposed by the IRS in the new notices total \$598.1 million, excluding penalties and interest, but including \$462.1 million related to issues for which CareFusion is liable under the tax matters agreement in the event the amount must be paid to the taxing authority. The Company disagrees with these proposed adjustments and intends to vigorously contest them. The Company believes that it is adequately reserved for the uncertain tax position relating to these matters.

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It is reasonably possible that there could be a change in the amount of unrecognized tax benefits within the next 12 months due to activities of the IRS or other taxing authorities, including proposed assessments of additional tax, possible settlement of audit issues, or the expiration of applicable statutes of limitations. The Company estimates that the range of the possible change in unrecognized tax benefits within the next 12 months is a decrease of approximately zero to \$25 million excluding penalties and interest.

Generally, fluctuations in the effective tax rate are due to changes within international and U.S. state effective tax rates resulting from the Company's business mix and the impact of restructuring and employee severance, impairments and other discrete items. The following table summarizes the Company's provision for income taxes as a percentage of pretax earnings from continuing operations ("effective tax rate") for the three and nine months ended March 31, 2010 and 2009:

(in millions)	Three Months Ended March 31,		Nine Months Ended March 31,	
	2010 (1)	2009	2010 (1)	2009 (2)
Effective tax rate	38.1%	37.5%	56.5%	36.1%

- (1) During the three and nine months ended March 31, 2010, the effective tax rate was impacted by net unfavorable adjustments of \$18 million, or 5 and 2 percentage points, respectively, related to discrete items. The discrete items included unfavorable amounts related to remeasuring certain unrecognized tax benefits and establishing a deferred tax asset valuation allowance related to a foreign entity. These unfavorable items were partially offset by the favorable impact of foreign and domestic audit settlements. In addition, for the nine months ended March 31, 2010, the effective tax rate was unfavorably impacted by a charge of \$171.9 million, or 19 percentage points, attributable to earnings no longer indefinitely invested offshore.
- (2) During the nine months ended March 31, 2009, the effective tax rate was impacted favorably by \$29.4 million, or 3 percentage points, as a result of the release of a valuation allowance that had previously been established for capital losses for which the Company's ability to utilize was uncertain.

9. CONTINGENT LIABILITIES

Legal Proceedings

In addition to commitments and obligations in the ordinary course of business, the Company is subject to various claims, other pending and potential legal actions for damages, investigations relating to governmental laws and regulations and other matters arising out of the normal conduct of its business. When accruing for contingencies related to litigation, the Company considers the degree of probability and range of possible loss. An estimated loss contingency is accrued in the Company's consolidated financial statements if it is probable that a liability has been incurred and the amount of the loss can be reasonably estimated. Because litigation is inherently unpredictable and unfavorable resolutions could occur, assessing contingencies is highly subjective and requires judgments about future events. The Company regularly reviews contingencies to determine the adequacy of the accruals and related disclosures. The amount of ultimate loss may differ from these estimates. It is possible that cash flows or results of operations could be materially affected in any particular period by the unfavorable resolution of one or more of these contingencies.

The Company recognizes income from the favorable outcome of legal settlements, judgments or other resolution of legal and regulatory matters when the associated cash or assets are received.

Estimated loss contingencies related to litigation and regulatory matters and income from favorable resolution of legal and regulatory matters are recognized in litigation (credits)/charges, net in the Company's condensed consolidated statements of earnings.

Insurance Proceeds

In the nine months ending March 31, 2010, the Company recognized \$27.2 million of income related to insurance proceeds released from escrow following the resolution of securities and derivative litigation against certain of the Company's directors and officers. This amount is comprised of \$25.7 million received from directors and officers' insurance policies recognized in litigation (credits)/charges, net and \$1.5 million of accrued interest income recognized in interest expense, net. For further information regarding this matter, see the Company's Annual Report on Form 10-K for the fiscal year ended June 30, 2007.

Income Taxes

See Note 8 for discussion of contingencies related to the Company's income taxes.

Other Matters

The Company also becomes involved from time-to-time in litigation and regulatory matters incidental to its business, including, but not limited to, personal injury claims, employment matters, commercial disputes, intellectual property matters, inclusion as a potentially responsible party for environmental clean-up costs, and litigation in connection with acquisitions and divestitures. The Company intends to vigorously defend itself against such litigation and does not currently believe that the outcome of any such litigation will have a material adverse effect on the Company's consolidated financial statements.

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From time to time, the Company receives subpoenas or requests for information from various government agencies relating to the business, accounting or disclosure practices of customers or suppliers. The responses to these subpoenas and requests for information sometimes require considerable time and effort, and can result in considerable costs being incurred by the Company. The Company expects to incur additional costs in the future in connection with existing and future requests. Such subpoenas and requests also can lead to the assertion of claims or the commencement of legal proceedings against the Company.

Also from time to time, the Company may determine that products marketed, manufactured, or distributed by the Company may not meet Company specifications, published standards or regulatory requirements. In such circumstances, the Company will investigate and take appropriate corrective action. Such actions can lead to costs to repair or replace affected products, temporary interruptions in product sales and action by regulators, and can adversely impact results of operations.

10. GUARANTEES

In the ordinary course of business, the Company, from time to time, agrees to indemnify certain other parties under agreements with the Company, including under acquisition and disposition agreements, customer agreements and intellectual property licensing agreements. Such indemnification obligations vary in scope and, when defined, in duration. In many cases, a maximum obligation is not explicitly stated and therefore the overall maximum amount of the liability under such indemnification obligations cannot be reasonably estimated. Where appropriate, such indemnification obligations are recorded as a liability. Historically, the Company has not, individually or in the aggregate, made payments under these indemnification obligations in any material amounts. In certain circumstances, the Company believes that its existing insurance arrangements, subject to the general deduction and exclusion provisions, would cover portions of the liability that could arise from any of these indemnification obligations. In addition, the Company believes that the likelihood of a material liability being triggered under these indemnification obligations is not significant.

In the ordinary course of business, the Company, from time to time, enters into agreements that obligate the Company to make fixed payments upon the occurrence of certain events. Such obligations primarily relate to obligations arising under acquisition transactions, where the Company has agreed to make payments based upon the achievement of certain financial performance measures by the acquired business. Generally, the obligation is capped at an explicit amount. The Company's aggregate exposure for these obligations, assuming the achievement of all financial performance measures, is not material.

In the ordinary course of business, the Company, from time to time, extends loans to its customers, which are subsequently sold to a bank. The bank services and administers these loans as well as any new loans the Company may direct. In order for the bank to purchase such loans, it requires the absolute and unconditional obligation of the Company to repurchase such loans upon the occurrence of certain events described in the agreement including, but not limited to, borrower payment default that exceeds 90 days, insolvency and bankruptcy. At March 31, 2010 and June 30, 2009, notes in the program subject to the guaranty of the Company totaled \$39.0 million and \$39.9 million, respectively. These loans are reported in the Company's condensed consolidated balance sheet.

11. FINANCIAL INSTRUMENTS

The Company utilizes derivative financial instruments to manage exposure to certain risks related to its ongoing operations. The primary risks managed through the use of derivative instruments include interest rate risk, currency exchange risk and commodity price risk. The Company does not use derivative instruments for trading or speculative purposes. While the majority of the Company's derivative instruments are designated as hedging instruments, the Company also enters into derivative instruments that are designed to hedge a risk, but are not designated as hedging instruments. These derivative instruments are adjusted to current market value through earnings at the end of each period.

Interest Rate Risk Management. The Company is exposed to the impact of interest rate changes. The Company's objective is to manage the impact of interest rate changes on cash flows and the market value of its borrowings. The Company utilizes a mix of debt maturities along with both fixed-rate and variable-rate debt to manage changes in interest rates. In addition, the Company enters into interest rate swaps to further manage its exposure to interest rate variations related to its borrowings and to lower its overall borrowing costs.

Currency Risk Management. The Company conducts business in several major international currencies and is subject to risks associated with changing foreign exchange rates. The Company's objective is to reduce earnings and cash flow volatility associated with foreign exchange rate changes to allow management to focus its attention on its business operations. Accordingly, the Company enters into various contracts that change in value as foreign exchange rates change to protect the value of existing foreign currency assets and liabilities, commitments and anticipated foreign currency revenue and expenses.

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Commodity Price Risk Management. The Company is exposed to changes in the price of certain commodities used in its Medical segment. The Company's objective is to reduce earnings and cash flow volatility associated with forecasted purchases of these commodities to allow management to focus its attention on its business operations. Accordingly, the Company enters into derivative contracts to manage the price risk associated with these forecasted purchases.

The Company is exposed to counterparty credit risk on all of its derivative instruments. Accordingly, the Company has established and maintains strict counterparty credit guidelines and enters into derivative instruments only with major financial institutions that are investment grade or better. The Company does not have significant exposure to any one counterparty and management believes the risk of loss is remote and, in any event, would not be material. Additionally, the Company does not require collateral under these agreements.

The following table summarizes the fair value of the Company's assets and liabilities related to derivative financial instruments, and the respective line items in which they were recorded in the condensed consolidated balance sheet as of March 31, 2010 and June 30, 2009:

		March 31,	June 30,
(in millions)	Balance Sheet Location	2010	2009
Assets:			
Derivatives designated as hedging instruments:			
Foreign currency contracts	Prepaid expenses and other	\$ 2.2	\$ 0.4
Commodity contracts	Prepaid expenses and other	1.0	1.2
Total		3.2	1.6
Derivatives not designated as hedging instruments:			
Foreign currency contracts	Other long-term assets	80.8	64.5
Total Assets		\$ 84.0	\$ 66.1
Liabilities:			
Derivatives designated as hedging instruments:			
Pay-fixed interest rate swaps	Other accrued liabilities	\$ 0.0	\$ 3.7
Pay-floating interest rate swaps	Other accrued liabilities	0.7	0.0
Foreign currency contracts	Deferred income taxes and other liabilities	4.0	2.9
Total Liabilities		\$ 4.7	\$ 6.6

Fair Value Hedges

The Company enters into pay-floating interest rate swaps to hedge the changes in the fair value of fixed-rate debt resulting from fluctuations in interest rates. These contracts are designated and qualify as fair value hedges. Accordingly, the gain or loss recorded on the pay-floating interest rate swaps is directly offset by the change in fair value of the underlying debt. Both the derivative instrument and the underlying debt are adjusted to market value at the end of each period with any resulting gain or loss recorded in interest expense, net in the condensed consolidated statements of earnings.

In the third quarter of fiscal 2010, the Company entered into pay-floating interest rate swaps with a total notional value of \$365.0 million. The fair value of these pay-floating interest rate swaps are included in the condensed consolidated balance sheet as of March 31, 2010.

On March 20, 2009, the Company terminated all of its then existing pay-floating interest rate swaps and received net settlement proceeds totaling \$123.1 million. These proceeds are classified as cash provided by operating activities in the condensed consolidated statements of cash flows. There was no immediate impact to the statements of earnings; however, the fair value adjustment to debt will be amortized over the life of the underlying debt as a reduction to interest expense in conjunction with the occurrence of the originally forecasted transactions.

The following table summarizes the interest rate swaps designated as fair value hedges outstanding as of March 31, 2010 and June 30, 2009 (in millions):

	March 31, 2010		June 30, 2009	
	Notional		Notional	
Type	Amount	Maturity Date	Amount	Maturity Date
Pay-floating interest rate swaps	\$365.0	June 2012 – June 2015	\$ 0.0	N.M.

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The following table summarizes the gain/(loss) recognized in earnings for interest rate swaps designated as fair value hedges for the three and nine months ended March 31, 2010 and 2009 (in millions):

Fair Value Hedging Instrument	Statements of Earnings Location	Three Months Ended March 31,		Nine Months Ended March 31,	
		2010	2009	2010	2009
Pay-floating interest rate swaps	Interest expense, net	3.9	6.9	11.3	17.9
Fixed-rate debt	Interest expense, net	(3.9)	(6.9)	(11.3)	(17.9)

There was no ineffectiveness associated with these derivative instruments.

Cash Flow Hedges

The Company enters into derivative instruments to hedge its exposure to changes in cash flows attributable to currency, interest rate and commodity price fluctuations associated with certain forecasted transactions. These derivative instruments are designated and qualify as cash flow hedges. Accordingly, the effective portion of the gain or loss on the derivative instrument is reported as a component of other comprehensive income ("OCI") and reclassified into earnings in the same line item associated with the forecasted transaction and in the same period during which the hedged transaction affects earnings. The ineffective portion of the gain or loss on the derivative instrument is recognized in earnings immediately.

The Company enters into pay-fixed interest rate swaps to hedge the variability of cash flows relating to interest rate payments on the Company's variable rate debt. At June 30, 2009, the Company held pay-fixed interest rate swaps to hedge the variability of cash flows relating to these forecasted transactions. On October 2, 2009, these pay-fixed interest rate swaps matured with the underlying floating-rate note.

The Company also enters into foreign currency contracts to protect the value of anticipated foreign currency revenues and expenses. At March 31, 2010 and June 30, 2009, the Company held contracts to hedge probable, but not firmly committed, revenue and expenses. The principal currencies hedged are the Canadian dollar, European euro, Mexican peso, Thai baht, British pound and Australian dollar.

The Company also enters into derivative contracts to manage the price risk associated with forecasted purchases of certain commodities used in its Medical segment.

The following table summarizes the outstanding cash flow hedges as of March 31, 2010 and June 30, 2009 (in millions):

Type	March 31, 2010		June 30, 2009	
	Notional		Notional	
	Amount	Maturity Date	Amount	Maturity Date
Pay-fixed interest rate swaps	\$ 0.0	N.M.	\$350.0	October 2009
Foreign currency contracts	213.0	April 2010 – June 2011	149.3	July 2009 - June 2010
Commodity contracts	19.1	April 2010 – December 2012	14.5	July 2009 - December 2011

The following table summarizes the gain/(loss) recognized in OCI for derivative instruments designated as cash flow hedges during the three and nine months ended March 31, 2010 and 2009 (in millions):

Cash Flow Hedging Instruments	Three Months Ended March 31,		Nine Months Ended March 31,	
	2010	2009	2010	2009
Pay-fixed interest rate swaps	\$ (0.4)	\$ 2.0	\$ 2.5	\$ 1.1
Foreign currency contracts (1)	\$ 3.9	\$ (6.0)	\$ 4.4	\$ 3.4
Commodity contracts	\$ (0.4)	\$ (0.7)	\$ (0.2)	\$ (0.7)

- (1) Includes gain/(loss) recognized in OCI related to CareFusion of \$4.1 million for the nine months ended March 31, 2010, and (\$1.4) million and (\$4.7) million for the three and nine months ended March 31, 2009, respectively.

The following table summarizes the gain/(loss) reclassified from accumulated OCI into earnings for derivative instruments designated as cash flow hedges during the three and nine months ended March 31, 2010 and 2009 (in millions):

Cash Flow Hedging Instruments	Statements of Earnings Location	Three Months Ended March 31,		Nine Months Ended March 31,	
		2010	2009	2010	2009
Pay-fixed interest rate swaps	Interest expense, net	0.4	(2.7)	(2.5)	(4.9)
Foreign currency contracts	Cost of products sold	2.8	4.7	7.3	7.7
Foreign currency contracts	SG&A expenses	(0.4)	(1.6)	(0.7)	(2.6)
Commodity contracts	SG&A expenses	0.1	(0.3)	(0.1)	(0.3)

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The amount of ineffectiveness associated with these derivative instruments was not material.

Economic (Non-designated) Hedges

The Company enters into foreign currency contracts to manage its foreign exchange exposure related to intercompany financing transactions and other balance sheet items subject to revaluation that do not meet the requirements for hedge accounting treatment. Accordingly, these derivative instruments are adjusted to current market value at the end of each period through earnings. The gain or loss recorded on these instruments is substantially offset by the remeasurement adjustment on the foreign currency denominated asset or liability. The settlement of the derivative instrument and the remeasurement adjustment on the foreign currency denominated asset or liability are both recorded in other (income)/expense, net at the end of each period.

The following table summarizes the economic derivative instruments outstanding as of March 31, 2010 and June 30, 2009 (in millions):

<u>Type</u>	<u>March 31, 2010</u>		<u>June 30, 2009</u>	
	<u>Notional</u>	<u>Amount</u>	<u>Notional</u>	<u>Amount</u>
		<u>Maturity Date</u>		<u>Maturity Date</u>
Foreign currency contracts	\$702.3	April 2010 – December 2013	\$531.3	July 2009 – December 2013

The following table summarizes the gain/(loss) recognized in earnings for economic derivative instruments for the three and nine months ended March 31, 2010 and 2009 (in millions):

<u>Non-Designated Derivative Instruments</u>	<u>Statement of Earnings Location</u>	<u>Three Months Ended</u>		<u>Nine Months Ended</u>	
		<u>March 31,</u>	<u>March 31,</u>	<u>March 31,</u>	<u>March 31,</u>
		<u>2010</u>	<u>2009</u>	<u>2010</u>	<u>2009</u>
Foreign currency contracts	Other (income)/expense, net	8.4	10.1	17.8	(1.1)

Fair Value of Financial Instruments.

The carrying amounts of cash and equivalents, trade receivables, accounts payable, notes payable-banks, other short-term borrowings and other accrued liabilities at March 31, 2010, and June 30, 2009 approximate their fair value because of the short-term maturities of these items.

Cash balances are invested in accordance with the Company's investment policy. These investments are exposed to market risk from interest rate fluctuations and credit risk from the underlying issuers, although this is mitigated through diversification.

The estimated fair value of the Company's long-term obligations and other short-term borrowings was \$2,222.0 million and \$3,428.8 million compared to the carrying amounts of \$2,108.2 million and \$3,637.8 million at March 31, 2010, and June 30, 2009, respectively. The fair value of the Company's long-term obligations and other short-term borrowings is estimated based on either the quoted market prices for the same or similar issues or the current interest rates offered for debt of the same remaining maturities or estimated discounted cash flows.

The following is a summary of the fair value gain/(loss) of the Company's derivative instruments, based upon the estimated amount that the Company would receive (or pay) to terminate the contracts as of March 31, 2010 and June 30, 2009. The fair values are based on quoted market prices for the same or similar instruments.

<u>(in millions)</u>	<u>March 31, 2010</u>		<u>June 30, 2009</u>	
	<u>Notional</u>	<u>Fair Value</u>	<u>Notional</u>	<u>Fair Value</u>
	<u>Amount</u>	<u>Gain/(Loss)</u>	<u>Amount</u>	<u>Gain/(Loss)</u>
Foreign currency contracts	\$915.3	\$ 78.9	\$680.6	\$ 62.0
Interest rate swaps	365.0	(0.7)	350.0	(3.7)
Commodity contracts	19.1	1.0	14.5	1.2

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See Note 12 for further information regarding the Company's fair value measurements.

12. FAIR VALUE MEASUREMENTS

Fair value is defined as the price that would be received upon selling an asset or the price paid to transfer a liability on the measurement date. It focuses on the exit price in the principal or most advantageous market for the asset or liability in an orderly transaction between willing market participants. A three-tier fair value hierarchy is established as a basis for considering such assumptions and for inputs used in the valuation methodologies in measuring fair value. This hierarchy requires entities to maximize the use of observable inputs and minimize the use of unobservable inputs. The three levels of inputs used to measure fair values are as follows:

Level 1 – Observable prices in active markets for identical assets and liabilities.

Level 2 – Observable inputs other than quoted prices in active markets for identical assets and liabilities.

Level 3 – Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets and liabilities.

Recurring Fair Value Measurements

The following table presents the fair values for those assets and (liabilities) measured on a recurring basis as of March 31, 2010:

(in millions)	Fair Value Measurements			
	Level 1	Level 2	Level 3	Total
Cash Equivalents (1)	\$2,037.0	\$ 0.0	\$ 0.0	\$2,037.0
Equity Securities (2)	805.2	0.0	0.0	805.2
Foreign Currency Contracts (3)	0.0	79.0	0.0	79.0
Commodity Contracts (3)	0.0	1.0	0.0	1.0
Interest Rate Swaps (3)	0.0	(0.7)	0.0	(0.7)
Other Investments (4)	72.8	0.0	0.0	72.8
Total	\$2,915.0	\$79.3	\$ 0.0	\$2,994.3

- (1) Cash equivalents are comprised of highly liquid investments purchased with a maturity of three months or less. The carrying value of these cash equivalents approximates fair value due to their short-term maturities.
- (2) Equity securities consist of the Company's investment in CareFusion common stock. The fair value of these securities is determined using the quoted market price of the security.
- (3) The fair value of the Company's foreign currency contracts, commodity contracts and interest rate swaps is determined based on the present value of expected future cash flows considering the risks involved, including nonperformance risk, and using discount rates appropriate for the respective maturities. Observable Level 2 inputs are used to determine the present value of expected future cash flows. See Note 11 for further information regarding the fair value of financial instruments.
- (4) The other investments balance includes investments in mutual funds, which are used to offset fluctuations in the Company's deferred compensation liabilities. These mutual funds are primarily comprised of large cap domestic and international equity securities. The fair value of these investments is determined using quoted market prices.

13. EARNINGS PER SHARE AND SHAREHOLDERS' EQUITY

Earnings per Share

Basic earnings per Common Share ("Basic EPS") is computed by dividing net earnings (the numerator) by the weighted average number of Common Shares outstanding during each period (the denominator). Diluted earnings per Common Share ("Diluted EPS") is similar to the computation for Basic EPS, except that the denominator is increased by the dilutive effect of vested and unvested stock options, restricted shares and restricted share units computed using the treasury stock method. The total number of Common Shares issued less the Common Shares held in treasury is used to determine the Common Shares outstanding.

