

CARDINAL HEALTH INC

FORM 8-K/A

(Amended Current report filing)

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**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION**

Washington, D.C. 20549

FORM 8-K/A

**CURRENT REPORT
(Amendment No. 1)**

**Pursuant to Section 13 or 15(d) of the
Securities Exchange Act of 1934**

Date of Report (Date of earliest event reported): August 2, 2011

Cardinal Health, Inc.

(Exact name of registrant as specified in its charter)

Ohio
**(State or other jurisdiction of
incorporation)**

1-11373
(Commission File Number)

31-0958666
(IRS Employer Identification Number)

7000 Cardinal Place, Dublin, Ohio 43017
(Address of principal executive offices) (Zip Code)

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

Check the appropriate box below if the Form 8-K filing is intended to simultaneously satisfy the filing obligation of the registrant under any of the following provisions (see General Instruction A.2. below):

- ☐ Written communications pursuant to Rule 425 under the Securities Act (17 CFR 230.425)
 - ☐ Soliciting material pursuant to Rule 14a-12 under the Exchange Act (17 CFR 240.14a-12)
 - ☐ Pre-commencement communications pursuant to Rule 14d-2(b) under the Exchange Act (17 CFR 240.14d-2(b))
 - ☐ Pre-commencement communications pursuant to Rule 13e-4(c) under the Exchange Act (17 CFR 240.13e-4(c))
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Explanatory Note

Pursuant to Instruction 2 to Item 5.02 of Form 8-K, this Current Report on Form 8-K/A amends and supplements the information reported in Item 5.02(d) to the Current Report on Form 8-K dated August 2, 2011 (filed August 4, 2011) regarding the election of David P. King to the Board of Directors (the “Board”) of Cardinal Health, Inc. (the “Company”). This Current Report on Form 8-K/A also reports new information under Items 5.02(e), 5.07, 8.01 and 9.01 of Form 8-K.

Item 5.02 Departure of Directors or Certain Officers; Election of Directors; Appointment of Certain Officers; Compensatory Arrangements of Certain Officers

(d)

On November 2, 2011, the Board appointed David P. King to serve on the Audit Committee of the Board. As previously disclosed, Mr. King was elected a director, effective September 1, 2011, by the Board on August 3, 2011.

(e)

Description of 2011 Long-Term Incentive Plan

On November 2, 2011, the Company held its 2011 Annual Meeting of Shareholders (the “Annual Meeting”) at which the Company’s shareholders approved the Cardinal Health, Inc. 2011 Long-Term Incentive Plan (the “2011 LTIP”). Under the 2011 LTIP, 30,000,000 of Cardinal Health’s common shares, without par value (“Shares”), as well as any Shares that become available as a result of the forfeiture, expiration, or cash settlement of awards, or Shares withheld to meet tax liabilities arising from awards other than stock options or stock appreciation rights, previously granted under certain other equity plans of the Company, are available for grants to employees of the Company and its affiliates, including executive officers of the Company. The Board approved the 2011 LTIP on September 6, 2011.

The material features of the 2011 LTIP are described in the Company’s definitive proxy statement for the Annual Meeting filed on September 14, 2011 (the “Proxy Statement”) in the section entitled “Proposal No. 3—Approval of the Cardinal Health, Inc. 2011 Long-Term Incentive Plan,” which description is filed herewith as Exhibit 99.1 and incorporated herein by reference. The description of the 2011 LTIP is qualified in its entirety by reference to the copy of the 2011 LTIP filed herewith as Exhibit 10.1.

Description of Award Agreements under the 2011 Long-Term Incentive Plan

On November 1, 2011, the Human Resources and Compensation Committee of the Board (the “Committee”) approved forms of non-qualified stock option (“NQSO”), restricted share unit (“RSU”) and performance share unit (“PSU”) agreements (collectively, the “Agreements”) that set forth the terms of NQSOs, RSUs and PSUs that may be granted under the 2011 LTIP.

Except as described below and subject to the terms of the 2011 LTIP, the Agreements are substantially the same as the form of awards agreements for corresponding awards that were used under the Cardinal Health, Inc. 2005 Long-Term Incentive Plan. The vesting terms of NQSOs and RSUs and the performance conditions and vesting terms for PSUs will be established by the Committee from time to time. Under the PSU Agreement, PSUs will be settled following the end of a performance period by the issuance of a number of Shares, which may be a fraction or multiple of the target number of PSUs subject to an award, based on the achievement of performance goals established by the Committee. For designated employees, the Committee also may establish an additional performance criterion or criteria in order to provide for the deductibility of such awards under Section 162(m) of the Internal Revenue Code of 1986.

Each of the Agreements provides for full vesting of an award if an awardee dies or is disabled at least six months after the grant date and pro-rata vesting of an award if the awardee retires at least six months after the grant date. The number of PSUs that vest upon death, disability or retirement is based in each case on actual performance during the full performance period. In the event of a change of control, the 2011 LTIP provides for “double-trigger” vesting, under which the vesting of awards generally will accelerate upon a change of control only if there is a qualifying termination within two years after the change of control, or if the surviving entity does not provide qualifying replacement awards. Under the PSU Agreement, in the event of a change of control prior to a payment date, the plan administrator will determine the payout level based on: (i) actual performance through a date prior to the change of control; and (ii) the expected performance for the remainder of the performance period.

Under each of the Agreements, the Company has the authority to require repayment, or to subject outstanding awards to forfeiture, in certain instances of misconduct. In addition, each of the Agreements will be administered in compliance with the clawback provisions of the Dodd-Frank Wall Street Reform and Consumer Protection Act. The plan administrator also may, in its discretion, require repayment if the amount of the award was calculated based upon the achievement of financial results that were subsequently the subject of a restatement of the Company's financial statements, the awardee engaged in misconduct that caused or contributed to the need for such restatement, and the amount payable to the awardee would have been lower than the amount actually paid to the awardee had the financial results been properly reported.

The foregoing summary is qualified in its entirety by reference to the forms of NQSO, RSU and PSU Agreements filed as Exhibits 10.2, 10.3 and 10.4, respectively, to this report.

Item 5.07 Submission of Matters to a Vote of Security Holders

As discussed above, the Company held its Annual Meeting on November 2, 2011. For more information on the following proposals, see the Proxy Statement, the relevant portions of which are incorporated herein by reference.

The shareholders elected the 12 nominees to the Board, each to serve until the 2012 annual meeting and until his or her successor is duly elected and qualified, and voted as follows:

<u>Director</u>	<u>For</u>	<u>Against</u>	<u>Abstained</u>	<u>Broker Non-Votes</u>
Colleen F. Arnold	267,792,869	10,642,902	206,550	28,684,768
George S. Barrett	272,665,830	5,750,684	225,807	28,684,768
Glenn A. Britt	272,758,188	5,669,013	215,120	28,684,768
Carrie S. Cox	274,387,906	4,045,161	209,254	28,684,768
Calvin Darden	274,130,393	4,312,661	199,267	28,684,768
Bruce L. Downey	277,316,666	1,116,439	209,216	28,684,768
John F. Finn	273,811,138	4,615,566	215,617	28,684,768
Gregory B. Kenny	272,253,438	6,146,528	242,355	28,684,768
David P. King	277,603,205	824,663	214,453	28,684,768
Richard C. Notebaert	270,639,381	7,780,829	222,111	28,684,768
David W. Raisbeck	274,048,327	4,392,387	201,607	28,684,768
Jean G. Spaulding, M.D.	274,117,372	4,327,058	197,891	28,684,768

The shareholders ratified the appointment of Ernst & Young LLP as the Company's independent registered public accounting firm for the fiscal year ending June 30, 2012, and voted as follows:

For	304,324,583
Against	2,788,810
Abstained	213,696
Broker Non-Votes	0

The shareholders approved the Cardinal Health, Inc. 2011 Long-Term Incentive Plan, and voted as follows:

For	254,423,460
Against	23,457,581
Abstained	761,280
Broker Non-Votes	28,684,768

The shareholders approved, on a non-binding advisory basis, the compensation of the Company's named executive officers, and voted as follows:

For	247,537,962
Against	30,186,313
Abstained	918,046
Broker Non-Votes	28,684,768

The shareholders voted, on a non-binding advisory basis, to hold future advisory votes on executive compensation every year as follows:

1 Year	222,676,508
2 Years	630,088
3 Years	55,030,914
Abstained	304,811
Broker Non-Votes	28,684,768

Based on the Board's recommendation in the Proxy Statement and the voting results with respect to the advisory vote on the frequency of future advisory votes on executive compensation, the Company has adopted a policy to hold an advisory vote on executive compensation annually.

The shareholders did not approve the shareholder proposal regarding an amendment to the Restated Code of Regulations to require that the Chairman of the Board be an independent director, and voted as follows:

For	61,231,836
Against	217,019,709
Abstained	390,776
Broker Non-Votes	28,684,768

Item 8.01 Other Events

On August 4, 2011, the Company announced that beginning in fiscal 2012 it would use a new measure of segment profit that excludes amortization of acquisition-related intangible assets. In connection therewith, Exhibit 99.2 to this report reflects for all periods presented in the Company's Annual Report on Form 10-K for the fiscal year ended June 30, 2011 (the "2011 Form 10-K"), the following reclassifications and changes that occurred in the quarter ended September 30, 2011:

- the reclassification of amortization of acquisition-related intangible assets from distribution, selling, general and administrative expenses to acquisition-related costs on the Consolidated Statements of Earnings for the fiscal years ended June 30, 2011, 2010 and 2009; and
- the exclusion of amortization of acquisition-related intangible assets from segment profit reported in Item 1 of Part I "Business" and in Note 16 of "Notes to Consolidated Financial Statements" in Item 8 of Part II of the 2011 Form 10-K.

As required by applicable accounting standards, the Company's Quarterly Report on Form 10-Q for the three months ended September 30, 2011 (the "September 30, 2011 Form 10-Q") and the unaudited condensed consolidated financial statements included in that filing reflect this reclassification and change to the Company's reportable segments, including reclassification of all comparative prior period information.

Item 9.01: Financial Statements and Exhibits

(d) Exhibits

Item 1 of Part I and Items 7 and 8 of Part II of the 2011 Form 10-K, updated to reflect the changes and reclassifications described above, are being filed as Exhibit 99.2 to this report and are hereby incorporated by reference herein. No items of the 2011 Form 10-K other than those identified above are being revised by this report. Information in the 2011 Form 10-K is generally stated as of June 30, 2011. This report does not reflect any subsequent information or events other than the reclassifications described above. This report does not update any forward-looking statements in the "Management's Discussion and Analysis of Financial Condition and Results of Operations" contained in the 2011 Form 10-K. More current information is contained in the September 30, 2011 Form 10-Q and our other filings with the U.S. Securities and Exchange Commission for periods and events occurring after June 30, 2011. This report should be read in conjunction with the 2011 Form 10-K, the September 30, 2011 Form 10-Q and our other filings with the U.S. Securities and Exchange Commission for periods and events occurring after June 30, 2011.

Exhibit No.

10.1	Cardinal Health, Inc. 2011 Long-Term Incentive Plan
10.2	Form of Nonqualified Stock Option Agreement under the Cardinal Health, Inc. 2011 Long-Term Incentive Plan
10.3	Form of Restricted Share Units Agreement under the Cardinal Health, Inc. 2011 Long-Term Incentive Plan
10.4	Form of Performance Share Units Agreement under the Cardinal Health, Inc. 2011 Long-Term Incentive Plan
23.1	Consent of Independent Registered Public Accounting Firm
99.1	The section entitled “Proposal 3—Approval of the Cardinal Health, Inc. 2011 Long-Term Incentive Plan” appearing on pages 10-19 of the Company’s Definitive Proxy Statement (incorporated by reference to pages 10-19 of the Company’s Definitive Proxy Statement filed on September 14, 2011, File No. 1-11373)
99.2	Updated Item 1 of Part I and Items 7 and 8 of Part II of the 2011 Form 10-K
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

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 hereunto duly authorized.

Cardinal Health, Inc.
(Registrant)

Date: November 4, 2011

By: /s/ STUART G. LAWS
Name: **Stuart G. Laws**
Title: **Senior Vice President and
Chief Accounting Officer**

EXHIBIT INDEX

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Cardinal Health, Inc.
2011 Long-Term Incentive Plan

1. Purpose of the Plan.

The purpose of the Plan is to align with the interests of shareholders the compensation of key personnel whose long-term employment is considered essential to the Company's continued progress and, thereby, encourage such personnel to act in the shareholders' interest and share in the Company's success. The Plan also is intended to assist the Company in the recruitment of new employees.

2. Definitions.

As used herein, the following definitions apply:

- (a) **"2005 Plan"** means the Cardinal Health, Inc. 2005 Long-Term Incentive Plan, as amended and restated as of November 5, 2008, as further amended. No awards may be granted under the 2005 Plan following the effective date of the Plan.
- (b) **"Administrator"** means the Board, any Committee, or such delegates as may be administering the Plan in accordance with Section 4 of the Plan.
- (c) **"Affiliate"** means any Subsidiary or other entity that is directly or indirectly controlled by the Company or any entity in which the Company has a significant ownership interest as determined by the Administrator.
- (d) **"Applicable Law"** means the requirements relating to the administration of incentive plans under U.S. federal and state laws, any stock exchange or quotation system on which the Company has listed or submitted for quotation the Common Shares to the extent provided under the terms of the Company's agreement with such exchange or quotation system, and, with respect to Awards subject to the laws of any foreign jurisdiction where Awards are, or will be, granted under the Plan, the laws of such jurisdiction.
- (e) **"Award"** means a Cash Award, Stock Award, Option, Stock Appreciation Right, or Other Stock-Based Award granted in accordance with the terms of the Plan.
- (f) **"Awardee"** means an Employee who has been granted an Award under the Plan.
- (g) **"Award Agreement"** means a Cash Award Agreement, Stock Award Agreement, Option Agreement, Stock Appreciation Right Agreement, and/or Other Stock-Based Award Agreement, which may be in written or electronic format, in such form and with such terms as may be specified by the Administrator, evidencing the terms and conditions of an individual Award. Each Award Agreement is subject to the terms and conditions of the Plan.
- (h) **"Board"** means the Board of Directors of the Company.
- (i) **"Cash Award"** means a bonus opportunity awarded under Section 13 of the Plan pursuant to which a Participant may become entitled to receive an amount based on the satisfaction of such performance criteria as are specified in the agreement or, if no agreement is entered into with respect to the Cash Award, other documents evidencing the Award (the "Cash Award Agreement").

- (j) **“ Change of Control ”** means any of the following:
- (i) the acquisition by any individual, entity or group (within the meaning of Section 13(d)(3) or 14(d)(2) of the Exchange Act) (a “Person”) of beneficial ownership (within the meaning of Rule 13d-3 promulgated under the Exchange Act) of 30% or more of either (A) the then outstanding Common Shares of the Company (the “Outstanding Company Common Shares”), or (B) the combined voting power of the then outstanding voting securities of the Company entitled to vote generally in the election of Directors (the “Outstanding Company Voting Securities”); provided, however, that for purposes of this subsection (i), the following acquisitions do not constitute a Change of Control: (W) any acquisition directly from the Company or any corporation controlled by the Company; (X) any acquisition by the Company or any corporation controlled by the Company; (Y) any acquisition by any employee benefit plan (or related trust) sponsored or maintained by the Company or any corporation controlled by the Company; or (Z) any acquisition by any corporation that is a Non-Control Acquisition (as defined in subsection (iii) of this Section 2(j)); or
 - (ii) during any period of two consecutive years, individuals who, as of the beginning of such two-year period, constitute the Board of the Company (the “Incumbent Board”) cease for any reason to constitute at least a majority of the Board of the Company; provided, however, that any individual becoming a Director subsequent to the beginning of such two-year period whose election, or nomination for election by the Company’s shareholders, was approved by a vote of at least a majority of the Directors then comprising the Incumbent Board will be considered as though such individual were a member of the Incumbent Board, but excluding, for this purpose, any such individual whose initial assumption of office occurs as a result of an actual or threatened election contest with respect to the election or removal of directors or other actual or threatened solicitation of proxies or consents by or on behalf of a Person other than the Board; or
 - (iii) consummation of a reorganization, merger or consolidation or sale or other disposition of all or substantially all of the assets of the Company or the acquisition by the Company of assets or shares of another corporation (a “Business Combination”), unless, such Business Combination is a Non-Control Acquisition. A “Non-Control Acquisition” means a Business Combination where: (A) all or substantially all of the individuals and entities who were the beneficial owners, respectively, of the Outstanding Company Common Shares and Outstanding Company Voting Securities immediately prior to such Business Combination beneficially own, directly or indirectly, more than 50% of, respectively, the then outstanding shares of common stock and the combined voting power of the then outstanding voting securities entitled to vote generally in the election of directors, as the case may be, of the corporation resulting from such Business Combination (including, without limitation, a corporation which as a result of such transaction owns the Company or all or substantially all of the Company’s assets either directly or through one or more subsidiaries) in substantially the same proportions as their ownership immediately prior to such Business Combination of the Outstanding Company Common Shares and Outstanding Company Voting Securities, as the case may be; (B) no Person (excluding any employee benefit plan (or related trust) of the Company or such corporation resulting from such Business Combination) beneficially owns, directly or indirectly, 30% or more of, respectively, the then outstanding shares of common stock of the corporation resulting from such Business Combination or the combined voting power of the then outstanding voting securities of such corporation except to the extent that such ownership existed prior to the Business Combination (including any ownership that existed in the Company or the company being acquired, if any); and (C) at least a majority of the members of the board of directors of the corporation resulting from such Business Combination were members of the Incumbent Board at the time of the execution of the initial agreement, or of the action of the Board, providing for such Business Combination; or

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- (iv) approval by the shareholders of the Company of a complete liquidation or dissolution of the Company.
- (k) “ **Code** ” means the U.S. Internal Revenue Code of 1986, as amended.
- (l) “ **Committee** ” means a committee of Directors appointed by the Board in accordance with Section 4 of the Plan or the Human Resources and Compensation Committee of the Board.
- (m) “ **Common Shares** ” means the common shares, without par value, of the Company.
- (n) “ **Company** ” means Cardinal Health, Inc., an Ohio corporation, or, except as utilized in the definition of Change of Control, its successor.
- (o) “ **Conversion Awards** ” has the meaning set forth in Section 4(b)(xii) of the Plan.
- (p) “ **Director** ” means a member of the Board.
- (q) “ **Disability** ,” unless the Administrator determines otherwise, has the meaning specified in the Company’s long-term disability plan applicable to the Participant at the time of the disability.
- (r) “ **Disaffiliation** ” means a Subsidiary’s or Affiliate’s ceasing to be a Subsidiary or Affiliate for any reason (including, without limitation, as a result of a public offering, or a spinoff or sale by the Company, of the stock of the Subsidiary or Affiliate) or a sale of a division of the Company and its Affiliates.
- (s) “ **Employee** ” means a regular, active employee of the Company or any Affiliate, or a person who has agreed to commence serving as an employee of the Company or any Affiliate within 90 days of the Grant Date, including an Officer and/or Director who is also a regular, active employee of the Company or any Affiliate. For any and all purposes under the Plan, except as provided in Section 4(b)(viii), the term “Employee” does not include a person hired as an independent contractor, leased employee, consultant, or a person otherwise designated by the Administrator, the Company or an Affiliate at the time of hire as not eligible to participate in or receive benefits under the Plan or not on the payroll, even if such ineligible person is subsequently determined to be a common law employee of the Company or an Affiliate or otherwise an employee by any governmental or judicial authority. Unless otherwise determined by the Administrator in its sole discretion, for purposes of the Plan, an Employee is considered to have terminated employment and ceased to be an Employee if his or her employer ceases to be an Affiliate, even if he or she continues to be employed by such employer.
- (t) “ **Exchange Act** ” means the Securities Exchange Act of 1934, as amended.
- (u) “ **Fair Market Value** ” means the fair market value of the Common Shares as determined by the Administrator from time to time. Unless otherwise determined by the Administrator, the fair market value is the closing price for the Common Shares reported on a consolidated basis on the New York Stock Exchange on the relevant date or, if there were no sales on such date, the closing price on the nearest preceding date on which sales occurred.
- (v) “ **Grant Date** ” means, with respect to each Award, the date upon which an Award that is granted to an Awardee pursuant to the Plan becomes effective, which will not be earlier than the date of action by the Administrator.
- (w) “ **Incentive Stock Option** ” means an Option that is identified in the Option Agreement as intended to qualify as an incentive stock option within the meaning of Section 422 of the Code and the regulations promulgated thereunder, and that actually does so qualify.

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- (x) “ **Nonqualified Stock Option** ” means an Option that is not an Incentive Stock Option.
- (y) “ **Officer** ” means a person who is an officer of the Company within the meaning of Section 16 of the Exchange Act and the rules and regulations promulgated thereunder.
- (z) “ **Option** ” means a right granted under Section 8 of the Plan to purchase a number of Shares at such exercise price, at such times, and on such other terms and conditions as are specified in the agreement or other documents evidencing the Award (the “Option Agreement”). Both Incentive Stock Options and Nonqualified Stock Options may be granted under the Plan.
- (aa) “ **Other Stock-Based Award** ” means an Award granted pursuant to Section 12 of the Plan on such terms and conditions as are specified in the agreement or other documents evidencing the Award (the “Other Stock-Based Award Agreement”).
- (bb) “ **Participant** ” means the Awardee or any person (including any estate) to whom an Award has been assigned or transferred as permitted hereunder.
- (cc) “ **Plan** ” means this 2011 Long-Term Incentive Plan.
- (dd) “ **Prior Plans** ” means the 2005 Plan, the Cardinal Health, Inc. Amended and Restated Equity Incentive Plan, as amended, and the Cardinal Health, Inc. Broadly-based Equity Incentive Plan, as amended.
- (ee) “ **Qualifying Performance Criteria** ” has the meaning set forth in Section 14(b) of the Plan.
- (ff) “ **Replaced Award** ” has the meaning set forth in Section 16(b)(i) of the Plan.
- (gg) “ **Replacement Award** ” has the meaning set forth in Section 16(b)(i) of the Plan.
- (hh) “ **Retirement** ” means, unless the Administrator determines otherwise, Termination of Employment (other than by death or Disability and other than in the event of Termination for Cause) by an Awardee from the Company and its Affiliates after attaining age 55 and having at least 10 years of continuous service with the Company and its Affiliates, including service with an Affiliate of the Company prior to the time that such Affiliate became an Affiliate of the Company.
- (ii) “ **Securities Act** ” means the Securities Act of 1933, as amended.
- (jj) “ **Share** ” means a Common Share, as adjusted in accordance with Section 16 of the Plan.
- (kk) “ **Stock Appreciation Right** ” means a right granted under Section 10 of the Plan on such terms and conditions as are specified in the agreement or other documents evidencing the Award (the “Stock Appreciation Right Agreement”).
- (ll) “ **Stock Award** ” means an award or issuance of Shares or Stock Units made under Section 11 of the Plan, the grant, issuance, retention, vesting, and/or transferability of which is subject during specified periods of time to such conditions (including without limitation continued employment or performance conditions) and terms as are expressed in the agreement or other documents evidencing the Award (the “Stock Award Agreement”).
- (mm) “ **Stock Unit** ” means a bookkeeping entry representing an amount equivalent to one Share, payable in cash, property, or Shares. Stock Units represent an unfunded and unsecured obligation of the Company, except as otherwise provided for by the Administrator.

- (nn) “ **Subsidiary** ” means any company (other than the Company) in an unbroken chain of companies beginning with the Company, provided each company in the unbroken chain (other than the Company) owns, at the time of determination, stock possessing 50% or more of the total combined voting power of all classes of stock in one of the other companies in such chain.
- (oo) “ **Termination for Cause** ” means, unless otherwise provided in an Award Agreement, Termination of Employment on account of any act of fraud or intentional misrepresentation or embezzlement, intentional misappropriation, or conversion of assets of the Company or any Affiliate, or the intentional and repeated violation of the written policies or procedures of the Company, provided that for an Employee who is party to an individual severance or employment agreement defining Cause, “Cause” has the meaning set forth in such agreement. For purposes of the Plan, a Participant’s Termination of Employment will be deemed to be a Termination for Cause if, after the Participant’s employment has terminated, facts and circumstances are discovered that would have justified, in the opinion of the Committee, a Termination for Cause.
- (pp) “ **Termination for Good Reason** ” means, unless otherwise provided in an Award Agreement or an individual severance or employment agreement to which the Employee is a party, Termination of Employment by an Employee on account of any of the following: (i) a material reduction in the Employee’s total compensation; (ii) a material reduction in the Employee’s annual or long-term incentive opportunities (including a material adverse change in the method of calculating the Employee’s annual or long-term incentives); (iii) a material diminution in the Employee’s duties, responsibilities, or authority; or (iv) a relocation of more than 50 miles from the Employee’s office or location, except for travel reasonably required in the performance of the Employee’s responsibilities.
- (qq) “ **Termination of Employment** ” means ceasing to be an Employee; provided, however, that, unless otherwise determined by the Administrator, for purposes of this Plan an Awardee is not deemed to have had a Termination of Employment if such Awardee continues to be or becomes a Director. Notwithstanding the foregoing, the Administrator also may determine that, for purposes of the Plan, an Awardee is not deemed to have had a Termination of Employment if such Awardee continues to be or becomes an independent contractor, leased employee, or consultant to the Company. Also notwithstanding the foregoing, for purposes of Incentive Stock Options, Termination of Employment will occur when the Awardee ceases to be an employee (as determined in accordance with Section 3401(c) of the Code and the regulations promulgated thereunder) of the Company or one of its Subsidiaries.

3. Shares Subject to the Plan.

(a) *Aggregate Limit* . Subject to the provisions of Section 16(a) of the Plan, the maximum aggregate number of Shares which may be issued or transferred based on Awards granted under the Plan is 30,000,000 Shares, plus any Shares that become available under the Plan as a result of forfeiture, expiration, or cash settlement of awards or as a result of shares being withheld or tendered to satisfy withholding tax liabilities on awards other than options or stock appreciation rights previously granted under the Prior Plans, in each case as provided in Section 3(c)(ii) below. The aggregate number of Shares available for issuance or transfer under the Plan will be reduced by (i) one Share for every one Share subject to an option or stock appreciation right granted under the 2005 Plan between September 6, 2011 and the effective date of the Plan pursuant to Section 6 below, (ii) two and one-half Shares for every one Share subject to an award other than an option or stock appreciation right granted under the 2005 Plan between September 6, 2011 and the effective date of the Plan, (iii) one Share for every one Share issued or transferred upon exercise of an Option or Stock Appreciation Right granted under the Plan, and (iv) two and one-half Shares for every one Share issued or transferred in connection with an Award other than an Option or Stock Appreciation Right granted under the Plan. Subject to the provisions of Section 3(c) of the Plan, Shares covered by an Award granted under the Plan will not be counted as used unless and until they are actually issued or transferred.

(b) Code Section 162(m) and 422 Limits .

(i) Subject to the provisions of Section 16(a) of the Plan, the aggregate number of Shares as of the Grant Date that may be subject to Options and Stock Appreciation Rights granted under the Plan during any fiscal year to any one Awardee may not exceed 1,500,000 Shares.

(ii) Subject to the provisions of Section 16(a) of the Plan, the aggregate number of Shares as of the Grant Date that may be subject to Stock Awards and Other Stock-Based Awards granted under the Plan during any fiscal year to any one Awardee that are intended to satisfy the requirements for “performance-based compensation” under Section 162(m) of the Code may not exceed 750,000 Shares.

(iii) The aggregate maximum value as of the Grant Date of Cash Awards granted under the Plan during any fiscal year to any one Awardee that are intended to satisfy the requirements for “performance-based compensation” under Section 162(m) of the Code may not exceed U.S.\$10,000,000.

(iv) Subject to the provisions of Section 16(a) of the Plan, the aggregate number of Shares that may be issued or transferred upon the exercise of all Incentive Stock Options granted under the Plan is 20,000,000 Shares.

Notwithstanding anything to the contrary in the Plan, the limitations set forth in this Section 3(b) are subject to adjustment under Section 16(a) of the Plan only to the extent that such adjustment does not affect the status of any Award intended to qualify as “performance-based compensation” under Section 162(m) of the Code.

(c) Share Counting Rules.