The following table reconciles the number of Common Shares used to compute Basic EPS and Diluted EPS for the three and nine months ended March 31, 2010 and 2009:

(in millions)	Three Months Ended March 31,		Nine Months Ended March 31,	
	2010	2009	2010	2009
Weighted-average Common Shares – basic	358.7	358.1	359.0	357.3
Effect of dilutive securities:				
Employee stock options, restricted shares and restricted share units	3.1	2.8	2.2	3.7
Weighted-average Common Shares – diluted	<u>361.8</u>	<u>360.9</u>	<u>361.2</u>	<u>361.0</u>

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The following table presents the number of potentially dilutive securities that were anti-dilutive for the three and nine months ended March 31, 2010 and 2009:

(in millions)	Three Months Ended March 31,		Nine Months Ended March 31,	
	2010	2009	2010	2009
Anti-dilutive securities	13.5	31.4	22.9	29.2

Shareholders' Equity

During the nine months ended March 31, 2010, the Company repurchased approximately \$50.0 million of its Common Shares under its existing \$500.0 million share repurchase program announced on August 5, 2009. This repurchase authorization expires on August 31, 2012. At March 31, 2010, approximately \$450.0 million remained from the \$500.0 million repurchase authorization. The Company expects to use this repurchase program to at least offset equity plan issuances.

In connection with the Spin-Off on August 31, 2009, the Company issued a non-cash dividend of approximately \$3.8 billion to its shareholders which represented the pro-rata distribution of approximately 81% of the CareFusion common shares.

14. COMPREHENSIVE INCOME

The following is a summary of the Company's comprehensive income for the three and nine months ended March 31, 2010 and 2009:

(in millions)	Three Months Ended March 31,		Nine Months Ended March 31,	
	2010	2009	2010	2009
Net earnings	\$ 222.4	\$ 312.9	\$ 418.7	\$ 878.4
Foreign currency translation adjustments	(37.5)	(15.0)	(75.3)	(183.6)
Net unrealized gain on derivative instruments	2.4	6.3	17.4	5.4
Net unrealized gain on investment in CareFusion, net of tax (1)	6.9	0.0	147.9	0.0
Total comprehensive income	<u>\$ 194.2</u>	<u>\$ 304.2</u>	<u>\$ 508.7</u>	<u>\$ 700.2</u>

- (1) The net unrealized gain on investment in CareFusion, net of tax, is comprised of the following for the three and nine months ended March 31, 2010 and 2009:

(in millions)	Three Months Ended March 31,		Nine Months Ended March 31,	
	2010	2009	2010	2009
Unrealized gain on investment in CareFusion, net of tax	\$ 29.6	\$ 0.0	\$ 175.9	\$ 0.0
Realized gain reclassified out of accumulated other comprehensive income and into earnings	(22.7)	0.0	(28.0)	0.0
Net unrealized gain on investment in CareFusion, net of tax	<u>\$ 6.9</u>	<u>\$ 0.0</u>	<u>\$ 147.9</u>	<u>\$ 0.0</u>

15. SEGMENT INFORMATION

The Company's operations are principally managed on a products and services basis. In connection with the Spin-Off, the Company reorganized its businesses into two reportable segments—Pharmaceutical and Medical. The factors for determining the reportable segments include the manner in which management evaluates the performance of the Company combined with the nature of the individual business activities.

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The Pharmaceutical segment distributes pharmaceutical products, over-the-counter healthcare products and consumer health products and provides support services to retail customers, hospitals and alternate care providers in the United States and Puerto Rico. It also provides services to pharmaceutical manufacturers and operates a pharmaceutical repackaging and distribution program. In addition, this segment operates cyclotron facilities and nuclear (radiopharmaceutical) pharmacies, provides third-party logistics support services and distributes therapeutic plasma to hospitals, clinics and other providers located in the United States. It also franchises apothecary-style retail pharmacies through its Medicine Shoppe International, Inc. and Medicap Pharmacies Incorporated franchise systems. Finally, it provides pharmacy management services to hospitals and other healthcare facilities.

The Medical segment develops, manufactures and distributes medical and surgical products including sterile and non-sterile procedure kits to hospitals, surgery centers, laboratories, physician offices and other healthcare providers in the United States, Canada and Puerto Rico. The medical and surgical products manufactured by the business, including single-use surgical drapes, gowns and apparel, exam and surgical gloves and fluid suction and collection systems, are also sold in various regions of the world outside of the United States, including countries in North America, Europe, and Asia.

The following table includes revenue for each reportable segment and reconciling items necessary to agree to amounts reported in the condensed consolidated financial statements:

(in millions)	Three Months Ended March 31,		Nine Months Ended March 31,	
	2010	2009	2010	2009
Segment revenue:				
Pharmaceutical (1)	\$22,226.2	\$22,117.6	\$67,483.2	\$65,600.4
Medical (2)	2,122.7	1,975.6	6,592.2	6,069.6
Total segment revenue	24,348.9	24,093.2	74,075.4	71,670.0
Corporate (3)	(6.1)	(3.9)	(32.2)	(25.7)
Total consolidated revenue	<u>\$24,342.8</u>	<u>\$24,089.3</u>	<u>\$74,043.2</u>	<u>\$71,644.3</u>

- (1) The Pharmaceutical segment's revenue is primarily derived from the distribution of pharmaceutical, radiopharmaceutical and over-the-counter healthcare products.
- (2) The Medical segment's revenue is derived from the manufacturing and distribution of medical, surgical and laboratory products and medical procedure kits.
- (3) Corporate revenue consists of the elimination of inter-segment revenue.

The Company evaluates the performance of the segments based upon, among other things, segment profit. Segment profit is segment revenue less segment cost of products sold, less segment distribution, selling, general and administrative expense ("SG&A"). Segment SG&A expenses include equity compensation expense as well as allocated corporate expenses for shared functions, including corporate management, corporate finance, financial shared services, human resources, information technology, legal and an integrated hospital sales organization. Corporate expenses are allocated to the segments based upon headcount, level of benefit provided and ratable allocation. Information about interest income and expense and income taxes is not provided at the segment level. In addition, restructuring and employee severance, impairments and loss on sale of assets, litigation (credits)/charges, net and certain investment spending are not allocated to the segments. Investment spending generally includes the first year spend for certain projects that require incremental strategic investments in the form of additional operating expenses. The Company urges its segments to identify investment projects that will encourage innovation and provide future returns. As approval decisions for such projects are dependent upon executive management, the expenses for such projects are retained at Corporate. See Notes 2 and 3, respectively, for further discussion of the Company's restructuring and employee severance and impairments and loss on sale of assets. The accounting policies of the segments are the same as those described in Note 1.

The following table includes segment profit by reportable segment and reconciling items necessary to agree to amounts reported in the condensed consolidated financial statements:

(in millions)	Three Months Ended March 31,		Nine Months Ended March 31,	
	2010	2009	2010	2009
Segment profit:				
Pharmaceutical	\$ 306.7	\$ 286.2	\$ 774.8	\$ 762.2
Medical	107.8	128.3	325.2	300.7
Total segment profit	414.5	414.5	1,100.0	1,062.9
Corporate (1)	(48.2)	(33.6)	(127.0)	(82.2)
Total consolidated operating earnings	<u>\$ 366.3</u>	<u>\$ 380.9</u>	<u>\$ 973.0</u>	<u>\$ 980.7</u>

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- (1) For the three and nine months ended March 31, 2010 and 2009, Corporate includes, among other things, restructuring and employee severance, impairments and loss on sale of assets, litigation (credits)/charges, net and certain investment spending that are not allocated to the segments. Investment spending within Corporate was \$8.9 million and \$16.1 million for the three and nine months ended March 31, 2010 compared to \$0.3 million and \$0.1 million for the three and nine months ended March 31, 2009.

The following table includes total assets at March 31, 2010 and June 30, 2009 for each segment as well as reconciling items necessary to agree to the amounts reported in the condensed consolidated financial statements:

<u>(in millions)</u>	<u>March 31,</u> <u>2010</u>	<u>June 30,</u> <u>2009</u>
Segment assets:		
Pharmaceutical	\$13,278.4	\$12,625.3
Medical	3,843.0	3,747.9
Corporate (1)	4,148.8	8,745.6
Consolidated assets	<u>\$21,270.2</u>	<u>\$25,118.8</u>

- (1) The Corporate assets primarily consist of cash and equivalents, the Company's investment in CareFusion, net property and equipment, and the Company's contractual tax indemnification receivable from CareFusion (see Note 8 for further information regarding this receivable). Additionally, the Corporate assets as of June 30, 2009 included CareFusion assets and other assets held for sale and discontinued operations.

16. EMPLOYEE EQUITY PLANS

Employee Equity Plans

The Company maintains several stock incentive plans (collectively, the "Plans") for the benefit of certain of its officers, directors and employees. Employee options granted under the Plans during fiscal 2008 through fiscal 2010 generally vest in equal annual installments over three years and are exercisable for periods up to seven years from the date of grant at a price equal to the fair market value of the Common Shares underlying the option at the date of grant. Employee options granted under the Plans during fiscal 2007 generally vest in equal annual installments over four years and are exercisable for periods up to seven years from the date of grant at a price equal to the fair market value of the Common Shares underlying the option at the date of grant. Employee restricted shares and restricted share units granted under the Plans during fiscal 2007 through fiscal 2010 generally vest in equal installments over three years and entitle holders to dividends or cash dividend equivalents. Restricted shares and restricted share units that were awarded after August 1, 2006 accrue dividends or cash dividend equivalents that are payable upon vesting of the awards.

The compensation expense recognized for all share-based payment awards is net of estimated forfeitures and is recognized using the straight-line method over the applicable service period. The Company classifies share-based payment compensation within SG&A expenses to correspond with the same line item as the majority of the cash compensation paid to employees. However, certain share-based payment compensation incurred in connection with the Spin-Off is classified within restructuring and employee severance.

The following table illustrates the impact of share-based payment compensation on reported amounts for the three and nine months ended March 31, 2010 and 2009:

<u>(in millions, except per share amounts)</u>	<u>Three Months Ended</u> <u>March 31,</u>		<u>Nine Months Ended</u> <u>March 31,</u>	
	<u>2010 (1)</u>	<u>2009 (1)</u>	<u>2010 (1)</u>	<u>2009 (1)</u>
Operating earnings (2)	\$ (21.7)	\$ (32.4)	\$ (79.0)	\$ (82.6)
Earnings from continuing operations	\$ (13.7)	\$ (22.4)	\$ (50.4)	\$ (56.1)
Net earnings (3)	\$ (13.7)	\$ (25.8)	\$ (52.7)	\$ (65.1)
Net basic earnings per Common Share	\$ (0.04)	\$ (0.07)	\$ (0.15)	\$ (0.18)
Net diluted earnings per Common Share	\$ (0.04)	\$ (0.07)	\$ (0.15)	\$ (0.18)

- (1) The following table provides total share-based payment compensation, net of tax, related to the Spin-Off during the three and nine months ended March 31, 2010 and 2009:

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(in millions)	Three Months Ended March 31,		Nine Months Ended March 31,	
	2010	2009	2010	2009
Share-based payment compensation	\$ 0.6	\$ 2.6	\$ 15.6	\$ 5.0
Tax benefit	0.2	0.8	5.7	1.6
Total share-based payment compensation, net of tax	\$ 0.4	\$ 1.8	\$ 9.9	\$ 3.4

- (2) The following table provides total share-based payment compensation by type of award for the three and nine months ended March 31, 2010 and 2009:

(in millions)	Three Months Ended March 31,		Nine Months Ended March 31,	
	2010	2009	2010	2009
Restricted share and share unit expense	\$ 13.1	\$ 18.2	\$ 43.7	\$ 47.3
Employee stock option expense	8.2	10.5	33.2	27.4
Employee stock purchase plan expense	0.0	3.9	1.1	10.0
Stock appreciation right (income)/expense	0.4	(0.2)	1.0	(2.1)
Total share-based payment compensation	\$ 21.7	\$ 32.4	\$ 79.0	\$ 82.6

- (3) The following table provides total share-based payment compensation, net of tax, charged to discontinued operations during the three and nine months ended March 31, 2010 and 2009:

(in millions)	Three Months Ended March 31,		Nine Months Ended March 31,	
	2010	2009	2010	2009
Share-based payment compensation	\$ 0.0	\$ 5.6	\$ 3.8	\$ 14.6
Tax benefit	0.0	2.2	1.5	5.6
Total share-based payment compensation, net of tax	\$ 0.0	\$ 3.4	\$ 2.3	\$ 9.0

Stock Options

The fair value of the Company's stock options is determined using a lattice valuation model. The Company believes the lattice model provides for better estimates because it has the ability to take into account employee exercise patterns based on changes in the Company's stock price and other variables and it provides for a range of input assumptions.

The following table summarizes all stock option transactions for the Company under the Plans from July 1, 2009 through March 31, 2010:

(in millions, except per share amounts)	Options Outstanding (1)	Weighted Average Exercise Price	Weighted Average Remaining Contractual	Aggregate Intrinsic Value
		per Common Share (2)	Life in Years	
Balance at June 30, 2009	29.4	\$ 59.25	3.9	\$ 1.8
Granted	7.2	\$ 28.08		
Exercised	(0.9)	\$ 24.96		
Forfeited and cancelled	(10.8)	\$ 63.11		
Balance at March 31, 2010	24.9	\$ 37.74	4.1	\$ 89.5
Exercisable at March 31, 2010	16.3	\$ 42.02	3.3	\$ 22.6

- (1) The options granted and forfeited and cancelled activity for the nine months ended March 31, 2010 included the impact of the Company's stock option exchange program and the adjustments to stock incentive plans as discussed below.
- (2) Exercise prices related to stock options granted prior to the date of the Spin-Off have not been adjusted to reflect the impact of the Spin-Off.

Restricted Shares and Restricted Share Units

The fair value of restricted shares and restricted share units is determined by the number of shares granted and the grant date market price of the Company's Common Shares.

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The following table summarizes all activity related to restricted shares and restricted share units from July 1, 2009 through March 31, 2010:

<u>(in millions, except per share amounts)</u>	<u>Shares (1)</u>	<u>Weighted Average Grant Date Fair Value Per Share (2)</u>
Nonvested at June 30, 2009	3.1	\$ 57.10
Granted	2.1	\$ 27.36
Vested	(1.6)	\$ 51.23
Forfeited and cancelled	(0.2)	\$ 45.84
Nonvested at March 31, 2010	3.4	\$ 33.34

- (1) The restricted shares and restricted share units forfeited and cancelled activity for the nine months ended March 31, 2010 included the impact of the adjustments to stock incentive plans as discussed below.
- (2) Grant date fair values per share of awards granted prior to the date of the Spin-Off have not been adjusted to reflect the impact of the Spin-Off.

Stock Option Exchange Program

On May 6, 2009, the Company's Board of Directors authorized, and on June 23, 2009, the Company's shareholders approved, a program that permitted certain current employees to exchange certain outstanding stock options with exercise prices substantially above the current market price of Cardinal Health Common Shares for a lesser number of stock options that have a fair value that is lower than the fair value of the "out of the money" options. The program began on June 19, 2009 and was completed on July 17, 2009. The Company believes that this program was necessary to more closely align employee and shareholder interests through equity compensation programs. The program was designed to motivate and retain key employees and to reinforce the alignment of the Company's employees' interests with those of its shareholders. As a result of this program, 9.8 million outstanding eligible stock options were exchanged for 1.4 million new options at an exercise price of \$31.27. These new options have a new minimum vesting condition of an additional 12 months, and the term of each new option is the longer of three years from the grant date or the remaining term of the eligible stock option for which it was exchanged. The new options were treated as a probable-to-probable modification under the accounting guidance for share-based payment compensation. The Company did not incur incremental expense associated with the modification.

Adjustments to Stock Incentive Plans

In connection with the Spin-Off, on August 31, 2009, the Company adjusted its existing stock incentive plans to provide for the conversion and adjustment of share-based payment compensation awards granted under its Plans into awards based on the Company's common shares and/or CareFusion common stock, as applicable. For purposes of the vesting of these equity awards, continued employment or service with the Company or with CareFusion is treated as continued employment for purposes of both the Company's and CareFusion's equity awards.

Each Cardinal Health stock option granted on or prior to September 26, 2007 was converted into an adjusted Company stock option and a CareFusion stock option. The exercise prices of the CareFusion stock option and the adjusted Company stock option and the number of shares subject to each such stock option reflects a mechanism that is intended to preserve the intrinsic value of the original Company stock option. A Company stock option granted after September 26, 2007 to current or former employees of the Company or to directors of the Company continues to be exercisable only for the Company's common shares and was adjusted in a manner intended to preserve the intrinsic value of such stock option. A Company stock option granted after September 26, 2007 to CareFusion employees or directors was replaced with a CareFusion stock option, subject to an adjustment mechanism intended to preserve the intrinsic value of such stock option. The resulting Company stock options and CareFusion stock options are subject to substantially the same terms, vesting conditions and other restrictions, if any, that were applicable to the Company stock option immediately prior to the distribution.

A holder of the Company's restricted shares granted on or prior to September 26, 2007 received 0.5 restricted shares of CareFusion common stock in respect of each of such holder's restricted shares of the Company. The underlying Company restricted shares will remain outstanding and unadjusted. Unvested Company restricted shares granted after September 26, 2007 to current or former employees of the Company were cancelled and replaced with newly issued restricted shares of the Company. Such newly issued Company restricted shares were determined in a manner that is intended to preserve the fair market value of the cancelled awards and the holders of such Company restricted shares received no CareFusion common stock with respect to such restricted shares. Unvested Company restricted shares granted after September 26, 2007 to CareFusion employees were cancelled and replaced with restricted shares of CareFusion common stock in a manner that is intended to preserve the fair market value of the cancelled awards. The Company restricted shares and the CareFusion restricted shares are subject to substantially the same terms (including entitlement to any cash dividends, accrued but unpaid at the distribution date), vesting conditions and other restrictions, if any, that were applicable to the cancelled Company restricted shares.

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Following the Spin-Off, if any of the Company's restricted shares that are held by one of CareFusion's employees fail to become vested, such Company restricted shares will be forfeited to the Company and if any CareFusion restricted shares that are held by an employee of the Company fail to become vested, such CareFusion restricted shares will be forfeited to CareFusion.

A holder of the Company's restricted share units granted prior to September 26, 2007 or granted in connection with the Spin-Off, or issued in exchange for an option initially granted prior to September 26, 2007, received, in connection with the Spin-Off, CareFusion restricted stock units representing the right to receive 0.5 shares of CareFusion common stock for each Company common share subject to the award. The underlying Company restricted share units will remain in effect unadjusted. An employee or director of the Company who holds unvested Company restricted share units, other than those described in the first sentence of this paragraph, did not receive any CareFusion restricted stock units in connection with the Spin-Off, but such Company restricted share units were adjusted in a manner intended to preserve the fair market value of such awards. The unvested Company's restricted share units, other than those described in the first sentence of this paragraph, granted to CareFusion employees or directors were replaced with a number of CareFusion restricted stock units intended to preserve the fair market value of the awards. The adjusted Company restricted share units or the replacement CareFusion restricted stock units that a holder received in connection with the Spin-Off will be subject to substantially the same terms (including entitlement to any cash dividend equivalents, accrued but unpaid at the distribution date), vesting conditions and other restrictions, if any, that were applicable to the Company's restricted share units prior to the distribution.

The adjustments to the Company's stock incentive plans were treated as a modification in accordance with stock-based compensation accounting guidance and resulted in a total incremental compensation cost of \$0.6 million.

The following table summarizes the share-based payment awards outstanding as of March 31, 2010:

(in millions)	Cardinal Health Awards		CareFusion Awards	
	Stock Options	Restricted Shares and Share Units	Stock Options	Restricted Shares and Share Units
Held by Cardinal Health employees and former employees	22.3	3.3	7.3	0.1
Held by CareFusion employees	2.6	0.1		
Total	24.9	3.4		

17. SUBSEQUENT EVENTS

In early May 2010, the Company received income of \$40.8 million resulting from settlement of a class action antitrust claim alleging that a defendant branded pharmaceutical manufacturer took improper actions to delay the entry of a generic version of a branded pharmaceutical. This amount will be recognized in litigation (credits)/charges, net in the three months ended June 30, 2010.

Subsequent to March 31, 2010, the Company entered into a definitive agreement to sell Martindale, a business within the Pharmaceutical segment. The company anticipates that the sale will be completed before the end of the fiscal year.

Also subsequent to March 31, 2010, the Company entered into pay-floating interest rate swaps with a total notional value of \$440.0 million.

Item 2: Management's Discussion and Analysis of Financial Condition and Results of Operations

The discussion and analysis presented below is concerned with material changes in financial condition and results of operations for the Company's condensed consolidated balance sheets as of March 31, 2010 and June 30, 2009, and for the condensed consolidated statements of earnings for the three and nine month periods ended March 31, 2010 and 2009. This discussion and analysis should be read in conjunction with "Management's Discussion and Analysis of Financial Condition and Results of Operations" included in the FY2009 Financial Statements.

Portions of this Form 10-Q (including information incorporated by reference) include "forward-looking statements." The words "believe," "expect," "anticipate," "project," and similar expressions, among others, generally identify "forward-looking statements," which speak only as of the date the statements were made. The matters discussed in these forward-looking statements are subject to risks, uncertainties and other factors that could cause actual results to differ materially from those made, projected or implied in the forward-looking statements. The most significant of these risks, uncertainties and other factors are described in Exhibit 99.1 to this Form 10-Q and in Part II, Item 1A of this Form 10-Q. Except to the extent required by applicable law, the Company undertakes no obligation to update or revise any forward-looking statements, whether as a result of new information, future events, or otherwise.

Overview

Cardinal Health, Inc. (the "Company") is a leading provider of products and services that help improve the cost-effectiveness of healthcare. The Company helps pharmacies, hospitals and ambulatory care sites focus on patient care while helping reduce costs, improve efficiency and quality, and increase profitability. As one of the largest healthcare companies in the world, Cardinal Health is an integral link in the healthcare supply chain, providing pharmaceuticals and medical products to more than 40,000 locations each day.

Demand for the Company's products and services during the three and nine months ended March 31, 2010 led to revenue of \$24.3 billion and \$74.0 billion, up 1% and 3%, respectively, from the same periods in the prior year. Operating earnings were approximately \$366 million and \$973 million, down 4% and 1%, respectively, from the same periods in the prior year. Operating earnings were negatively impacted by increased distribution, selling, general and administrative expenses ("SG&A") (\$56 million and \$78 million, respectively) and positively impacted by increased gross margin (\$23 million and \$73 million, respectively). In addition, operating earnings for the nine months ended March 31, 2010 were positively impacted by \$26 million in litigation credits for insurance proceeds released from escrow and were negatively impacted by a \$18 million impairment charge related to SpecialtyScripts. Net earnings for the three and nine months ended March 31, 2010 were \$222 million and \$419 million, respectively, and net diluted earnings per Common Share were \$0.61 and \$1.16, respectively. See Note 13 of "Notes to the Condensed Consolidated Financial Statements" for a reconciliation of Basic EPS to Diluted EPS.

The CareFusion Spin-Off described below impacted the results for the three and nine months ended March 31, 2010. Operating earnings for the three and nine months ended March 31, 2010 were adversely impacted by severance and restructuring costs in connection with the Spin-Off (\$3 million and \$59 million, respectively). Net earnings for the three and nine months ended March 31, 2010 were positively impacted by \$23 million and \$43 million, respectively, related to gains from the sale of shares of CareFusion common stock. Also in connection with the Spin-Off, net earnings for the nine months ended March 31, 2010 were adversely impacted by a tax charge of approximately \$172 million related to the anticipated repatriation of certain foreign earnings and a \$40 million (\$25 million, net of tax) net loss on the extinguishment of debt. Finally, net earnings for both periods were adversely affected by a significant reduction in earnings from discontinued operations as a result of the Spin-Off.

Cash provided by operating activities totaled \$1.8 billion during the nine months ended March 31, 2010, primarily due to operating earnings and changes in working capital. Cash provided by investing activities was \$106 million primarily due to proceeds from the sale of CareFusion common stock (\$271 million) partially offset by capital spending (\$142 million). Cash used in financing activities was \$498 million primarily due to the Company's repayment of long-term obligations (\$1.6 billion, which includes a \$66 million early tender premium) offset by permanent financing obtained by CareFusion prior to the Spin-Off (\$1.4 billion). Also during the nine months ended March 31, 2010, the Company paid \$190 million in dividends and repurchased \$50 million of outstanding common shares.

Spin-Off of CareFusion Corporation

Effective August 31, 2009, the Company completed the spin-off of CareFusion through a pro rata distribution to its shareholders of approximately 81% of the then outstanding shares of CareFusion common stock (the "Spin-Off"). The Company retained certain surgical and exam gloves, surgical drapes and apparel and fluid management businesses that were previously part of its Clinical and Medical Products segment. As explained elsewhere in this Form 10-Q, the Spin-Off had a significant impact on the results of operations and financial condition of the Company.

During the three and nine months ended March 31, 2010, the Company sold approximately 5.4 million and 10.9 million shares, respectively, of the 41.4 million shares of CareFusion common stock that it held immediately after the Spin-Off, which resulted in a gross pre-tax realized gain of approximately \$23 million and \$43 million, respectively. As of March 31, 2010, the Company's ownership of approximately 30.5 million shares of CareFusion common stock had an estimated fair value of \$805 million. See Note 6 of "Notes to the Condensed Consolidated Financial Statements" for additional details regarding the Company's investment in CareFusion. The Company expects to sell its remaining CareFusion stock by the end of fiscal 2011 and is assessing the method and timing based on market conditions and other factors. CareFusion has registered the CareFusion stock owned by Cardinal Health with the SEC, although the Company may sell the stock under an exemption from registration.

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CareFusion net assets are presented separately as assets from businesses held for sale and discontinued operations and the operating results of this business are presented within discontinued operations for all reporting periods through the date of the Spin-Off.

Relationship between the Company and CareFusion

On July 22, 2009, the Company and CareFusion entered into a separation agreement to effect the Spin-Off and provide a framework for the relationship between the Company and CareFusion after the Spin-Off. In addition, on August 31, 2009, the Company and CareFusion entered into a transition services agreement, a tax matters agreement, an employee matters agreement, intellectual property agreements and certain other commercial agreements. These agreements, including the separation agreement, provide for allocation between the Company and CareFusion of the Company's assets, employees, liabilities and obligations (including its investments, property and employee benefits and tax-related assets and liabilities) attributable to periods prior to, at and after the Spin-Off and govern certain relationships between the Company and CareFusion after the Spin-Off. The Company and CareFusion also entered into a stockholder's and registration rights agreement pursuant to which, among other things, CareFusion agrees that, upon the request of the Company, CareFusion will use its commercially reasonable efforts to effect the registration under applicable federal and state securities laws of any shares of CareFusion common stock retained by Cardinal Health.

Pursuant to the transition services agreement, for the three months ended March 31, 2010, the Company recognized approximately \$22 million in transition service fee income which approximately offsets the costs associated with providing the transition services. The Company has recognized \$78 million in transition service fee income year-to-date since the Spin-Off. Additionally, the Company purchased \$165 million of CareFusion trade receivables pursuant to an accounts receivable factoring arrangement between the Company and CareFusion during the three months ended March 31, 2010. The Company has purchased \$439 million of CareFusion trade receivables year-to-date since the Spin-Off.

Consolidated Results of Operations

The following summarizes the Company's consolidated results of operations for the three and nine months ended March 31, 2010 and 2009:

(in millions, except per common share amounts)	Three Months Ended March 31,			Nine Months Ended March 31,		
	Change (1)	2010	2009	Change (1)	2010	2009
Revenue	1%	\$24,342.8	\$24,089.3	3%	\$74,043.2	\$71,644.3
Cost of products sold	1%	23,332.7	23,102.4	3%	71,166.6	68,841.0
Gross margin	2%	1,010.1	986.9	3%	2,876.6	2,803.3
Distribution, selling, general and administrative expenses	10%	628.6	573.0	4%	1,819.8	1,741.8
Restructuring and employee severance	N.M.	13.9	31.7	N.M.	84.4	69.3
Impairments and loss on sale of assets	N.M.	4.2	0.7	N.M.	28.2	11.2
Litigation (credits)/charges, net	N.M.	(2.9)	0.6	N.M.	(28.8)	0.3
Operating earnings	(4)%	366.3	380.9	(1)%	973.0	980.7
Other (income)/expense, net	N.M.	(1.4)	6.5	N.M.	(15.7)	28.7
Interest expense, net	(9)%	27.7	30.3	9%	88.9	81.9
Loss on extinguishment of debt	N.M.	—	—	N.M.	39.9	—
Gain on sale of CareFusion common stock	N.M.	(23.2)	—	N.M.	(43.3)	—

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(in millions, except per common share amounts)	Three Months Ended March 31,			Nine Months Ended March 31,		
	Change (1)	2010	2009	Change (1)	2010	2009
Earnings before income taxes and discontinued operations	6%	363.2	344.1	4%	903.2	870.1
Provision for income taxes	7%	138.4	129.0	N.M.	510.0	313.9
Earnings from continuing operations	5%	224.8	215.1	(29)%	393.2	556.2
Earnings/(loss) from discontinued operations, net of tax	N.M.	(2.4)	97.8	N.M.	25.5	322.2
Net earnings	(29)%	<u>\$222.4</u>	<u>\$312.9</u>	(52)%	<u>\$418.7</u>	<u>\$878.4</u>

(in millions, except per common share amounts)	Three Months Ended March 31,			Nine Months Ended March 31,		
	Change (1)	2010	2009	Change (1)	2010	2009
Diluted earnings/(loss) per Common Share:						
Continuing operations	3%	\$ 0.62	\$ 0.60	(29)%	\$ 1.09	\$ 1.54
Discontinued operations	N.M.	(0.01)	0.27	N.M.	0.07	0.89
Net diluted earnings per Common Share	(30)%	<u>\$ 0.61</u>	<u>\$ 0.87</u>	(52)%	<u>\$ 1.16</u>	<u>\$ 2.43</u>

N.M. Not meaningful

(1) Change is calculated as the percentage increase or (decrease) for the three and nine months ended March 31, 2010 compared to the same periods in the prior year.

Revenue

Revenue for the three and nine months ended March 31, 2010 increased \$253 million or 1% and \$2.4 billion or 3%, respectively, compared to the same periods in the prior year. The increase was due to pharmaceutical price appreciation and increased volume from existing customers (with a combined impact of \$736 million and \$3.4 billion, respectively) and the addition of new customers (\$154 million and \$384 million, respectively). Revenue was negatively impacted during the three and nine months ended March 31, 2010 by the loss of customers (\$622 million and \$1.5 billion, respectively). Refer to “Segment Results of Operations” below for further discussion of the specific factors affecting revenue in each of the Company’s reportable segments.

Cost of Products Sold

Cost of products sold for the three and nine months ended March 31, 2010 increased \$230 million or 1% and \$2.3 billion or 3%, respectively, compared to the same periods in the prior year. The increase in cost of products sold was mainly due to the 1% and 3% increase in revenue for the three and nine months ended March 31, 2010, respectively, compared to the same periods in the prior year. See the “Gross Margin” discussion below for further discussion of additional factors impacting cost of products sold.

Gross Margin

Gross margin for the three months ended March 31, 2010 increased \$23 million or 2% compared to the same period in the prior year. Gross margin was favorably impacted by increased distribution service agreement fees and pharmaceutical price appreciation under branded manufacturer agreements (combined impact of \$40 million). Gross margin was negatively impacted for the three months ended March 31, 2010 by an increase in customer discounts (\$19 million) as a result of customer repricings and increased sales volume.

Gross margin for the nine months ended March 31, 2010 increased \$73 million or 3% compared to the same period in the prior year. Gross margin was favorably impacted by increased distribution service agreement fees and pharmaceutical price appreciation under branded manufacturer agreements (combined impact of \$91 million), increased manufacturer cash discounts (\$53 million), the favorable impact of cost of materials savings driven by the post-generic environment and operational efficiencies in the nuclear pharmacy business within the Pharmaceutical segment (\$52 million) and a decrease in raw materials costs within the Medical segment (\$38 million). Also, during the nine months ended March 31, 2010, gross margin was favorably impacted by the previously deferred intercompany revenue for sales to CareFusion (\$14 million). Prior to the Spin-Off, the Company deferred revenue for products sold to CareFusion businesses until the products were sold to the end customers. In connection with the Spin-Off, the previously deferred revenue was recognized. Gross margin was negatively impacted for the nine months ended March 31, 2010 by an increase in customer discounts (\$88 million) as a result of customer repricings and increased sales volume. Gross margin for the nine months ended March 31, 2010 also was negatively impacted by the timing and reduction in new generic launches (\$42 million). Refer to the “Segment Results of Operations” below for further discussion of the specific factors affecting gross margin in each of the Company’s reportable segments.

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Due to the competitive markets in which the Company's businesses operate, the Company expects competitive pricing pressures to continue.

Distribution, Selling, General and Administrative Expenses

SG&A expenses for the three and nine months ended March 31, 2010 increased \$56 million or 10% and \$78 million or 4%, respectively, compared to the same periods in the prior year. SG&A expenses were negatively impacted during the three and nine months ended March 31, 2010 by an increase in employee incentive compensation expenses (\$53 million and \$81 million, respectively), primarily due to accruals at particularly low levels during the same periods in fiscal 2009 as compared to above-plan performance accruals for fiscal 2010. Employee incentive compensation expense includes the Company's annual performance-based management incentive plan and performance-based employer contribution to its 401(k) Savings Plan. Beginning in fiscal 2010, the Company replaced the 401(k) Savings Plan employer fixed-rate contribution with a new variable rate contribution that is dependent upon the Company's financial performance; this is applicable to all U.S. employees. SG&A expenses during the three and nine months ended March 31, 2010 also were negatively impacted by increases in incremental strategic project investments (\$14 million and \$45 million, respectively) and expenses related to the performance of the Company's deferred compensation plan (\$5 million and \$26 million, respectively). The expenses related to the performance of the Company's deferred compensation plan are offset by income presented within other (income)/expense, net. Also, SG&A expenses include expenses related to the Spin-Off of \$4 million and \$9 million, respectively, for the three and nine months ended March 31, 2010 and \$1 million for both the three and nine months ended March 31, 2009.

During the second half of fiscal 2009, the Company implemented several cost control measures, which have favorably impacted SG&A expense for the nine months ended March 31, 2010 as compared to the prior year period.

Impairments and Loss on Sale of Assets

The Company recognized impairments and loss on sale of assets of \$4 million and \$28 million, respectively, for the three and nine months ended March 31, 2010 compared to less than \$1 million and \$11 million for the three and nine months ended March 31, 2009. During the nine months ended March 31, 2010, the Company recognized an impairment charge of \$18 million related to the write-down of SpecialtyScripts, a business previously within the pharmaceutical segment, to net expected fair value less costs to sell. The Company completed the sale of SpecialtyScripts during the three months ended March 31, 2010. See Note 4 of "Notes to Condensed Consolidated Financial Statements" for further information regarding the sale.

Restructuring and Employee Severance

The following is a summary of the Company's restructuring and employee severance for the three and nine months ended March 31, 2010 and 2009:

(in millions)	Three Months Ended March 31,		Nine Months Ended March 31,	
	2010	2009	2010	2009
Employee related costs	\$ 3.4	\$ 5.3	\$ 32.7	\$ 26.4
Facility exit and other costs	10.5	26.4	51.7	42.9
Total restructuring and employee severance	<u>\$ 13.9</u>	<u>\$ 31.7</u>	<u>\$ 84.4</u>	<u>\$ 69.3</u>

During the three and nine months ended March 31, 2010, the Company recognized restructuring and employee severance of \$14 million and \$84 million, respectively, primarily related to the Spin-Off (\$3 million and \$59 million, respectively). Included within the nine months amount is approximately \$19 million of costs related to the retirement of the Company's former Chairman and Chief Executive Officer upon completion of the Spin-Off. During the nine months ended March 31, 2009, the Company recognized restructuring and employee severance of \$69 million primarily related to the restructuring of its segment operating structure. See Note 2 of "Notes to Condensed Consolidated Financial Statements" for additional detail of the Company's restructuring and employee severance during the three and nine months ended March 31, 2010 and 2009.

The Company estimates it will incur additional costs in future periods associated with various existing restructuring activities totaling approximately \$34 million. These estimated costs are primarily comprised of costs associated with the Spin-Off.

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Litigation (Credits)/Charges, Net

Litigation (credits)/charges, net were \$(3) million and \$(29) million, respectively, during the three and nine months ended March 31, 2010. During the nine months ended March 31, 2010, the Company recognized \$(26) million in litigation (credits)/charges, net for insurance proceeds released from escrow following the resolution of securities and derivative litigation against certain of the Company's directors and officers. For further information, see the Company's Annual Report on Form 10-K for the fiscal year ended June 30, 2007.

Operating Earnings

Operating earnings decreased \$15 million or 4% and \$8 million or 1%, respectively, during the three and nine months ended March 31, 2010 compared to the same periods in the prior year. The decrease during the three and nine months ended March 31, 2010 was primarily due to increases in SG&A expenses (\$56 million and \$78 million, respectively) partially offset by increased gross margin (\$23 million and \$73 million, respectively). Operating earnings during the three months ended March 31, 2010 were also positively impacted by a decrease in restructuring and employee severance (\$18 million). Operating earnings during the nine months ended March 31, 2010 were negatively impacted by increased impairments and loss on sale of assets (\$17 million) and an increase in restructuring and employee severance (\$15 million). Litigation (credits)/charges, net of \$(29) million positively impacted operating earnings during the nine months ended March 31, 2010.

Other (Income)/Expense, Net

Other (income)/expense, net resulted in income of \$1 million and \$16 million, respectively, for the three and nine months ended March 31, 2010, which was an improvement of \$8 million and \$44 million, respectively, compared to the prior year periods. The improvement was primarily due to income related to the performance of the Company's deferred compensation plan assets (\$5 million and \$26 million, respectively) and the impact of foreign exchange (\$3 million and \$12 million, respectively). The income related to the performance of the Company's deferred compensation plan assets is offset by expense presented within SG&A expenses.

Interest Expense, Net

Interest expense, net decreased \$3 million during the three months ended March 31, 2010 compared to the same period in the prior year. Interest expense, net increased \$7 million during the nine months ended March 31, 2010 compared to the same period in the prior year primarily due to increased fees relating to the Company's amended revolving credit facility and accounts receivable securitization agreement. The increase was also due to less income received from interest rate swaps compared to the same period in the prior year.

Loss on Extinguishment of Debt

On September 24, 2009, the Company completed a debt tender. In connection with the debt tender, the Company incurred a pre-tax loss for the early retirement of debt of approximately \$40 million, which included an early tender premium of \$67 million, the write-off of \$5 million of unamortized debt issuance costs, and an offsetting \$32 million fair value adjustment to the respective debt related to previously terminated interest rate swaps. See Note 7 of "Notes to Condensed Consolidated Financial Statements" for additional information on the debt tender.

Gain on Sale of CareFusion Common Stock

During the three and nine months ended March 31, 2010 the Company recognized \$23 million and \$43 million, respectively, of income related to realized gains from the sale of shares of CareFusion common stock. As discussed above, the Company expects to sell its remaining CareFusion stock by the end of fiscal 2011 and is assessing the method and timing based on market conditions and other factors. See Note 6 of "Notes to the Condensed Consolidated Financial Statements" for additional details regarding the Company's investment in CareFusion.

Provision for Income Taxes

The Company files income tax returns in the U.S. federal jurisdiction, various U.S. state jurisdictions and various foreign jurisdictions. With few exceptions, the Company is subject to audit by taxing authorities for fiscal years ended June 30, 2001 through the current fiscal year.

The Internal Revenue Service ("IRS") currently has ongoing audits of fiscal years 2001 through 2007. During the three months ended December 31, 2007, the Company was notified that the IRS transferred jurisdiction over fiscal years 2001 and 2002 from the Office of Appeals back to the Examinations level to reconsider previously-unadjusted specific issues. During the three months ended March 31, 2008, the Company received Notices of Proposed Adjustment ("NPA's") from the IRS related to fiscal years 2001 through 2005 challenging deductions arising from the sale of trade receivables to a special purpose accounts receivable and financing entity. The amount of additional tax, excluding penalties and interest, proposed by the IRS in these notices was \$179 million. The Company anticipates that this transaction could be the subject of proposed adjustments by the IRS in tax audits of fiscal years 2006 to 2009. As discussed above, the Company recorded a charge of \$172 million during the first quarter of fiscal 2010 to reflect the anticipated repatriation of earnings from the special purpose entity. Due to the anticipated repatriation of the earnings, the tax associated with the transaction, including the tax assessed by the IRS, no longer represents an uncertain tax benefit. Taxes associated with this transaction, including both the charge taken in the first quarter of fiscal 2010 and the amount previously accrued as an unrecognized tax benefit, are classified as deferred tax liabilities or current taxes payable.

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During fiscal 2009, the Company received a Revenue Agent's Report for tax years 2003 through 2005, which included new NPA's related to the Company's transfer pricing arrangements between foreign and domestic subsidiaries and the transfer of intellectual property among subsidiaries of an acquired entity prior to its acquisition by the Company. The amount of additional tax proposed by the IRS in the new notices total \$598 million, excluding penalties and interest, but including \$462 million related to issues for which CareFusion is liable under the tax matters agreement in the event the amount must be paid to the taxing authority. The Company disagrees with these proposed adjustments and intends to vigorously contest them. The Company believes that it is adequately reserved for the uncertain tax position relating to these matters.

Generally, fluctuations in the effective tax rate are due to changes within international and U.S. state effective tax rates resulting from the Company's business mix and the impact of restructuring and employee severance, impairments and other discrete items. The following table summarizes the Company's provision for income taxes as a percentage of pretax earnings from continuing operations ("effective tax rate") for the three and nine months ended March 31, 2010 and 2009:

(in millions)	Three Months Ended March 31,		Nine Months Ended March 31,	
	2010 (1)	2009	2010 (1)	2009 (2)
Effective tax rate	38.1%	37.5%	56.5%	36.1%

- (1) During the three and nine months ended March 31, 2010, the effective tax rate was impacted by net unfavorable adjustments of \$18 million, or 5 and 2 percentage points respectively, related to discrete items. The discrete items included unfavorable amounts related to remeasuring certain unrecognized tax benefits and establishing a deferred tax asset valuation allowance related to a foreign entity. These unfavorable items were partially offset by the favorable impact of foreign and domestic audit settlements. In addition, for the nine months ended March 31, 2010, the effective tax rate was unfavorably impacted by a charge of \$172 million, or 19 percentage points, attributable to earnings no longer indefinitely invested offshore.
- (2) During the nine months ended March 31, 2009, the effective tax rate was impacted favorably by \$29 million, or 3 percentage points, as a result of the release of a valuation allowance that had previously been established for capital losses for which the Company's ability to utilize was uncertain.