(i) If any Shares issued or transferred pursuant to an Award are forfeited, or an Award expires or is settled for cash (in whole or in part), the Shares issued or transferred pursuant to such Award will, to the extent of such forfeiture, expiration, or cash settlement, again be available for issuance or transfer under Section 3(a) above in accordance with Section 3(c)(v) below. In the event that withholding tax liabilities arising from an Award other than an Option or Stock Appreciation Right are satisfied by the tendering of Shares (either actually or by attestation) or by the withholding of Shares by the Company, the Shares so tendered or withheld will again be available for issuance or transfer under Section 3(a) above in accordance with Section 3(c)(v) below.

(ii) If after September 6, 2011, any Shares subject to an award granted under the Prior Plans are forfeited, or an award granted under the Prior Plans expires or is settled for cash (in whole or in part), the Shares subject to such award will, to the extent of such forfeiture, expiration, or cash settlement, be available for issuance or transfer under Section 3(a) above in accordance with Section 3(c)(v) below. In the event that, after September 6, 2011, withholding tax liabilities arising from an award other than an option or stock appreciation right granted under the Prior Plans are satisfied by the tendering of Shares (either actually or by attestation) or by the withholding of Shares by the Company, the Shares so tendered or withheld will be available for issuance or transfer under Section 3(a) above in accordance with Section 3(c)(v) below.

(iii) Notwithstanding anything to the contrary contained in this Section 3, the following Shares will not be added to the aggregate number of Shares available for issuance or transfer under Section 3(a) above: (A) Shares tendered by the Participant or withheld by the Company in payment of the exercise or purchase price of an Option (or an option granted under the Prior Plans), or to satisfy any tax withholding obligation with respect to Options or Stock Appreciation Rights (or options or stock appreciation rights granted under the Prior Plans); (B) Shares subject to a Stock Appreciation Right (or a stock appreciation right granted under the Prior Plans) that are not issued in connection with its Share settlement on exercise thereof; and (C) Shares reacquired by the Company on the open market or otherwise using cash proceeds from the exercise of Options (or options granted under the Prior Plans).

(iv) Shares issued or transferred under Conversion Awards will not reduce the aggregate number of Shares available for issuance or transfer under the Plan or count against the other limitations under Sections 3(b)(i) through 3(b)(iii) of the Plan, nor will Shares subject to a Conversion Award again be available for Awards under the Plan as provided in Sections 3(c)(i) through 3(c)(iii) above. Additionally, in the event that a company acquired by the Company or any Subsidiary or with which the Company or any Subsidiary combines has shares available under a pre-existing plan approved by shareholders and not adopted in contemplation of such acquisition or combination, the shares available for grant pursuant to the terms of such pre-existing plan (as adjusted, to the extent appropriate, using the exchange ratio or other adjustment or valuation ratio or formula used in such acquisition or combination to determine the consideration payable to the holders of common stock of the entities party to such acquisition or combination) may be used for Awards under the Plan and will not reduce the Shares available for issuance or transfer under the Plan; provided that Awards using such available shares may not be made after the date awards or grants could have been made under the terms of the pre-existing plan, absent the acquisition or combination, and may only be made to individuals who were not Employees or Directors prior to such acquisition or combination.

(v) Any Shares that become available for issuance or transfer under the Plan under this Section 3 will be added back as (A) one Share if such Shares were subject to options or stock appreciation rights granted under the Prior Plans, and (B) as two and one-half Shares if such Shares were issued or transferred pursuant to Awards other than Options or Stock Appreciation Rights granted under the Plan (or were subject to awards other than options or stock appreciation rights granted under the Prior Plans).

(d) *Character of Shares* . The Shares issued or transferred pursuant to the Plan may be either Shares reacquired by the Company, including Shares purchased in the open market, or authorized but unissued Shares.

4. Administration of the Plan.

(a) Procedure .

(i) *Multiple Administrative Bodies* . The Plan will be administered by the Board, the Committee as designated by the Board to so administer the Plan or their respective delegates.

(ii) *Section 162(m)* . To the extent that the Administrator determines it to be desirable to qualify Awards granted hereunder as “performance-based compensation” within the meaning of Section 162(m) of the Code, Awards to “covered employees” within the meaning of Section 162(m) of the Code or to Employees that the Committee determines may be “covered employees” in the future will be made by a Committee of two or more “outside directors” within the meaning of Section 162(m) of the Code. Notwithstanding any other provision of the Plan, the Administrator does not have any discretion or authority to make changes to any Award that is intended to qualify as “performance-based compensation” to the extent that the existence of such discretion or authority would cause such Award not to so qualify.

(iii) *Rule 16b-3* . To the extent desirable to qualify transactions hereunder as exempt under Rule 16b-3 promulgated under the Exchange Act (“Rule 16b-3”), Awards to Officers will be made by the entire Board or a Committee of two or more “non-employee directors” within the meaning of Rule 16b-3.

(iv) *Other Administration* . Except to the extent prohibited by Applicable Law, the Board or the Committee may delegate to one or more Directors or to authorized officers of the Company the power to approve Awards to persons eligible to receive Awards under the Plan who are not (A) subject to Section 16 of the Exchange Act or (B) at the time of such approval, “covered employees” under Section 162(m) of the Code.

(v) *Delegation of Authority for the Day-to-Day Administration of the Plan* . Except to the extent prohibited by Applicable Law, the Administrator may delegate to one or more individuals the day- to-day administration of the Plan and any of the functions assigned to it in the Plan. Such delegation may be revoked at any time.

(b) *Powers of the Administrator* . Subject to the provisions of the Plan and, in the case of the Committee or delegates acting as the Administrator, subject to the specific duties delegated to such Committee or delegates, the Administrator has the authority, in its discretion:

- (i) to select the Employees of the Company or its Affiliates to whom Awards are to be granted hereunder;
- (ii) to determine the number of Common Shares to be covered by each Award granted hereunder;
- (iii) to determine the type of Award to be granted to the selected Employees;
- (iv) to approve forms of Award Agreements;
- (v) to determine the terms and conditions, not inconsistent with the terms of the Plan, of any Award granted hereunder. Such terms and conditions may include, but are not limited to, the exercise and/or purchase price, the time or times when an Award may be exercised (which may or may not be based on performance criteria), the vesting schedule, any vesting and/or exercisability provisions, terms regarding acceleration of Awards or waiver of forfeiture restrictions, the acceptable forms of consideration for payment for an Award, the term, and any restriction or limitation regarding any Award or the Shares relating thereto, based in each case on such factors as the Administrator, in its sole discretion, determines and which may be established at the time an Award is granted or thereafter;
- (vi) to correct defects and omissions in the Plan or an Award and to correct administrative errors;
- (vii) to construe and interpret the terms of the Plan (including sub-plans and Plan addenda) and Awards granted pursuant to the Plan;
- (viii) to adopt rules and procedures relating to the operation and administration of the Plan to accommodate the specific requirements of local laws and procedures. Without limiting the generality of the foregoing, the Administrator is specifically authorized (A) to adopt the rules and procedures regarding the conversion of local currency, the shift of tax liability from employer to employee (where legally permitted), and withholding procedures and handling of stock certificates which vary with local requirements, (B) to adopt sub-plans and Plan addenda as the Administrator deems desirable, to accommodate foreign laws, regulations, and practice, and (C) to designate a leased employee as an Employee if such person provides services to the Company or any Affiliate that are substantially equivalent to those typically provided by a regular, active employee;
- (ix) to prescribe, amend, and rescind rules and regulations relating to the Plan, including rules and regulations relating to sub-plans and Plan addenda;
- (x) to modify or amend each Award, including, but not limited to, the acceleration of vesting and/or exercisability; provided, however, that any such modification or amendment is subject to the Plan amendment provisions set forth in Section 17 of the Plan;
- (xi) to allow or require Participants to satisfy withholding tax amounts by electing to have the Company withhold from the Shares to be issued upon exercise of a Nonqualified Stock Option or vesting or settlement of a Stock Award or upon any other event in connection with an Award that the Company determines may result in any domestic or foreign tax withholding obligation that number of Shares having a Fair Market Value equal to the amount required to be withheld. The Fair Market Value of the Shares to

be withheld will be determined in such manner and on such date that the Administrator determines or, in the absence of provision otherwise, on the date that the amount of tax to be withheld is to be determined. All elections by a Participant to have Shares withheld for this purpose will be made in such form and under such conditions as the Administrator may provide;

(xii) to authorize conversion or substitution under the Plan of any or all stock options, stock appreciation rights, or other stock awards held by awardees of an entity acquired by the Company (the "Conversion Awards"). Any conversion or substitution will be effective as of the close of the merger or acquisition. The Conversion Awards may be Nonqualified Stock Options or Incentive Stock Options, as determined by the Administrator, with respect to options granted by the acquired entity;

(xiii) to authorize any person to execute on behalf of the Company any instrument required to effect the grant of an Award previously granted by the Administrator;

(xiv) to impose such restrictions, conditions, or limitations as it determines appropriate as to the timing and manner of any resales by a Participant or of other subsequent transfers by the Participant of any Shares issued as a result of or under an Award or upon the exercise of an Award, including without limitation, (A) restrictions under an insider trading policy, (B) restrictions as to the use of a specified brokerage firm for such resales or other transfers, and (C) restrictions to suspend the right to exercise Awards or transfer Shares granted pursuant to Awards during any "blackout" period that is necessary or desirable to comply with the requirements of Applicable Law or to extend the Award exercise period in a manner consistent with Applicable Law; and

(xv) to make all other determinations deemed necessary or advisable for administering the Plan and any Award granted hereunder.

(c) *Effect of Administrator's Decision* . All questions arising under the Plan or under any Award will be decided by the Administrator in its sole and absolute discretion. All decisions, determinations, and interpretations by the Administrator regarding the Plan, any rules and regulations under the Plan, and the terms and conditions of any Award granted hereunder, will be final and binding on all Participants. The Administrator may consider such factors as it deems relevant, in its sole and absolute discretion, to making such decisions, determinations, and interpretations including, without limitation, the recommendations or advice of any officer or other employee of the Company and such attorneys, consultants, and accountants as it may select.

5. Eligibility.

Awards may be granted only to Employees of the Company or any of its Affiliates. Awards may not be granted to a Director unless such Director otherwise qualifies as an Employee of the Company or one of its Affiliates.

6. Term of Plan.

The Plan will become effective upon its approval by shareholders of the Company. Subject to Section 17 of the Plan, the Plan will continue in effect for a term of 10 years from the date it is approved by the shareholders of the Company.

7. Term of Award.

Subject to the provisions of the Plan, the term of each Award will be determined by the Administrator and stated in the Award Agreement. In the case of an Option or Stock Appreciation Right, the term will be 10 years from the Grant Date or such shorter term as may be provided in the Award Agreement.

8. Options.

The Administrator may grant an Option or provide for the grant of an Option, either from time to time in the discretion of the Administrator or automatically upon the occurrence of specified events, including, without limitation, the achievement of performance criteria or the satisfaction of an event or condition within the control of the Awardee or within the control of others.

(a) *Option Agreement* . Each Option Agreement will contain provisions regarding (i) the number of Shares that may be issued upon exercise of the Option, (ii) the type of Option, (iii) the exercise price of the Option and the means of payment of such exercise price, (iv) the term of the Option, (v) such terms and conditions on the vesting and/or exercisability of an Option as may be determined from time to time by the Administrator, (vi) restrictions on the transfer of the Option and forfeiture provisions, and (vii) such further terms and conditions, in each case not inconsistent with the Plan, as may be determined from time to time by the Administrator.

(b) *Exercise Price* . The per share exercise price for the Shares to be issued pursuant to exercise of an Option will be determined by the Administrator, except that the per Share exercise price will be no less than 100% of the Fair Market Value per Share on the Grant Date. Notwithstanding the preceding sentence, at the Administrator's discretion, Conversion Awards may be granted in substitution and/or conversion of options of an acquired entity, with a per Share exercise price of less than 100% of the Fair Market Value per Share on the date of such substitution and/or conversion.

(c) *No Repricings* . Except in connection with a corporate transaction or event described in Section 16(a) of the Plan, the terms of outstanding Options that have an exercise price in excess of the Fair Market Value of a Share may not be amended to reduce the exercise price of outstanding Options or cancel outstanding Options in exchange for cash, other awards, or Options with an exercise price that is less than the exercise price of the original Options without shareholder approval.

(d) *No Reload Grants* . Options may not be granted under the Plan in consideration for and may not be conditioned upon the delivery of Shares to the Company in payment of the exercise price and/or tax withholding obligation under any other employee stock option.

(e) *Vesting Period and Exercise Dates* . Options granted under the Plan will vest and/or be exercisable at such time and in such installments during the period prior to the expiration of the Option's term as determined by the Administrator. The Administrator has the right to make the timing of the ability to exercise any Option granted under the Plan subject to continued active employment, the passage of time, and/or such performance requirements as deemed appropriate by the Administrator. At any time after the grant of an Option, the Administrator may reduce or eliminate any restrictions surrounding any Participant's right to exercise all or part of the Option.

(f) *Form of Consideration* . The Administrator will determine the acceptable form of consideration for exercising an Option, including the method of payment, either through the terms of the Option Agreement or at the time of exercise of an Option. Acceptable forms of consideration may include:

(i) cash;

(ii) check or wire transfer (denominated in U.S. Dollars);

(iii) subject to any conditions or limitations established by the Administrator, other Shares which have a Fair Market Value on the date of surrender equal to or greater than the aggregate exercise price of the Shares as to which said Option will be exercised (it being agreed that the excess of the Fair Market Value over the aggregate exercise price will be refunded to the Awardee in cash);

(iv) subject to any conditions or limitations established by the Administrator, the Company's withholding shares otherwise issuable upon exercise of an Option pursuant to a "net exercise" arrangement (it being understood that, solely for purposes of determining the number of treasury shares held by the Company, the shares so withheld will not be treated as issued and acquired by the Company upon such exercise);

(v) to the extent permitted by Applicable Law, consideration received by the Company under a broker-assisted sale and remittance program acceptable to the Administrator;

(vi) such other consideration and method of payment for the issuance of Shares to the extent permitted by Applicable Law; or

(vii) any combination of the foregoing methods of payment.

(g) *Procedure for Exercise; Rights as a Shareholder* .

(i) Any Option granted hereunder will be exercisable according to the terms of the Plan and at such times and under such conditions as determined by the Administrator and set forth in the applicable Option Agreement.

(ii) An Option will be deemed exercised when the Company receives (A) written or electronic notice of exercise (in accordance with the Option Agreement or procedures established by the Administrator) from the person entitled to exercise the Option, (B) full payment for the Shares with respect to which the related Option is exercised, and (C) with respect to Nonqualified Stock Options, provisions acceptable to the Administrator have been made for payment of all applicable withholding taxes.

(iii) Until the Shares are issued (as evidenced by the appropriate entry on the books of the Company or of a duly authorized transfer agent of the Company), no right to vote or receive dividends or any other rights as a shareholder exist with respect to the Shares subject to an Option, notwithstanding the exercise of the Option.

(iv) The Company shall issue (or cause to be issued) such Shares as soon as administratively practicable after the Option is exercised. An Option may not be exercised for a fraction of a Share.

(h) *Termination of Employment* . The Administrator shall determine as of the Grant Date (subject to modification subsequent to the Grant Date) the effect a Termination of Employment due to (i) Disability, (ii) Retirement, (iii) death, or (iv) otherwise (including Termination for Cause) will have on any Option.

9. Incentive Stock Option Limitations/Terms.

(a) *Eligibility* . Only employees (as determined in accordance with Section 3401(c) of the Code and the regulations promulgated thereunder) of the Company or any of its Subsidiaries may be granted Incentive Stock Options. No Incentive Stock Option may be granted to any such employee who as of the Grant Date owns stock possessing more than 10% of the total combined voting power of the Company.

(b) *\$100,000 Limitation* . Notwithstanding the designation “Incentive Stock Option” in an Option Agreement, if and to the extent that the aggregate Fair Market Value of the Shares with respect to which Incentive Stock Options are exercisable for the first time by the Awardee during any calendar year (under all plans of the Company and any of its Subsidiaries) exceeds U.S.\$100,000, such Options will be treated as Nonqualified Stock Options. For purposes of this Section 9(b) of the Plan, Incentive Stock Options will be taken into account in the order in which they were granted. The Fair Market Value of the Shares will be determined as of the Grant Date.

(c) *Transferability* . The Option Agreement must provide that an Incentive Stock Option cannot be transferable by the Awardee otherwise than by will or the laws of descent and distribution, and, during the lifetime of such Awardee, must not be exercisable by any other person. If the terms of an Incentive Stock Option are amended to permit transferability, the Option will be treated for tax purposes as a Nonqualified Stock Option.

(d) *Exercise Price* . The per Share exercise price of an Incentive Stock Option will in no event be inconsistent with the requirements for qualification of the Incentive Stock Option under Section 422 of the Code.

(e) *Other Terms* . Option Agreements evidencing Incentive Stock Options will contain such other terms and conditions as may be necessary to qualify, to the extent determined desirable by the Administrator, with the applicable provisions of Section 422 of the Code.

10. Stock Appreciation Rights.

(a) A “Stock Appreciation Right” is a right that entitles the Awardee to receive, in cash or Shares (as determined by the Administrator), value equal to or otherwise based on the excess of (i) the Fair Market Value of a specified number of Shares at the time of exercise over (ii) the aggregate base price of the right, as established by the Administrator on the Grant Date; provided that such base price per Share may be no less than 100% of the Fair Market Value per Share on the Grant Date. Notwithstanding the preceding sentence, at the Administrator’s discretion, Conversion Awards may be granted in substitution and/or conversion of stock appreciation rights of an acquired entity, with a per Share base price of less than 100% of the Fair Market Value per Share on the date of such substitution and/or conversion. Stock Appreciation Rights may be granted to Awardees either alone (“freestanding”) or in addition to or in tandem with other Awards granted under the Plan and may, but need not, relate to a specific Option granted under Section 8 of the Plan. Any Stock Appreciation Right granted in tandem with an Option may be granted at the same time such Option is granted or at any time thereafter before exercise or expiration of such Option. All Stock Appreciation Rights under the Plan will be granted subject to the same terms and conditions applicable to Options as set forth in Sections 7 and 8 of the Plan; provided, however, that Stock Appreciation Rights granted in tandem with a previously granted Option will have the terms and conditions of such Option. Subject to the provisions of Sections 7 and 8 of the Plan, the Administrator may impose such other conditions or restrictions on any Stock Appreciation Right as it may deem appropriate. Stock Appreciation Rights may be settled in Shares or cash as determined by the Administrator.

(b) *No Repricings* . Except in connection with a corporate transaction or event described in Section 16(a) of the Plan, the terms of outstanding Stock Appreciation Rights that have a base price in excess of the Fair Market Value of a Share may not be amended to reduce the base price of Stock Appreciation Rights or cancel outstanding Stock Appreciation Rights in exchange for cash, other Awards, or Stock Appreciation Rights with a base price that is less than the base price of the original Stock Appreciation Rights without shareholder approval.

11. Stock Awards.

(a) *Stock Award Agreement*. Each Stock Award Agreement will contain provisions regarding (i) the number of Shares subject to such Stock Award or a formula for determining such number, (ii) the purchase price of the Shares, if any, and the means of payment for the Shares, (iii) the performance criteria, if any, and level of achievement versus these criteria that determines the number of Shares granted, issued, retainable, and/or vested, (iv) such terms and conditions on the grant, issuance, vesting, and/or forfeiture of the Shares as may be determined from time to time by the Administrator, (v) restrictions on the transferability of the Stock Award, and (vi) such further terms and conditions in each case not inconsistent with the Plan as may be determined from time to time by the Administrator.

(b) *Restrictions and Performance Criteria* . The grant, issuance, retention, and/or vesting of each Stock Award may be subject to such performance criteria and level of achievement versus these criteria as the Administrator determines, which criteria may be based on financial performance, personal performance evaluations, and/or completion of service by the Awardee. Notwithstanding anything to the contrary herein, the performance criteria for any Stock Award that is intended to satisfy the requirements for “performance-based compensation” under Section 162(m) of the Code will be established by the Administrator based on one or more Qualifying Performance Criteria selected by the Administrator and specified in writing not later than 90 days after the commencement of the period of service (or, if earlier, the elapse of 25% of such period) to which the performance criteria relate, provided that the outcome is substantially uncertain at that time.

(c) *Termination of Employment* . The Administrator shall determine as of the Grant Date (subject to modification subsequent to the Grant Date) the effect a Termination of Employment due to (i) Disability, (ii) Retirement, (iii) death, or (iv) otherwise (including Termination for Cause) will have on any Stock Award.

(d) *Rights as a Shareholder* . Unless otherwise provided for by the Administrator and subject to Section 15 of the Plan, the Participant will have the rights equivalent to those of a shareholder and will be a shareholder only after Shares are issued (as evidenced by the appropriate entry on the books of the Company or of a duly authorized transfer agent of the Company) to the Participant.

12. Other Stock-Based Awards.

(a) *Other Stock-Based Awards*. An “Other Stock-Based Award” means any other type of equity-based or equity-related Award not otherwise described by the terms of the Plan (including the grant or offer for sale of unrestricted Shares) in such amount and subject to such terms and conditions as the Administrator will determine. Such Awards may involve the transfer of actual Shares to Participants, or payment in cash or otherwise of amounts based on the value of Shares. Each Other Stock-Based Award will be evidenced by an Award Agreement containing such terms and conditions as may be determined from time to time by the Administrator.

(b) *Value of Other Stock-Based Awards* . Each Other Stock-Based Award will be expressed in terms of Shares or Stock Units, as determined by the Administrator. The Administrator may establish performance criteria in its discretion. If the Administrator exercises its discretion to establish performance criteria, the number, and/or value of Other Stock-Based Awards that will be paid out to the Participant will depend on the extent to which the performance criteria are met. Notwithstanding anything to the contrary herein, the performance criteria for any Other Stock-Based Award that is intended to satisfy the requirements for “performance-based compensation” under Section 162(m) of the Code will be established by the Administrator based on one or more Qualifying Performance Criteria selected by the Administrator and specified in writing not later than 90 days after the commencement of the period of service (or, if earlier, the elapse of 25% of such period) to which the performance criteria relate and otherwise within the time period required by the Code and the applicable Treasury Regulations, provided that the outcome is substantially uncertain at that time.

(c) *Payment of Other Stock-Based Awards* . Subject to Section 15 of the Plan, payment, if any, with respect to Other Stock-Based Awards will be made in accordance with the terms of the Award, in cash or Shares as the Administrator determines.

(d) *Termination of Employment* . The Administrator will determine as of the Grant Date (subject to modification subsequent to the Grant Date) the effect a Termination of Employment due to (i) Disability, (ii) Retirement, (iii) death, or (iv) otherwise (including Termination for Cause) will have on any Other Stock-Based Award.

13. Cash Awards.

Each Cash Award confers upon the Participant the opportunity to earn a future payment tied to the level of achievement with respect to one or more performance criteria established for a performance period.

(a) *Cash Award* . Each Cash Award may contain provisions regarding (i) the amounts potentially payable to the Participant as a Cash Award, (ii) the performance criteria and level of achievement versus these criteria which will determine the amount of such payment, (iii) the period as to which performance will be measured for establishing the amount of any payment, (iv) the timing of any payment earned by virtue of performance, (v) restrictions on the alienation or transfer of the Cash Award prior to actual payment, (vi) forfeiture provisions, and (vii) such further terms and conditions, in each case not inconsistent with the Plan, as may be determined from time to time by the Administrator.

(b) *Performance Criteria* . The Administrator shall establish the performance criteria and level of achievement versus these criteria which will determine the amounts payable under a Cash Award, which criteria may be based on financial performance, and/or personal performance evaluations. The Administrator may specify the percentage of the target Cash Award that is intended to satisfy the requirements for “performance-based compensation” under Section 162(m) of the Code. Notwithstanding anything to the contrary herein, the performance criteria for any portion of a Cash Award that is intended to satisfy the requirements for “performance-based compensation” under Section 162 (m) of the Code will be a measure established by the Administrator based on one or more Qualifying Performance Criteria selected by the Administrator and specified in writing not later than 90 days after the commencement of the period of service (or, if earlier, the elapse of 25% of such period) to which the performance criteria relate, provided that the outcome is substantially uncertain at that time.

(c) *Timing and Form of Payment* . The Administrator shall determine the timing of payment of any Cash Award. The Administrator may provide for or, subject to such terms and conditions as the Administrator may specify, may permit an Awardee to elect for the payment of any Cash Award to be deferred to a specified date or event. The Administrator may specify the form of payment of Cash Awards, which may be cash or other property, or may provide for an Awardee to have the option for his or her Cash Award, or such portion thereof as the Administrator may specify, to be paid in whole or in part in cash or other property. To the extent that a Cash Award is in the form of cash, the Administrator may determine whether a payment is in U.S. dollars or foreign currency.

(d) *Termination of Employment* . The Administrator shall determine as of the Grant Date (subject to modification subsequent to the Grant Date) the effect a Termination of Employment due to (i) Disability, (ii) Retirement, (iii) death, or (iv) otherwise (including Termination for Cause) will have on any Cash Award.

14. Other Provisions Applicable to Awards.

(a) *Non-Transferability of Awards* . Unless determined otherwise by the Administrator in accordance with this Section, an Award may not be sold, pledged, assigned, hypothecated, transferred, or disposed of in any manner other than by beneficiary designation, will, or by the laws of descent or distribution. The Administrator may make an Award transferable to an Awardee’s family member or trusts, partnerships, or other entities for the benefit of the Awardee, Awardee’s family members, or charitable causes. If the Administrator makes an Award transferable, either as of the Grant Date or thereafter, such Award will contain such additional terms and conditions as the Administrator deems appropriate, and any transferee will be deemed to be bound by such terms upon acceptance of such transfer. In no event may Awards be transferred in exchange for consideration. This Section 14(a) is subject to the provisions of Section 27(b) of the Plan.

(b) *Qualifying Performance Criteria* . For purposes of the Plan, the term “Qualifying Performance Criteria” means any one or more of the following performance criteria, either individually, alternatively or in any combination, applied to either the Company as a whole or to a business unit, Affiliate, or business segment, either individually, alternatively, or in any combination, and measured either annually or cumulatively over a period of years, on an absolute basis or relative to a pre-established target, to previous years’ results (i.e., growth) or to a designated comparison group, in each case as specified by the Committee for the Award: (i) cash flow (including operating cash flow and free cash flow); (ii) earnings (including gross margin or gross margin rate, operating earnings, earnings before interest and taxes, earnings before taxes and discontinued operations, earnings from continuing operations, and net earnings); (iii) earnings per share; (iv) growth in earnings or earnings per share; (v) stock price; (vi) return on equity or average shareholders’ equity; (vii) total shareholder return; (viii) invested capital or return on capital or invested capital; (ix) return on assets or net assets; (x) return on investment; (xi) revenue; (xii) income or net income; (xiii) operating income or net operating income; (xiv) operating profit or net operating profit (whether before or after taxes); (xv) economic profit or profit margin; (xvi) operating margin; (xvii) return on operating revenue; (xviii) tangible capital or return on tangible capital; (xix) market share; (xx) contract awards or backlog; (xxi) distribution, selling, general, and/or administrative expenses; (xxii) overhead or other expense reduction; (xxiii) growth in shareholder value relative to the moving average of the S&P 500 Index or a peer group index; (xxiv) credit rating or credit rating measures; (xxv) dividend payment yield or growth or

dividend payout ratio; (xxvi) improvement in workforce diversity; (xxvii) customer satisfaction, retention, or loyalty; (xxviii) employee satisfaction or retention; (xxix) service levels; (xxx) net working capital or net working capital days; (xxxi) days sales outstanding; (xxxii) days inventory on hand; (xxxiii) days payable outstanding; (xxxiv) capital expenditures; (xxxv) generics penetration; and (xxxvi) preferred product growth. With respect to any Award that is intended to satisfy the requirements for “performance-based compensation” under Section 162(m) of the Code, the performance criteria must be Qualifying Performance Criteria, and the Administrator will (within the first quarter of the performance period, but in no event more than 90 days into that period) establish the specific performance targets (including thresholds and whether to exclude certain extraordinary, non-recurring, or similar items) and award amounts (subject to the right of the Administrator to exercise discretion to reduce payment amounts following the conclusion of the performance period). If the Administrator determines that a change in the business, operations, corporate structure, or capital structure of the Company, or the manner in which it conducts its business, or other events or circumstances render the performance criteria applicable to an Award, including Qualifying Performance Criteria, unsuitable, the Administrator may in its discretion modify such performance criteria or the related minimum acceptable level of achievement, in whole or in part, as the Administrator deems appropriate and equitable. In the case of Qualifying Performance Criteria (other than in connection with a Change of Control) where such action would result in the loss of the otherwise available exemption of the Award under Section 162(m) of the Code, the Administrator may not make any modification of the Qualifying Performance Criteria or minimum acceptable level of achievement with respect to the Awardee to whom the Award subject to such Qualifying Performance Criteria was granted.