Earnings/(Loss) from Discontinued Operations

The Company incurred a loss from discontinued operations of \$2 million for the three months ended March 31, 2010 compared to earnings from discontinued operations of \$98 million for the same period in the prior year. Earnings from discontinued operations were \$25 million for the nine months ended March 31, 2010 compared to \$322 million for the same period in the prior year. CareFusion operating results are included within earnings from discontinued operations for all periods through the date of the Spin-Off. See Note 4 of "Notes to Condensed Consolidated Financial Statements" for information on the Company's discontinued operations.

Segment Results of Operations

Reportable Segments

In connection with the Spin-Off, during the first quarter of fiscal 2010, the Company reorganized its businesses into two reportable segments — Pharmaceutical and Medical. The Company evaluates the performance of the individual segments based upon, among other things, segment profit. Segment profit is segment revenue less segment cost of products sold, less segment SG&A expenses. Segment SG&A expenses include equity compensation expense as well as allocated corporate expenses for shared functions, including corporate management, corporate finance, financial shared services, human resources, information technology, legal and an integrated hospital sales organization. Information about interest income and expense and income taxes is not provided at the segment level. In addition, restructuring and employee severance, impairments and loss on sale of assets, litigation (credits)/charges, net and certain investment spending are not allocated to the segments. Investment spending generally includes the first year spend for certain projects which require incremental strategic investments in the form of additional operating expenses. The Company urges its segments to identify investment projects which will encourage innovation and provide future returns. As approval decisions for such projects are dependent upon executive management, the expenses for such projects are retained at Corporate. See Note 15 of "Notes to Condensed Consolidated Financial Statements" for additional information on the Company's reportable segments.

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The following table summarizes segment revenue for the three and nine months ended March 31, 2010 and 2009:

(in millions, except growth rates)	Three Months Ended March 31,			Nine Months Ended March 31,		
	Change (1)	2010	2009	Change (1)	2010	2009
Pharmaceutical	— %	\$22,226.2	\$22,117.6	3%	\$67,483.2	\$65,600.4
Medical	7%	2,122.7	1,975.6	9%	6,592.2	6,069.6
Total segment revenue	1%	24,348.9	24,093.2	3%	74,075.4	71,670.0
Corporate (2)	N.M.	(6.1)	(3.9)	N.M.	(32.2)	(25.7)
Total consolidated revenue	1%	<u>\$24,342.8</u>	<u>\$24,089.3</u>	3%	<u>\$74,043.2</u>	<u>\$71,644.3</u>

(1) Change is calculated as the percentage increase or (decrease) for the three and nine months ended March 31, 2010 as compared to the same periods in the prior year.

(2) Corporate revenue primarily consists of the elimination of inter-segment revenue.

The following table summarizes segment profit for the three and nine months ended March 31, 2010 and 2009:

(in millions, except growth rates)	Three Months Ended March 31,			Nine Months Ended March 31,		
	Change (1)	2010	2009	Change (1)	2010	2009
Pharmaceutical	7%	\$306.7	\$286.2	2%	\$ 774.8	\$ 762.2
Medical	(16)%	107.8	128.3	8%	325.2	300.7
Total segment profit	— %	414.5	414.5	3%	1,100.0	1,062.9
Corporate (2)	N.M.	(48.2)	(33.6)	N.M.	(127.0)	(82.2)
Total consolidated operating earnings	(4)%	<u>\$366.3</u>	<u>\$380.9</u>	(1)%	<u>\$ 973.0</u>	<u>\$ 980.7</u>

(1) Change is calculated as the percentage increase or (decrease) for the three and nine months ended March 31, 2010 as compared to the same periods in the prior year.

(2) Corporate includes, among other things, restructuring and employee severance, impairments and loss on sale of assets, litigation (credits)/charges, net and certain investment spending, none of which is allocated to the segments. Investment spending within Corporate was \$9 million and \$16 million, respectively, for the three and nine months ended March 31, 2010 compared to less than \$1 million for both the three and nine months ended March 31, 2009.

Pharmaceutical Segment Performance

The Pharmaceutical segment revenue growth of \$109 million or less than 1% and \$1.9 billion or 3%, respectively, during the three and nine months ended March 31, 2010 as compared to the prior year periods was primarily due to pharmaceutical price appreciation and additional volume from existing customers (the combined impact was \$660 million and \$3.0 billion, respectively). The Company uses the internal metric “pharmaceutical price appreciation index” to evaluate the impact of pharmaceutical and consumer product price appreciation on revenue from the pharmaceutical distribution business. This metric is calculated using the change in the manufacturer’s published price at the beginning of the period as compared to the end of the period weighted by the units sold by the pharmaceutical distribution business during the period. The pharmaceutical price appreciation index was 8.5% for the trailing twelve months ended March 31, 2010. Revenue was negatively impacted by the loss of customers (\$551 million and \$1.2 billion, respectively) which was partially offset by the addition of new customers (\$126 million and \$270 million, respectively).

Pharmaceutical segment profit increased \$21 million or 7% during the three months ended March 31, 2010 as compared to the prior year period. Segment profit for the three months ended March 31, 2010 was positively impacted by an increase in gross margin of \$18 million and a decrease in SG&A expenses of \$3 million. The increase in gross margin was primarily due to increased distribution service agreement fees and pharmaceutical price appreciation under branded manufacturer agreements (combined impact of \$40 million) and various initiatives focused on generic products partially offset by increased customer discounts (\$19 million) as a result of customer repricings and increased sales volume.

Pharmaceutical segment profit increased \$13 million or 2% during the nine months ended March 31, 2010 as compared to the prior year period. Segment profit for the nine months ended March 31, 2010 was negatively impacted by a decrease in gross margin of \$12 million offset by a decrease in SG&A expenses of \$25 million. The decrease in gross margin was primarily due to increased customer discounts (\$88 million) as a result of customer repricings and increased sales volume and the timing and reduction in new generic launches (\$42 million). The decline in gross margin also was due to the repositioning of Medicine Shoppe (\$54 million) which was partially offset by efficiencies gained within SG&A. The decline in gross margin was partially offset by increased distribution service agreement fees and pharmaceutical price appreciation under branded manufacturer agreements (combined impact of \$91 million). Also the decline in gross margin was offset by increased manufacturer cash discounts (\$53 million), the favorable impact of cost of materials savings driven by the post-generic environment and operational efficiencies in the nuclear pharmacy business (\$52 million) and various initiatives focused on generic products. The increased distribution service agreement fees and manufacturer cash discounts were primarily the result of increased sales volume.

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The Company's results could be adversely affected if sales of pharmaceutical products decline, competitive pricing pressure intensifies, the frequency of new generic pharmaceutical launches decreases, generic price deflation increases, or pharmaceutical price appreciation on certain branded products decreases. Alternatively, the Company's results could benefit if sales of pharmaceutical products increase, the frequency of new generic pharmaceutical launches increases, generic price deflation decreases, or pharmaceutical price appreciation on certain branded products increases. The Company expects a certain level of continued pricing pressure due to the competitive market in which it operates.

The Pharmaceutical segment's nuclear pharmacy services business dispenses several products prepared using a particular radioisotope. The supply of that radioisotope is currently adversely affected by a continued and prolonged shortage of the raw material used to derive that radioisotope. The Company is working to increase the availability of an alternate radioisotope.

Bulk and Non-Bulk Customers . The Pharmaceutical segment differentiates between bulk and non-bulk customers because bulk customers generate significantly lower segment profit as a percentage of revenue than that generated by non-bulk customers. The following discussion should be read in conjunction with the discussion of "Bulk and Non-Bulk Customers" under the caption "Pharmaceutical Segment Performance" in "Management's Discussion and Analysis of Financial Condition and Results of Operations" in the Company's Quarterly Report on Form 10-Q for the quarter ended December 31, 2009 (the "December 31, 2009 Form 10-Q").

The Company tracks revenue by bulk and non-bulk customers in its financial systems. An internal analysis has been prepared to estimate segment profit from bulk and non-bulk customers by allocating segment expenses (total of segment cost of products sold and segment SG&A expenses) separately for bulk and non-bulk customers. The following table shows the revenues and the allocation of segment expenses, segment profit and segment profit as a percentage of revenue for bulk and non-bulk customers for the three and nine months ended March 31, 2010 and 2009 (prior period amounts differ from those previously disclosed as they have been updated to remove Martindale, which has been reclassified to discontinued operations):

(in millions, except percentage of revenue)	Three Months Ended March 31,		Nine Months Ended March 31,	
	2010	2009	2010	2009
Non-bulk customers:				
Revenue from non-bulk customers	\$11,349.3	\$11,294.1	\$34,255.3	\$32,923.5
Segment expenses allocated to non-bulk customers (1)	\$11,094.8	\$11,062.4	\$33,561.2	\$32,279.9
Segment profit from non-bulk customers (1)	\$ 254.5	\$ 231.7	\$ 694.1	\$ 643.6
Segment profit from non-bulk customers as a percentage of revenue from non-bulk customers (1)	2.24%	2.05%	2.03%	1.95%
Bulk customers:				
Revenue from bulk customers	\$10,876.9	\$10,823.5	\$33,227.9	\$32,676.9
Segment expenses allocated to bulk customers (1)	\$10,824.7	\$10,769.0	\$33,147.2	\$32,558.3
Segment profit from bulk customers (1)	\$ 52.2	\$ 54.5	\$ 80.7	\$ 118.6
Segment profit from bulk customers as a percentage of revenue from bulk customers (1)	0.48%	0.50%	0.24%	0.36%

- (1) The preparation of this internal analysis requires the use of complex and subjective estimates and allocations based upon assumptions, past experience and judgment that the Company believes are reasonable. See section on "Bulk and Non-Bulk Customers" in the "Pharmaceutical Segment Performance" sub-section of the "Management's Discussion and Analysis of Financial Condition and Results of Operations" in the December 31, 2009 Form 10-Q.

During the three and nine months ended March 31, 2010, revenue from non-bulk customers increased \$55 million and \$1.3 billion, respectively, compared to the same periods in the prior year due to pharmaceutical price appreciation and additional volume from existing customers. Segment profit from non-bulk customers increased \$23 million and \$50 million, respectively, during the three and nine months ended March 31, 2010 compared to the same periods in the prior year primarily due to increased distribution service agreement fees and pharmaceutical price appreciation partially offset by customer discounts and the repositioning of Medicine Shoppe. During the three months ended March 31, 2010, segment profit from non-bulk customers was also positively impacted by various initiatives focused on generic products. During the nine months ended March 31, 2010, segment profit from non-bulk customers was also positively impacted by increased manufacturer cash discounts, a generic transition within the nuclear pharmacy business and a decrease in SG&A expenses partially offset by a reduction in generic launches. The increased manufacturer cash discounts were primarily the result of increased sales volume.

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During the three and nine months ended March 31, 2010, revenue from bulk customers increased \$53 million and \$551 million, respectively, compared to the same periods in the prior year due to increased volume from existing customers partially offset by the loss of a customer. Segment profit from bulk customers decreased \$2 million and \$38 million, respectively, for the three and nine months ended March 31, 2010 compared to the same period in the prior year primarily due to increased customer discounts as a result of customer repricings. The decrease in segment profit from bulk customers for the three months ended March 31, 2010 was partially offset by increased distribution service agreement fees and pharmaceutical price appreciation.

Medical Segment Performance

The Medical segment revenue growth of \$147 million or 7% and \$523 million or 9%, respectively, during the three and nine months ended March 31, 2010 as compared to the prior year periods was primarily due to additional volume from existing customers (\$75 million and \$385 million, respectively). The additional volume during the nine months ended March 31, 2010 was partially driven by strong demand for flu-related products during the first half of the fiscal year. Revenue was also positively impacted by foreign exchange (\$24 million and \$34 million, respectively) and new products (\$23 million and \$62 million, respectively). Revenue for the nine months ended March 31, 2010 was also positively impacted by the recognition of previously deferred intercompany revenue for sales to CareFusion (\$51 million). Prior to the Spin-Off, the Company deferred revenue for products sold to CareFusion businesses until the products were sold to the end customers. In connection with the Spin-Off, the previously deferred revenue was recognized. Revenue growth was negatively impacted by the loss of customers (\$72 million and \$244 million, respectively) which was partially offset by the addition of new customers (\$28 million and \$114 million, respectively).

The Medical segment profit decreased \$21 million or 16% during the three months ended March 31, 2010 as compared to the same period in the prior year. Segment profit for the three months ended March 31, 2010 was positively impacted by an increase in gross margin of \$5 million and negatively impacted by an increase in SG&A of \$26 million. The increase in gross margin was primarily due to increased revenue and a decrease in raw material costs (\$6 million) partially offset by an unusual year-over-year comparison in cost of goods sold.

The Medical segment profit increased \$25 million or 8% during the nine months ended March 31, 2010 as compared to the same period in the prior year. Segment profit for the nine months ended March 31, 2010 was positively impacted by an increase in gross margin of \$82 million and negatively impacted by an increase in SG&A of \$57 million. Gross margin was positively impacted by a decrease in raw material costs (\$38 million) and foreign exchange (\$10 million) partially offset by an unusual year-over-year comparison in cost of goods sold. Gross margin was also positively impacted by the recognition of the deferred revenue for sales to CareFusion discussed above (\$14 million).

Liquidity and Capital Resources

Sources and Uses of Cash

The following table summarizes the Company's Condensed Consolidated Statements of Cash Flows for the nine months ended March 31, 2010 and 2009:

(in millions)	Nine Months Ended March 31,	
	2010	2009
Net cash provided by/(used in) - continuing operations:		
Operating activities	\$ 1,662.0	\$ 204.5
Investing activities	115.5	(197.5)
Financing activities	(1,782.1)	(394.2)
Net cash provided by/(used in) - discontinued operations:		
Operating activities	\$ 147.9	\$ 624.4
Investing activities	(9.9)	(71.5)
Financing activities	1,283.8	(2.7)

Operating activities. Net cash provided by operating activities from continuing operations during the nine months ended March 31, 2010 totaled \$1.7 billion, which was driven by earnings and changes in working capital. The most significant changes in working capital were increased accounts payable (\$1.7 billion) partially offset by increased trade receivable (\$365 million) and increased inventories (\$381 million). Cash flows from operations can be significantly impacted by factors such as the timing of inventory purchases, customer payments of accounts receivable and payments to vendors during the regular course of business.

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Net cash provided by operating activities from discontinued operations for the nine months ended March 31, 2010 totaled \$148 million primarily related to the earnings and changes in working capital for CareFusion.

Net cash provided by operating activities from continuing operations during the nine months ended March 31, 2009 totaled \$205 million which was driven by earnings and changes in working capital. The most significant changes in working capital were increased accounts payable (\$1.6 billion) offset by increased inventories (\$1.3 billion). These increases were due primarily to timing of inventory purchases and payments to vendors.

Net cash provided by operating activities from discontinued operations for the nine months ended March 31, 2009 totaled \$624 million primarily related to the earnings and changes in working capital for CareFusion.

Investing activities. Net cash provided by investing activities from continuing operations of \$116 million during the nine months ended March 31, 2010 primarily reflected proceeds from the sale of CareFusion common stock (\$271 million) partially offset by capital spending (\$142 million). The Company expects to sell its remaining CareFusion stock by the end of fiscal 2011 and is assessing the method and timing based on market conditions and other factors.

Net cash used in investing activities from continuing operations for the nine months ended March 31, 2009 of \$198 million primarily reflected capital spending (\$192 million).

Financing activities. Net cash used in financing activities from continuing operations for the nine months ended March 31, 2010 of \$1.8 billion primarily reflected the Company's repayment of long-term obligations (\$1.6 billion which includes a \$66 million early tender premium) and payment of dividends (\$190 million).

Net cash provided by financing activities from discontinued operations for the nine months ended March 31, 2010 of \$1.3 billion primarily reflected permanent financing obtained by CareFusion prior to the Spin-Off offset by \$90 million cash funding provided by the Company to CareFusion pursuant to the Spin-Off separation agreement.

Net cash used in financing activities from continuing operations for the nine months ended March 31, 2009 of \$394 million reflected the Company's repayment of long-term obligations (\$307 million) and payment of dividends (\$150 million).

Share Repurchase Program

During the nine months ended March 31, 2010, the Company repurchased \$50 million of its Common Shares pursuant to the \$500 million share repurchase program announced on August 5, 2009. This repurchase authorization expires on August 31, 2012. As of March 31, 2010, \$450 million remained from the \$500 million repurchase authorization. The Company expects to use this repurchase program to at least offset equity plan issuances.

See the table under "Part II, Item 2" of this Form 10-Q for more information regarding Company repurchases of Common Shares during the three months ended March 31, 2010.

Capital Resources

The Company's cash and equivalents balance was \$2.6 billion at March 31, 2010 compared to \$1.2 billion at June 30, 2009. The increase in the cash balance during fiscal 2010 was primarily caused by net cash provided by operating activities of \$1.8 billion, as described above.

The Company's cash and equivalents balance as of March 31, 2010 included \$401 million of cash held by its subsidiaries outside of the United States. Although the vast majority of cash held outside the United States is available for repatriation, doing so could subject it to U.S. federal, state and local income tax. The Company, as a U.S. parent of foreign subsidiaries, may temporarily access cash held by its foreign subsidiaries without subjecting the Company to U.S. federal income tax through intercompany loans. Not included in the previously disclosed cash held by subsidiaries outside of the United States is an intercompany loan of \$874 million from the Company's international Accounts Receivable and Financing Entity (see below for discussion of this entity), which is due by fiscal 2012.

In addition to cash, the Company's sources of liquidity include a \$1.5 billion commercial paper program backed by a \$1.5 billion revolving credit facility and a committed receivables sales facility program with the capacity to sell \$950 million in receivables. The Company had no outstanding borrowings from the commercial paper program at March 31, 2010 and had no outstanding balance under the committed receivables sales facility program at March 31, 2010. On November 10, 2009, the Company amended its existing committed receivables sales facility program to extend the program for an additional 364 days.

On July 14, 2009 CareFusion obtained permanent financing of \$1.4 billion in the form of fixed-rate senior notes, and in connection with the Spin-Off, CareFusion distributed \$1.4 billion of cash to the Company immediately prior to the Spin-Off.

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On September 24, 2009, the Company completed a debt tender for an aggregate purchase price, including an early tender premium but excluding accrued interest, fees and expenses, of up to \$1.2 billion of the following series of debt securities (listed in order of acceptance priority): (i) 7.80% Debentures due October 15, 2016 of Allegiance Corporation; (ii) 6.75% Notes due February 15, 2011 of the Company; (iii) 6.00% Notes due June 15, 2017 of the Company; (iv) 7.00% Debentures due October 15, 2026 of Allegiance Corporation; (v) 5.85% Notes due December 15, 2017 of the Company; (vi) 5.80% Notes due October 15, 2016 of the Company; (vii) 5.65% Notes due June 15, 2012 of the Company; (viii) 5.50% Notes due June 15, 2013 of the Company; and (ix) 4.00% Notes due June 15, 2015 of the Company. The Company purchased more than \$1.1 billion pursuant to the offer using the order of priority set forth above. In connection with the debt tender, the Company incurred a pre-tax loss for the early extinguishment of debt of approximately \$40 million, which included an early tender premium of \$66 million, the write-off of \$5 million of unamortized debt issuance costs, and an offsetting \$32 million fair value adjustment to the respective debt related to previously terminated interest rate swaps. See Note 7 of “Notes to Condensed Consolidated Financial Statements” for additional information on the debt tender and the Company’s remaining long-term obligations at March 31, 2010.

On October 2, 2009, the Company repaid its \$350 million floating rate notes that had reached their maturity.

The Company’s capital resources are more fully described in “Liquidity and Capital Resources” within “Management’s Discussion and Analysis of Financial Condition and Results of Operations” and Notes 4, 9 and 19 of the “Notes to Consolidated Financial Statements” from the FY2009 Financial Statements.

The Company currently believes that, based upon existing cash, operating cash flow, available capital resources (as discussed above) and other available market transactions, it has adequate capital resources at its disposal to fund currently anticipated capital expenditures, business growth and expansion, working capital needs, contractual obligations and current and projected debt service requirements, including those related to business combinations.

From time to time, the Company considers and engages in acquisition transactions in order to expand its role as a leading provider of products and services that improve the cost-effectiveness of healthcare. If additional transactions are entered into or consummated, the Company may need to enter into funding arrangements for such acquisitions.

Debt Ratings/Covenants

The Company’s senior debt credit ratings from Standard & Poor’s Rating Services (“S&P”), Moody’s Investors Service (“Moody’s”) and Fitch Ratings (“Fitch”) are BBB+, Baa3 and BBB, respectively, and the commercial paper ratings are A-2, P-3 and F2, respectively. The S&P and Fitch ratings outlooks are “stable.” The Moody’s outlook is “negative”. The senior debt credit ratings and short-term ratings limit the Company’s ability to gain access to the commercial paper market, but the Company believes that it will be able to utilize alternative sources of credit that are available to the Company.

On April 16, 2009, in connection with the Spin-Off, the Company amended its \$1.5 billion revolving credit facility to, among other things, replace a minimum net worth covenant with covenants that require the Company to maintain a consolidated interest coverage ratio as of the end of any fiscal quarter of at least 4-to-1 and to maintain a consolidated leverage ratio of no more than 3.25-to-1. The new covenants became effective on September 1, 2009 following consummation of the Spin-Off and completion of the cash distribution from CareFusion to the Company.

On May 1, 2009, the Company amended its committed receivables sales facility program to replace a minimum net worth covenant in the performance guaranty related to such program with covenants that require the Company to maintain a consolidated interest coverage ratio as of the end of any fiscal quarter of at least 4-to-1 and to maintain a consolidated leverage ratio of no more than 3.25-to-1. The new covenants became effective on September 1, 2009.

As of March 31, 2010, the Company was in compliance with these financial covenants.

Contractual Obligations

Except as disclosed in the Company’s Quarterly Report on Form 10-Q for the quarter ended September 30, 2009 (the ‘September 30, 2009 Form 10-Q’), there have been no material changes, outside of the ordinary course of business, in the Company’s outstanding contractual obligations since the end of the 2009 fiscal year.

Off-Balance Sheet Arrangements

See “Liquidity and Capital Resources—Capital Resources” and Note 19 of “Notes to Consolidated Financial Statements” in the FY2009 Financial Statements, which is incorporated herein by reference, for a discussion of off-balance sheet arrangements.

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Recent Financial Accounting Standards

See Note 1 of “Notes to Condensed Consolidated Financial Statements” for a discussion of recent financial accounting standards.

Item 3: Quantitative and Qualitative Disclosures about Market Risk

The Company believes that there has been no material change in the quantitative and qualitative market risks since the end of the Company’s 2009 fiscal year end.

Item 4: Controls and Procedures

Evaluation of Disclosure Controls and Procedures. The Company carried out an evaluation, as required by Rule 13a-15(e) under the Exchange Act, with the participation of the Company’s principal executive officer and principal financial officer, of the effectiveness of the Company’s disclosure controls and procedures as of March 31, 2010. Based on this evaluation, the Company’s principal executive officer and principal financial officer have concluded that the Company’s disclosure controls and procedures were effective as of March 31, 2010 to provide reasonable assurance that information required to be disclosed in the Company’s reports under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the SEC rules and forms and to provide that such information is accumulated and communicated to management to allow timely decisions regarding required disclosure.

Changes in Internal Control Over Financial Reporting. There were no changes in the Company’s internal control over financial reporting during the quarter ended March 31, 2010 that have materially affected, or are reasonably likely to materially affect, its internal control over financial reporting.

Inherent Limitations on Effectiveness of Controls. The Company’s management, including its principal executive officer and the principal financial officer, does not expect that the Company’s disclosure controls or its internal control over financial reporting will prevent or detect all error and all fraud. A control system, no matter how well designed and operated, can provide only reasonable, not absolute, assurance that the control system’s objectives will be met. The design of a control system must reflect the fact that there are resource constraints, and the benefits of controls must be considered relative to their costs. Further, because of the inherent limitations in all control systems, no evaluation of controls can provide absolute assurance that misstatements due to error or fraud will not occur or that all control issues and instances of fraud, if any, have been detected. These inherent limitations include the realities that judgments in decision-making can be faulty and that breakdowns can occur because of simple error or mistake. Controls can also be circumvented by the individual acts of some persons, by collusion of two or more people, or by management override of the controls. The design of any system of controls is based in part on certain assumptions about the likelihood of future events, and there can be no assurance that any design will succeed in achieving its stated goals under all potential future conditions. Projections of any evaluation of controls effectiveness to future periods are subject to risks. Over time, controls may become inadequate because of changes in conditions or deterioration in the degree of compliance with policies or procedures.

PART II. OTHER INFORMATION

Item 1: Legal Proceedings

The legal proceedings described in Note 9 of “Notes to Condensed Consolidated Financial Statements” are incorporated by reference into this Part II, Item 1.

Item 1A: Risk Factors

The risk factors in the Company’s Annual Report on Form 10-K for the fiscal year ended June 30, 2009 (the “2009 Form 10-K”) included risks that were specific to CareFusion. The Company completed the spin-off of CareFusion on August 31, 2009 and as a result the risk factors in the 2009 Form 10-K were superseded by the risk factors set forth in “Part II, Item 1A—Risk Factors” of the Company’s September 30, 2009 Form 10-Q.

The information presented below describes risks arising from the recently enacted federal healthcare reform act. The risks described in this Form 10-Q are not the only risks that the Company faces. The information presented below, risks described elsewhere in this Form 10-Q and the risks set forth in the September 30, 2009 Form 10-Q should be read in conjunction with the 2009 Form 10-K and the Company’s filings with the SEC since June 30, 2009. These risks could materially and adversely affect the Company’s results of operations, financial condition, liquidity, cash flows and/or future business prospects.

The Company’s results of operations, financial condition, liquidity, cash flows and/or future business prospects could also be affected by additional risks and uncertainties not known to the Company at the time of the filing of this Form 10-Q or that the Company currently considers to be immaterial.

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The Company may be adversely impacted by the recently enacted healthcare reform legislation.

In March 2010, Congress approved, and the President signed into law, the Patient Protection and Affordable Care Act and the Health Care and Education Reconciliation Act (collectively the “Healthcare Reform Acts”). Among other things, the Healthcare Reform Acts seek to expand health insurance coverage to approximately 32 million uninsured Americans. Many of the significant changes in the Healthcare Reform Acts do not take effect until 2014, including a requirement that most Americans carry health insurance. The Healthcare Reform Acts contain many provisions designed to generate the revenues necessary to fund the coverage expansions and to reduce costs of Medicare and Medicaid. Beginning in 2013, each medical device manufacturer will have to pay a tax in an amount equal to 2.3% of the price for which the manufacturer sells its medical devices. The Company manufactures and sells devices that will be subject to this tax. Additionally, the Healthcare Reform Acts changed the federal upper payment limit for Medicaid reimbursement from 250% of the lowest average manufacturer’s price (“AMP”) for generic pharmaceuticals to no less than 175% of the average weighted AMP, which is to be published monthly. The AMP provision is expected to become effective in October 2010. The effect of these and other provisions of the Healthcare Reform Acts on the Company is uncertain and could be adverse.

Item 2: Unregistered Sales of Equity Securities and Use of Proceeds

The following table provides information about purchases the Company made of its Common Shares during the quarter ended March 31, 2010:

Issuer Purchases of Equity Securities

Period	Total Number		Total Number of Shares Purchased	Approximate Dollar Value of Shares that May Yet Be Purchased Under the
	of Shares Purchased (1)	Average Price Paid per Share	as Part of Publicly Announced Program (2)	
January 1-31, 2010	614	\$ 32.06	—	\$ 450,000,023
February 1-28, 2010	479	33.22	—	450,000,023
March 1-31, 2010	3,840	35.44	—	450,000,023
Total	4,933	\$ 34.81	—	\$ 450,000,023

- (1) Includes 141, 135 and 119 Common Shares purchased in January, February and March 2010, respectively, through a rabbi trust as investments of participants in the Company’s Deferred Compensation Plan. Also includes 473, 344 and 3,721 restricted shares surrendered in January, February and March 2010, respectively, by employees upon vesting to meet tax withholding.
- (2) During the three months ended March 31, 2010, the Company did not repurchase any of its Common Shares under its existing \$500 million share repurchase program announced on August 5, 2009. This repurchase authorization expires on August 31, 2012. At March 31, 2010, approximately \$450 million remained from the \$500 million repurchase authorization. The Company expects to use this repurchase program to at least offset equity plan issuances.

Item 6: Exhibits

Exhibit Number	Exhibit Description
3.1	Amended and Restated Articles of Incorporation of Cardinal Health, Inc., as amended (incorporated by reference to Exhibit 3.1 to the Company’s Quarterly Report on Form 10-Q for the quarter ended September 30, 2008, File No. 1-11373)
3.2	Cardinal Health, Inc. Restated Code of Regulations, as amended (incorporated by reference to Exhibit 3.2 to the Company’s Quarterly Report on Form 10-Q for the quarter ended September 30, 2008, File No. 1-11373)
10.1	Second Amendment to Cardinal Health Deferred Compensation Plan, as amended and restated effective January 1, 2009
10.2	Fourth Amendment, dated as of March 25, 2010, to the Third Amendment and Restated Receivables Purchase Agreement and Waiver, dated as of November 19, 2007
10.3	Third Amended and Restated Performance Guaranty, dated as of March 25, 2010, executed by Cardinal Health, Inc. in favor of Cardinal Health Funding, LLC

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12.1	Computation of Ratio of Earnings to Fixed Charges
31.1	Certification of Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
31.2	Certification of Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
32.1	Certification of Chief Executive Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
32.2	Certification of Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
99.1	Statement Regarding Forward-Looking Information
101.INS*	XBRL Instance Document
101.SCH*	XBRL Taxonomy Extension Schema Document
101.CAL*	XBRL Taxonomy Extension Calculation Linkbase Document
101.DEF*	XBRL Taxonomy Definition Linkbase Document
101.LAB*	XBRL Taxonomy Extension Label Linkbase Document
101.PRE*	XBRL Taxonomy Extension Presentation Linkbase Document

* XBRL (Extensible Business Reporting Language) information is furnished and not filed or a part of a registration statement or prospectus for purposes of Sections 11 or 12 of the Securities Act of 1933, is deemed not filed for purposes of Section 18 of the Securities Exchange Act of 1934, and otherwise is not subject to liability under these sections.

Cardinal Health Website

The Company uses its website as a channel of distribution for material Company information. Important information, including news releases, analyst presentations and financial information regarding the Company, is routinely posted and accessible on the Investors page at www.cardinalhealth.com. In addition, the Company's website allows investors and other interested persons to sign up to automatically receive email alerts when the Company posts news releases, SEC filings and certain other information on its website.

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.

Date: May 6, 2010

CARDINAL HEALTH, INC.

/ s / G EORGE S. B ARRETT
George S. Barrett
Chairman and Chief Executive Officer

/ s / J EFFREY W. H ENDERSON
Jeffrey W. Henderson
Chief Financial Officer

Cardinal Health
Deferred Compensation Plan
Amended and Restated Effective as of January 1, 2009

Second Amendment

Background Information

- A. Cardinal Health, Inc. ("Cardinal Health") established and maintains the Cardinal Health Deferred Compensation Plan (the "Plan") for the benefit of participants and their beneficiaries.
- B. The Financial Benefit Plans Committee (the "Committee") oversees the administration of the Plan and is authorized to amend administrative provisions of the Plan in accordance with authority delegated by the Human Resources and Compensation Committee of the Board of Directors of Cardinal Health.
- C. The Committee desires to amend the Plan to exclude CareFusion Corporation ("CareFusion") and its subsidiaries from the definition of "Employer", effective as of August 31, 2009, the first day of the payroll period during which such employees will cease to be eligible for participation in the Plan as a result of the spin-off of CareFusion and its subsidiaries from Cardinal Health as of 11:59 p.m. on said date.
- D. Section 7.1 of the Plan permits the amendment of the Plan at any time.

Amendment of the Plan

The Plan is hereby amended as follows, effective as of August 31, 2009:

- 1. A new sentence is hereby added to the end of Section 1.1(n) of the Plan to read as follows:

"Notwithstanding the foregoing, CareFusion Corporation and its subsidiaries shall cease to be classified as Employers under the terms of the Plan, effective as of August 31, 2009, one day prior to the day that CareFusion Corporation and its subsidiaries shall cease to be members of a controlled group of corporations with Cardinal Health, Inc."

- 2. All other terms and provisions of the Plan shall remain unchanged.

CARDINAL HEALTH, INC.

By: /s/ Monica Foster

Title: VP Benefits

Date: 8/20/09

FOURTH AMENDMENT
TO THE
THIRD AMENDED AND RESTATED RECEIVABLES PURCHASE AGREEMENT
AND WAIVER

This FOURTH AMENDMENT TO THE THIRD AMENDED AND RESTATED RECEIVABLES PURCHASE AGREEMENT AND WAIVER, dated as of March 25, 2010 (this “Amendment”), is entered into by and among:

- (i) CARDINAL HEALTH FUNDING, LLC, a Nevada limited liability company (the “Seller”);
- (ii) GRIFFIN CAPITAL, LLC, a Nevada limited liability company (“Griffin”);
- (iii) CARDINAL HEALTH 110, INC., a Delaware corporation (“CH-110”);
- (iv) CARDINAL HEALTH 411, INC., an Ohio Corporation (“CH-411”);
- (v) CARDINAL HEALTH, INC., an Ohio corporation (the “Performance Guarantor”);
- (vi) RANGER FUNDING COMPANY LLC (“Ranger”), as a Conduit;
- (vii) BANK OF AMERICA, N.A. (“BofA”), as the Related Financial Institution for Ranger and as the Managing Agent for Ranger’s Purchaser Group;
- (viii) WINDMILL FUNDING CORPORATION (“Windmill”), as a Conduit;
- (ix) THE ROYAL BANK OF SCOTLAND PLC (as successor to ABN AMRO Bank N.V.) (“RBS”), as the Related Financial Institution for Windmill and as the Managing Agent for Windmill’s Purchaser Group;
- (x) ATLANTIC ASSET SECURITIZATION LLC (“Atlantic”), as a Conduit;
- (xi) CREDIT AGRICOLE CORPORATE AND INVESTMENT BANK NEW YORK BRANCH (f/k/a Calyon New York Branch) (“Credit Agricole”), as the Related Financial Institution for Atlantic and as the Managing Agent for Atlantic’s Purchaser Group;
- (xii) VICTORY RECEIVABLES CORPORATION (“Victory”), as a Conduit; and
- (xiii) THE BANK OF TOKYO-MITSUBISHI UFJ, LTD., NEW YORK BRANCH (“BTMUNY”), as the Related Financial Institution for Victory, as Managing Agent for Victory’s Purchaser Group and as the Agent (in such capacity, the “Agent”).

Capitalized terms used but not otherwise defined herein have the respective meanings assigned thereto in the Receivables Purchase Agreement (as defined below).

PRELIMINARY STATEMENTS

WHEREAS, the parties hereto (other than CH-110, CH-411 and the Performance Guarantor) are parties to that certain Third Amended and Restated Receivables Purchase Agreement, dated as of November 19, 2007 (as amended, supplemented or otherwise modified from time to time, the “Receivables Purchase Agreement”);

WHEREAS, on the terms and subject to the conditions set forth herein, (i) the parties to the Receivables Purchase Agreement desire to amend the Receivables Purchase Agreement as set forth in Section 2 below and (ii) the parties hereto desire to grant and/or receive (as applicable) the waivers set forth in Section 1 below; and

WHEREAS, concurrently herewith, (i) the Seller and Griffin are entering into that certain fourth amendment to the Receivables Sale Agreement, (ii) Griffin and CH-110 are entering into that certain third amendment to the Griffin RPA to which CH-110 is a party, (iii) Griffin and CH-411 are entering into that certain first amendment to the Griffin RPA to which CH-411 is a party and (iv) the Performance Guarantor is executing and delivering a Third Amended and Restated Performance Guaranty (the agreements described in clauses (i) through (iv) above, the “Related Amendments”);

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

SECTION 1. Waiver; Limitations.

The Cardinal Entities have advised the Agent that prior to the date hereof (i) certain Receivables included in the calculation of the Net Receivables Balance and sold to the Seller under the Receivables Sale Agreement were originated by the Approved Sub-Originators (as defined in Section 2 below) rather than by the Originators, (ii) the sales of such Receivables by such Approved Sub-Originators to the Originators were not memorialized by written sale agreements, (iii) UCC financing statements may not have been filed against such Approved Sub-Originators to perfect the interests of the Originators, Griffin, the Seller or the Agent (on behalf of the Purchasers) in such Receivables or the Related Security therefor and (iv) due to the circumstances described in clauses (i) through (iii) above, such Receivables did not constitute Eligible Receivables. The circumstances described above resulted in breaches of various representations, warranties and covenants of the Cardinal Entities under the Transaction Documents and constitute continuing Amortization Events under the Receivables Purchase Agreement (such breaches and Amortization Events, solely to the extent arising from the circumstances described in the first sentence of this Section 1, the “Subject Events”). The Cardinal Entities have requested the waivers described in clause (a) below.

(a) Waivers. On the terms and subject to the conditions set forth herein (including, without limitation, the limitations set forth in clauses (b) through (c) below):

(i) the Agent, Conduits, Managing Agents and Financial Institutions hereby waive the occurrence of the Subject Events under the Receivables Purchase Agreement;

- (ii) each of the Agent and the Seller hereby waives the occurrence of the Subject Events under the Receivables Sale Agreement;
- (iii) each of the Agent and the Seller hereby waives the occurrence of the Subject Events under the Performance Guaranty; and
- (iv) each of the Agent, Seller and Griffin hereby waives the occurrence of the Subject Events under the Griffin RPAs.

Each of the parties hereto consents to the waivers granted pursuant to this clause (a). Each of the parties granting a waiver pursuant to clause (i), (ii), (iii) or (iv) above, as applicable, is hereinafter referred to as a “Waiving Party”.

(b) General Limitations. Notwithstanding anything to the contrary herein or in the Transaction Documents, by executing this Amendment, none of the Waiving Parties is now waiving, nor have any of them agreed to waive in the future, the breach of (or any rights and remedies related to the breach of) any provisions of any Transaction Document, other than as expressly set forth in clause (a) above. Without limiting the generality of the foregoing, none of the Waiving Parties is now waiving, nor have any of them agreed to waive in the future, any Termination Event (as defined under the Receivables Sale Agreement) or Amortization Event, in either case, occurring after the date hereof. For the avoidance of doubt, no Waiving Party is hereby waiving or agreeing to waive in the future any event or circumstance similar to the Subject Events that occurs after giving effect to this Amendment or any of their respective rights or remedies in respect thereof under the Transaction Documents, applicable law or otherwise.

(c) No Waiver of Indemnification, Etc. Without limiting the generality of the foregoing and for the avoidance of doubt, none of the Waiving Parties is hereby waiving or releasing, nor have any of them agreed to waive or release in the future, any right or claim to indemnification or reimbursement by, or damages from the Cardinal Entities or any Affiliate thereof under any Transaction Document, including without limitation, for any liability, obligation, loss, damage, penalty, judgment, settlement, cost, expense or disbursement resulting or arising directly or indirectly from any Subject Event or otherwise.

SECTION 2. Amendments to the Receivables Purchase Agreement.

The Receivables Purchase Agreement is hereby amended as follows:

(a) Section 7.1(i)(xiv) of the Receivables Purchase Agreement is replaced in its entirety with the following:

(xiv) maintain the effectiveness of, and continue to perform and require Griffin, the Originators and the Approved Sub-Originators to perform under the Receivables Sale Agreement, each Griffin RPA, each Sub-Originator Sale Agreement, the Cash Management Agreement and the Performance Guaranty, such that it does not amend, restate, supplement, cancel, terminate or otherwise modify the Receivables Sale Agreement, each Griffin RPA, each Sub-Originator Sale Agreement, the Cash Management Agreement or the Performance Guaranty, or give any consent, waiver, directive or approval thereunder or waive any

default, action, omission or breach thereunder or otherwise grant any indulgence thereunder, without (in each case) the prior written consent of the Agent and the Required Financial Institutions;

(b) Section 7.2 of the Receivables Purchase Agreement is amended by adding thereto the following new clause (h) immediately following existing clause (g) thereof:

(h) Sub-Originator Sale Agreement Termination . The Seller Parties shall not permit any Originator to terminate any Sub-Originator Sale Agreement, nor send (or permit any Originator to send) any written notice to the applicable Approved Sub-Originator in respect thereof, without providing 10 Business Days' prior written notice thereof to the Agent, except with respect to (i) the occurrence of a termination pursuant to Section 7.2 of the applicable Sub-Originator Sale Agreement and (ii) a termination permitted under Section 1.1(b) hereunder, and any such termination of any Sub-Originator Sale Agreement or provision of notice to any Approved Sub-Originator in respect thereof not in compliance with this clause (h) shall be void *ab initio* .

(c) Section 10.1 of the Receivables Purchase Agreement is amended by replacing clause (x) thereof in its entirety with the following:

(x) either:

(A) any failure of the Originators to acquire and maintain legal and equitable title to, and ownership of any Receivable originated by an Approved Sub-Originator and the Related Security and Collections with respect thereto from the applicable Approved Sub-Originator, free and clear of any Adverse Claim (other than any Adverse Claim created or permitted hereunder); or any failure of the Originators to give reasonably equivalent value to any Approved Sub-Originator under any Sub-Originator Sale Agreement in consideration of the transfer by such Approved Sub-Originator of any Receivable originated by such Approved Sub-Originator, or any attempt by any Person to void such transfer under statutory provisions or common law or equitable action; or

(B) any failure of Griffin to acquire and maintain legal and equitable title to, and ownership of any Receivable and the Related Security and Collections with respect thereto from the applicable Originator, free and clear of any Adverse Claim (other than any Adverse Claim created or permitted hereunder); or any failure of Griffin to give reasonably equivalent value to any Originator under any Griffin RPA in consideration of the transfer by such Originator of any Receivable, or any attempt by any Person to void such transfer under statutory provisions or common law or equitable action;

(d) The following new defined terms and definitions thereof are added to Exhibit I of the Receivables Purchase Agreement in appropriate alphabetical order:

“ Approved Sub-Originator ” means each of the following Persons and their successors:

(i) Leader Drugstores, Inc., a Delaware corporation;

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- (ii) Cardinal Health Pharmacy Services, LLC, a Delaware limited liability company;
 - (iii) Medicine Shoppe International, Inc., a Delaware corporation;
 - (iv) Cardinal Health 108, Inc., a Tennessee corporation;
 - (v) Cardinal Health Systems, Inc, an Ohio corporation; and
 - (vi) any other Person approved in writing by the Agent and the Required Financial Institutions as an “Approved Sub-Originator” from time to time.