(c) *Certification* . Prior to the payment of any compensation under an Award intended to qualify as “performance-based compensation” under Section 162(m) of the Code, the Committee shall certify in writing the extent to which any Qualifying Performance Criteria and any other material terms under such Award have been satisfied (other than in cases where such criteria relate solely to the increase in the value of the Common Shares).

(d) *Discretionary Adjustments Pursuant to Section 162(m)* . Notwithstanding satisfaction of any completion of any Qualifying Performance Criteria, to the extent specified as of the Grant Date, the number or amount of Shares, Options, cash, or other benefits granted, issued, retainable, payable, and/or vested under an Award on account of satisfaction of such Qualifying Performance Criteria may be reduced by the Committee on the basis of such further considerations as the Committee in its sole discretion determines.

15. Dividends and Dividend Equivalents.

To the extent permitted by Section 409A of the Code, any Award other than an Option or Stock Appreciation Right may provide the Awardee with the right to receive dividend payments or dividend equivalent payments on the Shares subject to the Award; provided, however, that dividends or other distributions on Awards with restrictions that lapse as a result of the achievement of performance criteria will be deferred until, and paid contingent upon, the achievement of the applicable performance criteria. Such payments may be made in cash or may be credited as cash or Stock Units to an Awardee’s account and later settled in cash or Shares or a combination thereof, as determined by the Administrator. Such payments and credits may be subject to such conditions and contingencies as the Administrator may establish.

16. Adjustments upon Changes in Capitalization, Organic Change or Change of Control.

(a) *Adjustment Clause* . In the event of (i) a stock dividend, stock split, reverse stock split, share combination, or recapitalization or similar event affecting the capital structure of the Company (each, a “Share Change”), or (ii) a merger, consolidation, acquisition of property or shares, separation, spinoff, reorganization, stock rights offering, liquidation, Disaffiliation, or similar event affecting the Company or any of its Subsidiaries (each, an “Organic Change”), the Administrator or the Board shall make such substitutions or adjustments as it deems appropriate and equitable to (U) the Share limitations set forth in Sections 3 of the Plan, (V) the number and kind of Shares covered by each outstanding Award, and (W) the price per Share subject to each such outstanding Award. Such adjustments may include, without limitation, (X) the cancellation of outstanding Awards in exchange for payments of cash, property or a combination thereof having an aggregate value equal to the value of such Awards, as determined by the Administrator or the Board in its sole discretion (it being

understood that in the case of an Organic Change with respect to which shareholders receive consideration other than publicly traded equity securities of the ultimate surviving entity, any such determination by the Administrator that the value of an Option or Stock Appreciation Right will for this purpose be deemed to equal the excess, if any, of the value of the consideration being paid for each Share pursuant to such Organic Change over the exercise price of such Option or Stock Appreciation Right will conclusively be deemed valid); (Y) the substitution of other property (including, without limitation, cash or other securities of the Company and securities of entities other than the Company) for the Shares subject to outstanding Awards; and (Z) in connection with any Disaffiliation, arranging for the assumption of Awards, or replacement of Awards with new awards based on other property or other securities (including, without limitation, other securities of the Company and securities of entities other than the Company), by the affected Subsidiary, Affiliate, or division or by the entity that controls such Subsidiary, Affiliate, or division following such Disaffiliation (as well as any corresponding adjustments to Awards that remain based upon Company securities).

(b) *Change of Control* . In the event of a Change of Control, unless otherwise determined by the Administrator or set forth in an Award Agreement or as provided in an individual severance or employment agreement to which a Participant is a party, the following acceleration, exercisability, and valuation provisions apply:

(i) Upon a Change of Control, outstanding Options and Stock Appreciation Rights will become fully vested and exercisable and outstanding Stock Awards, Other Stock-Based Awards, and Cash Awards will become fully vested, except to the extent that an award meeting the requirements of Section 16(b)(ii) (a “Replacement Award”) is provided to the Participant in accordance with Section 16(a) of the Plan to replace or adjust each outstanding Award (a “Replaced Award”).

(ii) An award meets the conditions of this Section 16(b)(ii) (and hence qualifies as a Replacement Award) if (A) it is of the same type as the Replaced Award, (B) it has a value at least equal to the value of the Replaced Award, (C) it relates to publicly traded equity securities of the Company or its successor in the Change of Control or another entity that is affiliated with the Company or its successor following the Change of Control, (D) if the Participant is subject to U.S. federal income tax under the Code, the tax consequences to the Participant under the Code of the Replacement Award are not less favorable to Participant than the tax consequences of the Replaced Award, and (E) its other terms and conditions are not less favorable to the Participant than the terms and conditions of the Replaced Award (including the provisions that would apply in the event of a subsequent Change of Control). Without limiting the generality of the foregoing, the Replacement Award may take the form of a continuation of the Replaced Award if the requirements of the preceding sentence are satisfied. The determination of whether the conditions of this Section 16(b)(ii) are satisfied will be made by the Administrator, as constituted immediately before the Change of Control, in its sole discretion.

(iii) Upon (A) a Termination for Good Reason, (B) a Termination of Employment by the Company or its successor in the Change of Control other than a Termination for Cause, or (C) the Participant’s death or Disability, in each case, occurring in connection with or during the period of two years after a Change of Control (Y) all Replacement Awards held by the Participant will become fully vested and, if applicable, exercisable, and (Z) all Options and Stock Appreciation Rights held by the Participant immediately before such Termination of Employment that the Participant held as of the date of the Change of Control or that constitute Replacement Awards will remain exercisable for not less than three years following such Termination of Employment or until the expiration of the stated term of such Option, whichever period is shorter (provided, that if the applicable Award Agreement provides for a longer period of exercisability, that provision will control).

(c) *Section 409A* . Notwithstanding the foregoing (i) any adjustments made pursuant to Section 16(a) of the Plan to Awards that are considered “deferred compensation” within the meaning of Section 409A of the Code will be made in compliance with the requirements of Section 409A of the Code, (ii) any adjustments made pursuant to Section 16(a) of the Plan to Awards that are not considered “deferred compensation” subject to Section 409A of the Code will be made in such a manner as to ensure that after such adjustment, the Awards

either continue not to be subject to Section 409A of the Code or comply with the requirements of Section 409A of the Code, (iii) the Administrator does not have the authority to make any adjustments pursuant to Section 16(a) of the Plan to the extent that the existence of such authority would cause an Award that is not intended to be subject to Section 409A of the Code to be subject thereto, and (iv) if any Award is subject to Section 409A of the Code, Section 16(b) of the Plan will be applicable only to the extent specifically provided in the Award Agreement and permitted pursuant to Section 27 of the Plan.

17. Amendment and Termination of the Plan.

(a) *Amendment and Termination* . The Administrator may amend, alter, or discontinue the Plan or any Award Agreement, but any such amendment will be subject to approval of the shareholders of the Company in the manner and to the extent required by Applicable Law. In addition, without limiting the foregoing, unless approved by the shareholders of the Company and subject to Section 16(a) of the Plan, no such amendment may be made that would:

- (i) increase the maximum aggregate number of Shares which may be issued or transferred based on Awards granted under the Plan;
- (ii) reduce the minimum exercise price or base price, as applicable, for Options or Stock Appreciation Rights granted under the Plan; or
- (iii) result in a repricing of outstanding Options or Stock Appreciation Rights as described in Section 8(c) and 10(b), respectively.

(b) *Effect of Amendment or Termination* . No amendment, suspension, or termination of the Plan may impair the rights of any Participant with respect to an outstanding Award unless agreed to by the Participant and the Company, which agreement must be in writing and signed by the Participant and the Company. Other than following a Change of Control, no such agreement will be required if the Administrator determines in its sole discretion that such amendment either (i) is required or advisable in order for the Company, the Plan, or the Award to satisfy any Applicable Law or to meet the requirements of any accounting standard or (ii) is not reasonably likely to significantly diminish the benefits provided under such Award, or that any such diminishment has been adequately compensated. Termination of the Plan will not affect the Administrator's ability to exercise the powers granted to it hereunder with respect to Awards granted under the Plan prior to the date of such termination.

(c) *Effect of the Plan on Other Arrangements* . Neither the adoption of the Plan by the Board or the Committee nor the submission of the Plan to the shareholders of the Company for approval will be construed as creating any limitations on the power of the Board or any Committee to adopt such other incentive arrangements as it or they may deem desirable, including, without limitation, the granting of restricted shares or restricted share units or stock options otherwise than under the Plan, and such arrangements may be either generally applicable or applicable only in specific cases.

18. Designation of Beneficiary.

(a) An Awardee may file a written designation of a beneficiary who is to receive the Awardee's rights pursuant to Awardee's Award or the Awardee may include his or her Awards in an omnibus beneficiary designation for all benefits under the Plan. To the extent that Awardee has completed a designation of beneficiary while employed with Company, such beneficiary designation will remain in effect with respect to any Award hereunder until changed by the Awardee to the extent enforceable under Applicable Law.

(b) Such designation of beneficiary may be changed by the Awardee at any time by written notice. In the event of the death of an Awardee and in the absence of a beneficiary validly designated under the Plan who is living at the time of such Awardee's death, the Company will allow the legal representative of the Awardee's estate to exercise the Award.

19. No Right to Awards or to Employment.

No person has any claim or right to be granted an Award and the grant of any Award will not be construed as giving an Awardee the right to continue in the employ of the Company or its Affiliates. Further, the Company and its Affiliates expressly reserve the right, at any time, to dismiss any Employee or Awardee without liability or any claim under the Plan, except as provided herein or in any Award Agreement entered into hereunder.

20. Recoupment.

The Plan will be administered in compliance with Section 10D of the Exchange Act, any applicable rules or regulations promulgated by the Securities and Exchange Commission or any national securities exchange or national securities association on which the Shares may be traded, and any Company policy adopted pursuant to such law, rules, or regulations. In its discretion, moreover, the Administrator may require repayment to the Company of all or any portion of any Award if the amount of the Award was calculated based upon the achievement of certain financial results that were subsequently the subject of a restatement of the Company's financial statements, the Participant engaged in misconduct that caused or contributed to the need for the restatement of the financial statements, and the amount payable to the Participant would have been lower than the amount actually paid to the Participant had the financial results been properly reported. This Section 20 will not be the Company's exclusive remedy with respect to such matters and will not apply after a Change of Control.

21. Fractional Shares.

The Company is not required to issue any fractional Shares pursuant to the Plan. The Administrator may provide for the elimination of fractions or for the settlement thereof in cash.

22. Legal Compliance.

Shares will not be issued pursuant to an Award unless such Award and the issuance and delivery of such Shares will comply with Applicable Law. Unless the Awards and Shares covered by the Plan have been registered under the Securities Act or the Company has determined that such registration is unnecessary, each person receiving an Award and/or Shares pursuant to any Award may be required by the Company to give a representation in writing that such person is acquiring such Shares for his or her own account for investment and not with a view to, or for sale in connection with, the distribution of any part thereof.

23. Inability to Obtain Authority.

To the extent the Company is unable to or the Administrator deems it infeasible to obtain authority from any regulatory body having jurisdiction, which authority is deemed by the Company's counsel to be advisable or necessary to the lawful issuance and sale of any Shares hereunder, the Company will be relieved of any liability with respect to the failure to issue or sell such Shares as to which such requisite authority will not have been obtained.

24. Reservation of Shares.

The Company, during the term of the Plan, shall at all times reserve and keep available such number of Shares sufficient to satisfy the requirements of the Plan.

25. Notice.

Any written notice to the Company required by any provisions of the Plan must be addressed to the Secretary of the Company and will be effective when received.

26. Governing Law; Interpretation of Plan and Awards.

(a) The Plan and all determinations made and actions taken pursuant hereto are governed by the substantive laws, but not the choice of law rules, of the state of Ohio, except as to matters governed by U.S. federal law.

(b) In the event that any provision of the Plan or any Award granted under the Plan is declared to be illegal, invalid, or otherwise unenforceable by a court of competent jurisdiction, such provision will be reformed, if possible, to the extent necessary to render it legal, valid, and enforceable, or otherwise deleted, and the remainder of the terms of the Plan and/or Award will not be affected except to the extent necessary to reform or delete such illegal, invalid, or unenforceable provision.

(c) The headings preceding the text of the sections hereof are inserted solely for convenience of reference, and do not constitute a part of the Plan, nor do they affect its meaning, construction, or effect.

(d) The terms of the Plan and any Award will inure to the benefit of and be binding upon the parties hereto and their respective permitted heirs, beneficiaries, successors, and assigns.

27. Section 409A.

(a) To the extent applicable, it is intended that the Plan and any grants made hereunder comply with the provisions of Section 409A of the Code, so that the income inclusion provisions of Section 409A(a)(1) of the Code do not apply to the Participant. The Plan and any grants made hereunder will be administered in a manner consistent with this intent. Any reference in the Plan to Section 409A of the Code will also include any regulations or any other formal guidance promulgated with respect to such Section by the U.S. Department of the Treasury or the Internal Revenue Service.

(b) Neither a Participant nor any of a Participant's creditors or beneficiaries will have the right to subject any deferred compensation (within the meaning of Section 409A of the Code) payable under the Plan and grants hereunder to any anticipation, alienation, sale, transfer, assignment, pledge, encumbrance, attachment, or garnishment. Except as permitted under Section 409A of the Code, any deferred compensation (within the meaning of Section 409A of the Code) payable to a Participant or for a Participant's benefit under the Plan and grants hereunder may not be reduced by, or offset against, any amount owing by a Participant to the Company or any of its affiliates.

(c) If, at the time of a Participant's separation from service (within the meaning of Section 409A of the Code), (i) the Participant is a specified employee (within the meaning of Section 409A of the Code and using the identification methodology selected by the Company from time to time) and (ii) the Company makes a good faith determination that an amount payable hereunder constitutes deferred compensation (within the meaning of Section 409A of the Code) the payment of which is required to be delayed pursuant to the six-month delay rule set forth in Section 409A of the Code in order to avoid taxes or penalties under Section 409A of the Code, then the Company will not pay such amount on the otherwise scheduled payment date but, unless otherwise provided in the Award Agreement, will instead pay it on the first business day of the seventh month after such separation from service, and if payable in cash with interest thereon from the date that such amount would have been paid absent such determination through the date of payment at the long-term applicable federal rate, determined under Section 1274(d) of the Code.

(d) Notwithstanding any provision of the Plan and grants hereunder to the contrary, in light of the uncertainty with respect to the proper application of Section 409A of the Code, the Company reserves the right to make amendments to the Plan and grants hereunder as the Company deems necessary or desirable to avoid the imposition of taxes or penalties under Section 409A of the Code. In any case, a Participant is solely responsible and liable for the satisfaction of all taxes and penalties that may be imposed on a Participant or for a Participant's account in connection with the Plan and grants hereunder (including any taxes and penalties under Section 409A of the Code), and neither the Company nor any of its affiliates have any obligation to indemnify or otherwise hold a Participant harmless from any or all of such taxes or penalties.

28. Limitation on Liability.

The Company and any Affiliate which is in existence or hereafter comes into existence will not be liable to a Participant, an Employee, an Awardee, or any other persons as to:

(a) *The Non-Issuance of Shares* . The non-issuance or sale of Shares as to which the Company has been unable to obtain from any regulatory body having jurisdiction the authority deemed by the Company's counsel to be necessary to the lawful issuance and sale of any shares hereunder; and

(b) *Tax or Exchange Control Consequences* . Any tax consequence expected, but not realized, or any exchange control obligation owed, by any Participant, Employee, Awardee, or other person due to the receipt, exercise or settlement of any Option or other Award granted hereunder.

29. Unfunded Plan.

Insofar as it provides for Awards, the Plan is unfunded. Although bookkeeping accounts may be established with respect to Awardees who are granted Stock Awards under the Plan, any such accounts will be used merely as a bookkeeping convenience. The Company is not required to segregate any assets which may at any time be represented by Awards, nor will the Plan be construed as providing for such segregation, nor will the Company nor the Administrator be deemed to be a trustee of stock or cash to be awarded under the Plan. Any liability of the Company to any Participant with respect to an Award will be based solely upon any contractual obligations which may be created by the Plan; no such obligation of the Company will be deemed to be secured by any pledge or other encumbrance on any property of the Company. Neither the Company nor the Administrator are required to give any security or bond for the performance of any obligation which may be created by the Plan.

30. Foreign Employees.

Awards may be granted hereunder to Employees who are foreign nationals, who are located outside the United States or who are not compensated from a payroll maintained in the United States, or who are otherwise subject to (or could cause the Company to be subject to) legal or regulatory provisions of countries or jurisdictions outside the United States, on such terms and conditions different from those specified in the Plan as may, in the judgment of the Administrator, be necessary or desirable to foster and promote achievement of the purposes of the Plan, and, in furtherance of such purposes, the Administrator may make such modifications, amendments, procedures, or subplans, as may be necessary or advisable to comply with such legal or regulatory provisions.

31. Tax Withholding.

Each Participant shall pay to the Company, or make arrangements satisfactory to the Company regarding the payment of, any federal, state, local, or foreign taxes of any kind required by law to be withheld with respect to any Award under the Plan no later than the date as of which any amount under such Award first becomes includible as compensation of the Participant for any tax purposes with respect to which the Company has a tax withholding obligation. Unless otherwise determined by the Administrator, withholding obligations may be settled with Shares, including Shares that are part of the Award that gives rise to the withholding requirement; provided, however, that not more than the legally required minimum withholding may be settled with Shares. The obligations of the Company under the Plan will be conditional on such payment or arrangements, and the Company and its Affiliates will, to the extent permitted by law, have the right to deduct any such taxes from any Shares or any other payment due to the participant at that time or at any future time. The Administrator may establish such procedures as it deems appropriate, including making irrevocable elections, for the settlement of withholding obligations with Shares.

CARDINAL HEALTH, INC.
NONQUALIFIED STOCK OPTION AGREEMENT

This Nonqualified Stock Option Agreement (this “Agreement”) is entered into in Franklin County, Ohio. On [date of grant] (the “Grant Date”), Cardinal Health, Inc., an Ohio corporation (the “Company”), has awarded to [employee name] (“Awardee”), an option (the “Option”) to purchase [# of shares] common shares, without par value, of the Company (the “Shares”) for a price of [\$X.XX] per share. The Option has been granted under the Cardinal Health, Inc. 2011 Long-Term Incentive Plan (the “Plan”), and will include and be subject to all provisions of the Plan, which are incorporated herein by reference, and will be subject to the provisions of this Agreement. Capitalized terms used in this Agreement which are not specifically defined will have the meanings ascribed to such terms in the Plan. [CLIFF ALTERNATIVE: This Option vests and becomes exercisable on the [] anniversary of the Grant Date (the “Vesting Date”), subject to the provisions of this Agreement, including those relating to Awardee’s continued employment with the Company and its Affiliates (collectively, the “Cardinal Group”).] [INSTALLMENT ALTERNATIVE: This Option vests and becomes exercisable in [] installments, which will be as nearly equal as possible, on the [] anniversaries of the Grant Date (each a “Vesting Date” with respect to the portion of the Option scheduled to vest on such date), subject in each case to the provisions of this Agreement, including those relating to Awardee’s continued employment with the Company and its Affiliates (collectively, the “Cardinal Group”).] In the event of a Change of Control prior to the Participant’s Termination of Employment, the Option vests in full, unless a Replacement Award is provided to the Participant in accordance with Section 16(b) of the Plan. This Option will expire on [date of expiration] (the “Grant Expiration Date”).

1. Method of Exercise and Payment of Price .

(a) **Method of Exercise** . At any time when all or a portion of the Option is exercisable under the Plan and this Agreement, some or all of the exercisable portion of the Option may be exercised from time to time by written notice to the Company, or such other method of exercise as may be specified by the Company, including without limitation, exercise by electronic means on the web site of the Company’s third-party equity plan administrator, which will:

- (i) state the number of whole Shares with respect to which the Option is being exercised; and
- (ii) if the Option is being exercised by anyone other than Awardee, if not already provided, be accompanied by proof satisfactory to counsel for the Company of the right of such person or persons to exercise the Option under the Plan and all applicable laws and regulations.

(b) **Payment of Price** . The full exercise price for the portion of the Option being exercised shall be paid to the Company as provided below:

- (i) in cash;
- (ii) by check acceptable to the Company or wire transfer (denominated in U.S. Dollars);
- (iii) subject to any conditions or limitations established by the Administrator, other Shares owned by Awardee that have a Fair Market Value on the date of surrender equal to or greater than the aggregate exercise price of the Shares as to which said Option is exercised (it being agreed that the excess of the Fair Market Value over the aggregate exercise price will be refunded to Awardee, with any fractional Share being repaid in cash);

(iv) if permitted by the Administrator, consideration received by the Company under a broker-assisted sale and remittance program acceptable to the Administrator;

(v) if permitted by the Administrator, and subject to any conditions or limitations established by the Administrator, the Company's withholding Shares otherwise issuable upon exercise of the Option pursuant to a "net exercise" arrangement; or

(vi) any combination of the foregoing methods of payment.

2. Transferability. The Option is transferable (a) at Awardee's death, by Awardee by will or pursuant to the laws of descent and distribution, and (b) by Awardee during Awardee's lifetime, without payment of consideration, to (i) the spouse, former spouse, parents, stepparents, grandparents, parents-in-law, siblings, siblings-in-law, children, stepchildren, children-in-law, grandchildren, nieces or nephews of Awardee, or any other persons sharing Awardee's household (other than tenants or employees) (collectively, "Family Members"), (ii) a trust or trusts for the primary benefit of Awardee or such Family Members, (iii) a foundation in which Awardee or such Family Members control the management of assets, or (iv) a partnership in which Awardee or such Family Members are the majority or controlling partners; provided, however, that subsequent transfers of the transferred Option are prohibited, except (X) if the transferee is an individual, at the transferee's death by the transferee by will or pursuant to the laws of descent and distribution, and (Y) without payment of consideration to the individuals or entities listed in subparagraphs (b)(i), (ii) or (iii) above, with respect to the original Awardee. The Administrator may, in its discretion, permit transfers to other persons and entities as permitted by the Plan. Neither a transfer under a domestic relations order in settlement of marital property rights nor a transfer to an entity in which more than 50% of the voting interests are owned by Awardee or Family Members in exchange for an interest in that entity will be considered to be a transfer for consideration. Within 10 days of any transfer, Awardee shall notify the Company in writing of the transfer. Following transfer, the Option continues to be subject to the same terms and conditions as were applicable immediately prior to transfer and, except as otherwise provided in the Plan or this Agreement, references to the original Awardee are deemed to refer to the transferee. The events of a Termination of Employment of Awardee provided in paragraph 3 hereof continue to be applied with respect to the original Awardee, following which the Option is exercisable by the transferee only to the extent, and for the periods, specified in paragraph 3. The Company has no obligation to notify any transferee of Awardee's Termination of Employment with the Cardinal Group for any reason. The conduct prohibited of Awardee in paragraph 5 hereof continues to be prohibited of Awardee following transfer to the same extent as immediately prior to transfer and the Option (or its economic value, as applicable) is subject to forfeiture by the transferee and recoupment from Awardee to the same extent as would have been the case of Awardee had the Option not been transferred. Awardee remains subject to the recoupment provisions of paragraph 5 of this Agreement and tax withholding provisions of Section 31 of the Plan following transfer of the Option.

3. Termination of Employment.

(a) Termination of Employment by Reason of Death or Disability. If a Termination of Employment occurs by reason of death or Disability prior to the vesting in full of the Option, but at least six months from the Grant Date, then any unvested portion of the Option vests upon and becomes exercisable in full from and after such death or Disability. The Option may thereafter be exercised by the Awardee, any transferee of Awardee, if applicable, or by the legal representative of the estate or by the legatee of Awardee under the will of Awardee from the date of such death or Disability until the Grant Expiration Date.

(b) Termination of Employment by Reason of Retirement. If a Termination of Employment occurs by reason of Retirement prior to the vesting in full of the Option, but at least six months from the Grant Date, then a Ratable Portion of each installment of the Option that would have vested on each future Vesting Date immediately vests and becomes exercisable. Such "Ratable Portion," with respect to the applicable installment, is an amount equal to such installment of the Option scheduled to vest on the applicable Vesting Date multiplied by a fraction, the numerator of which is the number of days from the Grant Date through the date of such termination, and the denominator of which is the number of days from the Grant Date through such Vesting Date. The Option, to the extent vested, may be exercised by Awardee (or any transferee, if applicable) until the Grant

Expiration Date. If Awardee dies after Retirement, but before the Grant Expiration Date, the Option, to the extent vested, may be exercised by any transferee of the Option, if applicable, or by the legal representative of the estate or by the legatee of Awardee under the will of Awardee from and after such death until the Grant Expiration Date.

(c) Other Termination of Employment. If a Termination of Employment occurs by any reason other than death, Retirement or Disability (each at least six months from the Grant Date) or in connection with a Change of Control as set forth in Section 16(b)(iii) of the Plan, any unexercised portion of the Option which has not vested on such date of Termination of Employment is automatically forfeited. Subject to Section 16(b)(iii) of the Plan and subparagraphs 3(a) and (b) above, Awardee (or any transferee, if applicable) will have 90 days from the date of Termination of Employment or until the Grant Expiration Date, whichever period is shorter, to exercise any portion of the Option that is vested and exercisable on the date of Termination of Employment; provided, however, that if the Termination of Employment was a Termination for Cause, as determined by the Administrator, the Option may be immediately canceled by the Administrator (whether then held by Awardee or any transferee).

4. Restrictions on Exercise. The Option is subject to all restrictions in this Agreement and/or in the Plan. As a condition of any exercise of the Option, the Company may require Awardee or his or her transferee or successor to make any representation and warranty to comply with any applicable law or regulation or to confirm any factual matters (including Awardee's compliance with the terms of paragraph 5 of this Agreement or any employment or severance agreement between the Cardinal Group and Awardee) reasonably requested by the Company. The Option is not exercisable if such exercise would involve a violation of any Applicable Law.

5. Special Forfeiture and Repayment Rules. This Agreement contains special forfeiture and repayment rules intended to encourage conduct that protects the Cardinal Group's legitimate business assets and discourage conduct that threatens or harms those assets. The Company does not intend to have the benefits of this Agreement reward or subsidize conduct detrimental to the Company, and therefore will require the forfeiture of the benefits offered under this Agreement and the repayment of gains obtained from this Agreement, according to the rules specified below. Activities that trigger the forfeiture and repayment rules are divided into two categories: Misconduct and Competitor Conduct.

(a) Misconduct. During employment with the Cardinal Group and for three years after the Termination of Employment for any reason, Awardee agrees not to engage in Misconduct. If Awardee engages in Misconduct during employment or within three years after the Termination of Employment for any reason, then

(i) Awardee immediately forfeits the Option (or any part thereof that has not been exercised) which automatically terminates, and

(ii) Awardee shall, within 30 days following written notice from the Company, pay to the Company in cash an amount equal to (A) the gross gain to Awardee or any transferee from each and every exercise of the Option at any time within three years prior to the date the Misconduct first occurred (as determined by the Administrator) less (B) \$1.00. The gross gain is calculated by subtracting the exercise price paid for the Shares from the Fair Market Value of the Shares on the exercise date.

As used in this Agreement, "**Misconduct**" means

(A) disclosing or using any of the Cardinal Group's confidential information (as defined by the applicable Cardinal Group policies and agreements) without proper authorization from the Cardinal Group or in any capacity other than as necessary for the performance of Awardee's assigned duties for the Cardinal Group;

(B) violation of applicable Cardinal Group policies, including but not limited to conduct which would constitute a breach of any representation or certificate of compliance signed by Awardee;

(C) fraud, gross negligence or willful misconduct by Awardee, including but not limited to fraud, gross negligence or willful misconduct causing or contributing to a material error resulting in a restatement of the financial statements of any member of the Cardinal Group;

(D) directly or indirectly soliciting or recruiting for employment or contract work on behalf of a person or entity other than a member of the Cardinal Group, any person who is an employee, representative, officer or director in the Cardinal Group or who held one or more of those positions at any time within the 12 months prior to Awardee's Termination of Employment;

(E) directly or indirectly inducing, encouraging or causing an employee of the Cardinal Group to terminate his/her employment or a contract worker to terminate his/her contract with a member of the Cardinal Group;

(F) any action by Awardee and/or his or her representatives that either does or could reasonably be expected to undermine, diminish or otherwise damage the relationship between the Cardinal Group and any of its customers, prospective customers, vendors, suppliers and/or employees known to Awardee; and

(G) breaching any provision of any employment or severance agreement with a member of the Cardinal Group.

(b) Competitor Conduct. If Awardee chooses to engage in Competitor Conduct during employment or within one year after the Termination of Employment for any reason, then

(i) Awardee immediately forfeits the Option (or any part thereof that has not been exercised) which automatically terminates, and

(ii) Awardee shall, within 30 days following written notice from the Company, pay to the Company in cash an amount equal to (A) the gross gain to Awardee or any transferee from each and every exercise of the Option at any time since the earlier of one year prior to the date the Competitor Conduct first occurred (as determined by the Administrator) and one year prior to the Termination of Employment, if applicable, less (B) \$1.00. The gross gain is calculated by subtracting the exercise price paid for the Shares from the Fair Market Value of the Shares on the exercise date.

As used in this Agreement, "**Competitor Conduct**" means accepting employment with, or directly or indirectly providing services to, a Competitor in the United States. If Awardee has a Termination of Employment and Awardee's responsibilities to the Cardinal Group were limited to a specific territory or territories within or outside the United States during the 24 months prior to the Termination of Employment, then Competitor Conduct will be limited to that specific territory or territories. A "Competitor" means any person or business that competes with the products or services provided by a member of the Cardinal Group for which Awardee had business responsibilities within 24 months prior to Termination of Employment or about which Awardee obtained confidential information (as defined by the applicable Cardinal Group policies or agreements).

(c) General.

(i) Nothing in this paragraph 5 constitutes or is to be construed as a "noncompete" covenant or other restraint on employment or trade. The provisions of this paragraph do not prevent, nor are they intended to prevent, Awardee from seeking or accepting employment or other work outside the Cardinal Group. The execution of this Agreement is voluntary. Awardee is free to choose to comply with the terms of this Agreement and receive the benefits offered or else reject this Agreement with no adverse consequences to Awardee's employment with the Cardinal Group.

(ii) Awardee agrees to provide the Company with at least 10 days' written notice prior to accepting employment with or providing services to a Competitor prior to one year after Termination of Employment.

(iii) Awardee acknowledges receiving sufficient consideration for the requirements of this paragraph 5, including Awardee's receipt of the Option. Awardee further acknowledges that the Company would not provide the Option to Awardee without Awardee's promise to abide by the terms of this paragraph 5. The parties also acknowledge that the provisions contained in this paragraph 5 are ancillary to, or part of, an otherwise enforceable agreement at the time this Agreement is made.

(iv) Awardee may be released from the obligations of this paragraph 5 if and only if the Administrator determines, in writing and in the Administrator's sole discretion, that a release is in the best interests of the Company.

6. Right of Set-Off. By accepting this Option, Awardee consents to a deduction from, and set-off against, any amounts owed to Awardee that are not treated as "non-qualified deferred compensation" under Section 409A of the Code by any member of the Cardinal Group from time to time (including, but not limited to, amounts owed to Awardee as wages, severance payments or other fringe benefits) to the extent of the amounts owed to the Cardinal Group by Awardee under this Agreement.

7. Withholding Tax.

(a) Generally. Awardee is liable and responsible for all taxes owed in connection with the exercise of the Option, regardless of any action the Company takes with respect to any tax withholding obligations that arise in connection with the Option. The Company does not make any representation or undertaking regarding the tax treatment or the treatment of any tax withholding in connection with the exercise of the Option. The Company does not commit and is under no obligation to structure the Option or the exercise of the Option to reduce or eliminate Awardee's tax liability.

(b) Payment of Withholding Taxes. Concurrently with the payment of the exercise price pursuant to paragraph 1 hereof, Awardee is required to arrange for the satisfaction of the minimum amount of any domestic or foreign tax withholding obligation, whether national, federal, state or local, including any employment tax obligation (the "Tax Withholding Obligation") in a manner acceptable to the Company. Any manner provided for in subparagraph 1(b) is an acceptable manner to satisfy the Tax Withholding Obligation unless otherwise determined by the Administrator.

8. Holding Period Requirement. If Awardee is classified as an "officer" of the Company within the meaning of Rule 16a-1(f) under the Securities Exchange Act of 1934, as amended (the "Exchange Act"), on the Grant Date, then, as a condition to receipt of the Option, Awardee hereby agrees to hold Shares purchased pursuant to each exercise of all or a portion of this Option, with a Fair Market Value at the time of such exercise equal to the After-Tax Net Profit, until the first anniversary of such exercise (or, if earlier, the date of Awardee's Termination of Employment). "After-Tax Net Profit" means the total Fair Market Value at the time of exercise of Shares as to which this Option is exercised, minus the sum of (a) the aggregate exercise price to purchase such Shares, and (b) the amount of all applicable federal, state, local or foreign income, employment or other tax and other similar fees that are withheld in connection with such exercise. This paragraph 8 will not apply on or after the date of a Change of Control.

9. Governing Law/Venue for Dispute Resolution/Costs and Legal Fees. This Agreement is governed by the laws of the State of Ohio, without regard to principles of conflicts of law, except to the extent superseded by the laws of the United States of America. **The parties agree and acknowledge that the laws of the State of Ohio bear a substantial relationship to the parties and/or this Agreement and that the Option and benefits granted herein would not be granted without the governance of this Agreement by the laws of the State of Ohio. In addition, all legal actions or proceedings relating to this Agreement must be brought exclusively in state or federal courts located in Franklin County, Ohio and the parties executing this**

Agreement hereby consent to the personal jurisdiction of such courts. Awardee acknowledges that the covenants contained in paragraph 5 of this Agreement are reasonable in nature, are fundamental for the protection of the Company's legitimate business and proprietary interests, and do not adversely affect Awardee's ability to earn a living. In the event that it becomes necessary for the Company to institute legal proceedings under this Agreement, Awardee is responsible to the Company for all costs and reasonable legal fees incurred by the Company in connection with the proceedings. Any provision of this Agreement which is determined by a court of competent jurisdiction to be invalid or unenforceable should be construed or limited in a manner that is valid and enforceable and that comes closest to the business objectives intended by the provision, without invalidating or rendering unenforceable the remaining provisions of this Agreement.

10. Action by the Administrator . The parties agree that the interpretation of this Agreement rests exclusively and completely within the sole discretion of the Administrator. The parties agree to be bound by the decisions of the Administrator with regard to the interpretation of this Agreement and with regard to any and all matters set forth in this Agreement. In fulfilling his or her responsibilities, the Administrator may rely upon documents, written statements of the parties, financial reports or other material as the Administrator deems appropriate. The parties agree that there is no right to be heard or to appear before the Administrator and that any decision of the Administrator relating to this Agreement, including without limitation whether particular conduct constitutes Misconduct or Competitor Conduct, is final and binding. The Administrator may delegate its functions under this Agreement to an officer of the Cardinal Group designated by the Administrator.

11. Prompt Acceptance of Agreement . The Option grant evidenced by this Agreement will, at the discretion of the Administrator, be forfeited if this Agreement is not manually executed and returned to the Company, or electronically executed by Awardee by indicating Awardee's acceptance of this Agreement in accordance with the acceptance procedures set forth on the Company's third-party equity plan administrator's web site, within 90 days of the Grant Date.

12. Electronic Delivery and Consent to Electronic Participation . The Company may, in its sole discretion, decide to deliver any documents related to the Option grant under and participation in the Plan or future options that may be granted under the Plan by electronic means. Awardee hereby consents to receive such documents by electronic delivery and to participate in the Plan through an on-line or electronic system established and maintained by the Company or another third party designated by the Company, including the acceptance of option grants and the execution of option agreements through electronic signature.

13. Notices . All notices, requests, consents and other communications required or provided under this Agreement to be delivered by Awardee to the Company will be in writing and will be deemed sufficient if delivered by hand, nationally recognized overnight courier, or certified or registered mail, return receipt requested, postage prepaid, and will be effective upon delivery to the Company at the address set forth below:

Cardinal Health, Inc.
7000 Cardinal Place
Dublin, Ohio 43017
Attention: General Counsel

All notices, requests, consents and other communications required or provided under this Agreement to be delivered by the Company to Awardee may be delivered by e-mail or in writing and will be deemed sufficient if delivered by e-mail, hand, facsimile, nationally recognized overnight courier, or certified or registered mail, return receipt requested, postage prepaid, and will be effective upon delivery to Awardee.

14. Employment Agreement, Offer Letter or Other Arrangement . To the extent a written employment agreement, offer letter or other arrangement ("Employment Arrangement") that was approved by the Human Resources and Compensation Committee or the Board of Directors or that was approved in writing by an officer of the Company pursuant to delegated authority of the Human Resources and Compensation Committee provides for greater benefits to Awardee with respect to (a) vesting of the Option on Termination of Employment by reason of specified events or (b) exercisability of the Option following Termination of Employment, than

provided in this Agreement or in the Plan, then the terms of such Employment Arrangement with respect to vesting of the Option on Termination of Employment by reason of such specified events or exercisability of the Option following Termination of Employment supersede the terms hereof to the extent permitted by the terms of the Plan.

15. Recoupment. This Agreement will be administered in compliance with Section 10D of the Exchange Act and any applicable rules or regulations promulgated by the Securities and Exchange Commission or any national securities exchange or national securities association on which the Shares may be traded. In its discretion, moreover, the Administrator may require repayment to the Company of all or any portion of this Award if the amount of the Award was calculated based upon the achievement of certain financial results that were subsequently the subject of a restatement of the Company's financial statements, Awardee engaged in misconduct that caused or contributed to the need for the restatement of the financial statements, and the amount payable to Awardee would have been lower than the amount actually paid to Awardee had the financial results been properly reported. This paragraph 15 is not the Company's exclusive remedy with respect to such matters. This paragraph 15 will not apply after a Change of Control.

16. Amendments. Any amendment to the Plan will be deemed to be an amendment to this Agreement to the extent that the amendment is applicable hereto; provided, however, that no amendment will impair the rights of Awardee with respect to an outstanding Award unless agreed to by Awardee and the Company, which agreement must be in writing and signed by Awardee and the Company. Other than following a Change of Control, no such agreement is required if the Administrator determines in its sole discretion that such amendment either (a) is required or advisable in order for the Company, the Plan or the Option to satisfy any Applicable Law or to meet the requirements of any accounting standard or (b) is not reasonably likely to significantly diminish the benefits provided under the Option, or that any such diminishment has been adequately compensated.

CARDINAL HEALTH, INC.

By: _____

Its: _____

ACCEPTANCE OF AGREEMENT

Awardee hereby: (a) acknowledges receiving a copy of the Plan, which has either been previously delivered or is provided with this Agreement, and represents that he or she is familiar with and understands all provisions of the Plan and this Agreement; (b) voluntarily and knowingly accepts this Agreement and the Option granted to him or her under this Agreement subject to all provisions of the Plan and this Agreement, including the provisions in this Agreement regarding “Recoupment” set forth in paragraph 15 above and “Misconduct,” “Competitor Conduct” and “Special Forfeiture and Repayment Rules” set forth in paragraph 5 above; and (c) represents that he or she understands that the acceptance of this Agreement through an on-line or electronic system, if applicable, carries the same legal significance as if he or she manually signed this Agreement. Awardee further acknowledges receiving a copy of the Company’s most recent annual report to shareholders and other communications routinely distributed to the Company’s shareholders and a copy of the Plan Description pertaining to the Plan.

Awardee’s Signature

Date]

**CARDINAL HEALTH, INC.
RESTRICTED SHARE UNITS AGREEMENT**

This Restricted Share Units Agreement (this “Agreement”) is entered into in Franklin County, Ohio. On [grant date] (the “Grant Date”), Cardinal Health, Inc, an Ohio corporation (the “Company”), has awarded to [employee name] (“Awardee”) [# of shares] restricted share units (the “Restricted Share Units” or “Award”), representing an unfunded unsecured promise of the Company to deliver common shares, without par value, of the Company (the “Shares”) to Awardee as set forth herein. The Restricted Share Units have been granted pursuant to the Cardinal Health, Inc. 2011 Long-Term Incentive Plan (the “Plan”), and are subject to all provisions of the Plan, which are incorporated herein by reference, and are subject to the provisions of this Agreement. Capitalized terms used in this Agreement which are not specifically defined have the meanings ascribed to such terms in the Plan.

1. Vesting of Restricted Share Units.

(a) General. [CLIFF ALTERNATIVE: The Restricted Share Units vest on the [] anniversary of the Grant Date (the “Vesting Date”), subject to the provisions of this Agreement, including those relating to the Awardee’s continued employment with the Company and its Affiliates (collectively, the “Cardinal Group”).] [INSTALLMENT ALTERNATIVE: The Restricted Share Units vest in [] installments, which will be as nearly equal as possible, on the [] anniversaries of the Grant Date (each a “Vesting Date” with respect to the portion of the Restricted Share Units scheduled to vest on such date), subject in each case to the provisions of this Agreement, including those relating to the Awardee’s continued employment with the Company and its Affiliates (collectively, the “Cardinal Group”).]

(b) Change of Control. In the event of a Change of Control prior to a Termination of Employment, the Restricted Share Units vest in full, unless a Replacement Award is provided to Awardee in accordance with Section 16(b) of the Plan. Any Replacement Award must vest in full upon (i) a Termination for Good Reason by Awardee (provided that no later than 90 days following an event otherwise permitting a Termination for Good Reason, Awardee gives notice to the Company of the occurrence of such event and the Company fails to cure the event within 30 days following its receipt of such notice), (ii) a Termination of Employment by the Company or its successor in the Change of Control other than a Termination for Cause, or (iii) Awardee’s death or Disability, in each case, occurring during the period of two years after the Change of Control. In addition, if a Replacement Award is provided, any Restricted Share Units that would vest in accordance with Paragraphs 3(b) or (c) in connection with Awardee’s Retirement or Disability if Awardee’s Termination of Employment occurred on the date of the Change of Control will for purposes of this Agreement vest at the time of the Change of Control.

2. Transferability. The Restricted Share Units are not transferable.

3. Termination of Employment.

(a) General. Except as set forth in Paragraphs 1(b) and 3(b) and (c), if a Termination of Employment occurs prior to the vesting of a Restricted Share Unit, such Restricted Share Unit is forfeited by Awardee immediately after such Termination of Employment.

(b) Death or Disability. If a Termination of Employment occurs prior to the vesting in full of the Restricted Share Units by reason of Awardee’s death or Disability, but at least 6 months from the Grant Date, then any unvested Restricted Share Units immediately vest in full and are not forfeited.

(c) Retirement. If a Termination of Employment occurs prior to the vesting in full of the Restricted Share Units by reason of Awardee’s Retirement, but at least 6 months from the Grant Date, then a Ratable Portion of each installment of the Restricted Share Units that would have vested on each future Vesting Date, to the extent not previously vested, immediately vests and is not forfeited. Such “Ratable Portion,” with respect to the

applicable installment, is an amount equal to such installment of the Restricted Share Units scheduled to vest on the applicable Vesting Date multiplied by a fraction, the numerator of which is the number of days from the Grant Date through the date of such termination, and the denominator of which is the number of days from the Grant Date through such Vesting Date.

4. Special Forfeiture and Repayment Rules. This Agreement contains special forfeiture and repayment rules intended to encourage conduct that protects the Cardinal Group's legitimate business assets and discourage conduct that threatens or harms those assets. The Company does not intend to have the benefits of this Agreement reward or subsidize conduct detrimental to the Company, and therefore will require the forfeiture of the benefits offered under this Agreement and the repayment of gains obtained from this Agreement, according to the rules specified below. Activities that trigger the forfeiture and repayment rules are divided into two categories: Misconduct and Competitor Conduct.

(a) Misconduct. During employment with the Cardinal Group and for three years after the Termination of Employment for any reason, Awardee agrees not to engage in Misconduct. If Awardee engages in Misconduct during employment or within three years after the Termination of Employment for any reason, then

(i) Awardee immediately forfeits the Restricted Share Units that have not yet vested or that vested at any time within three years prior to the Misconduct and have not yet been paid pursuant to Paragraph 5 hereof, and those forfeited Restricted Share Units automatically terminate, and

(ii) Awardee shall, within 30 days following written notice from the Company, pay to the Company in cash an amount equal to (A) the gross gain to Awardee resulting from the payment of Restricted Share Units pursuant to Paragraph 5 hereof that had vested at any time within three years prior to the date the Misconduct first occurred (as determined by the Administrator) less (B) \$1.00. The gross gain is the Fair Market Value of the Shares represented by the Restricted Share Units on the date of receipt.

As used in this Agreement, "**Misconduct**" means

(A) disclosing or using any of the Cardinal Group's confidential information (as defined by the applicable Cardinal Group policies and agreements) without proper authorization from the Cardinal Group or in any capacity other than as necessary for the performance of Awardee's assigned duties for the Cardinal Group;

(B) violation of applicable Cardinal Group policies, including but not limited to conduct which would constitute a breach of any representation or certificate of compliance signed by Awardee;

(C) fraud, gross negligence or willful misconduct by Awardee, including but not limited to fraud, gross negligence or willful misconduct causing or contributing to a material error resulting in a restatement of the financial statements of any member of the Cardinal Group;

(D) directly or indirectly soliciting or recruiting for employment or contract work on behalf of a person or entity other than a member of the Cardinal Group, any person who is an employee, representative, officer or director in the Cardinal Group or who held one or more of those positions at any time within the 12 months prior to Awardee's Termination of Employment;

(E) directly or indirectly inducing, encouraging or causing an employee of the Cardinal Group to terminate his/her employment or a contract worker to terminate his/her contract with a member of the Cardinal Group;

(F) any action by Awardee and/or his or her representatives that either does or could reasonably be expected to undermine, diminish or otherwise damage the relationship between the Cardinal Group and any of its customers, prospective customers, vendors, suppliers and/or employees known to Awardee; and

(G) breaching any provision of any employment or severance agreement with a member of the Cardinal Group.

(b) **Competitor Conduct**. If Awardee chooses to engage in Competitor Conduct during employment or within one year after the Termination of Employment for any reason, then

(i) Awardee immediately forfeits the Restricted Share Units that have not yet vested or that vested at any time within one year prior to the Competitor Conduct and have not yet been paid pursuant to Paragraph 5 hereof, and those forfeited Restricted Share Units automatically terminate, and

(ii) Awardee shall, within 30 days following written notice from the Company, pay to the Company in cash an amount equal to (A) the gross gain to Awardee resulting from the payment of Restricted Share Units pursuant to Paragraph 5 hereof that had vested at any time since the earlier of one year prior to the date the Competitor Conduct first occurred (as determined by the Administrator) or one year prior to the Termination of Employment, if applicable, less (B) \$1.00. The gross gain is the Fair Market Value of the Shares represented by the Restricted Share Units on the date of receipt.

As used in this Agreement, “**Competitor Conduct**” means accepting employment with, or directly or indirectly providing services to, a Competitor in the United States. If Awardee has a Termination of Employment and Awardee’s responsibilities to the Cardinal Group were limited to a specific territory or territories within or outside the United States during the 24 months prior to the Termination of Employment, then Competitor Conduct will be limited to that specific territory or territories. A “Competitor” means any person or business that competes with the products or services provided by a member of the Cardinal Group for which Awardee had business responsibilities within 24 months prior to Termination of Employment or about which Awardee obtained confidential information (as defined by the applicable Cardinal Group policies or agreements).

(c) **General**.

(i) Nothing in this Paragraph 4 constitutes or is to be construed as a “noncompete” covenant or other restraint on employment or trade. The provisions of this Paragraph do not prevent, nor are they intended to prevent, Awardee from seeking or accepting employment or other work outside the Cardinal Group. The execution of this Agreement is voluntary. Awardee is free to choose to comply with the terms of this Agreement and receive the benefits offered or else reject this Agreement with no adverse consequences to Awardee’s employment with the Cardinal Group.

(ii) Awardee agrees to provide the Company with at least 10 days’ written notice prior to accepting employment with or providing services to a Competitor within one year after Termination of Employment.

(iii) Awardee acknowledges receiving sufficient consideration for the requirements of this Paragraph 4, including Awardee’s receipt of the Restricted Share Units. Awardee further acknowledges that the Company would not provide the Restricted Share Units to Awardee without Awardee’s promise to abide by the terms of this Paragraph 4. The parties also acknowledge that the provisions contained in this Paragraph 4 are ancillary to, or part of, an otherwise enforceable agreement at the time this Agreement is made.

(iv) Awardee may be released from the obligations of this Paragraph 4 if and only if the Administrator determines, in writing and in the Administrator’s sole discretion, that a release is in the best interests of the Company.

5. Payment.

(a) General. Subject to the provisions of Paragraph 4 of this Agreement and Paragraphs 5(b), (c), (d) and (e) below, Awardee is entitled to receive from the Company (without any payment on behalf of Awardee other than as described in Paragraph 10) the Shares represented by the Restricted Share Units on the Vesting Date.

(b) Death. To the extent that Restricted Share Units are vested on the date of Awardee's Termination of Employment due to death, Awardee is entitled to receive the corresponding Shares from the Company on the date of death.

(c) Disability, Retirement and Other Separations from Service. To the extent that Restricted Share Units are vested as the result of Disability, Retirement or otherwise on the date of Awardee's "separation from service" (determined in accordance with Section 409A of the Code), Awardee is entitled to receive the corresponding Shares from the Company on the date of Awardee's "separation from service"; provided, however, that if Awardee on the date of separation from service is a "specified employee" (certain officers of the Cardinal Group within the meaning of Section 409A of the Code determined using the identification methodology selected by the Company from time to time), Awardee is entitled to receive the corresponding Shares from the Company on the first day of the seventh month after the date of Awardee's separation from service or, if earlier, the date of Awardee's death.

(d) Change of Control. To the extent that Restricted Share Units are vested on the date of a Change of Control, Awardee is entitled to receive the corresponding Shares from the Company on the date of the Change of Control; provided, however, that if such Change of Control would not qualify as a permissible date of distribution under Section 409A(a)(2)(A) of the Code, and the regulations thereunder, and where Section 409A of the Code applies to such distribution, Awardee is entitled to receive the corresponding Shares from the Company on the date that would have otherwise applied pursuant to Paragraphs 5(a), (b) or (c).

(e) Elections to Defer Receipt. Elections to defer receipt of the Shares beyond the date of payment provided herein may be permitted in the discretion of the Administrator pursuant to procedures established by the Administrator in compliance with the requirements of Section 409A of the Code.

6. Dividend Equivalents. Awardee is not entitled to receive cash dividends on the Restricted Share Units, but will receive a dividend equivalent payment from the Company in an amount equal to the dividends that would have been paid on each Share paid under this Agreement if it had been outstanding between the Grant Date and the payment date of any Shares represented by the Restricted Share Units (i.e., based on the record date for cash dividends). Subject to an election to defer receipt as permitted under Paragraph 5(e), the Company shall pay dividend equivalent payments in cash on the payment date of the Shares represented by the Restricted Share Units.

7. Holding Period Requirement. If Awardee is classified as an "officer" of the Company within the meaning of Rule 16a-1(f) under the Securities Exchange Act of 1934, as amended (the "Exchange Act"), on the Grant Date, then, as a condition to receipt of the Restricted Share Units, Awardee hereby agrees to hold, until the first anniversary of the applicable Vesting Date (or, if earlier, the date of Awardee's Termination of Employment), the Shares issued to pay vested Restricted Share Units (less any portion thereof withheld in order to satisfy all applicable federal, state, local or foreign income, employment or other tax). This Paragraph 7 will not apply on or after the date of a Change of Control.

8. Right of Set-Off. By accepting these Restricted Share Units, Awardee consents to a deduction from, and set-off against, any amounts owed to Awardee that are not treated as "non-qualified deferred compensation" under Section 409A of the Code by any member of the Cardinal Group from time to time (including, but not limited to, amounts owed to Awardee as wages, severance payments or other fringe benefits) to the extent of the amounts owed to the Cardinal Group by Awardee under this Agreement.

9. No Shareholder Rights. Awardee has no rights of a shareholder with respect to the Restricted Share Units, including no right to vote the Shares represented by the Restricted Share Units, until such Shares vest and are paid to Awardee.

10. Withholding Tax.

(a) Generally. Awardee is liable and responsible for all taxes owed in connection with the Restricted Share Units (including taxes owed with respect to the cash payments described in Paragraph 6 hereof), regardless of any action the Company takes with respect to any tax withholding obligations that arise in connection with the Restricted Share Units. The Company does not make any representation or undertaking regarding the tax treatment or the treatment of any tax withholding in connection with the grant or vesting of the Restricted Share Units or the subsequent sale of Shares issuable pursuant to the Restricted Share Units. The Company does not commit and is under no obligation to structure the Restricted Share Units to reduce or eliminate Awardee's tax liability.

(b) Payment of Withholding Taxes. Prior to any event in connection with the Restricted Share Units (e.g., vesting or payment) that the Company determines may result in any domestic or foreign tax withholding obligation, whether national, federal, state or local, including any employment tax obligation (the "Tax Withholding Obligation"), Awardee is required to arrange for the satisfaction of the minimum amount of such Tax Withholding Obligation in a manner acceptable to the Company. Unless Awardee elects to satisfy the Tax Withholding Obligation by an alternative means that is then permitted by the Administrator, Awardee's acceptance of this Agreement constitutes Awardee's instruction and authorization to the Company to withhold on Awardee's behalf the number of Shares from those Shares issuable to Awardee under this Award as the Company determines to be sufficient to satisfy the Tax Withholding Obligation as and when any such Tax Withholding Obligation becomes due. In the case of any amounts withheld for taxes pursuant to this provision in the form of Shares, the amount withheld may not exceed the minimum required by applicable law and regulations. The Company has the right to deduct from all cash payments paid pursuant to Paragraph 6 hereof the amount of any taxes which the Company is required to withhold with respect to such payments.

11. Governing Law/Venue for Dispute Resolution/Costs and Legal Fees. This Agreement is governed by the laws of the State of Ohio, without regard to principles of conflicts of law, except to the extent superseded by the laws of the United States of America. **The parties agree and acknowledge that the laws of the State of Ohio bear a substantial relationship to the parties and/or this Agreement and that the Restricted Share Units and benefits granted herein would not be granted without the governance of this Agreement by the laws of the State of Ohio. In addition, all legal actions or proceedings relating to this Agreement must be brought exclusively in state or federal courts located in Franklin County, Ohio and the parties executing this Agreement hereby consent to the personal jurisdiction of such courts.** Awardee acknowledges that the covenants contained in Paragraph 4 of this Agreement are reasonable in nature, are fundamental for the protection of the Company's legitimate business and proprietary interests, and do not adversely affect Awardee's ability to earn a living. In the event that it becomes necessary for the Company to institute legal proceedings under this Agreement, Awardee is responsible to the Company for all costs and reasonable legal fees incurred by the Company in connection with the proceedings. Any provision of this Agreement which is determined by a court of competent jurisdiction to be invalid or unenforceable should be construed or limited in a manner that is valid and enforceable and that comes closest to the business objectives intended by the provision, without invalidating or rendering unenforceable the remaining provisions of this Agreement.