“Sub-Originator Sale Agreement” means each Receivables Sale Agreement between an Approved Sub-Originator and an Originator, dated as of March 1, 2010, as the same may be amended, supplemented or otherwise modified from time to time.

(e) The definition of “Cardinal Entity” set forth in Exhibit I of the Receivables Purchase Agreement is replaced in its entirety with the following:

“Cardinal Entity” means each of Cardinal, Griffin, each Originator and each Approved Sub-Originator.

(f) Effective upon satisfaction of the conditions precedent specified in Section 6 below, the definition of “Eligible Receivable” set forth in Exhibit I of the Receivables Purchase Agreement is amended as follows:

(i) clause (viii) thereof is replaced in its entirety with the following:

(viii) which arises under a Contract in substantially the form of one of the form contracts set forth on Exhibit IX hereto or otherwise approved by the Agent in writing, which, together with such Receivable, is in full force and effect and constitutes the legal, valid and binding obligation of the related Obligor enforceable against such Obligor by the applicable Originator or Approved Sub-Originator and its assignees, subject to no offset, counterclaim or other defense,

(ii) clause (ix) thereof is replaced in its entirety with the following:

(ix) as to which all right, title and interest thereto and therein has been validly transferred (A) in the case of any Receivable originated

by an Approved Sub-Originator, by such Approved Sub-Originator directly to an Originator under and in accordance with the applicable Sub-Originator Sale Agreement, (B) by the applicable Originator directly to Griffin under and in accordance with the applicable Griffin RPA and (C) by Griffin directly to Seller under and in accordance with the Receivables Sale Agreement, and as to which Seller has good and marketable title thereto free and clear of any Adverse Claim,

(iii) clause (x) thereof is replaced in its entirety with the following:

(x) which arises under a Contract that contains an obligation to pay a specified sum of money and as to which the applicable Originator or Approved Sub-Originator has performed all obligations due or to become due from it, and no further action is required to be performed by any Person with respect thereto other than payment thereon by the applicable Obligor,

(iv) clause (xiii) thereof is replaced in its entirety with the following:

(xiii) which was generated in the ordinary course of the applicable Originator's or Approved Sub-Originator's business,

(v) clause (xiv) thereof is replaced in its entirety with the following:

(xiv) which arises solely from the sale of goods or the provision of services to the related Obligor by the applicable Originator or Approved Sub-Originator, and not by any other Person (in whole or in part),

(vi) clause (xv) thereof is replaced in its entirety with the following:

(xv) which is not subject to any right of rescission, set-off, counterclaim, any other defense (including defenses arising out of violations of usury laws) of the applicable Obligor against the applicable Originator or Approved Sub-Originator and which is not subject to any other Adverse Claim, and the Obligor thereon holds no right as against the applicable Originator or Approved Sub-Originator to cause such Originator or Approved Sub-Originator to repurchase the goods or merchandise the sale of which shall have given rise to such Receivable (except with respect to sale discounts effected pursuant to the Contract, or defective goods returned in accordance with the terms of the Contract or in compliance with the applicable Originator's or Approved Sub-Originator's returned goods policy as in effect on the date hereof),

(g) The definition of “ Receivable ” set forth in Exhibit I of the Receivables Purchase Agreement is replaced in its entirety with the following:

“ Receivable ” means: (i) for purposes of the Receivables Sale Agreement, (a) all rights to payment owed (without giving effect to the transfers under any

Sub-Originator Sale Agreement or any Griffin RPA) to the applicable Originator or Approved Sub-Originator for goods sold or services performed by such Originator or Approved Sub-Originator or in which such Originator or Approved Sub-Originator has a security or other interest, whether such rights to payment constitute an account, chattel paper, general intangible or otherwise (as each of the foregoing terms is used in Article 9 of the UCC) and includes, without limitation, the obligation to pay any Finance Charges with respect thereto, excluding, however, any Excluded Receivable and (b) all rights of Griffin under each Sub-Originator Sale Agreement and each Griffin RPA and (ii) for purposes of this Agreement, (a) all rights to payment owed (without giving effect to the transfers under any Sub-Originator Sale Agreement, any Griffin RPA or the Receivables Sale Agreement) to the applicable Originator or Approved Sub-Originator for goods sold or services performed by such Originator or Approved Sub-Originator or in which such Originator or Sub-Originator has a security or other interest, whether such rights to payment constitute an account, chattel paper, general intangible or otherwise (as each of the foregoing terms is used in Article 9 of the UCC) and includes without limitation, the obligation to pay any Finance Charges with respect thereto, excluding however, any Excluded Receivable and (b) all rights of Seller under each Sub-Originator Sale Agreement, each Griffin RPA and the Receivables Sale Agreement. Rights to payment arising from any one transaction, including, without limitation, rights to payment represented by an individual invoice shall constitute a Receivable separate from a Receivable consisting of the rights to payment arising from any other transaction.

(h) Clause (vi) of the definition of “Related Security” set forth in Exhibit I of the Receivables Purchase Agreement is amended by inserting the phrase “each Sub-Originator Sale Agreement,” immediately following the phrase “each Griffin RPA,” where such phrase appears therein.

(i) The definition of “Transaction Documents” set forth in Exhibit I of the Receivables Purchase Agreement is amended by inserting the phrase “each Sub-Originator Sale Agreement,” immediately following the phrase “each Griffin RPA,” where such phrase appears therein.

SECTION 3. Consent to Related Amendments.

Each of the parties hereto hereby consents to the execution and delivery of the Related Amendments by the parties thereto.

SECTION 4. Representations and Warranties.

On the date hereof, each Cardinal Entity and the Performance Guarantor hereby represents and warrants (as to itself) to the Purchasers, the Managing Agents, the Agent and, in the case of the representations and warranties made by the Performance Guarantor, the Seller that:

(a) after giving effect to this Amendment and the Related Amendments, no event or condition has occurred and is continuing which constitutes an Amortization Event or Potential Amortization Event or Termination Event (as defined in the Receivables Sale Agreement) or Potential Termination Event (as defined in the Receivables Sale Agreement);

(b) after giving effect to this Amendment and the Related Amendments, the representations and warranties of such Person set forth in the Receivables Purchase Agreement and each other Transaction Document to which such Person is a party are true and correct as of the date hereof, as though made on and as of such date (except to the extent such representations and warranties relate solely to an earlier date and then as of such earlier date); and

(c) this Amendment and the Related Amendments, if any, to which such Person is a party, constitute the valid and binding obligations of such Person, enforceable against such Person in accordance with their terms.

SECTION 5. Conditions to Effectiveness.

This Amendment shall, subject to Section 6 below, become effective as of the date hereof upon satisfaction of all the following conditions precedent:

(a) receipt by the Agent of (i) counterparts of this Amendment, duly executed by each of the parties hereto and (ii) counterparts of the Related Amendments in form and substance acceptable to the Agent, duly executed by each of the parties thereto;

(b) receipt by the Agent of executed copies of each Sub-Originator Sale Agreement;

(c) receipt by the Agent of the following with respect to each Approved Sub-Originator and each Originator:

(i) a copy of the Resolutions of the Board of Directors of such Person certified by its Assistant Secretary authorizing such Person's execution, delivery and performance of the applicable Sub-Originator Sale Agreement and the other documents to be delivered by it hereunder;

(ii) the Articles of Organization or Certificate of Incorporation of each Approved Sub-Originator certified by the Secretary of State of its jurisdiction of organization or incorporation on or within thirty (30) days prior to the date hereof;

(iii) Good Standing Certificate for each Approved Sub-Originator issued on or within thirty (30) days prior to the date hereof by the Secretary of State of its state of organization or incorporation and of each jurisdiction where its chief executive office or principal place of business is located; and

(iv) a certificate of the Assistant Secretary of such Person certifying (i) the names of the officers authorized on its behalf to execute the applicable Sub-Originator Sale Agreement and any other documents to be delivered by it thereunder, (ii) the specimen signature of Jorge M. Gomez and (iii) a copy of such Person's By-Laws or Operating Agreement;

(d) receipt by the Agent of time stamped receipt copies (or, in the case of filings to be made in the State of Ohio, confirmation by the Cardinal Entities or their counsel that such filings have been made) of proper financing statements and/or financing statement amendments naming Griffin, each Originator and each Approved Sub-Originator as debtor and Agent as secured party, duly filed under the UCC on or before the date hereof in all jurisdictions as may be necessary or, in the opinion of the Agent, desirable, under the UCC of all appropriate jurisdictions or any comparable law in order to perfect the ownership interests contemplated by the Sub-Originator Sale Agreements and the other Transaction Documents; and

(e) receipt by each Conduit (or its Managing Agent on its behalf), to the extent required under the documents governing such Conduit's Commercial Paper program, of confirmations from each applicable Rating Agency that this Amendment and the transactions contemplated hereby will not cause such Rating Agency to reduce or withdraw its rating (if any) on such Conduit's Commercial Paper.

SECTION 6. Post-Closing Conditions to Effectiveness .

The amendments to the definition of "Eligible Receivable" set forth in Section 2(f) above Amendment shall become effective upon satisfaction of all the following conditions precedent:

(a) this Amendment shall have become effective pursuant to Section 5 above;

(b) receipt by the Agent of favorable opinions of legal counsel for the Cardinal Entities in form and substance reasonably acceptable to the Agent addressing general corporate, enforceability, security interest, non-consolidation and true-sale matters relevant to the transactions contemplated by the Transaction Documents as amended by this Amendment and the Related Amendments; and

(c) receipt by the Agent of UCC lien search results against each Approved Sub-Originator in the applicable UCC filing office of such Approved Sub-Originator's state of organization or incorporation showing that no effective financing statements (other than those contemplated by the Transaction Documents, as amended hereby) are on file with such filing office naming such Approved Sub-Originator as debtor or seller and covering the Receivables, Related Security or Collections (or any portion of the foregoing).

Each of the Cardinal Entities, jointly and severally, covenants and agrees to cause the conditions precedent specified in clauses (b) and (c) above to have been satisfied by not later than April 26, 2010.

SECTION 7. Expenses.

The Cardinal Entities, jointly and severally, agree to pay (or cause to be paid), all reasonable costs and expenses (including, without limitation, the reasonable fees and out-of-pocket expenses of counsel) incurred by the Agent, Conduits, Managing Agents and Financial Institutions in connection with this Amendment, the Related Amendments, the transactions contemplated hereby and the Subject Events.

SECTION 8. Counterparts; Delivery.

This Amendment may be executed in any number of counterparts and by different parties on separate counterparts, and each counterpart shall be deemed to be an original, and all such counterparts shall together constitute but one and the same instrument. Delivery of an executed counterpart of a signature page to this Amendment by facsimile or other electronic means shall be effective as delivery of a manually executed counterpart of this Amendment.

SECTION 9. Effect of Amendment; Ratification.

Except as specifically amended hereby and, where applicable, by the Related Amendments, the Receivables Purchase Agreement and the other Transaction Documents are hereby ratified and confirmed in all respects, and all of its provisions shall remain in full force and effect. After this Amendment becomes effective, all references in the Transaction Documents to the Receivables Purchase Agreement, the Receivables Sale Agreement, the Griffin RPAs and the Performance Guaranty shall be deemed to be references to such agreements as amended and/or waived hereby and, where applicable, by the Related Amendments. This Amendment shall not be deemed to expressly or impliedly waive, amend, or supplement any provision of any Transaction Document other than as specifically set forth herein.

SECTION 10. GOVERNING LAW.

THIS AMENDMENT SHALL BE GOVERNED BY, AND CONSTRUED IN ACCORDANCE WITH, THE INTERNAL LAWS OF THE STATE OF ILLINOIS.

SECTION 11. Section Headings.

The various headings of this Amendment are inserted for convenience only and shall not affect the meaning or interpretation of this Amendment or the Receivables Purchase Agreement or any provision hereof or thereof.

[Signatures pages follow.]

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

CARDINAL HEALTH FUNDING, LLC

By: /s/ Lloyd Fort
Name: Lloyd Fort
Title: President

GRIFFIN CAPITAL, LLC,

By: /s/ Lloyd Fort
Name: Lloyd Fort
Title: President

CARDINAL HEALTH 110, INC.

By: /s/ Jorge M. Gomez
Name: Jorge M. Gomez
Title: Senior Vice President & Treasurer

CARDINAL HEALTH 411, INC.

By: /s/ Jorge M. Gomez
Name: Jorge M. Gomez
Title: Senior Vice President & Treasurer

CARDINAL HEALTH, INC.

By: /s/ Jorge M. Gomez
Name: Jorge M. Gomez
Title: Senior Vice President & Treasurer

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*Fourth Amendment to Third Amended and
Restated Receivables Purchase Agreement
and Waiver*

RANGER FUNDING COMPANY LLC,
as a Conduit

By: /s/ Doris J. Hearn
Name: Doris J. Hearn
Title: Vice President

BANK OF AMERICA, N.A.,
as Related Financial Institution for Ranger

By: /s/ Nina Austin
Name: Nina Austin
Title: Vice President

BANK OF AMERICA, N.A.,
as Managing Agent for Ranger's Purchaser Group

By: /s/ Nina Austin
Name: Nina Austin
Title: Vice President

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*Fourth Amendment to Third Amended and
Restated Receivables Purchase Agreement
and Waiver*

WINDMILL FUNDING CORPORATION,
as a Conduit

By: /s/ Jill A. Russo
Name: Jill A. Russo
Title: Vice President

THE ROYAL BANK OF SCOTLAND PLC,
as Related Financial Institution for Windmill

By: RBS Securities Inc., as agent

By: /s/ David Viney
Name: David Viney
Title: Managing Director

THE ROYAL BANK OF SCOTLAND PLC,
as Managing Agent for Windmill's Purchaser Group

By: RBS Securities Inc., as agent

By: /s/ David Viney
Name: David Viney
Title: Managing Director

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*Fourth Amendment to Third Amended and
Restated Receivables Purchase Agreement
and Waiver*

ATLANTIC ASSET SECURITIZATION LLC,
as a Conduit

By: /s/ Kostantina Kourmpetis
Name: Kostantina Kourmpetis
Title: Managing Director

By: /s/ Sam Pilcer
Name: Sam Pilcer
Title: Managing Director

CREDIT AGRICOLE CORPORATE AND
INVESTMENT BANK NEW YORK BRANCH,
as Related Financial Institution for Atlantic

By: /s/ Kostantina Kourmpetis
Name: Kostantina Kourmpetis
Title: Managing Director

By: /s/ Sam Pilcer
Name: Sam Pilcer
Title: Managing Director

CREDIT AGRICOLE CORPORATE AND
INVESTMENT BANK NEW YORK BRANCH,
as Managing Agent for Atlantic's Purchaser Group

By: /s/ Kostantina Kourmpetis
Name: Kostantina Kourmpetis
Title: Managing Director

By: /s/ Sam Pilcer
Name: Sam Pilcer
Title: Managing Director

VICTORY RECEIVABLES CORPORATION,
as a Conduit

By: /s/ Frank B. Bilotta
Name: Frank B. Bilotta
Title: President

THE BANK OF TOKYO-MITSUBISHI UFJ, LTD.,
NEW YORK BRANCH,
as Related Financial Institution for Victory

By: /s/ Victor Pierzchalski
Name: Victor Pierzchalski
Title: Authorized Signatory

THE BANK OF TOKYO-MITSUBISHI UFJ, LTD.,
NEW YORK BRANCH,
as Managing Agent for Victory's Purchaser Group

By: /s/ Ichinari Matsui
Name: Ichinari Matsui
Title: SVP & Group Head

THE BANK OF TOKYO-MITSUBISHI UFJ, LTD.,
NEW YORK BRANCH, as Agent

By: /s/ Ichinari Matsui
Name: Ichinari Matsui
Title: SVP & Group Head

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*Fourth Amendment to Third Amended and
Restated Receivables Purchase Agreement
and Waiver*

THIRD AMENDED AND RESTATED PERFORMANCE GUARANTY

This Third Amended and Restated Performance Guaranty (this “Guaranty”), dated as of March 25, 2010, is executed by Cardinal Health, Inc., an Ohio corporation (“Cardinal” or the “Performance Guarantor”) in favor of Cardinal Health Funding, LLC, a Nevada limited liability company (together with its successors and assigns, “Beneficiary”).

RECITALS

1. Each of Cardinal Health 110, Inc., a Delaware corporation (“CH 110”), and Cardinal Health 411, Inc., an Ohio corporation (“CH 411”) has entered into and may from time to time in the future enter into Sub-Originator Sale Agreements (such term being used herein as defined in the Receivables Purchase Agreement described in paragraph 3 below) with the Approved Sub-Originators (such term being used herein as defined in the Receivables Purchase Agreement described in paragraph 3 below).

2. Griffin Capital, LLC, a Nevada limited liability company (“Griffin”), has entered into (a) that certain Second Amended and Restated Receivables Purchase and Sale Agreement (as amended, restated, supplemented or otherwise modified from time to time, the “CH 110 Griffin RPA”), dated as of May 21, 2004, by and between Griffin and CH 110, and (b) that certain Receivables Purchase and Sale Agreement (as amended, restated, supplemented or otherwise modified from time to time, the “CH 411 Griffin RPA” and, together with the CH 110 Griffin RPA, the “Griffin RPAs”), dated as of June 20, 2007, by and between Griffin and CH 411 (together with CH 110, the “Originators” and, together with Griffin and the Approved Sub-Originators, the “Transaction Parties”), in each case pursuant to which each Originator, subject to the terms and conditions thereof, has sold and will continue to sell (in the case of CH 110) and is selling (in the case of CH 411) all of its right, title and interest in and to its accounts receivable.

3. Griffin and Beneficiary have entered into an Amended and Restated Receivables Sale Agreement, dated as of May 21, 2004 (as amended, restated or otherwise modified from time to time, the “Receivables Sale Agreement”), pursuant to which Griffin, subject to the terms and conditions contained therein, has sold and will continue to sell its right, title and interest in and to all of the accounts receivable purchased by Griffin under each Griffin RPA to Beneficiary. In turn, Beneficiary has entered into a Third Amended and Restated Receivables Purchase Agreement, dated as of November 19, 2007, by and among Beneficiary, Griffin, as Servicer, the Conduits party thereto, the Financial Institutions party thereto, the Managing Agents party thereto and The Bank of Tokyo-Mitsubishi UFJ, Ltd., New York Branch, as the Agent (as amended, restated or otherwise modified, the “Receivables Purchase Agreement” and, together with the Sub-Originator Sale Agreements, each Griffin RPA and the Receivables Sale Agreement, the “Agreements”), pursuant to which Beneficiary has sold and will continue to sell undivided interests in the accounts receivable it purchases from Griffin under the Receivables Sale Agreement.

4. Griffin, Beneficiary, the Conduits, the Financial Institutions, the Managing Agents and the Agent have entered into that certain Fourth Amendment to the Receivables

Purchase Agreement and Waiver (the “RPA Amendment”), dated as of the date hereof, pursuant to which and pursuant to the Related Amendments (as defined in the RPA Amendment) each Griffin RPA, the Receivables Sale Agreement and Receivables Purchase Agreement were amended in connection with the Sub-Originator Sale Agreements.

5. Each Approved Sub-Originator, Originator and Griffin is a Subsidiary of Performance Guarantor and Performance Guarantor has received and is expected to continue to receive substantial direct and indirect benefits from the sale of the accounts receivable by the Approved Sub-Originators to each of the Originators under the applicable Sub-Originator Sale Agreements, by the Originators to Griffin under the applicable Griffin RPA and by Griffin to Beneficiary under the Receivables Sale Agreement (which benefits are hereby acknowledged).

6. As an inducement for Beneficiary to enter into the RPA Amendment, which amendment contemplates, among other things, the addition of the Approved Sub-Originators as parties to certain Transaction Documents and the inclusion of accounts receivable originated by the Approved Sub-Originators in the transactions contemplated by the Receivables Purchase Agreement, Performance Guarantor has agreed to guaranty the due and punctual performance by each Approved Sub-Originator of its obligations under the applicable Sub-Originator Sale Agreement, each Originator of its obligations under the applicable Griffin RPA and by Griffin of its obligations under the Receivables Sale Agreement and the Receivables Purchase Agreement.

7. Performance Guarantor wishes to guaranty the due and punctual performance by the Approved Sub-Originators, the Originators and Griffin of their respective Obligations (as hereinafter defined), as provided herein.