12. Action by the Administrator. The parties agree that the interpretation of this Agreement rests exclusively and completely within the sole discretion of the Administrator. The parties agree to be bound by the decisions of the Administrator with regard to the interpretation of this Agreement and with regard to any and all matters set forth in this Agreement. In fulfilling its responsibilities hereunder, the Administrator may rely upon documents, written statements of the parties, financial reports or other material as the Administrator deems appropriate. The parties agree that there is no right to be heard or to appear before the Administrator and that any decision of the Administrator relating to this Agreement, including whether particular conduct constitutes Misconduct or Competitor Conduct, is final and binding. The Administrator may delegate its functions under this Agreement to an officer of the Cardinal Group designated by the Administrator.

13. Prompt Acceptance of Agreement. The Restricted Share Unit grant evidenced by this Agreement will, at the discretion of the Administrator, be forfeited if this Agreement is not manually executed and returned to the Company, or electronically executed by Awardee by indicating Awardee's acceptance of this Agreement in accordance with the acceptance procedures set forth on the Company's third-party equity plan administrator's web site, within 90 days of the Grant Date.

14. Electronic Delivery and Consent to Electronic Participation. The Company may, in its sole discretion, decide to deliver any documents related to the Restricted Share Unit grant under and participation in the Plan or future Restricted Share Units that may be granted under the Plan by electronic means or to request Awardee's consent to participate in the Plan by electronic means. Awardee hereby consents to receive such documents by electronic delivery and to participate in the Plan through an on-line or electronic system established and maintained by the Company or another third party designated by the Company, including the acceptance of restricted share unit grants and the execution of restricted share unit agreements through electronic signature.

15. Notices. All notices, requests, consents and other communications required or provided under this Agreement to be delivered by Awardee to the Company will be in writing and will be deemed sufficient if delivered by hand, nationally recognized overnight courier, or certified or registered mail, return receipt requested, postage prepaid, and will be effective upon delivery to the Company at the address set forth below:

Cardinal Health, Inc.
7000 Cardinal Place
Dublin, Ohio 43017
Attention: General Counsel

All notices, requests, consents and other communications required or provided under this Agreement to be delivered by the Company to Awardee may be delivered by e-mail or in writing and will be deemed sufficient if delivered by e-mail, hand, facsimile, nationally recognized overnight courier, or certified or registered mail, return receipt requested, postage prepaid, and will be effective upon delivery to Awardee.

16. Employment Agreement, Offer Letter or Other Arrangement. To the extent a written employment agreement, offer letter or other arrangement ("Employment Arrangement") that was approved by the Human Resources and Compensation Committee or the Board of Directors or that was approved in writing by an officer of the Company pursuant to delegated authority of the Human Resources and Compensation Committee provides for greater benefits to Awardee with respect to vesting of the Award on Termination of Employment than provided in this Agreement or in the Plan, then the terms of such Employment Arrangement with respect to vesting of the Award on Termination of Employment by reason of such specified events supersede the terms hereof to the extent permitted by the terms of the Plan.

17. Recoupment. This Agreement will be administered in compliance with Section 10D of the Exchange Act and any applicable rules or regulations promulgated by the Securities and Exchange Commission or any national securities exchange or national securities association on which the Shares may be traded. In its discretion, moreover, the Administrator may require repayment to the Company of all or any portion of this Award if the amount of the Award was calculated based upon the achievement of certain financial results that were subsequently the subject of a restatement of the Company's financial statements, Awardee engaged in misconduct that caused or contributed to the need for the restatement of the financial statements, and the amount payable to Awardee would have been lower than the amount actually paid to Awardee had the financial results been properly reported. This Paragraph 17 is not the Company's exclusive remedy with respect to such matters. This Paragraph 17 will not apply after a Change of Control.

18. Amendment. Any amendment to the Plan is deemed to be an amendment to this Agreement to the extent that the amendment is applicable hereto; provided, however, that no amendment may impair the rights of Awardee with respect to an outstanding Restricted Share Unit unless agreed to by Awardee and the Company, which agreement must be in writing and signed by Awardee and the Company. Other than following a Change of Control, no such agreement is required if the Administrator determines in its sole discretion that such amendment either (a) is required or advisable in order for the Company, the Plan or the Restricted Share Units to satisfy any

Applicable Law or to meet the requirements of any accounting standard or (b) is not reasonably likely to significantly diminish the benefits provided under the Restricted Share Units, or that any such diminishment has been adequately compensated.

CARDINAL HEALTH, INC.

By: _____
Its: _____

ACCEPTANCE OF AGREEMENT

Awardee hereby: (a) acknowledges that he or she has received a copy of the Plan, a copy of the Company's most recent annual report to shareholders and other communications routinely distributed to the Company's shareholders, and a copy of the Plan Description pertaining to the Plan; (b) accepts this Agreement and the Restricted Share Units granted to him or her under this Agreement subject to all provisions of the Plan and this Agreement, including the provisions in the Agreement regarding "Recoupment" set forth in Paragraph 17 above and "Misconduct," "Competitor Conduct" and "Special Forfeiture and Repayment Rules" set forth in Paragraph 4 above; (c) represents that he or she understands that the acceptance of this Agreement through an on-line or electronic system, if applicable, carries the same legal significance as if he or she manually signed the Agreement; and (d) agrees that no transfer of the Shares delivered in respect of the Restricted Share Units may be made unless the Shares have been duly registered under all applicable Federal and state securities laws pursuant to a then-effective registration which contemplates the proposed transfer or unless the Company has received a written opinion of, or satisfactory to, its legal counsel that the proposed transfer is exempt from such registration.

Awardee's Signature

Date]

**CARDINAL HEALTH, INC.
PERFORMANCE SHARE UNITS AGREEMENT**

This Performance Share Units Agreement (this “Agreement”) is entered into in Franklin County, Ohio. On [grant date] (the “Grant Date”), Cardinal Health, Inc, an Ohio corporation (the “Company”), has awarded to [employee name] (“Awardee”) [target # of units] performance-based share units (the “Performance Share Units” or “Award”). The Performance Share Units have been granted pursuant to the Cardinal Health, Inc. 2011 Long-Term Incentive Plan (the “Plan”), and are subject to all provisions of the Plan, which are incorporated herein by reference, and are subject to the provisions of this Agreement. Capitalized terms used in this Agreement which are not specifically defined have the meanings ascribed to them in the Plan.

1. Vesting of Performance Share Units . Subject to the provisions of this Agreement, zero to [maximum percentage] of the Performance Share Units vest when the Administrator certifies the payout level (“Payout Level”) as a result of achievement of: (a) specific performance criteria (the “Performance Goals”) for a performance period (“Performance Period”) set forth in Exhibit A attached hereto; and (b) Qualifying Performance Criteria set by the Administrator for a Performance Period, if the Award is intended to satisfy the requirements for “performance-based compensation” under Section 162(m) of the Code.

2. Transferability . The Performance Share Units are not transferable.

3. Termination of Employment .

(a) General . Except to the extent that vesting occurs pursuant to Paragraphs 3(b), (c) and (d) and Paragraph 5, if a Termination of Employment occurs prior to the applicable payment date in Paragraph 6(a) (the “Payment Date”) associated with a Performance Period, any Performance Share Units allocated to that Performance Period, whether vested or unvested, are forfeited by Awardee.

(b) Death or Disability . If a Termination of Employment occurs prior to the Payment Date by reason of Awardee’s death or Disability , but at least 6 months after the Grant Date, then the Performance Share Units for a Performance Period will vest as if Awardee had remained employed through the Payment Date.

(c) Retirement . If a Termination of Employment occurs prior to the Payment Date by reason of Awardee’s Retirement, but at least 6 months after the Grant Date, then the Performance Share Units for a Performance Period will vest, to the extent not previously vested, in an amount equal to the number of Performance Share Units that Awardee would have received if Awardee had remained employed through the Payment Date multiplied by a fraction, the numerator of which is the number of days in the Performance Period up to the date of such Termination of Employment, and the denominator of which is the total number of days in such Performance Period.

(d) Involuntary Termination After Completion of a Performance Period . If a Termination of Employment by the Cardinal Group (as defined below), other than a Termination for Cause, occurs after the completion of a Performance Period but prior to the Payment Date, then the Performance Share Units for the applicable Performance Period will vest as if Awardee had remained employed through the Payment Date.

4. Special Forfeiture and Repayment Rules. This Agreement contains special forfeiture and repayment rules intended to encourage conduct that protects the Company's and its Affiliates' (collectively, the "Cardinal Group's") legitimate business assets and discourage conduct that threatens or harms those assets. The Company does not intend to have the benefits of this Agreement reward or subsidize conduct detrimental to the Company, and therefore will require the forfeiture of the benefits offered under this Agreement and the repayment of gains obtained from this Agreement, according to the rules specified below. Activities that trigger the forfeiture and repayment rules are divided into two categories: Misconduct and Competitor Conduct.

(a) Misconduct. During employment with the Cardinal Group and for three years after the Termination of Employment for any reason, Awardee agrees not to engage in Misconduct. If Awardee engages in Misconduct during employment or within three years after the Termination of Employment for any reason, then

(i) Awardee immediately forfeits the Performance Share Units that have not yet vested or that vested at any time within three years prior to the Misconduct and have not yet been paid pursuant to Paragraph 6 hereof, and those forfeited Performance Share Units automatically terminate, and

(ii) Awardee shall, within 30 days following written notice from the Company, pay to the Company in cash an amount equal to: (A) the gross gain to the Awardee resulting from the payment of the Performance Share Units pursuant to Paragraph 6 hereof that had vested at any time within three years prior to the date the Misconduct first occurred (as determined by the Administrator) less (B) \$1.00. The gross gain is the Fair Market Value of the Shares represented by the Performance Share Units on the Payment Date.

As used in this Agreement, "**Misconduct**" means

(A) disclosing or using any of the Cardinal Group's confidential information (as defined by the applicable Cardinal Group policies and agreements) without proper authorization from the Cardinal Group or in any capacity other than as necessary for the performance of Awardee's assigned duties for the Cardinal Group;

(B) violation of applicable Cardinal Group policies, including but not limited to conduct which would constitute a breach of any representation or certificate of compliance signed by Awardee;

(C) fraud, gross negligence or willful misconduct by Awardee, including but not limited to fraud, gross negligence or willful misconduct causing or contributing to a material error resulting in a restatement of the financial statements of any member of the Cardinal Group;

(D) directly or indirectly soliciting or recruiting for employment or contract work on behalf of a person or entity other than a member of the Cardinal Group, any person who is an employee, representative, officer or director in the Cardinal Group or who held one or more of those positions at any time within the 12 months prior to Awardee's Termination of Employment;

(E) directly or indirectly inducing, encouraging or causing an employee of the Cardinal Group to terminate his/her employment or a contract worker to terminate his/her contract with a member of the Cardinal Group;

(F) any action by Awardee and/or his or her representatives that either does or could reasonably be expected to undermine, diminish or otherwise damage the relationship between the Cardinal Group and any of its customers, prospective customers, vendors, suppliers and/or employees known to Awardee; and

(G) breaching any provision of any employment or severance agreement with a member of the Cardinal Group.

(b) Competitor Conduct. If Awardee chooses to engage in Competitor Conduct during employment or within one year after the Termination of Employment for any reason, then

(i) Awardee immediately forfeits the Performance Share Units that have not yet vested or that vested at any time within one year prior to the Competitor Conduct and have not yet been paid pursuant to Paragraph 6 hereof, and those forfeited Performance Share Units automatically terminate, and

(ii) Awardee shall, within 30 days following written notice from the Company, pay the Company an amount equal to: (A) the gross gain to Awardee resulting from the payment of Performance Share Units pursuant to Paragraph 6 hereof that had vested at any time since the earlier of one year prior to the date the Competitor Conduct first occurred (as determined by the Administrator) or one year prior to the Termination of Employment, if applicable, less (B) \$1.00. The gross gain is the Fair Market Value of the Shares represented by the Performance Share Units on the Payment Date.

As used in this Agreement, "**Competitor Conduct**" means accepting employment with, or directly or indirectly providing services to, a Competitor in the United States. If Awardee has a Termination of Employment and Awardee's responsibilities to the Cardinal Group were limited to a specific territory or territories within or outside the United States during the 24 months prior to the Termination of Employment, then Competitor Conduct is limited to that specific territory or territories. A "Competitor" means any person or business that competes with the products or services provided by a member of the Cardinal Group for which Awardee had business responsibilities within 24 months prior to Termination of Employment or about which Awardee obtained confidential information (as defined by the applicable Cardinal Group policies or agreements).

(c) General.

(i) Nothing in this Paragraph 4 constitutes or is to be construed as a “noncompete” covenant or other restraint on employment or trade. The provisions of this Paragraph do not prevent, nor are they intended to prevent, Awardee from seeking or accepting employment or other work outside the Cardinal Group. The execution of this Agreement is voluntary. Awardee is free to choose to comply with the terms of this Agreement and receive the benefits offered or else reject this Agreement with no adverse consequences to Awardee’s employment with the Cardinal Group.

(ii) Awardee agrees to provide the Company with at least 10 days written notice prior to accepting employment with or providing services to a Competitor within one year after Termination of Employment.

(iii) Awardee acknowledges receiving sufficient consideration for the requirements of this Paragraph 4, including Awardee’s receipt of the Performance Share Units. Awardee further acknowledges that the Company would not provide the Performance Share Units to Awardee without Awardee’s promise to abide by the terms of this Paragraph 4. The parties also acknowledge that the provisions contained in this Paragraph 4 are ancillary to, or part of, an otherwise enforceable agreement at the time this Agreement is made.

(iv) Awardee may be released from the obligations of this Paragraph 4 if and only if the Administrator determines, in writing and in the Administrator’s sole discretion, that a release is in the best interests of the Company.

5. Change of Control.

(a) Valuation. In the event of a Change of Control prior to a Payment Date, the Administrator, as constituted immediately before such Change of Control, shall determine and certify the Payout Level (the “Change of Control Payout Level”) based on (i) actual performance through the most recent date prior to the Change of Control for which achievement of the Performance Goals can reasonably be determined; and (ii) the expected performance for the remainder of the Performance Period based on information reasonably available.

(b) Vesting and Substitute Awards.

(i) In the event of a Change of Control prior to a Payment Date, the percentage of the Performance Share Units determined in accordance with Exhibit A at the Change of Control Payout Level vests unless an award meeting the requirements of Paragraph 5(b)(ii) (a “Substitute Award”) is provided to Awardee in accordance with Section 16(a) of the Plan to replace or adjust the Award. If a Substitute Award is provided, any Performance Share Units that would vest in accordance with Paragraphs 3(b) or (c) in connection with Awardee’s Retirement or Disability if Awardee’s Termination of Employment occurred on the date of the Change of Control will vest at the time of the Change of Control. No Substitute Award will be provided in the event of Awardee’s Termination of Employment by reason of death, Disability or Retirement prior to a Change of Control.

(ii) An award meets the conditions of this Paragraph 5(b)(ii) (and hence qualifies as a Substitute Award) if, as determined by the Administrator as constituted immediately before the Change of Control, (A) it has a value at least equal to the value of the Performance Share Units that would vest under Paragraph 5(b)(i) if there were no Substitute Award; (B) it is paid in publicly traded equity securities of the Company or its successor in the Change of Control or another entity that is affiliated with the Company or its successor following the Change of Control; (C) it is a restricted stock unit award with vesting and payment not conditioned on the achievement of any performance criteria or conditions; (D) it vests in full upon (1) a Termination for Good Reason by Awardee (provided that no later than 90 days following an event otherwise permitting a Termination for Good Reason, Awardee gives notice to the Company of the occurrence of such event and the Company fails to cure the event within 30 days following receipt of such notice), (2) a Termination of Employment by the Company or its successor in the Change of Control other than a Termination for Cause, or (3) Awardee's death or Disability, in each case, occurring during the period of two years after the Change of Control; (E) if Awardee is subject to U.S. federal income tax under the Code, the tax consequences to Awardee under the Code of the Substitute Award are not less favorable to Awardee than the tax consequences of the Award; and (F) its other terms and conditions are not less favorable to Awardee than the terms and conditions of the Award (including the provisions that would apply in the event of a subsequent Change of Control). Without limiting the generality of the foregoing, the Substitute Award may take the form of a continuation of the Award if the modifications required by the preceding sentence are satisfied.

6. Payment.

(a) General. The Company shall pay Performance Share Units in Shares. Subject to the provisions of Paragraph 4 of this Agreement, Awardee is entitled to receive from the Company (without any payment on behalf of Awardee other than as described in Paragraph 10) one Share for each vested Performance Share Unit not later than the 60th day after the end of a Performance Period, except that if Awardee's Termination of Employment occurs due to death after the end of the Performance Period, Awardee is entitled to receive the corresponding Shares from the Company on the date of death.

(b) Change of Control. Notwithstanding Paragraph 6(a), to the extent that the performance and service vesting requirements have been satisfied for the Performance Share Units on the dates set forth below, payment with respect to the Performance Share Units will be made as follows:

(i) On the date of a Change of Control, Awardee is entitled to receive one Share for each vested Performance Share Unit, subject to any adjustments made pursuant to Section 16(a) of the Plan, from the Company; provided, however, that if such Change of Control would not qualify as a permissible date of distribution under Section 409A(a)(2)(A) of the Code, and the regulations thereunder, and where Section 409A of the Code applies to such distribution, Awardee is entitled to receive the corresponding Shares from the Company on the date that would have otherwise applied pursuant to Paragraphs 6(a), 6(b)(ii) or 6(b)(iii).

(ii) If Awardee's separation from service occurs during the period of two years following a Change of Control (and such Change of Control constitutes a change of control event as defined in accordance with Section 409A of the Code), Awardee is entitled to receive one Share for each vested Performance Share Unit from the Company on the date of Awardee's separation from service; provided, in such event that if Awardee on the date of separation from service is a "specified employee" (certain officers of the Cardinal Group within the meaning of Section 409A of the Code determined using the identification methodology selected by the Company from time to time), Awardee is entitled to receive the corresponding Shares from the Company on the first day of the seventh month after the date of Awardee's separation from service or, if earlier, the date of Awardee's death.

(iii) On the date of Awardee's Termination of Employment due to death following a Change of Control, Awardee is entitled to receive one Share for each vested Performance Share Unit from the Company on the date of death.

(c) Elections to Defer Receipt. Elections to defer receipt of the Shares beyond the Payment Date may be permitted in the discretion of the Administrator pursuant to procedures established by the Administrator in compliance with the requirements of Section 409A of the Code.

7. Dividend Equivalents. Awardee is not entitled to receive cash dividends on the Performance Share Units, but will receive a dividend equivalent payment from the Company in an amount equal to the dividends that would have been paid on each Share paid under this Agreement if it had been outstanding between the Grant Date and the payment date of any Shares represented by the Performance Share Units (i.e., based on the record date for cash dividends). Subject to an election to defer receipt as permitted under Paragraph 6(c), the Company shall pay dividend equivalent payments in cash on the payment date of the Shares represented by the Performance Share units.

8. Right of Set-Off. By accepting these Performance Share Units, Awardee consents to a deduction from, and set-off against, any amounts owed to Awardee that are not treated as "non-qualified deferred compensation" under Section 409A of the Code by any member of the Cardinal Group from time to time (including, but not limited to, amounts owed to Awardee as wages, severance payments or other fringe benefits) to the extent of the amounts owed to the Cardinal Group by Awardee under this Agreement.

9. No Shareholder Rights. Awardee has no rights of a shareholder with respect to the Performance Share Units, including no right to vote any Shares represented by the Performance Share Units, until such Shares are paid to Awardee.

10. Withholding Tax.

(a) Generally. Awardee is liable and responsible for all taxes owed in connection with the Performance Share Units (including taxes owed with respect to the cash payments described in Paragraph 7 hereof), regardless of any action the Company takes with respect to any tax withholding obligations that arise in connection with the Performance Share Units. The

Company does not make any representation or undertaking regarding the tax treatment or the treatment of any tax withholding in connection with the grant, vesting or payment of the Performance Share Units or the subsequent sale of Shares issuable pursuant to vested Performance Share Units. The Company does not commit and is under no obligation to structure the Performance Share Units to reduce or eliminate Awardee's tax liability.

(b) Payment of Withholding Taxes. Prior to any event in connection with the Performance Share Units (e.g., vesting or payment) that the Company determines may result in any domestic or foreign tax withholding obligation, whether national, federal, state or local, including any employment tax obligation (the "Tax Withholding Obligation"), Awardee is required to arrange for the satisfaction of the minimum amount of such Tax Withholding Obligation in a manner acceptable to the Company. Unless Awardee elects to satisfy the Tax Withholding Obligation by an alternative means that is then permitted by the Administrator, Awardee's acceptance of this Agreement constitutes Awardee's instruction and authorization to the Company to withhold on Awardee's behalf the number of Shares from those Shares issuable to Awardee under this Award as the Company determines to be sufficient to satisfy the Tax Withholding Obligation as and when any such Tax Withholding Obligation becomes due. In the case of any amounts withheld for taxes pursuant to this provision in the form of Shares, the amount withheld may not exceed the minimum required by applicable law and regulations. The Company has the right to deduct from all cash payments paid pursuant to Paragraph 7 hereof the amount of any taxes which the Company is required to withhold with respect to such payments.

11. Governing Law/Venue for Dispute Resolution/Costs and Legal Fees. This Agreement is governed by the laws of the State of Ohio, without regard to principles of conflicts of law, except to the extent superseded by the laws of the United States of America. **The parties agree and acknowledge that the laws of the State of Ohio bear a substantial relationship to the parties and/or this Agreement and that the Performance Share Units and benefits granted herein would not be granted without the governance of this Agreement by the laws of the State of Ohio. In addition, all legal actions or proceedings relating to this Agreement must be brought exclusively in state or federal courts located in Franklin County, Ohio and the parties executing this Agreement hereby consent to the personal jurisdiction of such courts.** Awardee acknowledges that the covenants contained in Paragraph 4 of this Agreement are reasonable in nature, are fundamental for the protection of the Company's legitimate business and proprietary interests, and do not adversely affect Awardee's ability to earn a living. In the event that it becomes necessary for the Company to institute legal proceedings under this Agreement, Awardee is responsible to the Company for all costs and reasonable legal fees incurred by the Company in connection with the proceedings. Any provision of this Agreement which is determined by a court of competent jurisdiction to be invalid or unenforceable should be construed or limited in a manner that is valid and enforceable and that comes closest to the business objectives intended by the provision, without invalidating or rendering unenforceable the remaining provisions of this Agreement.

12. Action by the Administrator. The parties agree that the interpretation of this Agreement rests exclusively and completely within the sole discretion of the Administrator. The parties agree to be bound by the decisions of the Administrator with regard to the interpretation of this Agreement and with regard to any and all matters set forth in this Agreement. In fulfilling its responsibilities hereunder, the Administrator may rely upon documents, written statements of

the parties, financial reports or other material as the Administrator deems appropriate. The parties agree that there is no right to be heard or to appear before the Administrator and that any decision of the Administrator relating to this Agreement, including whether particular conduct constitutes Misconduct or Competitor Conduct, is final and binding. The Administrator may delegate its functions under this Agreement to an officer of the Cardinal Group designated by the Administrator.

13. Prompt Acceptance of Agreement. The Performance Share Units grant evidenced by this Agreement will, at the discretion of the Administrator, be forfeited if this Agreement is not manually executed and returned to the Company, or electronically executed by Awardee by indicating Awardee's acceptance of this Agreement in accordance with the acceptance procedures set forth on the Company's third-party equity plan administrator's web site, within 90 days of the Grant Date.

14. Electronic Delivery and Consent to Electronic Participation. The Company may, in its sole discretion, decide to deliver any documents related to the Performance Share Unit grant under and participation in the Plan or future Performance Share Units that may be granted under the Plan by electronic means or to request Awardee's consent to participate in the Plan by electronic means. Awardee hereby consents to receive such documents by electronic delivery and to participate in the Plan through an on-line or electronic system established and maintained by the Company or another third party designated by the Company, including the acceptance of performance share unit grants and the execution of performance share unit agreements through electronic signature.

15. Notices. All notices, requests, consents and other communications required or provided under this Agreement to be delivered by Awardee to the Company will be in writing and will be deemed sufficient if delivered by hand, nationally recognized overnight courier, or certified or registered mail, return receipt requested, postage prepaid, and will be effective upon delivery to the Company at the address set forth below:

Cardinal Health, Inc.
7000 Cardinal Place
Dublin, Ohio 43017
Attention: General Counsel

All notices, requests, consents and other communications required or provided under this Agreement to be delivered by the Company to Awardee may be delivered by e-mail or in writing and will be deemed sufficient if delivered by e-mail, hand, facsimile, nationally recognized overnight courier, or certified or registered mail, return receipt requested, postage prepaid, and will be effective upon delivery to Awardee.

16. Employment Agreement, Offer Letter or Other Arrangement. To the extent a written employment agreement, offer letter or other arrangement ("Employment Arrangement") that was approved by the Human Resources and Compensation Committee or the Board of Directors or that was approved in writing by an officer of the Company pursuant to delegated authority of the Human Resources and Compensation Committee provides for greater benefits to Awardee with respect to vesting of the Award on Termination of Employment than provided in this Agreement or in the Plan, then the terms of such Employment Arrangement with respect to vesting of the Award on Termination of Employment by reason of such specified events supersede the terms hereof to the extent permitted by the terms of the Plan.

17. Recoupment. This Agreement will be administered in compliance with Section 10D of the Securities Exchange Act of 1934, as amended, and any applicable rules or regulations promulgated by the Securities and Exchange Commission or any national securities exchange or national securities association on which the Shares may be traded. In its discretion, moreover, the Administrator may require repayment to the Company of all or any portion of this Award if the amount of the Award was calculated based upon the achievement of certain financial results that were subsequently the subject of a restatement of the Company's financial statements, Awardee engaged in misconduct that caused or contributed to the need for the restatement of the financial statements, and the amount payable to Awardee would have been lower than the amount actually paid to Awardee had the financial results been properly reported. This Paragraph 17 is not the Company's exclusive remedy with respect to such matters. This Paragraph 17 will not apply after a Change of Control.

18. Amendment. Any amendment to the Plan is deemed to be an amendment to this Agreement to the extent that the amendment is applicable hereto; provided, however, that no amendment may impair the rights of Awardee with respect to an outstanding Performance Share Unit unless agreed to by Awardee and the Company, which agreement must be in writing and signed by Awardee and the Company. Other than following a Change of Control, no such agreement is required if the Administrator determines in its sole discretion that such amendment either (a) is required or advisable in order for the Company, the Plan or the Performance Share Units to satisfy any Applicable Law or to meet the requirements of any accounting standard or (b) is not reasonably likely to significantly diminish the benefits provided under the Performance Share Units, or that any such diminishment has been adequately compensated.

CARDINAL HEALTH, INC.

By: _____
Its: _____

ACCEPTANCE OF AGREEMENT

Awardee hereby: (a) acknowledges that he or she has received a copy of the Plan, a copy of the Company's most recent annual report to shareholders and other communications routinely distributed to the Company's shareholders, and a copy of the Plan Description pertaining to the Plan; (b) accepts this Agreement and the Performance Share Units granted to him or her under this Agreement subject to all provisions of the Plan and this Agreement, including the provisions in this Agreement regarding "Recoupment" set forth in Paragraph 17 above and "Misconduct," "Competitor Conduct" and "Special Forfeiture and Repayment Rules" set forth in Paragraph 4 above; (c) represents that he or she understands that the acceptance of this Agreement through an on-line or electronic system, if applicable, carries the same legal significance as if he or she manually signed the Agreement; and (d) agrees that no transfer of the Shares delivered in respect of the Performance Share Units may be made unless the Shares have been duly registered under all applicable Federal and state securities laws pursuant to a then-effective registration which contemplates the proposed transfer or unless the Company has received a written opinion of, or satisfactory to, its legal counsel that the proposed transfer is exempt from such registration.

Awardee's Signature

Date]

CARDINAL HEALTH, INC.

Statement of Performance Goals

A-1

Consent of Independent Registered Public Accounting Firm

We consent to the incorporation by reference in the following Registration Statements:

- (1) Registration Statement on Form S-3 No. 333-169073 of Cardinal Health, Inc.,
- (2) Registration Statements on Form S-4 No. 333-62938 and No. 333-74761 of Cardinal Health, Inc., and
- (3) Registration Statements on Form S-8 No. 33-42357, No. 33-64337, No. 333-71727, No. 333-91849, No. 333-72727, No. 333-68819, No. 333-90417, No. 333-90423, No. 333-92841, No. 333-38198, No. 333-38190, No. 333-38192, No. 333-56010, No. 333-53394, No. 333-102369, No. 333-100564, No. 333-120006, No. 333-129725, No. 333-144368, No. 333-149107, No. 333-155156, No. 333-155158, No. 333-163128, No. 333-164736 of Cardinal Health, Inc.;

of our report dated August 25, 2011, except for the impact of the matters discussed in Notes 1, 2, 16 and 18 pertaining to amortization of acquisition-related intangible assets and reportable segments, as to which the date is November 4, 2011, with respect to the consolidated financial statements and schedule of Cardinal Health, Inc. included in this Current Report on Form 8-K/A of Cardinal Health, Inc.

/s/ ERNST & YOUNG LLP

ERNST & YOUNG LLP
Columbus, Ohio
November 4, 2011

Item 1: Business**General**

Cardinal Health, Inc. is an Ohio corporation formed in 1979. As used in this Exhibit 99.2, “we,” “our,” “us” and similar pronouns refer to Cardinal Health, Inc. and its subsidiaries, unless the context requires otherwise. We are a healthcare services company providing products and services that help pharmacies, hospitals, surgery centers, physician offices and other healthcare providers focus on patient care while reducing costs, enhancing efficiency and improving quality.

Our fiscal year ends on June 30. References to fiscal 2011, 2010 and 2009 are to the fiscal years ended June 30, 2011, 2010 and 2009, respectively. Except as otherwise specified, information in this Exhibit 99.2 is provided as of June 30, 2011.

Business Segments

The following business discussion is based on our two segments as they were structured for fiscal 2011.

Pharmaceutical Segment

In the United States, the Pharmaceutical segment:

- distributes branded and generic pharmaceutical, over-the-counter healthcare, and consumer products through its pharmaceutical distribution business to retailers (including chain and independent drug stores and pharmacy departments of supermarkets and mass merchandisers), hospitals, and alternate care providers (including mail order pharmacies). This business:
 - maintains prime vendor relationships that streamline the purchasing process resulting in greater efficiency and lower costs for our customers.
 - helps pharmaceutical manufacturers with services including distribution, inventory management, data/reporting, new product launch support, and contract and chargeback administration.
- operates nuclear pharmacies and cyclotron facilities that manufacture, prepare and deliver radiopharmaceuticals for use in nuclear imaging and other procedures in hospitals and clinics;
- distributes specialty pharmaceutical products and provides services to pharmaceutical manufacturers, third-party payors and healthcare service providers supporting the marketing, distribution, and payment for specialty pharmaceutical products;
- franchises retail pharmacies under the Medicine Shoppe[®] and Medicap[®] brands; and
- provides pharmacy services to hospitals and other healthcare facilities.

In China, the Pharmaceutical segment distributes branded, generic and specialty pharmaceuticals as well as medical, surgical, over-the-counter and consumer products through our Yong Yu subsidiary. Yong Yu is one of the largest importers of pharmaceuticals into China and reaches a wide range of customers including more than 49,000 hospitals and clinics and more than 123,000 retail outlets.

The pharmaceutical distribution business generates gross margin primarily when the aggregate selling price to our customers exceeds the aggregate cost of products sold, net of manufacturer cash discount, branded manufacturer margin, and generic manufacturer margin.

Manufacturer cash discounts are price reductions that manufacturers may offer to us for prompt payment of purchased products.

Branded manufacturer margin refers to compensation amounts under distribution service agreements with manufacturers and to pharmaceutical price appreciation. Amounts earned under the distribution service agreements compensate us for a range of distribution and related services we provide to manufacturers and consist of a fee based on volume with or without pharmaceutical price appreciation. In addition, a manufacturer may increase its published price for a product after we have purchased that product for inventory. Our contract price for branded pharmaceutical products to customers is based on the manufacturer's published price at the time of sale. As such, inventory sold following a manufacturer price increase will be based on the higher manufacturer price.

Pharmaceutical price appreciation refers to amounts we earn from selling inventory at these increased prices.

Generic manufacturer margin (also referred to as "generic margin") refers to price discounts, rebates and other incentives we receive from manufacturers of generic pharmaceuticals. Our earnings on generic pharmaceuticals are generally highest during the period immediately following the initial launch of a generic product because generic pharmaceutical selling prices tend to decline over time, although this may vary.

Bulk and Non-bulk Sales . The Pharmaceutical segment differentiates between bulk and non-bulk sales based on the nature of our customers' operations. Bulk sales consist of sales to retail chain customers' centralized warehouse operations and customers' mail order businesses. All other sales, including all sales to customers located in China, are classified as non-bulk. Sales to a retail chain pharmacy customer are classified as bulk sales with respect to its warehouse operations and non-bulk sales with respect to its retail stores. We formerly referred to bulk sales as bulk customers and non-bulk sales as non-bulk customers. Other than this change in terminology, we have not changed how we categorize revenue, segment expenses and segment profit with respect to our bulk and non-bulk sales.

Substantially all bulk sales consist of products shipped in the same form that we receive them from the manufacturer; a small portion of bulk sales are broken down into smaller units prior to shipping. In contrast, non-bulk sales require more complex servicing. For non-bulk sales, we may receive inventory in large or full case quantities and break it down into smaller quantities, warehouse the product for a longer period of time, pick individual products specific to a customer's order, and deliver that smaller order to a customer location.

Bulk sales generate significantly lower segment profit as a percentage of revenue than non-bulk sales. Customers receive lower pricing on bulk sales of the same products than non-bulk sales due to volume pricing in a competitive market and due to lower costs related to the fewer services we provide. In addition, bulk sales in aggregate generate higher segment cost of products sold as a percentage of revenue than non-bulk sales, because bulk orders consist largely of higher cost branded products. The higher segment cost of products sold as a percentage of revenue for bulk sales is also driven by lower branded manufacturer margin and manufacturer cash discounts due to the mix of branded products in bulk sales. Segment distribution, selling, general and administrative ("SG&A") expenses as a percentage of revenue from bulk sales are substantially lower than from non-bulk sales because bulk sales require substantially fewer services to be rendered by us than non-bulk sales.

The following table shows the revenues, segment expenses, segment profit and segment profit as a percentage of revenue for bulk and non-bulk sales for fiscal 2011, 2010 and 2009.

<u>(in millions)</u>	<u>2011</u>	<u>2010</u>	<u>2009</u>
Non-bulk sales:			
Revenue from non-bulk sales	\$51,815.5	\$45,795.4	\$44,134.7
Segment expenses allocated to non-bulk sales (1)	50,621.1	44,898.8	43,260.2
Segment profit from non-bulk sales (1)	1,194.4	896.6	874.5
Segment profit from non-bulk sales as a percentage of revenue from non-bulk sales (1)	2.31%	1.96%	1.98%
Bulk sales:			
Revenue from bulk sales	\$41,928.0	\$43,994.5	\$43,728.2
Segment expenses allocated to bulk sales (1)	41,793.5	43,879.7	43,554.3
Segment profit from bulk sales (1)	134.5	114.8	173.9
Segment profit from bulk sales as a percentage of revenue from bulk sales (1)	0.32%	0.26%	0.40%

(1) Segment expenses and profit required complex and subjective estimates and allocations based upon assumptions, past experience and judgment that we believe are reasonable. In addition, amounts do not include the impact of last-in, first-out (“LIFO”) provisions, if any. We had no LIFO provisions in fiscal 2011, 2010 and 2009.

See Note 16 of the “Notes to Consolidated Financial Statements” for Pharmaceutical segment revenue, profit and assets for fiscal 2011, 2010 and 2009.

Medical Segment

The Medical segment distributes a broad range of medical, surgical and laboratory products to hospitals, surgery centers, laboratories, physician offices and other healthcare providers in the United States and Canada. This segment also manufactures, sources and develops its own line of private brand medical and surgical products. Manufactured products include: single-use surgical drapes, gowns and apparel; exam and surgical gloves; and fluid suction and collection systems. The segment also offers sterile and non-sterile procedure kits. Our manufactured products are sold directly or through third-party distributors in the United States, Canada, Europe, South America and the Asia/Pacific region. In addition, the segment provides supply chain services, including spend management, distribution management, and inventory management services, to healthcare providers.

See Note 16 of the “Notes to Consolidated Financial Statements” for Medical segment revenue, profit and assets for fiscal 2011, 2010 and 2009.

Acquisitions and Divestitures

In the past five fiscal years, we completed the following three significant acquisitions apart from businesses spun-off as part of CareFusion Corporation (“CareFusion”), as discussed below.

<u>Date (1)</u>	<u>Company</u>	<u>Location</u>	<u>Line of Business</u>	<u>Consideration (in millions)</u>
July 15, 2010	Healthcare Solutions Holding, LLC (“P4 Healthcare”)	Ellicott City, Maryland	Specialty pharmaceutical services	\$ 598(2)
November 29, 2010	Yong Yu	Shanghai, China	Pharmaceutical and medical products distribution	\$ 458(3)
December 21, 2010	Kinray, Inc. (“Kinray”)	Whitestone, New York	Pharmaceutical, generic, health and beauty, and home health care products distribution	\$ 1,336

(1) Represents the date we became the majority shareholder.

(2) Includes \$506 million in cash and \$92 million for the acquisition date fair value of contingent consideration to be paid for the acquisition.

(3) Includes the assumption of approximately \$57 million in debt.

We also completed several smaller acquisitions during the last five fiscal years, including purchasing Borschow Hospital & Medical Supplies, Inc. in fiscal 2009.

During the past five fiscal years, we also completed several divestitures, including selling our former Pharmaceutical Technologies and Services segment, other than certain generic-focused businesses, for approximately \$3.2 billion in cash during fiscal 2007 and selling our United Kingdom-based Martindale injectable manufacturing business in fiscal 2010. In addition, effective August 31, 2009, we separated our clinical and medical products businesses through distribution to our shareholders of 81 percent of the then outstanding common stock of CareFusion (the “Spin-Off”). During fiscal 2010, we disposed of 10.9 million shares of CareFusion common stock and during fiscal 2011, we disposed of the remaining 30.5 million shares. VIASYS Healthcare Inc. and Enturia Inc., two significant acquisitions in the last five years, were spun-off as part of CareFusion.

Customers

Our largest customers, Walgreen Co. (“Walgreens”) and CVS Caremark Corporation (“CVS”), accounted for approximately 23 percent and 22 percent, respectively, of our revenue for fiscal 2011. The aggregate of our five largest customers, including Walgreens and CVS, accounted for approximately 59 percent of our revenue for fiscal 2011.

We have agreements with group purchasing organizations (“GPOs”) that act as agents to negotiate vendor contracts on behalf of their members. Our two largest GPO relationships in terms of member revenue are with Novation, LLC, and Premier Purchasing Partners, L.P. Arrangements with these two GPOs accounted for approximately 14 percent of our revenue for fiscal 2011.

Suppliers

We rely on many different suppliers. Products obtained from our five largest suppliers accounted for an aggregate of approximately 22 percent of our revenue during fiscal 2011, but no single supplier’s products accounted for more than 5 percent of that revenue. Overall, we believe our relationships with our suppliers are good.

The Pharmaceutical distribution business is a party to distribution service agreements with pharmaceutical manufacturers. These agreements generally have terms ranging from one year with an automatic renewal feature to five years. Generally, these agreements are terminable before they expire only if the parties mutually agree, if there is an uncured breach of the agreement, or if one party is the subject of a bankruptcy filing or similar insolvency event. Some agreements allow the manufacturer to terminate the agreement without cause within a defined notice period.

Our Pharmaceutical segment's nuclear pharmacy services business dispenses several products prepared using a particular radioisotope. During fiscal 2010, it was difficult to acquire sufficient quantities of that radioisotope from third-party suppliers because of a continued and prolonged shortage of a critical raw material used to derive that radioisotope. However, the supply of raw material normalized in the first half of fiscal 2011.

Competition

We operate in a highly competitive environment in the distribution of pharmaceuticals and related healthcare services. We also operate in a highly competitive environment in the development, manufacturing and distribution of medical and surgical products. We compete on many levels, including service offerings, support services, breadth of product lines, and price.

In the Pharmaceutical segment, we compete with two other national, full-line wholesale distributors (McKesson Corporation and AmerisourceBergen Corporation) and a number of regional wholesale distributors, self-warehousing chains, direct selling manufacturers, specialty distributors, third-party logistics companies, and nuclear pharmacies, among others. In addition, the Pharmaceutical segment has experienced competition from a number of organizations offering generic pharmaceuticals, including telemarketers.

In the Medical segment, we compete with many different distributors, including Owens & Minor, Inc., Thermo Fisher Scientific Inc., PSS World Medical, Inc., Henry Schein, Inc., and Medline Industries, Inc. In addition, we compete with regional medical products distributors, third-party logistics companies and manufacturers' direct distribution. Competitors of the Medical segment's manufacturing and procedural kit businesses include Kimberly-Clark Corporation, Ansell Limited, DeRoyal Industries Inc., Medline Industries, Inc., Mölnlycke Health Care, America Contract Sterilization, Professional Hospital Supply and Medical Action Industries.

Employees

As of June 30, 2011, we had approximately 22,600 employees in the United States and approximately 9,300 employees outside of the United States. Overall, we consider our employee relations to be good.

Intellectual Property

We rely on a combination of trade secret, patent, copyright and trademark laws, nondisclosure and other contractual provisions, and technical measures to protect our products, services and intangible assets. We hold patents relating to aspects of our distribution operations, including our nuclear pharmacy products and service offerings, and relating to medical and surgical products, such as fluid suction and irrigation devices; surgical waste management systems; surgical and medical examination gloves; surgical drapes, gowns and facial protection products; and patient temperature management products. We also operate under licenses for certain proprietary technologies, and in certain instances we license our technologies to third parties. All of these proprietary rights are important to our operations, but we do not consider any particular patent, trademark, license, franchise or concession to be material to our overall business.

Regulatory Matters

Our business is highly regulated in the United States at both the federal and state level and in foreign countries. Depending upon their specific business, our subsidiaries may be subject to regulation by government entities including:

- the United States Food and Drug Administration (the “FDA”),
- the United States Drug Enforcement Administration (the “DEA”),
- the United States Nuclear Regulatory Commission (the “NRC”),
- the United States Department of Health and Human Services (“HHS”),
- United States Customs and Border Protection,
- state boards of pharmacy,
- state controlled substance agencies,
- state health departments, insurance departments or other comparable state agencies, and
- foreign agencies that are comparable to those listed above.

These regulatory agencies have a variety of civil, administrative and criminal sanctions at their disposal. They can require us to suspend distribution of products and controlled substances or initiate product recalls; they can seize products or impose significant criminal, civil and administrative sanctions; and they can seek injunctions to halt the manufacture and distribution of products.

Distribution. The FDA, DEA and various state authorities regulate the marketing, purchase, storage and distribution of pharmaceutical and medical products and controlled substances under various state and federal statutes including the Prescription Drug Marketing Act of 1987. Wholesale distributors of controlled substances must hold valid DEA registrations and state-level licenses, meet various security and operating standards, and comply with the Federal Controlled Substances Act governing the sale, marketing, packaging, storage and distribution of controlled substances.

Our Pharmaceutical segment’s China distribution operations are subject to similar national, regional and local regulations, including licensing and regulatory requirements of the China Ministry of Health, Ministry of Commerce, Ministry of Finance, the State Food and Drug Administration and the General Administration of Customs.

Manufacturing and marketing. Our subsidiaries that manufacture and source medical devices are subject to regulation by the FDA and comparable foreign agencies including regulations regarding compliance with good manufacturing practices and quality systems. In addition, our Medical segment’s international manufacturing operations may be subject to local certification requirements.

The FDA and other domestic and foreign governmental agencies administer requirements covering the design, testing, safety, effectiveness, manufacture, labeling, promotion and advertising, distribution and post-market surveillance of some of our manufactured products. We need specific approval or clearance from regulatory authorities before we can market and sell many of our products in particular countries. Even after we obtain approval or clearance to market a product, the product and our manufacturing processes are subject to continued regulatory review.

To assess and facilitate compliance with federal, state and foreign regulatory requirements, we routinely review our quality and compliance systems to evaluate their effectiveness and to identify areas for improvement or remediation. As part of our quality review, we assess the suppliers of raw materials, components and finished goods that are incorporated into the medical devices we manufacture. In addition, we conduct quality management reviews designed to highlight key issues that may affect the quality of our products and services.

From time to time, we may determine that products we manufacture or market do not meet our specifications, regulatory requirements, or published standards. When we identify a quality or regulatory issue, we investigate and take appropriate corrective action, such as withdrawing the product from the market, correcting the product at the customer location, revising product labeling, and notifying customers.

Nuclear pharmacies and related businesses. Our nuclear pharmacies and cyclotron facilities require licenses or permits and must abide by regulations from the NRC, the radiologic health agency or department of health of each state in which we operate, and the state board of pharmacy. In addition, the FDA regulates cyclotron facilities and has issued, effective December 2011, good manufacturing practices regulations for positron emission tomography (“PET”) drugs.

Prescription Drug Pedigree Tracking and Supply Chain Integrity

The FDA Amendments Act of 2007 requires the FDA to establish standards to identify and validate technologies for securing the pharmaceutical supply chain against counterfeit drugs. These standards may include track-and-trace or authentication technologies, such as radio frequency identification devices. In March 2010, the FDA issued guidance establishing standardized numerical identifiers for prescription pharmaceutical packages. Some states have also adopted laws to prevent the introduction of counterfeit, diverted, adulterated or mislabeled pharmaceuticals into the pharmaceutical supply chain. For example, effective July 2016, California requires that pharmaceutical wholesalers and repackagers implement electronic track-and-trace capabilities for pharmaceutical products.

Healthcare Fraud and Abuse Laws

We are subject to extensive and frequently changing laws and regulations relating to healthcare fraud and abuse. Laws and regulations generally prohibit soliciting, offering, receiving or paying any compensation in order to induce someone to order or purchase items or services that are in any way paid for by Medicare, Medicaid or other United States government-sponsored healthcare programs. They also prohibit submitting or causing to be submitted any fraudulent claim for payment by the federal government. Violations of these laws may result in criminal or civil penalties as well as qui tam claims under the federal False Claims Act and similar state acts under which private persons may file suit on behalf of the federal and state governments.

Health and Personal Information Practices

Services and products provided by some of our businesses, including our pharmacy services and specialty pharmaceutical businesses, involve access to patient identifiable healthcare information. The Health Insurance Portability and Accountability Act of 1996, as augmented by the Health Information Technology for Economic and Clinical Health Act, as well as some state laws, regulate the use and disclosure of patient identifiable health information, including requiring specified privacy and security measures. Federal and state officials have increasingly focused on how patient identifiable healthcare information should be handled, secured and disclosed.

Some of our businesses collect and maintain other personal information that is subject to federal and state laws protecting such information. Security and disclosure of personal information is also highly regulated in many other countries in which we operate.

Environmental, Health and Safety Laws

In the United States and other countries, we are subject to various federal, state and local environmental laws as well as laws relating to safe working conditions, laboratory and manufacturing practices.

Laws Relating to Foreign Trade and Operations

United States and international laws and regulations require us to abide by standards relating to the import and export of finished goods, raw materials and supplies and the handling of information. We also must comply with various export control and trade embargo laws and regulations, which may require licenses or other authorizations for transactions within some countries or with some counterparties. Also, we must abide by United States and foreign customs laws and regulations.

Similarly, we are subject to laws and regulations concerning the conduct of our foreign operations, including the United States Foreign Corrupt Practices Act, foreign anti-bribery laws and laws pertaining to the accuracy of internal books and records. These laws generally prohibit companies and their intermediaries from offering, promising or making payments to non-United States government officials for the purpose of obtaining or retaining business.

Other Information

Our distribution businesses are generally not required by our customers to maintain particular inventory levels other than as needed to meet service level requirements. Certain supply contracts with United States government entities require us to maintain sufficient inventory to meet emergency demands, but we do not believe those requirements materially affect inventory levels.

Our customer return policies generally require that the product be physically returned, subject to restocking fees. We only allow customers to return products that can be added back to inventory and resold at full value, or that can be returned to vendors for credit. We offer market payment terms to our customers.

Revenue and Long-Lived Assets by Geographic Area

See Note 16 of the “Notes to Consolidated Financial Statements” for revenue and long-lived assets by geographic area.

Available Information and Exchange Certifications

Our Annual Report on Form 10-K, Quarterly Reports on Form 10-Q, Current Reports on Form 8-K, and amendments to those reports are available free of charge on our website (www.cardinalhealth.com), under the “Investors—Financials/SEC filings” caption, as soon as reasonably practicable after we electronically file them with, or furnish them to, the Securities and Exchange Commission (the “SEC”).

You may read and copy any materials we file with the SEC at the SEC’s Public Reference Room at 100 F Street, NE, Washington, DC 20549. You may obtain information on the operation of the Public Reference Room by calling the SEC at 1-800-SEC-0330. The SEC also maintains a website (www.sec.gov) where you can search for annual, quarterly and current reports, proxy and information statements, and other information regarding us and other public companies.

Item 7: *Management's Discussion and Analysis of Financial Condition and Results of Operations*

The discussion and analysis presented below refers to, and should be read in conjunction with, the consolidated financial statements and related notes included in this Exhibit 99.2. Unless otherwise indicated, throughout this Management's Discussion and Analysis of Financial Condition and Results of Operations, we are referring to our continuing operations.

Executive Overview

We are a healthcare services company providing pharmaceutical and medical products and services that help pharmacies, hospitals, surgery centers, physician offices and other healthcare providers focus on patient care while reducing costs, enhancing efficiency and improving quality. We report our financial results in two segments: Pharmaceutical and Medical.

During fiscal 2011, we achieved record revenue of \$102.6 billion and increased our operating earnings by 16 percent to \$1.5 billion. We also acted on important strategic priorities that will strengthen our long-term position. We expanded our retail independent customer base significantly with the Kinray acquisition, created strong growth from our generic pharmaceutical programs, significantly enhanced our specialty business with the P4 Healthcare acquisition, and launched a growth platform in China with our Yong Yu acquisition.

During fiscal 2011, our Pharmaceutical segment profit increased by 31 percent, primarily due to strong performance in our generic pharmaceutical programs, including the impact of new product launches, solid performance under our branded manufacturer agreements, and the positive impact of acquisitions. Our Medical segment profit decreased by 13 percent, adversely affected by the increased cost of commodities used in our self-manufactured and private brand products.

Also during fiscal 2011, we paid quarterly cash dividends of \$0.195 per share, or \$0.78 per share on an annualized basis, an increase of 11 percent over fiscal 2010. In May 2011, the board of directors also approved a 10 percent increase in the quarterly dividend beginning in July 2011.

Our cash and equivalents balance was \$1.9 billion at June 30, 2011, compared to \$2.8 billion at June 30, 2010. We used \$2.3 billion for acquisitions and received \$1.4 billion of net cash provided by operations and \$706 million from the sale of our remaining investment in CareFusion. We plan to continue to execute a balanced deployment of available capital to position ourselves for sustainable competitive advantage and to enhance shareholder value.

Trends

Within our Pharmaceutical segment, we expect branded pharmaceutical price appreciation in fiscal 2012 to be similar to fiscal 2011. We also expect significant new generic pharmaceutical launches in fiscal 2012; however, their impact on our gross margin can vary significantly depending on timing, size, and number of entrants, and may be less in fiscal 2012 than in fiscal 2011. In addition, we expect our recent acquisitions to have a positive year-over-year impact on revenue and operating earnings. Finally, we may have a negative impact from a LIFO charge in fiscal 2012.

Within our Medical segment, variability in the cost of commodities such as oil-based resins, cotton, latex, diesel fuel and other commodities can have a significant impact on the cost of products sold. In fiscal 2012, we anticipate a negative year-over-year impact from higher commodity prices. In addition, given the current economic and healthcare environments, we expect healthcare utilization, including surgical procedures, to remain somewhat sluggish in fiscal 2012.

Acquisitions

In December 2010, we acquired Kinray for a cash payment of \$1.3 billion. This acquisition expanded the ability of our pharmaceutical distribution business to serve retail independent pharmacies in the northeastern United States.

In November 2010, we acquired Yong Yu, a leading health care distribution business in China, for \$458 million, including the assumption of \$57 million in debt. The pharmaceutical market in China is expected to grow significantly faster than the market in the United States over the next few years.

In July 2010, we completed the acquisition of P4 Healthcare, a specialty pharmaceutical services company, for a cash payment of \$506 million. This acquisition contributes to the expansion of our presence in specialty pharmaceutical services and distribution. The acquisition agreement also included a contingent consideration obligation of up to \$150 million over the next three years. Since we completed the acquisition, we have made a cash payment of \$10 million for the first measurement period. Subsequent to June 30, 2011, we amended the agreement with the former owners to extend the last measurement period by one year and to reduce the maximum contingent consideration payout to \$100 million. At June 30, 2011, we estimate the remaining contingent consideration obligation to have a fair value of \$75 million.

The three acquisitions are reported within our Pharmaceutical segment. For fiscal 2011, they increased revenues by \$2.9 billion and operating earnings by \$61 million compared to fiscal 2010.

See Note 2 of the “Notes to Consolidated Financial Statements” for additional information on the Kinray, Yong Yu and P4 Healthcare acquisitions.

Spin-Off of CareFusion

Effective August 31, 2009, we separated our clinical and medical products business through the distribution to our shareholders of 81 percent of the then outstanding common stock of CareFusion and retained the remaining 41.4 million shares of CareFusion common stock. During fiscal 2011 and 2010, we disposed of 30.5 million and 10.9 million shares of CareFusion common stock, respectively.

On July 22, 2009, we entered into a separation agreement with CareFusion to effect the Spin-Off and provide a framework for our relationship with CareFusion after the Spin-Off. In addition, on August 31, 2009, we entered into a transition services agreement, a tax matters agreement and an accounts receivable factoring agreement with CareFusion, among other agreements.

Under the transition services agreement, during fiscal 2011 and 2010, we recognized \$65 million and \$99 million, respectively, in transition service fees, which approximately offsets the costs associated with providing the transition services. Substantially all of the transition service arrangements expired in fiscal 2011 and early fiscal 2012. We expect that transition service fees in fiscal 2012 will be substantially less than in fiscal 2011 and that the loss of fees in fiscal 2012 will be partially offset by cost reductions. For periods subsequent to fiscal 2012, we have plans in place to largely offset the loss of fees with cost reductions.

Under the accounts receivable factoring agreement, during fiscal 2011 and 2010, we purchased \$460 million and \$606 million, respectively, of CareFusion trade receivables. The accounts receivable factoring arrangement expired on April 1, 2011.

Under the tax matters agreement, CareFusion is obligated to indemnify us for certain tax exposures and transaction taxes prior to the Spin-Off. The indemnification receivable was \$264 million and \$245 million at June 30, 2011 and 2010, respectively, and is included in our consolidated financial statements.

We expect the transition of our relationship with CareFusion to a traditional distribution model during the fourth quarter of fiscal 2011 to have a \$50 to \$60 million per quarter positive impact on medical segment revenue for the first three quarters of fiscal 2012. However, we expect this change to have minimal impact on medical segment profit.

Results of Operations

Revenue

(in millions, except growth rates)	Change		Revenue		
	2011	2010	2011	2010	2009
Pharmaceutical	4%	2%	\$ 93,743.5	\$89,789.9	\$87,862.9
Medical	2%	7%	8,921.5	8,750.1	8,159.3
Total Segment Revenue	4%	3%	\$102,665.0	\$98,540.0	\$96,022.2
Corporate	N.M.	N.M.	(20.8)	(37.2)	(30.7)
Consolidated Revenues	4%	3%	\$102,644.2	\$98,502.8	\$95,991.5

Fiscal 2011 Compared to Fiscal 2010

Pharmaceutical segment

During fiscal 2011, Pharmaceutical revenue was positively impacted by acquisitions, net of divestitures (\$2.7 billion) and increased sales to existing customers (\$1.8 billion). Revenue was negatively impacted by losses of customers in excess of gains (\$584 million).