AGREEMENT

NOW, THEREFORE, Performance Guarantor hereby agrees as follows:

Section 1. Definitions. Capitalized terms used herein and not defined herein shall have the respective meanings assigned thereto in the Receivables Purchase Agreement. In addition:

“Obligations” means, collectively, (i) all covenants, agreements, terms, conditions and indemnities to be performed and observed by each Originator and each Approved Sub-Originator under and pursuant to the Griffin RPA and Sub-Originator Sale Agreement(s) to which such Originator or Approved Sub-Originator is a party and each other document executed and delivered by each such Originator or Approved Sub-Originator pursuant to such Griffin RPA and Sub-Originator Sale Agreement(s), including, without limitation, the due and punctual payment of all sums which are or may become due and owing by each such Originator or Approved Sub-Originator under such Griffin RPA and Sub-Originator Sale Agreement(s), whether for fees, expenses (including counsel fees), indemnified amounts or otherwise, whether upon any termination or for any other reason, (ii) all covenants, agreements, terms, conditions and indemnities to be performed and observed by Griffin under and pursuant to the Receivables Sale Agreement and each other document executed and delivered by Griffin pursuant to the Receivables Sale Agreement, including, without limitation, the due and punctual payment of all sums which are or may become due and owing by Griffin under the Receivables Sale

Agreement, whether for fees, expenses (including counsel fees), indemnified amounts or otherwise, whether upon any termination or for any other reason and (iv) all obligations of Griffin (1) as Servicer under the Receivables Purchase Agreement, or (2) which arise pursuant to Sections 8.2, 8.3 or 14.4(a) of the Receivables Purchase Agreement as a result of its termination as Servicer.

Section 2. Guaranty of Performance of Obligations. Performance Guarantor hereby guarantees to Beneficiary, the full and punctual payment and performance by each Transaction Party of its respective Obligations. This Guaranty is an absolute, unconditional and continuing guaranty of the full and punctual performance of all of the Obligations of the Transaction Parties under the Agreements and each other document executed and delivered by each such Transaction Party pursuant to the Agreements and is in no way conditioned upon any requirement that Beneficiary first attempt to collect any amounts owing by any Transaction Party to Beneficiary, the Agent or the Purchasers from any other Person or resort to any collateral security, any balance of any deposit account or credit on the books of Beneficiary, the Agent or any Purchaser in favor of any Transaction Party or any other Person or other means of obtaining payment. Should any Transaction Party default in the payment or performance of any of the Obligations, Beneficiary (or its assigns) may cause the immediate performance by Performance Guarantor of the Obligations and cause any payment Obligations to become forthwith due and payable to Beneficiary (or its assigns), without demand or notice of any nature (other than as expressly provided herein), all of which are hereby expressly waived by Performance Guarantor. Notwithstanding the foregoing, this Guaranty is not a guarantee of the collection of any of the Receivables and Performance Guarantor shall not be responsible for any Obligations to the extent the failure to perform such Obligations by any Transaction Party results from Receivables being uncollectible on account of the insolvency, bankruptcy or lack of creditworthiness of the related Obligor; provided, that nothing herein shall relieve any Transaction Party from performing in full its Obligations under any Agreement or Performance Guarantor of its undertaking hereunder with respect to the full performance of such duties.

Section 3. Performance Guarantor's Further Agreements to Pay. Performance Guarantor further agrees, as the principal obligor and not as a guarantor only, to pay to Beneficiary (and its assigns), forthwith upon demand in funds immediately available to Beneficiary, all reasonable costs and expenses (including court costs and legal expenses) incurred or expended by Beneficiary in connection with the Obligations, this Guaranty and the enforcement thereof, together with interest on amounts recoverable under this Guaranty from the time when such amounts become due until payment, at a rate of interest (computed for the actual number of days elapsed based on a 360 day year) equal to the Prime Rate plus 2% per annum, such rate of interest changing when and as the Prime Rate changes.

Section 4. Waivers by Performance Guarantor. Performance Guarantor waives notice of acceptance of this Guaranty, notice of any action taken or omitted by Beneficiary (or its assigns) in reliance on this Guaranty, and any requirement that Beneficiary (or its assigns) be diligent or prompt in making demands under this Guaranty, giving notice of any Termination Event, Amortization Event, other default or omission by any Transaction Party or asserting any other rights of Beneficiary under this Guaranty. Performance Guarantor warrants that it has adequate means to obtain from each Transaction Party, on a continuing basis, information concerning the financial condition of such Transaction Party, and that it is not relying on

Beneficiary to provide such information, now or in the future. Performance Guarantor also irrevocably waives all defenses (i) that at any time may be available in respect of the Obligations by virtue of any statute of limitations, valuation, stay, moratorium law or other similar law now or hereafter in effect or (ii) that arise under the law of suretyship, including impairment of collateral. Beneficiary (and its assigns) shall be at liberty, without giving notice to or obtaining the assent of Performance Guarantor and without relieving Performance Guarantor of any liability under this Guaranty, to deal with each Transaction Party and with each other party who now is or after the date hereof becomes liable in any manner for any of the Obligations, in such manner as Beneficiary in its sole discretion deems fit, and to this end Performance Guarantor agrees that the validity and enforceability of this Guaranty, including without limitation, the provisions of Section 8 hereof, shall not be impaired or affected by any of the following: (a) any extension, modification or renewal of, or indulgence with respect to, or substitutions for, the Obligations or any part thereof or any agreement relating thereto at any time; (b) any failure or omission to enforce any right, power or remedy with respect to the Obligations or any part thereof or any agreement relating thereto, or any collateral securing the Obligations or any part thereof; (c) any waiver of any right, power or remedy or of any Termination Event, Amortization Event, or default with respect to the Obligations or any part thereof or any agreement relating thereto; (d) any release, surrender, compromise, settlement, waiver, subordination or modification, with or without consideration, of any other obligation of any person or entity with respect to the Obligations or any part thereof; (e) the enforceability or validity of the Obligations or any part thereof or the genuineness, enforceability or validity of any agreement relating thereto or with respect to the Obligations or any part thereof; (f) the application of payments received from any source to the payment of any payment Obligations of any Transaction Party or any part thereof or amounts which are not covered by this Guaranty even though Beneficiary (or its assigns) might lawfully have elected to apply such payments to any part or all of the payment Obligations of such Transaction Party or to amounts which are not covered by this Guaranty; (g) the existence of any claim, setoff or other rights which Performance Guarantor may have at any time against any Transaction Party in connection herewith or any unrelated transaction; (h) any assignment or transfer of the Obligations or any part thereof; or (i) any failure on the part of any Transaction Party to perform or comply with any term of the Agreements or any other document executed in connection therewith or delivered thereunder, all whether or not Performance Guarantor shall have had notice or knowledge of any act or omission referred to in the foregoing clauses (a) through (i) of this Section 4.

Section 5. Unenforceability of Obligations Against Transaction Parties. Notwithstanding (a) any change of ownership of any Transaction Party or the insolvency, bankruptcy or any other change in the legal status of any Transaction Party; (b) the change in or the imposition of any law, decree, regulation or other governmental act which does or might impair, delay or in any way affect the validity, enforceability or the payment when due of the Obligations; (c) the failure of any Transaction Party or Performance Guarantor to maintain in full force, validity or effect or to obtain or renew when required all governmental and other approvals, licenses or consents required in connection with the Obligations or this Guaranty, or to take any other action required in connection with the performance of all obligations pursuant to the Obligations or this Guaranty; or (d) if any of the moneys included in the Obligations have become irrecoverable from any Transaction Party for any other reason other than final payment in full of the payment Obligations in accordance with their terms, this Guaranty shall nevertheless be binding on Performance Guarantor. This Guaranty shall be in addition to any

other guaranty or other security for the Obligations, and it shall not be rendered unenforceable by the invalidity of any such other guaranty or security. In the event that acceleration of the time for payment of any of the Obligations is stayed upon the insolvency, bankruptcy or reorganization of any Transaction Party or for any other reason with respect to any Transaction Party, all such amounts then due and owing with respect to the Obligations under the terms of the Agreements, or any other agreement evidencing, securing or otherwise executed in connection with the Obligations, shall be immediately due and payable by Performance Guarantor.

Section 6. Representations and Warranties. Performance Guarantor hereby represents and warrants to Beneficiary that:

(a) Existence and Standing. Performance Guarantor is a corporation duly organized, validly existing and in good standing under the laws of its jurisdiction of incorporation, and has all corporate power and all governmental licenses, authorizations, consents and approvals required to carry on its business in each jurisdiction in which its business is conducted.

(b) Authorization, Execution and Delivery; Binding Effect. Performance Guarantor has the corporate power and authority and legal right to execute and deliver this Guaranty, perform its obligations hereunder and consummate the transactions herein contemplated. The execution and delivery by Performance Guarantor of this Guaranty, the performance of its obligations and consummation of the transactions contemplated hereunder have been duly authorized by proper corporate proceedings, and Performance Guarantor has duly executed and delivered this Guaranty. This Guaranty constitutes the legal, valid and binding obligation of Performance Guarantor enforceable against Performance Guarantor in accordance with its terms, except as enforceability may be limited by bankruptcy, insolvency, reorganization or other similar laws relating to or limiting creditors' rights generally.

(c) No Conflict; Government Consent. The execution and delivery by Performance Guarantor of this Guaranty and the performance of its obligations hereunder are within its corporate powers, have been duly authorized by all necessary corporate action, do not contravene or violate (i) its articles of incorporation or by-laws, (ii) any law, rule or regulation applicable to it, (iii) any restrictions under any agreement, contract or instrument to which it is a party or by which it or any of its property is bound, or (iv) any order, writ, judgment, award, injunction or decree binding on or affecting it or its property and, do not result in the creation or imposition of any Adverse Claim on assets of Performance Guarantor.

(d) Financial Statements. The consolidated financial statements of Performance Guarantor and its consolidated Subsidiaries dated as of June 30, 2009 as modified by the Performance Guarantor's 8-K filed November 16, 2009, heretofore delivered to Beneficiary have been prepared in accordance with generally accepted accounting principles consistently applied and fairly present in all material respects the consolidated financial condition and results of operations of Performance Guarantor and its consolidated Subsidiaries as of June 30, 2009, and for the period ended on such date. Since the later of (i) June 30, 2009, and (ii) the last time this representation was made or deemed made, no event has occurred which would or could reasonably be expected to have a Material Adverse Effect except as disclosed in the Performance Guarantor's 10-Q's and 8-K's filed between July 1, 2009 and February 26, 2010.

(e) Taxes. Performance Guarantor has filed all United States federal tax returns and all other tax returns which are required to be filed and have paid all taxes due pursuant to said returns or pursuant to any assessment received by Performance Guarantor or any of its Subsidiaries, except such taxes, if any, as are being contested in good faith and as to which adequate reserves have been provided. The United States income tax returns of Performance Guarantor have been audited by the Internal Revenue Service through the fiscal year ended June 30, 2005, and such audits have been closed, pending certain outstanding appeals. No federal or state tax liens have been filed and no claims are being asserted with respect to any such taxes. The charges, accruals and reserves on the books of Performance Guarantor in respect of any taxes or other governmental charges are adequate.

(f) Litigation and Contingent Obligations. Except as disclosed in the filings made by Performance Guarantor with the Securities and Exchange Commission, there are no actions, suits or proceedings pending or, to the best of Performance Guarantor's knowledge threatened against or affecting Performance Guarantor or any of its properties, in or before any court, arbitrator or other body, that could reasonably be expected to have a material adverse effect on (i) the business, properties, condition (financial or otherwise) or results of operations of Performance Guarantor and its Subsidiaries taken as a whole, (ii) the ability of Performance Guarantor to perform its obligations under this Guaranty, or (iii) the validity or enforceability of any of this Guaranty or the rights or remedies of Beneficiary hereunder. Performance Guarantor is not in default with respect to any order of any court, arbitrator or governmental body and does not have any material contingent obligations not provided for or disclosed in the financial statements referred to in Section 6(d).

Section 7. Financial Covenants. Until the Obligations are paid in full, the Performance Guarantor covenants to the Beneficiary that the Performance Guarantor will not (i) permit the Consolidated Interest Coverage Ratio as of the end of any fiscal quarter of the Performance Guarantor to be less than 4.00 to 1.00 or (ii) permit the Consolidated Leverage Ratio at any time to be greater than 3.25 to 1.00.

Notwithstanding anything in this Guaranty to the contrary, for all measurement periods including the Spin-Off Date through the end of the fourth fiscal quarter period ending thereafter, the Consolidated Interest Coverage Ratio and the Consolidated Leverage Ratio shall be calculated eliminating the results of the Spin Entity and its Subsidiaries and giving retroactive pro forma effect (i) to the Transaction and any debt repurchases or retirements to be consummated with the proceeds of the Special Dividend, but only to the extent that such debt repurchases or retirements actually occur within ninety (90) days after the Spin-off Date.

For purposes of this Section 7, the following terms have the following meanings:

“Agreement Accounting Principles” means generally accepted accounting principles in the United States of America in effect from time to time, applied in a manner consistent with that used in preparing the Performance Guarantor's and its Subsidiaries' June 30, 2006 audited

consolidated financial statements and September 30, 2006 unaudited interim consolidated financial statements; provided, however, that if any change in Agreement Accounting Principles from those applied in preparing such financial statements affects the calculation of any financial covenant contained in this Guaranty, the Performance Guarantor and the Beneficiary hereby agree to negotiate in good faith towards making appropriate amendments to the provisions of this Guaranty to reflect as nearly as possible the effect of the financial covenants as in effect on May 1, 2009; provided, however, that no such amendment to this Guaranty shall be effective without the prior written consent of the Performance Guarantor, the Agent and the Required Financial Institutions.

“Bridge Indebtedness” means Indebtedness incurred by CareFusion Corporation and/or any other Subsidiary(ies) of the Performance Guarantor in an aggregate amount not in excess of \$2,000,000,000 the proceeds of which (after deducting expenses) are required by the terms thereof to be used solely to pay one or more special dividends to the Performance Guarantor; provided that (i) neither the Performance Guarantor nor any of its Subsidiaries (other than CareFusion Corporation and its Subsidiaries) shall guarantee such Indebtedness after the consummation of the Spin-off or have any other liability with respect thereto and (ii) such Indebtedness shall be unsecured until after consummation of the Spin-off.

“Capitalized Leases” of a Person means any lease of Property by such Person as lessee which would be capitalized on a balance sheet of such Person prepared in accordance with Agreement Accounting Principles.

“Capitalized Lease Obligations” of a Person means the amount of the obligations of such Person under Capitalized Leases which would be shown as a liability on a balance sheet of such Person prepared in accordance with Agreement Accounting Principles.

“Consolidated” or “consolidated” means, when used with reference to any financial term in this Guaranty, the aggregate for two or more Persons of the amounts signified by such term for all such Persons determined on a consolidated basis in accordance with Agreement Accounting Principles.

“Consolidated EBITDA” means, for any period, for the Performance Guarantor and its Subsidiaries on a consolidated basis, an amount equal to Consolidated Net Income for such period plus (a) the following to the extent deducted in calculating such Consolidated Net Income: (i) Consolidated Interest Charges for such period, (ii) the provision for federal, state, local and foreign income taxes payable (current and deferred) by the Performance Guarantor and its Subsidiaries

for such period; (iii) depreciation and amortization expense for such period; (iv) non-cash share-based compensation expense for such period; (v) impairment charges, losses on sales of assets and acquired in-process research and development charges for such period, to the extent each is non-cash and non-recurring; (vi) non-recurring transaction costs incurred in connection with the Spin-off; and (vii) other non-recurring expenses of the Performance Guarantor and its Subsidiaries reducing such Consolidated Net Income which do not represent a cash item in such period or any future period and minus (b) the following to the extent included in calculating such Consolidated Net Income: (i) federal, state, local and foreign income tax benefit (current and deferred) of the Performance Guarantor and its Subsidiaries for such period; (ii) non-cash gains on sales of assets for such period; and (iii) all non-cash items increasing Consolidated Net Income for such period.

“Consolidated Funded Indebtedness” means, as of any date of determination, for the Performance Guarantor and its Subsidiaries on a consolidated basis, the sum of (a) the outstanding principal amount of all obligations, whether current or long-term, for borrowed money and all obligations evidenced by bonds, debentures, notes, loan agreements or other similar instruments, (b) all purchase money Indebtedness, (c) all direct obligations arising under letters of credit (including standby and commercial), bankers’ acceptances, bank guarantees, surety bonds and similar instruments, (d) all obligations in respect of the deferred purchase price of property or services (other than trade accounts payable arising in the ordinary course of business), (e) Capitalized Lease Obligations, (f) without duplication, all Contingent Obligations with respect to outstanding Indebtedness of the types specified in clauses (a) through (e) above of Persons other than the Performance Guarantor or any Subsidiary thereof, and (g) all Indebtedness of the types referred to in clauses (a) through (f) above of any partnership or joint venture (other than a joint venture that is itself a corporation or limited liability company) in which the Performance Guarantor or a Subsidiary is a general partner or joint venturer, unless such Indebtedness is expressly made non-recourse to the Performance Guarantor or such Subsidiary.

“Consolidated Interest Charges” means, for any period, for the Performance Guarantor and its Subsidiaries on a consolidated basis, the sum of (a) all interest, premium payments, debt discount, fees, charges and related expenses of the Performance Guarantor and its Subsidiaries in connection with borrowed money (including capitalized interest) or in connection with the deferred purchase price of assets, in each case to the extent treated as interest in accordance with Agreement Accounting Principles, and (b) the portion of rent expense of the Performance Guarantor and its Subsidiaries with respect to such period under Capitalized Leases that is treated as interest in accordance with Agreement Accounting Principles.

“Consolidated Interest Coverage Ratio” means, as of any date of determination, the ratio of (a) Consolidated EBITDA for the period of the four prior fiscal quarters ending on such date to (b) Consolidated Interest Charges for such period.

“Consolidated Leverage Ratio” means, as of any date of determination, the ratio of (a) the sum of (i) Consolidated Funded Indebtedness as of such date plus (ii) Securitization Obligations as of such date to (b) Consolidated EBITDA for the period of the four fiscal quarters most recently ended.

“Consolidated Net Income” means, for any period, for the Performance Guarantor and its Subsidiaries on a consolidated basis and in accordance with Agreement Accounting Principles, the net income of the Performance Guarantor and its Subsidiaries (excluding extraordinary gains and extraordinary losses) for that period.

“Contingent Obligations” of a Person means any agreement, undertaking or arrangement by which such Person assumes, guarantees, endorses, contingently agrees to purchase or provide funds for the payment of, or otherwise becomes or is contingently liable upon, the obligation or liability of any other Person for Indebtedness, or agrees to maintain the net worth or working capital or other financial condition of any other Person, or otherwise assures any creditor of such other Person against loss, including, without limitation, any comfort letter, operating agreement, take-or-pay contract, operating lease, securitization transaction or the obligations of any such Person as general partner of a partnership with respect to the liabilities of the partnership; provided, however, that any assumption, guaranty, endorsement or undertaking with respect to any liability of any of the Performance Guarantor’s Subsidiaries to any other of its Subsidiaries shall not be a Contingent Obligation of the Performance Guarantor.

“Indebtedness” of a Person means, as of any date, such Person’s (i) obligations for borrowed money or evidenced by bonds, notes, acceptances, debentures or similar instruments or letters of credit (or reimbursement agreements in respect thereof) or bankers’ acceptances, (ii) obligations representing the deferred purchase price of Property or services (other than accounts payable arising in the ordinary course of such Person’s business payable on terms customary in the trade), (iii) obligations, whether or not assumed, secured by Liens or payable out of the proceeds or production from Property now or hereafter owned or acquired by such Person, (iv) obligations of such Person to purchase securities or other Property arising out of or in connection with the sale of the same or substantially similar securities or Property, (v) Capitalized Lease Obligations, (vi) any other obligation for borrowed money or other financial accommodation which in accordance with Agreement

Accounting Principles would be shown as a liability on the consolidated balance sheet of such Person, (vii) any Rate Hedging Obligations of such Person, and (viii) all Contingent Obligations of such Person with respect to or relating to the indebtedness, obligations and liabilities of others as described in clauses (i) through (vii) of this definition.

“Lien” means any lien (statutory or otherwise), mortgage, pledge, hypothecation, assignment, deposit arrangement, encumbrance, preference, priority or other security agreement or preferential arrangement of any kind or nature whatsoever (including, without limitation, the interest of a vendor or lessor under any conditional sale, Capitalized Lease or other title retention agreement).

“Property” of a Person means any and all property, whether real, personal, tangible, intangible, or mixed, of such Person, or other assets owned or leased by such Person.

“Rate Hedging Agreement” means an agreement, device or arrangement providing for payments which are related to fluctuations of interest rates, exchange rates, commodity prices or forward rates, including, but not limited to, dollar-denominated or cross-currency interest rate agreements, forward currency exchange agreements, interest rate cap or collar protection agreements, forward rate currency or interest rate options, puts and warrants.

“Rate Hedging Obligations” of a Person means any and all obligations of such Person, whether absolute or contingent and however and whenever created, arising, evidenced or acquired (including all renewals, extensions and modifications thereto and substitutions therefor), under (a) any and all Rate Hedging Agreements, and (b) any and all cancellations, buy backs, reversals, terminations or assignments of any Rate Hedging Agreement.

“Securitization Obligations” means, as of any date of determination, the outstanding principal amount of all obligations evidenced by bonds, notes or similar instruments by any issuing entity established by or related to the Performance Guarantor or any of its Subsidiaries in connection with any account receivables sale or securitization transaction entered into by the Performance Guarantor or any of its Subsidiaries (including, without limitation, the transactions contemplated by the Receivables Purchase Agreement).