Revenue from bulk sales was \$41.9 billion and \$44.0 billion for fiscal 2011 and 2010, respectively. During fiscal 2011, revenue from bulk sales decreased 5 percent as a result of the conversion of branded pharmaceuticals to generic pharmaceuticals as well as a shift in sales to certain national chain customers to non-bulk from bulk. Revenue from non-bulk sales was \$51.8 billion and \$45.8 billion for fiscal 2011 and 2010, respectively. Revenue from non-bulk sales increased 13 percent, during fiscal 2011, primarily due to acquisitions and the previously mentioned shift in sales. All sales for Kinray, Yong Yu and P4 Healthcare are non-bulk. See “Item 1—Business” for more information about bulk and non-bulk sales.

Medical segment

Medical revenue was positively impacted during fiscal 2011 by increased volume from existing customers (\$354 million). These revenue gains were partially offset by the impact of lost customers in excess of gains (\$165 million) and decreased volume as a result of strong demand for flu-related products in the prior year (\$51 million).

Fiscal 2010 Compared to Fiscal 2009

Pharmaceutical segment

Pharmaceutical segment revenue was positively impacted during fiscal 2010 by pharmaceutical price appreciation and increased volume from existing customers (a combined impact of \$3.4 billion), partially offset by losses of customers in excess of gains (\$1.3 billion).

Medical segment

Medical segment revenue was positively impacted during fiscal 2010 by increased volume from existing hospital, laboratory and ambulatory care customers (\$462 million), driven partially by strong demand for flu-related products. Also positively impacting revenue were new products (\$74 million) and foreign exchange (\$55 million). In addition, in connection with the Spin-Off, we recognized previously deferred intercompany revenue for sales to CareFusion of \$51 million (prior to the Spin-Off, we deferred revenue for products sold to CareFusion businesses until the products were sold to the end customers). Losses of existing customers in excess of gains from new customers reduced revenue by \$200 million.

Cost of Products Sold

Consistent with the increases in revenue, our cost of products sold increased \$3.8 billion, or 4 percent, during fiscal 2011 and increased by \$2.5 billion, or 3 percent, during fiscal 2010.

Gross Margin

<u>(in millions, except growth rates)</u>	<u>Change</u>		<u>Gross Margin</u>		
	<u>2011</u>	<u>2010</u>	<u>2011</u>	<u>2010</u>	<u>2009</u>
Gross margin	10%	1%	\$4,162.0	\$3,780.7	\$3,747.5

Fiscal 2011 Compared to Fiscal 2010

Pharmaceutical segment

Gross margin increased \$446 million in fiscal 2011 primarily as a result of the factors listed below.

- Strong performance in our generic pharmaceutical programs, including the impact of new product launches, increased gross margin by \$239 million.
- Acquisitions, net of divestitures, positively impacted gross margin by \$198 million.
- Increased margin from branded pharmaceutical sales (exclusive of the related volume impact) had a positive impact on gross margin of \$72 million. The increase was primarily due to our performance under distribution service agreements and the transition of certain vendors to distribution service agreements. Factors that can influence margin from branded pharmaceutical sales include our service-level performance under distribution service agreements; our inventory level and mix; and the magnitude and timing of pharmaceutical price appreciation.
- Customer pricing changes including rebates (exclusive of the related volume impact) adversely impacted gross margin by \$99 million. The adverse impact of these customer pricing changes is partially offset by product mix, sourcing programs and other sources of margin.

Medical segment

Gross margin decreased \$59 million in fiscal 2011 primarily as a result of the factors listed below.

- Increased cost of oil-based resins, cotton, latex, diesel fuel and other commodities used in our self-manufactured and private brand products decreased gross margin by \$59 million.
- Increased net sales volume resulted in a \$22 million favorable impact to gross margin.
- In the first quarter of fiscal 2010, we realized a one-time gain of \$14 million as a result of the recognition of previously deferred intercompany revenue for sales to CareFusion.
- Somewhat sluggish healthcare utilization disproportionately affected surgical procedures and consequently our higher-margin products.

Fiscal 2010 Compared to Fiscal 2009

Pharmaceutical segment

Gross margin decreased \$65 million in fiscal 2010 as a result of the factors listed below.

- Pricing changes on renewed customer contracts (exclusive of the related volume impact) decreased gross margin by \$103 million.
- In fiscal 2009, Medicine Shoppe offered an alternative franchise model to its franchisees to position the franchise system for future growth. This transformation adversely impacted gross margin by \$65 million in fiscal 2010; however, this was partially offset by efficiencies gained within SG&A.

- Increased margin from branded pharmaceutical sales (exclusive of the related volume impact) had a positive impact on gross margin of \$38 million despite the adverse timing impact of the transition of a significant vendor relationship to a distribution service agreement.
- Sales volume growth in pharmaceutical distribution had a positive impact of \$22 million.
- Within nuclear pharmacy, for fiscal 2010, the negative impact of the isotope supply shortage was largely offset by the use of alternative isotopes and the favorable impact of cost of materials savings from conversion to generic products. However, there was a negative impact in the second half of the year due to the severe shortages we experienced during that period.
- The favorable impact of various generic pharmaceutical product programs in pharmaceutical distribution was partially offset by lower generic margins due to timing and value of new generic launches.

Medical segment

Gross margin increased \$95 million in fiscal 2010 as a result of the factors listed below.

- Increased sales volume resulted in a \$67 million increase in gross margin.
- Decreased cost of oil-based resins and other commodities favorably impacted gross margin by \$36 million.
- A one-time gain of \$14 million as a result of the recognition of previously deferred intercompany revenue for sales to CareFusion.

Distribution, Selling, General and Administrative Expenses (“SG&A”)

(in millions, except growth rates)	Change		SG&A		
	2011	2010	2011	2010	2009
SG&A	5%	3%	\$2,527.9	\$2,397.5	\$2,320.0

Fiscal 2011 Compared to Fiscal 2010

The increase in SG&A in fiscal 2011 was primarily due to acquisitions, net of divestitures (\$90 million). SG&A also included costs related to the Spin-Off of \$10 million and \$11 million for fiscal 2011 and 2010, respectively.

Fiscal 2010 Compared to Fiscal 2009

Increased SG&A during fiscal 2010 was primarily due to an increase in our management incentive compensation. In fiscal 2010, we had incentive compensation accruals that were \$46 million above plan due to better than expected consolidated performance compared with incentive compensation accruals that were \$36 million below plan in fiscal 2009. In addition, we incurred increased spending on strategic projects (\$51 million). SG&A expense growth was significantly mitigated by cost control measures instituted in fiscal 2009 and reduced bad debt expense (\$25 million). SG&A also included \$11 million and \$5 million of costs related to the Spin-Off for fiscal 2010 and 2009, respectively.

Segment Profit and Operating Earnings

(in millions, except growth rates)	Change		Segment Profit and Operating Earnings		
	2011	2010	2011	2010	2009
Pharmaceutical	31%	(4)%	\$1,328.9	\$1,011.4	\$1,048.4
Medical	(13)%	11%	372.7	\$ 428.6	\$ 385.7
Total Segment Profit	18%	0%	1,701.6	1,440.0	1,434.1
Corporate	N.M.	N.M.	(187.6)	(133.1)	(146.7)
Consolidated Operating Earnings	16%	2%	\$1,514.0	\$1,306.9	\$1,287.4

Segment Profit

We evaluate the performance of the individual segments based upon, among other things, segment profit, which is segment revenue, less segment cost of products sold, less segment SG&A expenses. We do not allocate restructuring and employee severance, acquisition-related costs (including amortization of acquisition-related intangible assets), impairments and (gain)/loss on sale of assets, litigation (recoveries)/charges, net, certain investment and other spending to our segments. These costs are retained at Corporate. Investment spending generally includes the first year spend for certain projects which require incremental strategic investments in the form of additional operating expenses. We encourage our segments to identify investment projects which will promote innovation and provide future returns. As approval decisions for such projects are dependent upon executive management, the expenses for such projects are often retained at Corporate. In addition, Spin-Off costs included within SG&A are not allocated to our segments.

Pharmaceutical segment

The principal drivers for fiscal 2011 compared to the prior year were strong performance in our generic pharmaceutical programs, including the impact of new product launches, the positive impact of acquisitions, and increased margin from branded pharmaceutical sales, offset by customer pricing changes. See the gross margin section above for discussion of these items.

The principal drivers for the decrease during fiscal 2010 were pricing changes on renewed customer contracts, fewer significant generic pharmaceutical launches than the prior year and the Medicine Shoppe franchise transformation. The decline in segment profit was partially offset by contributions from our generic programs, disciplined cost controls and increased margin from branded pharmaceutical sales.

Segment profit from bulk sales increased \$20 million in fiscal 2011 as compared to fiscal 2010 and was 10 and 11 percent of Pharmaceutical segment profit for fiscal 2011 and 2010, respectively. Segment profit from non-bulk sales increased \$298 million in fiscal 2011 as compared to fiscal 2010 and was 90 percent and 89 percent of Pharmaceutical segment profit for fiscal 2011 and 2010, respectively. The generic pharmaceutical items and acquisitions discussed above primarily impacted segment profit from non-bulk sales.

Medical segment

Compared to the prior year, results for fiscal 2011 were adversely affected by increased cost of commodities used in our self-manufactured and private brand products partially offset by increased sales volume. Results also were impacted by the negative year-over-year impact of recognizing in fiscal 2010 a one-time gain related to previously deferred intercompany revenue for sales to CareFusion.

The principal drivers for the increase during fiscal 2010 were growth in sales to certain existing customers and decreased cost of raw materials associated with commodity price movements. Results were also positively affected by the one-time gain related to previously deferred intercompany revenue for sales to CareFusion. Segment profit growth was partially dampened from increased spending on strategic projects.

Consolidated Operating Earnings

In addition to revenue, gross margin and SG&A discussed above, operating earnings were impacted by the following:

<u>(in millions)</u>	<u>2011</u>	<u>2010</u>	<u>2009</u>
Restructuring and employee severance	\$15.5	\$ 90.7	\$104.7
Acquisition-related costs	89.8	18.9	16.3
Impairments and loss on sale of assets	8.6	29.1	13.9
Litigation (recoveries)/charges, net	6.2	(62.4)	5.2

Restructuring and employee severance

Fiscal 2011, 2010 and 2009 restructuring and employee severance charges included \$7 million, \$65 million and \$74 million, respectively, of costs arising from the Spin-Off.

Acquisition-related costs

During fiscal 2011, acquisition-related costs increased \$55 million due to amortization of intangible assets acquired in the Kinray, Yong Yu and P4 Healthcare acquisitions. Acquisition-related costs also increased \$21 million due to transaction and integration costs incurred in conjunction with the Kinray, Yong Yu and P4 Healthcare acquisitions. The costs were partially offset by \$6 million of income as a result of a decrease in the contingent consideration liability relating to the P4 Healthcare acquisition, which reflects actual performance for the first measurement period and changes in our estimate of performance in future measurement periods. See Note 2 of the “Notes to Consolidated Financial Statements” for additional information on this change.

Impairments and loss on sale of assets

In fiscal 2010, we recognized an impairment charge of \$18 million related to the write-down of SpecialtyScripts, a business within our Pharmaceutical segment. We completed the sale of SpecialtyScripts during the third quarter of fiscal 2010.

Litigation (recoveries)/charges, net

In fiscal 2010, we received income of \$41 million resulting from settlement of a class action antitrust claim in which we were a class member. In addition, we received \$26 million of income for insurance proceeds released from escrow after litigation, commenced against certain directors and officers in 2004, was resolved.

Earnings Before Income Taxes and Discontinued Operations

In addition to items discussed above, earnings before income taxes and discontinued operations were impacted by the following:

<u>(in millions, except growth rates)</u>	<u>Change</u>		<u>Earnings Before Income Taxes and Discontinued Operations</u>		
	<u>2011</u>	<u>2010</u>	<u>2011</u>	<u>2010</u>	<u>2009</u>
Other (income)/expense, net	61%	N.M.	\$(21.8)	\$(13.5)	\$ 13.2
Interest expense, net	(18)%	(1)%	92.8	113.5	114.4
Loss on extinguishment of debt	N.M.	N.M.	0.0	39.9	0.0
Gain on sale of CareFusion common stock	N.M.	N.M.	(75.3)	(44.6)	0.0

Interest expense, net

The decrease in interest expense for fiscal 2011 was primarily due to the favorable impact of interest rate swaps.

Loss on extinguishment of debt

During fiscal 2010, we recognized a \$40 million loss from the early retirement of over \$1.1 billion of debt securities through a tender offer.

Gain on sale of investment in CareFusion common stock

We recognized \$75 million and \$45 million of income during fiscal 2011 and 2010, respectively, related to realized gains from the sale of shares of CareFusion common stock.

Provision for Income Taxes

Generally, fluctuations in the effective tax rate are due to changes within international and United States state effective tax rates resulting from our business mix and discrete items. A reconciliation of the provision based on the federal statutory income tax rate to our effective income tax rate from continuing operations is as follows for fiscal 2011, 2010 and 2009 (see Note 9 of “Notes to Consolidated Financial Statements” for a detailed disclosure of the effective tax rate reconciliation):

	Fiscal Year Ended June 30,		
	2011	2010	2009
Provision at Federal statutory rate	35.0%	35.0%	35.0%
State and local income taxes, net of federal benefit	2.2	4.7	1.8
Change in measurement of an uncertain tax position	2.4	1.3	0.0
Foreign tax rate differential	(2.5)	(3.3)	(3.8)
Unremitted foreign earnings	(0.1)	13.9	0.0
Valuation allowances	(0.6)	(2.3)	(3.1)
Other	0.0	2.3	4.7
Effective income tax rate	<u>36.4%</u>	<u>51.6%</u>	<u>34.6%</u>

Fiscal 2011 Compared to Fiscal 2010

The effective tax rate was favorably impacted by \$28 million, or 1.9 percentage points, attributable to recognizing no income tax expense on the sale of CareFusion stock due to the release of a previously established deferred tax valuation allowance. An unfavorable charge attributable to earnings no longer indefinitely invested offshore in fiscal 2010 favorably impacted the year-over-year comparison of the effective tax rate (see below).

Fiscal 2010 Compared to Fiscal 2009

The effective tax rate was unfavorably impacted by a charge of \$168 million, or 13.9 percentage points, attributable to earnings no longer indefinitely invested offshore. The fiscal 2010 effective tax rate was also unfavorably impacted by 1.8 percentage points due to changes in our business mix resulting from the Spin-Off which resulted in a higher percentage of our pretax income being generated in the United States than in lower tax rate international jurisdictions. A favorable audit settlement with a state taxing authority in fiscal 2009 also unfavorably impacted the year-over-year comparison of the effective tax rate.

Ongoing Audits

The IRS is currently conducting audits of fiscal years 2001 through 2010. We have received proposed adjustments from the IRS related to our 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 us. The IRS proposed additional taxes of \$849 million, excluding penalties and interest. If this tax ultimately must be paid, CareFusion is liable under the tax matters agreement for \$592 million of the total amount. We disagree with these proposed adjustments and intend to vigorously contest them, and we believe our accruals for these matters are adequate.

Earnings/(Loss) from Discontinued Operations

CareFusion operating results are included within earnings from discontinued operations for all periods through the date of the Spin-Off, and had a significant impact on earnings from discontinued operations for fiscal 2010 and 2009. See Note 5 in the “Notes to Consolidated Financial Statements” for additional information on discontinued operations.

Recent Developments

In late August 2011, the FDA notified us that it was halting entry into the United States of all procedure kits that we assemble in Mexico and import at El Paso, Texas (“Imported Kits”). The FDA indicated that we had not supplied adequate documentary support for certain components of the Imported Kits, but has not indicated any concerns about patient safety. We are working with the FDA to address their concerns, and, in the interim, are implementing steps to mitigate the impact to customers and our business, including shifting assembly of kits to facilities in the United States. Sales of the Imported Kits were approximately 5 percent of Medical segment revenue in fiscal 2011.

Liquidity and Capital Resources

We currently believe that, based upon available capital resources (cash on hand), projected operating cash flow, and access to committed credit facilities, we have adequate capital resources to fund working capital needs, currently anticipated capital expenditures, business growth and expansion, contractual obligations, current and projected debt service requirements, dividends and share repurchases. During fiscal 2011, we acquired Kinray, Yong Yu and P4 Healthcare with cash on hand. If we decide to engage in one or more additional acquisitions, depending on the size and timing of such transactions, we may need supplemental funding.

Capital Resources

Cash and Equivalents

Our cash and equivalents balance was \$1.9 billion at June 30, 2011, compared to \$2.8 billion at June 30, 2010. At June 30, 2011, our cash and cash equivalents were held in cash depository accounts with major banks around the world or invested in high quality, short-term liquid investments. The decrease was primarily driven by acquisitions, offset by net cash provided by operating activities (which is primarily driven by net earnings and working capital), and the sale of our remaining investment in CareFusion. Changes in working capital can vary significantly depending on factors such as the timing of inventory purchases, customer payments of accounts receivable, and payments to vendors during the regular course of business.

We use days sales outstanding (“DSO”), days inventory on hand (“DIOH”) and days payable outstanding (“DPO”) to evaluate our working capital performance. DSO is calculated as trade receivables, net divided by average daily revenue during the last month of the reporting period. DIOH is calculated as inventories divided by average daily cost of products sold and chargeback billings during the last quarter of the reporting period. DPO is calculated as accounts payable divided by average daily cost of products sold and chargeback billings during the last quarter of the reporting period. Chargeback billings are the difference between a product’s wholesale acquisition cost and the contract price established between the vendors and the end customer.

	Fiscal Year Ended June 30,		
	2011	2010	2009
Days sales outstanding	20.3	18.6	19.1
Days inventory on hand	22.5	21.5	23.1
Days payable outstanding	34.8	32.1	30.5

The increase in DSO in fiscal 2011 was driven by the impact of acquisitions and the increase in DPO was due to the timing of payments to vendors during the regular course of business.

The decrease in DSO in fiscal 2010 was driven by focused efforts to manage customer accounts and reduce delinquency rates. The significant improvement in DIOH in fiscal 2010 was largely due to enhanced efficiency in our supply chain operations to reduce inventory requirements. The change in DPO during fiscal 2010 was largely driven by a change in payable terms with a supplier in our Pharmaceutical segment.

During fiscal 2011, we deployed \$2.3 billion of cash on acquisitions, \$291 million on capital expenditures, \$274 million on dividends and \$270 million on share repurchases. During fiscal 2011, we received \$706 million in proceeds from sale of CareFusion common stock.

During fiscal 2010, we deployed \$260 million of cash on capital expenditures, \$253 million on dividends and \$230 million on share repurchases (an additional \$20 million repurchased during fiscal 2010 settled during the first quarter of 2011). During fiscal 2010, we received \$271 million in proceeds from sale of CareFusion common stock and \$154 million from the divestitures of our Martindale business in the United Kingdom and SpecialtyScripts. In addition, we completed a debt tender resulting in the purchase of more than \$1.1 billion debt securities using cash of \$1.4 billion distributed to us from CareFusion in connection with the Spin-Off. Additionally, in October 2009, we repaid our \$350 million floating rate notes at maturity.

The cash and equivalents balance at the end of fiscal 2011 included \$266 million of cash held by subsidiaries outside of the United States. Although the vast majority of this cash is available for repatriation, permanently bringing the money into the United States could trigger U.S. federal, state and local income tax obligations. As a U.S. parent company, we may temporarily access cash held by our foreign subsidiaries without becoming subject to U.S. federal income tax through intercompany loans.

The net cash provided by discontinued operations for fiscal 2010 of \$1.4 billion primarily reflected permanent financing obtained by CareFusion prior to the Spin-Off offset by \$90 million cash funding provided by us to CareFusion pursuant to the Spin-Off separation agreement. Net cash provided by/(used in) discontinued operations for fiscal 2009 of \$341 million primarily related to the earnings and changes in working capital for CareFusion.

Ownership of Shares of CareFusion Common Stock

During fiscal 2011 and 2010, we disposed of 30.5 million and 10.9 million shares of CareFusion common stock for cash proceeds of \$706 million and \$271 million, respectively.

Credit Facilities and Commercial Paper

Our sources of liquidity include a \$1.5 billion revolving credit facility and a \$950 million committed receivables sales facility program. During fiscal 2011, we replaced our prior revolving credit facility with a new \$1.5 billion facility that expires in May 2016 and amended the committed receivables sales facility program to extend its term to November 2012. We also have a commercial paper program of up to \$1.5 billion, backed by the revolving credit facility. We had no outstanding borrowings from the commercial paper program and no outstanding balance under the committed receivables sales facility program at June 30, 2011. Our ability to access the commercial paper market is limited based on our current credit rating from Moody's Investor Services.

Our revolving credit facility and committed receivables sales facility require us to maintain a consolidated interest coverage ratio, as of any fiscal quarter end, of at least 4-to-1 and a consolidated leverage ratio of no more than 3.25-to-1. As of June 30, 2011, we were in compliance with these financial covenants.

Held-to-Maturity Investments

We hold high quality investment grade held-to-maturity fixed income debt securities with an amortized cost basis of \$142 million as of June 30, 2011. These investments vary in maturity date, ranging from three months to sixteen months, and pay interest semi-annually.

Long-term Obligations

As of June 30, 2011, we had total long-term obligations of \$2.5 billion compared to \$2.1 billion at June 30, 2010. In December 2010, we sold \$500 million of fixed rate notes due 2020 in a registered offering. The 2020 Notes mature on December 15, 2020 and accrue interest at 4.625% per year payable semi-annually. We used the proceeds for general corporate purposes and for the repayment of \$220 million of our 6.75% Notes due February 15, 2011.

Capital Expenditures

Capital expenditures during fiscal 2011, 2010 and 2009 were \$291 million, \$260 million and \$421 million, respectively, primarily related to information technology projects and investments to improve the efficiency of our distribution facilities.

We expect capital expenditures in fiscal 2012 to be generally in line with the level of spending in fiscal 2011. We anticipate that we will be able to fund these expenditures through cash provided by operating activities. Fiscal 2012 capital expenditures will be largely focused on information technology projects.

Dividends

During fiscal 2011, we paid quarterly dividends of \$0.195 per share, or \$0.78 per share on an annualized basis, an increase of 11 percent from fiscal 2010. On May 4, 2011, our board of directors approved a 10 percent increase in our quarterly dividend to \$0.215 per share, or \$0.86 per share on an annualized basis, payable on July 15, 2011 to shareholders of record on July 1, 2011.

On August 3, 2011, our board of directors approved our 108th consecutive regular quarterly dividend.

Share Repurchases

During fiscal 2011, we repurchased \$250 million of our Common Shares. During fiscal 2010, we repurchased \$250 million of our Common Shares, of which \$20 million cash settled in July 2010. Subsequent to June 30, 2011 and through August 12, 2011, we repurchased approximately \$300 million of our Common Shares. We funded the repurchases with available cash. We have \$450 million remaining under our current Board repurchase authorization through November 2013.

Interest Rate and Currency Risk Management

We use foreign currency forward contracts, interest rate swaps and commodity swaps to manage our exposure to cash flow variability. We also use foreign currency forward contracts to protect the value of our existing foreign currency assets and liabilities and interest rate swaps to protect the value of our debt. See Item 7A below as well as Notes 1 and 12 of "Notes to Consolidated Financial Statements" for information regarding the use of financial instruments and derivatives as well as foreign currency, interest rate and commodity exposures.

Contractual Obligations

As of June 30, 2011, our contractual obligations, including estimated payments due by period, are as follows:

<u>(in millions)</u>	<u>2012</u>	<u>2013-2014</u>	<u>2015-2016</u>	<u>Thereafter</u>	<u>Total</u>
On Balance Sheet:					
Long-term debt (1)	\$325.2	\$ 308.5	\$ 532.8	\$1,330.6	\$2,497.1
Interest on long-term debt	106.3	175.0	167.7	239.6	688.6
Capital lease obligations (2)	1.8	3.9	0.0	0.0	5.7
Other long-term liabilities (3)	5.5	0.0	2.0	0.0	7.5
Off-Balance Sheet:					
Operating leases (4)	72.2	96.7	46.6	39.3	254.8
Purchase obligations (5)	153.4	73.2	13.7	5.8	246.1
Total contractual obligations	<u>\$664.4</u>	<u>\$ 657.3</u>	<u>\$ 762.8</u>	<u>\$1,615.3</u>	<u>\$3,699.8</u>

- (1) Represents maturities of our long-term debt obligations excluding capital lease obligations described below. See Note 8 of “Notes to Consolidated Financial Statements” for further information.
- (2) Represents maturities of our capital lease obligations included within long-term debt on our consolidated balance sheet and the related estimated future interest payments.
- (3) Represents cash outflows by period for certain of our long-term liabilities in which cash outflows could be reasonably estimated. Certain long-term liabilities, such as unrecognized tax benefits and deferred taxes, have been excluded from the table above because of the inherent uncertainty of the underlying tax positions or because of the inability to reasonably estimate the timing of any cash outflows. See Note 9 of “Notes to Consolidated Financial Statements” for further discussion of income taxes.
- (4) Represents minimum rental payments and the related estimated future interest payments for operating leases having initial or remaining non-cancelable lease terms as described in Note 10 of “Notes to Consolidated Financial Statements.”
- (5) Purchase obligations are defined as an agreement to purchase goods or services that is enforceable and legally binding and specifying all significant terms, including the following: fixed or minimum quantities to be purchased; fixed, minimum or variable price provisions; and approximate timing of the transaction. The purchase obligation amounts disclosed above represent estimates of the minimum for which we are obligated and the time period in which cash outflows will occur. Purchase orders and authorizations to purchase that involve no firm commitment from either party are excluded from the above table. In addition, contracts that can be unilaterally canceled with no termination fee or with proper notice are excluded from our total purchase obligations except for the amount of the termination fee or the minimum amount of goods that must be purchased during the requisite notice period.

Our acquisition of P4 Healthcare during fiscal 2011 involves the potential payment of contingent consideration. The table above does not reflect any such obligation, as the timing and amount are uncertain. See Note 2 of “Notes to Consolidated Financial Statements” for further discussion of the maximum potential amount of future contingent consideration we could be required to pay associated with this acquisition.

Recent Financial Accounting Standards

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

Critical Accounting Policies and Sensitive Accounting Estimates

Critical accounting policies are those accounting policies that (i) can have a significant impact on the presentation of our financial condition and results of operations for continuing operations and (ii) require use of complex and subjective estimates based upon past experience and management's judgment. Other companies applying reasonable judgment to the same facts and circumstances could develop different estimates. Because our estimates are inherently uncertain, actual results may differ. In this section, we describe the policies applied in preparing our consolidated financial statements that management believes are the most dependent on estimates and assumptions. For additional accounting policies, see Note 1 of "Notes to Consolidated Financial Statements."

Allowance for Doubtful Accounts

Trade receivables—amounts owed to us through our operating activities—are presented net of an allowance for doubtful accounts. We also provide financing to various customers. Such financing arrangements range from 90 days to 10 years at interest rates that generally are subject to fluctuation. Financings may be collateralized, guaranteed by third parties or unsecured. Finance notes and accrued interest receivables are recorded net of an allowance for doubtful accounts and are included in other assets. We must use judgment when deciding whether to extend credit and when calculating the required allowance for doubtful accounts.

The allowance for doubtful accounts includes portfolio and specific reserves. We determine the appropriate allowance by reviewing accounts receivable aging, industry trends, customer financial strength and credit standing, historical write-off trends and payment history. We also regularly evaluate how changes in economic conditions may affect credit risks.

Reserve methodologies are assessed annually based on historical losses and economic, business and market trends. In addition, reserves are reviewed quarterly and updated if appropriate. We may adjust the allowance for doubtful accounts if changes in customers' financial condition or general economic conditions make defaults more frequent or severe.

The following table gives information regarding the allowance for doubtful accounts over the past three fiscal years.

Fiscal year ended June 30,	Allowance for doubtful accounts	Allowance as a percentage of customer receivables	Allowance as a percentage of revenue	Reduction to allowance for customer deductions and write-offs (in millions)	Addition to Allowance
	(in millions)				(in millions)
2011	\$ 150.0	2.4%	0.15%	\$ 21.9	\$ 27.2
2010	\$ 140.1	2.6%	0.14%	\$ 8.5	\$ 26.8
2009	\$ 117.6	2.2%	0.12%	\$ 48.3	\$ 51.4

A hypothetical 0.1 percent increase or decrease in the reserve as a percentage of trade receivables, sales-type leases and finance notes receivables at June 30, 2011, would result in an increase or decrease in bad debt expense of approximately \$6 million.