“Special Dividend” means one or more special dividends, in an aggregate amount of not less than \$1,000,000,000, paid to the Performance Guarantor by the Spin Entity prior to the consummation of the Spin-off.

“ Spin Entity ” means CareFusion Corporation, a wholly-owned Subsidiary of the Performance Guarantor, together with any other Subsidiary(ies) of the Performance Guarantor that incurs Bridge Indebtedness.

“ Spin-off ” means the separation of the Spin Entity from the Performance Guarantor, which separation will be achieved by a distribution of at least a majority of the outstanding equity interests in CareFusion Corporation to the existing shareholders of the Performance Guarantor and 100% of the equity interests of any other entity that incurs Bridge Indebtedness being owned, directly or indirectly, by CareFusion Corporation at the time of such separation.

“ Spin-off Date ” means the date on which the Performance Guarantor consummates the Spin-off.

Section 8. Subrogation; Subordination. Notwithstanding anything to the contrary contained herein, until the Obligations are paid in full Performance Guarantor: (a) will not enforce or otherwise exercise any right of subrogation to any of the rights of Beneficiary, the Agent or any Purchaser against any Transaction Party, (b) hereby waives all rights of subrogation (whether contractual, under Section 509 of the United States Bankruptcy Code, at law, in equity or otherwise) to the claims of Beneficiary, the Agent and the Purchasers against each Transaction Party and all contractual, statutory, legal or equitable rights of contribution, reimbursement, indemnification and similar rights and “claims” (as that term is defined in the United States Bankruptcy Code) which Performance Guarantor might now have or hereafter acquire against any Transaction Party that arise from the existence or performance of Performance Guarantor’s obligations hereunder, (c) will not claim any setoff, recoupment or counterclaim against any Transaction Party in respect of any liability of Performance Guarantor to such Transaction Party and (d) waives any benefit of and any right to participate in any collateral security which may be held by Beneficiaries, the Agent or the Purchasers. The payment of any amounts due with respect to any indebtedness of any Transaction Party now or hereafter owed to Performance Guarantor is hereby subordinated to the prior payment in full of all of the Obligations. Performance Guarantor agrees that, after the occurrence of any default in the payment or performance of any of the Obligations, Performance Guarantor will not demand, sue for or otherwise attempt to collect any such indebtedness of any Transaction Party to Performance Guarantor until all of the Obligations shall have been paid and performed in full. If, notwithstanding the foregoing sentence, Performance Guarantor shall collect, enforce or receive any amounts in respect of such indebtedness while any Obligations are still unperformed or outstanding, such amounts shall be collected, enforced and received by Performance Guarantor as trustee for Beneficiary (and its assigns) and be paid over to Beneficiary (or its assigns) on account of the Obligations without affecting in any manner the liability of Performance Guarantor under the other provisions of this Guaranty. The provisions of this Section 8 shall be supplemental to and not in derogation of any rights and remedies of Beneficiary under any separate subordination agreement which Beneficiary may at any time and from time to time enter into with Performance Guarantor.

Section 9. Termination of Performance Guaranty. Performance Guarantor's obligations hereunder shall continue in full force and effect until all Obligations are finally paid and satisfied in full and the Receivables Purchase Agreement is terminated, provided, that this Guaranty shall continue to be effective or shall be reinstated, as the case may be, if at any time payment or other satisfaction of any of the Obligations is rescinded or must otherwise be restored or returned upon the bankruptcy, insolvency, or reorganization of any Transaction Party or otherwise, as though such payment had not been made or other satisfaction occurred, whether or not Beneficiary (or its assigns) is in possession of this Guaranty. No invalidity, irregularity or unenforceability by reason of the federal bankruptcy code or any insolvency or other similar law, or any law or order of any government or agency thereof purporting to reduce, amend or otherwise affect the Obligations shall impair, affect, be a defense to or claim against the obligations of Performance Guarantor under this Guaranty.

Section 10. Effect of Bankruptcy. This Performance Guaranty shall survive the insolvency of each Transaction Party and the commencement of any case or proceeding by or against any Transaction Party under the federal bankruptcy code or other federal, state or other applicable bankruptcy, insolvency or reorganization statutes. No automatic stay under the federal bankruptcy code with respect to any Transaction Party or other federal, state or other applicable bankruptcy, insolvency or reorganization statutes to which any Transaction Party is subject shall postpone the obligations of Performance Guarantor under this Guaranty.

Section 11. Setoff. Regardless of the other means of obtaining payment of any of the Obligations, Beneficiary (and its assigns) is hereby authorized at any time and from time to time, without notice to Performance Guarantor (any such notice being expressly waived by Performance Guarantor) and to the fullest extent permitted by law, to set off and apply any deposits and other sums against the obligations of Performance Guarantor under this Guaranty, whether or not Beneficiary (or any such assign) shall have made any demand under this Guaranty and although such Obligations may be contingent or unmatured.

Section 12. Taxes. All payments to be made by Performance Guarantor hereunder shall be made free and clear of any deduction or withholding. If Performance Guarantor is required by law to make any deduction or withholding on account of tax or otherwise from any such payment, the sum due from it in respect of such payment shall be increased to the extent necessary to ensure that, after the making of such deduction or withholding, Beneficiary receive a net sum equal to the sum which they would have received had no deduction or withholding been made.

Section 13. Further Assurances. Performance Guarantor agrees that it will from time to time, at the request of Beneficiary (or its assigns), provide information relating to the business and affairs of Performance Guarantor as Beneficiary may reasonably request. Performance Guarantor also agrees to do all such things and execute all such documents as Beneficiary (or its assigns) may reasonably consider necessary or desirable to give full effect to this Guaranty and to perfect and preserve the rights and powers of Beneficiary hereunder.

Section 14. Successors and Assigns. This Performance Guaranty shall be binding upon Performance Guarantor, its successors and permitted assigns, and shall inure to the benefit of and be enforceable by Beneficiary and its successors and assigns. Performance Guarantor may

not assign or transfer any of its obligations hereunder without the prior written consent of each of Beneficiary and the Agent. Without limiting the generality of the foregoing sentence, Beneficiary may assign or otherwise transfer the Agreements, any other documents executed in connection therewith or delivered thereunder or any other agreement or note held by them evidencing, securing or otherwise executed in connection with the Obligations, or sell participations in any interest therein, to any other entity or other person, and such other entity or other person shall thereupon become vested, to the extent set forth in the agreement evidencing such assignment, transfer or participation, with all the rights in respect thereof granted to the Beneficiaries herein.

Section 15. Amendments and Waivers. No amendment or waiver of any provision of this Guaranty nor consent to any departure by Performance Guarantor therefrom shall be effective unless the same shall be in writing and signed by Beneficiary, the Agent and Performance Guarantor. No failure on the part of Beneficiary to exercise, and no delay in exercising, any right hereunder shall operate as a waiver thereof; nor shall any single or partial exercise of any right hereunder preclude any other or further exercise thereof or the exercise of any other right.

Section 16. Notices. All notices and other communications provided for hereunder shall be made in writing and shall be addressed as follows: if to Performance Guarantor, at the address set forth beneath its signature hereto, and if to Beneficiary, at the address set forth beneath its signature hereto, or at such other addresses as each of Performance Guarantor or any Beneficiary may designate in writing to the other. Each such notice or other communication shall be effective (1) if given by telecopy, upon the receipt thereof, (2) if given by mail, three (3) Business Days after the time such communication is deposited in the mail with first class postage prepaid or (3) if given by any other means, when received at the address specified in this Section 16.

Section 17. GOVERNING LAW. THIS GUARANTY SHALL BE CONSTRUED IN ACCORDANCE WITH THE LAWS OF THE STATE OF ILLINOIS.

Section 18. CONSENT TO JURISDICTION. EACH OF PERFORMANCE GUARANTOR AND BENEFICIARY HEREBY IRREVOCABLY SUBMITS TO THE NON-EXCLUSIVE JURISDICTION OF ANY UNITED STATES FEDERAL OR ILLINOIS STATE COURT SITTING IN CHICAGO IN ANY ACTION OR PROCEEDING ARISING OUT OF OR RELATING TO THIS GUARANTY, THE AGREEMENTS OR ANY OTHER DOCUMENT EXECUTED IN CONNECTION THEREWITH OR DELIVERED THEREUNDER AND EACH OF PERFORMANCE GUARANTOR AND BENEFICIARY HEREBY IRREVOCABLY AGREES THAT ALL CLAIMS IN RESPECT OF SUCH ACTION OR PROCEEDING MAY BE HEARD AND DETERMINED IN ANY SUCH COURT AND IRREVOCABLY WAIVES ANY OBJECTION IT MAY NOW OR HEREAFTER HAVE AS TO THE VENUE OF ANY SUCH SUIT, ACTION OR PROCEEDING BROUGHT IN SUCH A COURT OR THAT SUCH COURT IS AN INCONVENIENT FORUM.

Section 19. Bankruptcy Petition. Performance Guarantor hereby covenants and agrees that, prior to the date that is one year and one day after the payment in full of all outstanding senior indebtedness of any Conduit or any Funding Source that is a special purpose bankruptcy remote entity, it will not institute against, or join any other Person in instituting against, any

Conduit or any such entity any bankruptcy, reorganization, arrangement, insolvency or liquidation proceedings or other similar proceeding under the laws of the United States or any state of the United States.

Section 20. Miscellaneous. This Guaranty constitutes the entire agreement of Performance Guarantor with respect to the matters set forth herein. The rights and remedies herein provided are cumulative and not exclusive of any remedies provided by law or any other agreement, and this Guaranty shall be in addition to any other guaranty of or collateral security for any of the Obligations. The provisions of this Guaranty are severable, and in any action or proceeding involving any state corporate law, or any state or federal bankruptcy, insolvency, reorganization or other law affecting the rights of creditors generally, if the obligations of Performance Guarantor hereunder would otherwise be held or determined to be avoidable, invalid or unenforceable on account of the amount of Performance Guarantor's liability under this Guaranty, then, notwithstanding any other provision of this Guaranty to the contrary, the amount of such liability shall, without any further action by Performance Guarantor or Beneficiary, be automatically limited and reduced to the highest amount that is valid and enforceable as determined in such action or proceeding. Any provisions of this Guaranty which are prohibited or unenforceable in any jurisdiction shall, as to such jurisdiction, be ineffective to the extent of such prohibition or unenforceability without invalidating the remaining provisions hereof, and any such prohibition or unenforceability in any jurisdiction shall not invalidate or render unenforceable such provision in any other jurisdiction. Unless otherwise specified, references herein to "Section" shall mean a reference to sections of this Guaranty.

The effect of this Guaranty is to amend and restate that certain Second Amended and Restated Performance Guaranty, dated as of June 20, 2007 (the "Prior Guaranty"), by the Guarantor in favor of Beneficiary, and to the extent that any rights, benefits or provisions in favor of Beneficiary existed in the Prior Guaranty and continue to exist in this Guaranty, as the same may be amended, restated, supplemented or otherwise modified from time to time, without any written waiver of any such rights, benefits or provisions prior to the date hereof, then such rights, benefits or provisions are acknowledged to be and to continue to be effective from and after the date of the Prior Guaranty or any applicable portion thereof. The parties hereto agree and acknowledge that any and all rights, remedies and payment provisions under the Prior Guaranty shall continue and survive the execution and delivery of this Guaranty.

All references to the Prior Guaranty in the Receivables Purchase Agreement and any other Transaction Document or any other agreement, instrument or document executed or delivered in connection herewith or therewith shall be deemed to refer to this Guaranty, as the same may be amended, restated, supplemented or otherwise modified from time to time. The Receivables Purchase Agreement and the other Transaction Documents and all other agreements, instruments and documents executed or delivered in connection with any of the foregoing shall be deemed to be amended to the extent necessary, if any, to give effect to the provisions of this Guaranty, as the same may be amended, restated, supplemented or otherwise modified from time to time.

* * * *

IN WITNESS WHEREOF, Performance Guarantor has caused this Guaranty to be executed and delivered as of the date first above written.

CARDINAL HEALTH, INC.

By: /s/ Jorge M. Gomez

Name: Jorge M. Gomez

Title: Senior Vice President & Treasurer

Address:

7000 Cardinal Place

Dublin, OH 43017

Attn: Assistant General Counsel - Finance

Consented to as of the date first written above:

CARDINAL HEALTH FUNDING, LLC

By: /s/ Lloyd Fort

Name: Lloyd Fort

Title: President

Address:

7660 West Cheyenne Avenue #113

Las Vegas, Nevada 89129

*THIRD AMENDED AND RESTATED
PERFORMANCE GUARANTY*

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The Bank of Tokyo-Mitsubishi UFJ, Ltd., New York
Branch, as Agent

By: /s/ Ichinari Matsui
Name: Ichinari Matsui
Title: SVP & Group Head

THIRD AMENDED AND RESTATED
PERFORMANCE GUARANTY

CARDINAL HEALTH, INC.
COMPUTATION OF RATIO OF EARNINGS TO FIXED CHARGES

(in millions, except for ratios)	Fiscal Year Ended June 30,					For the Nine Months Ended, March 31, 2010
	2005	2006	2007	2008	2009	
Earnings before income taxes and discontinued operations	\$1,374.4	\$1,316.3	\$815.3	\$1,295.1	\$1,159.8	\$ 903.2
Plus fixed charges:						
Interest expense	87.2	102.5	108.2	143.4	118.4	89.9
Capitalized interest	4.8	4.1	10.5	13.5	5.1	1.9
Amortization of debt offering costs	3.4	3.4	7.4	3.5	3.8	9.4
Interest portion of rent expense	19.7	16.8	15.6	12.2	11.1	4.7
Fixed charges	115.1	126.8	141.7	172.6	138.4	105.9
Plus amortization of capitalized interest	3.2	2.9	1.3	1.5	2.5	4.9
Less capitalized interest	(4.8)	(4.1)	(10.5)	(13.5)	(5.1)	(1.9)
Earnings	<u>\$1,487.9</u>	<u>\$1,441.9</u>	<u>\$947.8</u>	<u>\$1,455.7</u>	<u>\$1,295.6</u>	<u>\$ 1,012.1</u>
Ratio of earnings to fixed charges ⁽¹⁾	12.9	11.4	6.7	8.4	9.4	9.6

⁽¹⁾ The ratio of earnings to fixed charges is computed by dividing fixed charges into earnings before income taxes and discontinued operations plus fixed charges and capitalized interest. Fixed charges include interest expense, amortization of debt offering costs and the portion of rent expense that is deemed to be representative of the interest factor. Interest expense recorded on tax exposures has been recorded in income tax expense and has therefore been excluded from the calculation.

I, George S. Barrett, certify that:

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

Dated: May 6, 2010

/s/ George S. Barrett

George S. Barrett

Chairman and Chief Executive Officer

I, Jeffrey W. Henderson, certify that:

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

Dated: May 6, 2010

/s/ Jeffrey W. Henderson

Jeffrey W. Henderson
Chief Financial Officer

**Certification by the Chief Executive Officer Pursuant to 18 U.S.C. Section 1350, as Adopted
Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002**

I, George S. Barrett, Chairman and Chief Executive Officer of Cardinal Health, Inc. (the “Company”), certify, pursuant to 18 U.S.C. Section 1350, that:

- (1) the Quarterly Report on Form 10-Q for the quarter ended March 31, 2010 containing the financial statements of the Company (the “Periodic Report”), which this statement accompanies, fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934 (15 U.S.C. 78m or 78o(d)); and
- (2) the information contained in the Periodic Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Dated: May 6, 2010

/s/ George S. Barrett

George S. Barrett
Chairman and Chief Executive Officer

**Certification by the Chief Financial Officer Pursuant to 18 U.S.C. Section 1350, as Adopted
Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002**

I, Jeffrey W. Henderson, Chief Financial Officer of Cardinal Health, Inc. (the “Company”), certify, pursuant to 18 U.S.C. Section 1350, that:

- (1) the Quarterly Report on Form 10-Q for the quarter ended March 31, 2010 containing the financial statements of the Company (the “Periodic Report”), which this statement accompanies, fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934 (15 U.S.C. 78m or 78o(d)); and
- (2) the information contained in the Periodic Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Dated: May 6, 2010

/s/ Jeffrey W. Henderson

Jeffrey W. Henderson
Chief Financial Officer

STATEMENT REGARDING FORWARD-LOOKING INFORMATION

Cardinal Health Inc.'s ("Cardinal Health" or the "Company") filings with the Securities and Exchange Commission (the "SEC"), including Cardinal Health's Annual Report on Form 10-K for the fiscal year ended June 30, 2009, Cardinal Health's Annual Report to Shareholders, any quarterly report on Form 10-Q or any current report on Form 8-K of Cardinal Health (along with any exhibits to such reports as well as any amendments to such reports), its press releases, or any other written or oral statements made by or on behalf of Cardinal Health, may include directly or by incorporation by reference forward-looking statements which reflect Cardinal Health's current view (as of the date such forward-looking statement is first made) with respect to future events, prospects, projections or financial performance. The matters discussed in these forward-looking statements are subject to certain risks and uncertainties and other factors that could cause actual results to differ materially from those made, implied or projected in or by such statements. These uncertainties and other factors include, but are not limited to:

- competitive pressures in the markets in which the Company operates, including pricing pressures;
- increasing consolidation in the healthcare industry, which could give the resulting enterprises greater bargaining power and may increase pressure on prices for the Company's products and services;
- uncertainties, due to government healthcare reform, including the impact of the recently enacted health care reform legislation;
- legislative changes to the prescription drug reimbursement formula and related reporting requirements for generic pharmaceuticals under Medicaid;
- the loss of or material reduction in the purchase or default by one or more key customers;
- the loss of, or default by, one or more key suppliers for which alternative suppliers may not be readily available;
- unfavorable changes to the terms of key customer or supplier relationships, or changes in customer mix;
- changes in manufacturers' pricing, selling, inventory, distribution or supply policies or practices, including policies concerning price appreciation;
- changes in hospital buying groups or hospital buying practices;
- changes in the frequency or magnitude of branded pharmaceutical price appreciation or generic pharmaceutical price deflation, restrictions in the amount of inventory available to the Company, or changes in the timing of generic launches or the introduction of branded pharmaceuticals;
- uncertainties relating to market conditions for pharmaceuticals;
- changes in the distribution or outsourcing pattern for pharmaceutical and medical/surgical products and services, including an increase in direct distribution;
- the costs, difficulties and uncertainties related to the integration of acquired businesses, including liabilities related to the operations or activities of such businesses prior to their acquisition;
- uncertainties related to the Company's divestiture strategy, including difficulties in finding buyers or alternative exit strategies at acceptable prices and terms and in a timely manner;
- the Company's ability to introduce and market new products and its ability to keep pace with advances in technology;
- changes in laws and regulations or in the interpretation or application of laws or regulations, as well as possible failures to comply with applicable laws or regulations as a result of possible misinterpretations or misapplications;
- uncertainties related to disruptions in the financial markets, including uncertainties related to the availability and/or cost of credit;
- the continued financial viability and success of our customers, suppliers and franchisees and the potential impact on our customers, suppliers and franchisees of declining economic conditions;
- actions of regulatory bodies and other governmental authorities, including the U.S. Drug Enforcement Administration, the U.S. Food and Drug Administration, the U.S. Nuclear Regulatory Commission, the U.S. Department of Health and Human Services, various state boards of pharmacy and state health departments that could delay, limit or suspend product development, manufacturing, distribution or sales or result in warning letters, recalls, seizures, injunctions and monetary sanctions;
- costs or claims resulting from potential errors or defects in our manufacturing, compounding, repackaging, information systems or pharmacy management services that may injure persons or damage property or operations, including costs from remediation efforts or recalls;

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- the results, costs, effects or timing of any commercial disputes, patent infringement claims, or other legal proceedings;
 - the costs, effects, timing or success of restructuring programs or plans;
 - increased costs for commodities used in the Medical Segment and other components, compounds, raw materials or energy used by our businesses, including radioisotopes, oil and gas;
 - shortages in commodities, components, compounds, raw materials or energy used by our businesses, including supply disruptions of radioisotopes
 - the risks of counterfeit products in the supply chain;
 - risks associated with global operations, including the effect of local economic environments, inflation, recession, currency volatility and global competition, in addition to risks associated with compliance with U.S and international laws relating to global operations;
 - difficulties or delays in the development, production, manufacturing, sourcing and marketing of new or existing products and services, including difficulties or delays associated with obtaining requisite regulatory consents or approvals associated with those activities;
 - disruption or damage to or failure of our information or controls systems;
 - uncertainties relating to general economic, political, business, industry, regulatory and market conditions;
 - risks associated with the spin-off of CareFusion Corporation (“CareFusion”), including risks of not obtaining the intended benefits from the spin-off, risks of non-performance under spin-off agreements, risks relating to decreased diversification after the spin-off, and risks relating to adverse tax consequences to the Company and/or the Company’s shareholders;
 - risks associated with the Company’s minority investment in CareFusion such as risks relating to CareFusion’s business and risks relating to the disposition of the shares of CareFusion common stock currently held by the Company; and
 - other factors described in “Item 1A: Risk Factors” of the Forms 10-Q for the periods ended September 30, 2009 and March 31, 2010.

The words “believe,” “expect,” “anticipate,” “project,” “estimate,” “target,” “intend,” “seek,” and similar expressions generally identify “forward-looking statements,” which speak only as of the date the statement was made. The Company undertakes no obligation to publicly update or revise any forward-looking statements, except to the extent required under applicable law.