We believe the reserve maintained and expenses recorded in fiscal 2011 are appropriate. At this time, we are not aware of any analytical findings or customer issues that might lead to a significant future increase in the allowance for doubtful accounts as a percentage of net revenue.

Inventories

A substantial portion of inventories (70 percent at June 30, 2011, and 73 percent at June 30, 2010) is stated at the lower of cost, using the LIFO ("last in, first out") method, or market. These are primarily merchandise inventories at the core pharmaceutical distribution facilities within our Pharmaceutical segment. The LIFO impact on the consolidated statements of earnings in a given year depends on pharmaceutical price appreciation and the level of inventory. Prices for branded pharmaceuticals tend to rise, which results in an increase in cost of products sold, whereas prices for generic pharmaceuticals tend to decline, which results in a decrease in cost of products sold.

The LIFO method presumes that the most recent inventory purchases are the first items sold, so LIFO helps us better match current costs and revenue. Using LIFO, if branded pharmaceutical inventory levels decline, the result generally will be a decrease in future cost of products sold: prices for branded pharmaceuticals tend to rise over time, so our older inventory is held at a lower cost. Conversely, if generic pharmaceutical inventory levels decline, future cost of products sold generally will increase: prices for generic pharmaceuticals tend to decline over time, so our older inventory is held at a higher cost. We believe that the average cost method of inventory valuation reasonably approximates the current cost of replacing inventory within the Pharmaceutical distribution facilities. Accordingly, the LIFO reserve is the difference between (a) inventory at the lower of LIFO cost or market and (b) inventory at replacement cost determined using the average cost method of inventory valuation. In fiscal 2011 and 2010, we did not record any LIFO reserve reductions.

The remaining inventory is stated at the lower of cost, using the FIFO (“first in, first out”) method, or market.

If we had used the average cost method of inventory valuation for all inventory within the Pharmaceutical distribution facilities, the value of inventories would not have changed in fiscal 2011 or fiscal 2010. Primarily because prices for our generic pharmaceutical inventories have continued to decline, inventories at LIFO were \$8 million and \$38 million higher than the average cost value as of June 30, 2011, and 2010, respectively. We do not record inventories in excess of replacement cost.

Inventories recorded on the consolidated balance sheets are net of reserves for excess and obsolete inventory, which were \$40 million at June 30, 2011, and \$34 million at June 30, 2010. We determine reserves for inventory obsolescence based on historical experience, sales trends, specific categories of inventory and age of on-hand inventory. If actual conditions are less favorable than our assumptions, additional inventory reserves may be required.

Business Combinations

The purchase price of an acquired business is allocated to the assets acquired and liabilities assumed, based on their estimated fair values as of the date of acquisition, including identifiable intangible assets. When an acquisition involves contingent consideration, we recognize a liability equal to the fair value of the contingent consideration obligation at the date of acquisition. The excess of the purchase price over the estimated fair value of the net tangible and identifiable intangible assets acquired is recorded as goodwill. We base the fair values of identifiable intangible assets on detailed valuations that require management to make significant judgments, estimates and assumptions. Critical estimates and assumptions include: expected future cash flows for trade names, customer relationships and other identifiable intangible assets; discount rates that reflect the risk factors associated with future cash flows; and estimates of useful lives. See Note 2 of the “Notes to Consolidated Financial Statements” for additional information regarding our acquisitions, including the contingent consideration related to the P4 Healthcare acquisition.

Goodwill and Other Intangibles

Purchased goodwill and intangible assets with indefinite lives are not amortized, but instead are tested for impairment annually or when indicators of impairment exist. Intangible assets with finite lives—primarily customer relationships and patents and trademarks—continue to be amortized over their useful lives. Impairment testing involves a comparison of estimated fair value to the respective carrying amount. If estimated fair value exceeds the carrying amount, then no impairment exists. If the carrying amount exceeds the estimated fair value, then a second step is performed to determine the amount of impairment which would be recorded as an expense to our results of operations.

Application of goodwill impairment testing involves judgment, including but not limited to, the identification of reporting units and estimating the fair value of each reporting unit. A reporting unit is defined as an operating segment or one level below an operating segment. In fiscal 2011, we identified four reporting

units: Pharmaceutical segment (excluding our nuclear and pharmacy services division and Yong Yu division); Medical segment; nuclear and pharmacy services division; and Yong Yu division. Fair values can be determined using market, income or cost-based approaches. Our determination of estimated fair value of the reporting units is based on a combination of income-based and market-based approaches. Under the market-based approach we determine fair value by comparing our reporting units to similar businesses, or guideline companies whose securities are actively traded in public markets. Under the income-based approach, we use a discounted cash flow model in which cash flows anticipated over several periods, plus a terminal value at the end of that time horizon, are discounted to their present value using an appropriate rate of return. To further confirm the fair value, we compare our aggregate fair value of our reporting units to our market capitalization. The use of alternate estimates and assumptions or changes in the industry or peer groups could materially affect the determination of fair value for each reporting unit and potentially result in goodwill impairment.

We performed annual impairment testing in fiscal 2011, 2010 and 2009 and concluded that there were no impairments of goodwill as the fair value of each reporting unit exceeded its carrying value. See Note 6 of “Notes to Consolidated Financial Statements” for additional information regarding goodwill and other intangible assets.

If we alter our impairment testing by increasing the discount rate in the discounted cash flow analysis by 1 percent, there still would not be any impairment indicated for any of our reporting units for fiscal 2011, 2010 or 2009.

Vendor Reserves

In the ordinary course of business, our vendors may dispute deductions taken against payments otherwise due to them or assert other billing disputes. These disputed transactions are researched and resolved based upon our policy and findings of the research performed. At any given time, there are outstanding items in various stages of research and resolution. In determining appropriate reserves for areas of exposure with our vendors, we assess historical experience and current outstanding claims. We have established various levels of reserves based on the type of claim and status of review. Though the transaction types are relatively consistent, we periodically refine our estimate methodology by updating the reserve estimate percentages to reflect actual historical experience. Changes to the estimate percentages affect the cost of products sold in the period in which the change was made.

Vendor reserves were \$41 million and \$28 million at June 30, 2011 and 2010, respectively. Approximately 65 percent of the vendor reserve at June 30, 2011, pertained to the Pharmaceutical segment, compared to 59 percent at the end of fiscal 2010. The reserve balance will fluctuate due to variations of outstanding claims from period to period, timing of settlements, and specific vendor issues, such as bankruptcies.

The ultimate outcome of specific claims may be different than our original estimate and may require adjustment. We believe, however, that reserves recorded for such disputes are adequate based upon current facts and circumstances.

Provision for Income Taxes

Our income tax expense, deferred tax assets and liabilities, and unrecognized tax benefits reflect management’s assessment of estimated future taxes to be paid on items in the consolidated financial statements.

Deferred income taxes arise from temporary differences between financial reporting and tax reporting bases of assets and liabilities, as well as net operating loss and tax credit carryforwards for tax purposes. The following table presents information about our tax position:

Fiscal year ended June 30,	Net deferred income tax	Net deferred income tax	Net loss and credit carryforwards	Net valuation allowance
	assets (in millions)	liabilities (in billions)	included in net deferred income tax assets (in millions)	(in millions) against deferred tax assets (1)
2011	\$ 543	\$ 1.4	\$ 190	\$ 158
2010	\$ 578	\$ 1.2	\$ 197	\$ 183

(1) This valuation allowance primarily relates to federal, state and international loss carryforwards for which the ultimate realization of future benefits is uncertain.

Expiring carryforwards and the required valuation allowances are adjusted annually. After applying the valuation allowances, we do not anticipate any limitations on our use of any of the other net deferred income tax assets described above.

We believe that our estimates for the valuation allowances against deferred tax assets and unrecognized tax benefits are appropriate based on current facts and circumstances. However, other companies applying reasonable judgment to the same facts and circumstances could develop different estimates. The amount we ultimately pay when matters are resolved may differ from the amounts accrued.

Tax benefits from uncertain tax positions are 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 percent likely of being realized upon settlement (see Note 9 of "Notes to Consolidated Financial Statements" for a detailed disclosure of the unrecognized tax benefits).

If any of our assumptions or estimates were to change, an increase or decrease in our effective tax rate by 1 percent on earnings before income taxes and discontinued operations would have caused income tax expense to increase or decrease by \$15 million for fiscal 2011.

Share-based Compensation

All share-based payments to employees, including grants of options, are recognized in the consolidated statements of earnings based on the grant date fair value of the award. The fair value of stock options is determined using a lattice valuation model. We believe the lattice model provides for better estimates because it has the ability to take into account employee exercise patterns based on changes in our stock price and other variables and it provides for a range of input assumptions.

During fiscal 2011 and 2010, we calculated separate option valuations for two separate groups of employees. During fiscal 2009, we calculated separate option valuations for three separate groups of employees. The groups were determined using similar historical exercise behaviors. The expected life of the options granted was calculated from the option valuation model and represents the length of time in years that the options granted are expected to be outstanding. Expected volatilities are based on implied volatility from traded options on our Common Shares and historical volatility over a period of time commensurate with the contractual term of the option grant (7 years). As required, the forfeiture estimates will be adjusted to reflect actual forfeitures when an award vests. The actual forfeitures in future reporting periods could be higher or lower than our current estimates.

Item 8: Financial Statements and Supplementary Data

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Shareholders and the Board of Directors of Cardinal Health, Inc.

We have audited the accompanying consolidated balance sheets of Cardinal Health, Inc. and subsidiaries (the “Company”) as of June 30, 2011 and 2010, and the related consolidated statements of earnings, shareholders’ equity, and cash flows for each of the three years in the period ended June 30, 2011. Our audits also included the financial statement schedule listed in the Index at Item 8. These financial statements and schedule are the responsibility of the Company’s management. Our responsibility is to express an opinion on these financial statements and the schedule based on our audits.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of the Company as of June 30, 2011 and 2010, and the consolidated results of their operations and their cash flows for each of the three years in the period ended June 30, 2011, in conformity with the U.S. generally accepted accounting principles. Also, in our opinion, the related financial statement schedule, when considered in relation to the basic financial statements taken as a whole, presents fairly in all material respects the information set forth therein.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the Company’s internal control over financial reporting as of June 30, 2011, based on criteria established in Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated August 25, 2011 expressed an unqualified opinion thereon.

/s/ ERNST & YOUNG LLP

ERNST & YOUNG LLP

Columbus, Ohio

August 25, 2011, except for the impact of the matters
discussed in Notes 1, 2, 16, and 18 pertaining to
amortization of acquisition-related intangible assets and reportable segments, as
to which the date is November 4, 2011

CARDINAL HEALTH, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF EARNINGS

	Fiscal Year Ended June 30,		
	2011	2010	2009
	(In millions, except per common share amounts)		
Revenue	\$ 102,644.2	\$ 98,502.8	\$ 95,991.5
Cost of products sold	98,482.2	94,722.1	92,244.0
Gross margin	4,162.0	3,780.7	3,747.5
Operating expenses:			
Distribution, selling, general and administrative expenses	2,527.9	2,397.5	2,320.0
Restructuring and employee severance	15.5	90.7	104.7
Acquisition-related costs	89.8	18.9	16.3
Impairments and loss on sale of assets	8.6	29.1	13.9
Litigation (recoveries)/charges, net	6.2	(62.4)	5.2
Operating earnings	1,514.0	1,306.9	1,287.4
Other (income)/expense, net	(21.8)	(13.5)	13.2
Interest expense, net	92.8	113.5	114.4
Loss on extinguishment of debt	0.0	39.9	0.0
Gain on sale of investment in CareFusion	(75.3)	(44.6)	0.0
Earnings before income taxes and discontinued operations	1,518.3	1,211.6	1,159.8
Provision for income taxes	552.1	624.6	401.6
Earnings from continuing operations	966.2	587.0	758.2
Earnings/(loss) from discontinued operations, net of tax	(7.2)	55.2	393.4
Net earnings	<u>\$ 959.0</u>	<u>\$ 642.2</u>	<u>\$ 1,151.6</u>
Basic earnings/(loss) per Common Share:			
Continuing operations	\$ 2.77	\$ 1.64	\$ 2.12
Discontinued operations	(0.02)	0.15	1.10
Net basic earnings per Common Share	<u>\$ 2.75</u>	<u>\$ 1.79</u>	<u>\$ 3.22</u>
Diluted earnings/(loss) per Common Share:			
Continuing operations	\$ 2.74	\$ 1.62	\$ 2.10
Discontinued operations	(0.02)	0.15	1.08
Net diluted earnings per Common Share	<u>\$ 2.72</u>	<u>\$ 1.77</u>	<u>\$ 3.18</u>
Weighted average number of Common Shares outstanding:			
Basic	348.6	358.8	357.6
Diluted	352.5	361.4	361.5

The accompanying notes are an integral part of these consolidated statements.

CARDINAL HEALTH, INC. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS

	June 30, 2011	June 30, 2010
	(In millions)	
ASSETS		
Current assets:		
Cash and equivalents	\$ 1,929.3	\$ 2,755.3
Trade receivables, net	6,155.7	5,170.6
Inventories	7,334.2	6,355.9
Prepaid expenses and other	896.7	637.1
Total current assets	<u>16,315.9</u>	<u>14,918.9</u>
Property and equipment, at cost:		
Land, buildings and improvements	1,105.1	1,121.5
Machinery and equipment	2,055.1	1,868.8
Furniture and fixtures	114.0	103.4
Total property and equipment, at cost	3,274.2	3,093.7
Accumulated depreciation and amortization	<u>(1,762.0)</u>	<u>(1,624.9)</u>
Property and equipment, net	1,512.2	1,468.8
Other assets:		
Investment in CareFusion	0.0	691.5
Goodwill and other intangibles, net	4,259.0	2,253.2
Other	758.8	657.8
Total assets	<u>\$22,845.9</u>	<u>\$19,990.2</u>
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	\$11,331.5	\$ 9,494.9
Current portion of long-term obligations and other short-term borrowings	326.7	233.2
Other accrued liabilities	1,711.3	1,809.5
Total current liabilities	<u>13,369.5</u>	<u>11,537.6</u>
Long-term obligations, less current portion	2,175.3	1,896.1
Deferred income taxes and other liabilities	1,452.5	1,280.4
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 at June 30, 2011 and 2010, respectively	2,898.2	2,889.9
Retained earnings	3,331.4	2,647.2
Common Shares in treasury, at cost: 12.5 million shares and 7.2 million shares at June 30, 2011 and 2010, respectively	(457.7)	(331.0)
Accumulated other comprehensive income	76.7	70.0
Total shareholders' equity	<u>5,848.6</u>	<u>5,276.1</u>
Total liabilities and shareholders' equity	<u>\$22,845.9</u>	<u>\$19,990.2</u>

The accompanying notes are an integral part of these consolidated statements.

CARDINAL HEALTH, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY

	<u>Common Shares</u>		<u>Retained Earnings</u>	<u>Treasury Shares</u>		<u>Accumulated Other Comprehensive Income/(Loss)</u>	<u>Total Shareholders' Equity</u>
	<u>Shares Issued</u>	<u>Amount</u>		<u>Shares (In millions)</u>	<u>Amount</u>		
BALANCE JUNE 30, 2008	364.7	\$3,001.2	\$ 5,016.2	(7.6)	\$(480.7)	\$ 210.8	\$ 7,747.5
Comprehensive income:							
Net earnings			1,151.6				1,151.6
Foreign currency translation adjustments						(122.5)	(122.5)
Unrealized loss on derivatives, net of tax						(0.8)	(0.8)
Net change in pension liability, net of tax						(5.3)	(5.3)
Total comprehensive income							1,023.0
Employee stock plans activity, including tax impact of \$2.9 million	(1.0)	30.4		3.9	137.7		168.1
Dividends declared			(213.9)				(213.9)
BALANCE JUNE 30, 2009	363.7	3,031.6	5,953.9	(3.7)	(343.0)	82.2	8,724.7
Comprehensive income:							
Net earnings			642.2				642.2
Foreign currency translation adjustments						(97.2)	(97.2)
Unrealized gain on derivatives, net of tax						23.8	23.8
Unrealized gain on investment in CareFusion, net of tax						61.2	61.2
Total comprehensive income							630.0
Employee stock plans activity, including tax impact of \$16.1 million	(0.1)	(141.7)		3.9	261.9		120.2
Treasury shares acquired				(7.4)	(249.9)		(249.9)
Dividends declared			(259.5)				(259.5)
Non-cash dividend issued in connection with Spin-off			(3,689.4)				(3,689.4)
BALANCE JUNE 30, 2010	363.6	2,889.9	2,647.2	(7.2)	(331.0)	70.0	5,276.1
Comprehensive income:							
Net earnings			959.0				959.0
Foreign currency translation adjustments						72.1	72.1
Unrealized loss on derivatives, net of tax						(4.2)	(4.2)
Reclassification of unrealized gain upon realization from sale of remaining investment in CareFusion, net of tax						(61.2)	(61.2)
Total comprehensive income							965.7
Employee stock plans activity, including tax impact of \$13.7 million	0.0	8.3		2.2	123.2		131.5
Treasury shares acquired				(7.5)	(249.9)		(249.9)
Dividends declared			(280.8)				(280.8)
Other			6.0				6.0
BALANCE JUNE 30, 2011	363.6	\$2,898.2	\$ 3,331.4	(12.5)	\$(457.7)	\$ 76.7	\$ 5,848.6

The accompanying notes are an integral part of these consolidated statements.

CARDINAL HEALTH INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS

	Fiscal Year Ended June 30,		
	2011	2010 (In millions)	2009
CASH FLOWS FROM OPERATING ACTIVITIES:			
Net earnings	\$ 959.0	\$ 642.2	\$1,151.6
(Earnings)/loss from discontinued operations	7.2	(55.2)	(393.4)
Earnings from continuing operations	966.2	587.0	758.2
Adjustments to reconcile earnings from continuing operations to net cash from operations:			
Depreciation and amortization	313.3	254.4	225.8
Loss on extinguishment of debt	0.0	39.9	0.0
Gain on sale of investment in CareFusion	(75.3)	(44.6)	0.0
Impairments and loss on sale of assets	8.6	29.1	13.9
Share-based compensation	79.5	99.5	109.9
Provision for deferred income taxes	128.0	120.2	149.4
Provision for bad debts	27.2	26.8	51.4
Change in operating assets and liabilities, net of effects from acquisitions:			
Decrease/(increase) in trade receivables	(457.2)	20.6	(713.6)
Decrease/(increase) in inventories	(664.7)	477.4	(431.2)
Increase/(decrease) in accounts payable	1,356.5	451.0	768.1
Other accrued liabilities and operating items, net	(287.0)	(74.6)	19.3
Net cash provided by operating activities—continuing operations	1,395.1	1,986.7	951.2
Net cash provided by/(used in) operating activities—discontinued operations	(0.5)	147.4	472.7
Net cash provided by operating activities	<u>1,394.6</u>	<u>2,134.1</u>	<u>1,423.9</u>
CASH FLOWS FROM INVESTING ACTIVITIES:			
Proceeds from divestitures and sale of property and equipment	3.0	158.6	136.2
Acquisition of subsidiaries, net of cash acquired	(2,299.5)	(32.0)	(128.6)
Purchase of held-to-maturity investment securities	(155.6)	0.0	0.0
Additions to property and equipment	(291.3)	(260.3)	(421.2)
Proceeds from sale of CareFusion common stock	705.9	270.7	0.0
Proceeds from maturities of held-to-maturity securities	9.5	0.0	0.0
Net cash provided by/(used in) investing activities—continuing operations	(2,028.0)	137.0	(413.6)
Net cash used in investing activities—discontinued operations	0.0	(9.9)	(129.3)
Net cash provided by/(used in) investing activities	<u>(2,028.0)</u>	<u>127.1</u>	<u>(542.9)</u>
CASH FLOWS FROM FINANCING ACTIVITIES:			
Payment of contingent consideration	(10.2)	0.0	0.0
Net change in short-term borrowings	46.4	0.0	0.0
Reduction of long-term obligations	(228.6)	(1,485.5)	(301.4)
Proceeds from long-term obligations, net of issuance costs	494.5	0.0	0.0
Proceeds from issuance of Common Shares	63.0	40.0	39.2
Tax disbursements from exercises of stock options	(13.7)	(16.1)	(2.9)
Payment of premiums for debt extinguishment	0.0	(66.4)	0.0
Dividends on Common Shares	(274.2)	(253.1)	(200.4)
Purchase of treasury shares	(269.8)	(230.2)	0.0
Net cash used in financing activities—continuing operations	(192.6)	(2,011.3)	(465.5)
Net cash provided by/(used in) financing activities—discontinued operations	0.0	1,283.8	(2.7)
Net cash used in financing activities	<u>(192.6)</u>	<u>(727.5)</u>	<u>(468.2)</u>
NET INCREASE/(DECREASE) IN CASH AND EQUIVALENTS	<u>(826.0)</u>	<u>1,533.7</u>	<u>412.8</u>
CASH AND EQUIVALENTS AT BEGINNING OF YEAR	<u>2,755.3</u>	<u>1,221.6</u>	<u>808.8</u>
CASH AND EQUIVALENTS AT END OF YEAR	<u>\$ 1,929.3</u>	<u>\$ 2,755.3</u>	<u>\$1,221.6</u>
SUPPLEMENTAL INFORMATION:			
Cash payments for:			
Interest	\$ 115.9	\$ 158.4	\$ 201.8
Income taxes	\$ 587.6	\$ 513.7	\$ 429.3
Non-cash investing and financing transactions for:			
Retained investment in CareFusion at date of Spin-Off	\$ 0.0	\$ 863.1	\$ 0.0
Non-cash dividend in connection with Spin-Off	\$ 0.0	\$ 3,689.4	\$ 0.0

The accompanying notes are an integral part of these consolidated statements.

CARDINAL HEALTH, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. BASIS OF PRESENTATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Cardinal Health, Inc., an Ohio corporation formed in 1979, is a healthcare services company providing pharmaceutical and medical products and services that help pharmacies, hospitals, surgery centers, physician offices and other healthcare providers focus on patient care while reducing costs, enhancing efficiency and improving quality. References to “we”, “our” and similar pronouns in these consolidated financial statements are to Cardinal Health, Inc. and its majority-owned subsidiaries unless the context otherwise requires.

Our fiscal year ends on June 30. References to fiscal 2011, 2010 and 2009 in these consolidated financial statements are to the fiscal years ended June 30, 2011, 2010 and 2009, respectively.

Spin-Off of CareFusion Corporation . Effective August 31, 2009, we separated our clinical and medical products businesses through a distribution to our shareholders of 81 percent of the then outstanding common stock of CareFusion Corporation (“CareFusion”) and retained the remaining 41.4 million shares of CareFusion common stock (the “Spin-Off”). During fiscal 2011 and 2010, we disposed of 30.5 million and 10.9 million shares of CareFusion common stock, respectively. While we are a party to a separation agreement and various other agreements relating to the separation, we have determined that we have no significant continuing involvement in the operations of CareFusion. Accordingly, the operating results of CareFusion are presented within discontinued operations for all periods presented through the date of the Spin-Off.

Our Relationship with CareFusion . On July 22, 2009, we entered into a separation agreement with CareFusion to effect the Spin-Off and provide a framework for our relationship with CareFusion after the Spin-Off. In addition, on August 31, 2009, we entered into a transition services agreement, a tax matters agreement and an accounts receivable factoring agreement with CareFusion, among other agreements. These agreements, including the separation agreement, provide for allocation of assets, employees, liabilities, and obligations (including 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 CareFusion and us after the Spin-Off.

Under the transition services agreement, during fiscal 2011 and 2010, we recognized \$64.7 million and \$99.2 million, respectively, in transition service fee income, which approximately offsets the costs associated with providing the transition services. Substantially all of the transition service arrangements expired in fiscal 2011 and early fiscal 2012.

Under the accounts receivable factoring agreement, during fiscal 2011 and 2010, we purchased \$460.4 million and \$605.6 million, respectively, of CareFusion trade receivables. The accounts receivable factoring arrangement expired on April 1, 2011.

Under the tax matters agreement, CareFusion is obligated to indemnify us for certain tax exposures and transaction taxes prior to the Spin-Off. The indemnification receivable is included in our balance sheet and was \$263.9 million and \$244.6 million at June 30, 2011 and 2010, respectively.

Basis of Presentation . Our consolidated financial statements include the accounts of all majority-owned subsidiaries, and all significant intercompany transactions and amounts have been eliminated. The results of businesses acquired or disposed of are included in the consolidated financial statements from the effective date of the acquisition or up to the date of disposal, respectively.

Reclassifications . Certain prior year balances have been reclassified to conform to the current year presentation. In addition, as announced on August 4, 2011, we have changed our definition of segment profit to exclude the amortization of acquisition-related intangible assets and have revised the prior period segment profit disclosure accordingly. These costs also have been reclassified from distribution, selling, general and administrative expenses to acquisition-related costs on the consolidated statements of earnings. All comparative prior period information has been reclassified and there was no impact to operating earnings or net earnings. See Notes 2 and 16 for further information regarding acquisition-related costs and segment profit, respectively.

Use of Estimates . The consolidated financial statements are prepared in accordance with accounting principles generally accepted in the United States (“GAAP”). The preparation of financial statements in accordance with GAAP requires us to make estimates, judgments and assumptions that affect the amounts

reported in the consolidated financial statements and accompanying notes. Estimates, judgments and assumptions are used in the accounting and disclosure related to, among other items, allowance for doubtful accounts, inventory valuation, business combinations, goodwill and intangible asset impairment, vendor reserves, share-based compensation, and income taxes. Actual amounts could ultimately differ from these estimated amounts.

Cash Equivalents. We consider all liquid investments purchased with a maturity of three months or less to be cash equivalents. The carrying value of cash equivalents approximates fair value.

Receivables. Trade receivables are primarily comprised of amounts owed to us through our distribution businesses and are presented net of an allowance for doubtful accounts of \$134.5 million and \$123.5 million at June 30, 2011 and 2010, respectively. An account is considered past due on the first day after its due date. In accordance with contract terms, we generally have the ability to charge customers service fees or higher prices if an account is considered past due. We continuously monitor past due accounts and establish appropriate reserves to cover potential losses, which are based primarily on historical collection rates and the credit worthiness of the customer. We write-off any amounts deemed uncollectible against the established allowance for doubtful accounts.

We provide financing to various customers. Such financing arrangements range from 90 days to 10 years, at interest rates that are generally subject to fluctuation. Interest income on these arrangements is recognized as it is earned. The financings may be collateralized, guaranteed by third parties or unsecured. Finance notes and accrued interest receivables were \$90.4 million (current portion \$18.9 million) and \$109.9 million (current portion \$20.9 million) at June 30, 2011 and 2010, respectively, and are included in other assets (current portion is included in prepaid expenses and other). Finance notes receivable are reported net of an allowance for doubtful accounts of \$14.9 million and \$16.2 million at June 30, 2011 and 2010, respectively. We estimate an allowance for these financing receivables based on historical collection rates and the credit worthiness of the customer.

Concentrations of Credit Risk and Major Customers. We maintain cash depository accounts with major banks throughout the world and invest in high quality short-term liquid instruments. Such investments are made only in instruments issued or enhanced by high quality institutions. These investments mature within three months and we have not incurred any related losses.

Our trade receivables, lease receivables, finance notes, and accrued interest receivables are exposed to a concentration of credit risk with customers in the retail and healthcare sectors. Credit risk can be affected by changes in reimbursement and other economic pressures impacting the hospital and acute care sectors of the healthcare industry. Such credit risk is limited due to supporting collateral and the diversity of the customer base, including its wide geographic dispersion. We perform ongoing credit evaluations of our customers' financial conditions and maintain reserves for credit losses. Such losses historically have been within our expectations.

The following table summarizes all of our customers that individually account for at least 10 percent of revenue and their corresponding percent of gross trade receivables. The customers in the table below are serviced through our Pharmaceutical segment.

	Percent of Revenue			Percent of Gross Trade Receivables at June 30,	
	2011	2010	2009	2011	2010
Walgreen Co.	23%	24%	24%	31%	32%
CVS Caremark Corporation	22%	22%	21%	20%	21%

We have entered into agreements with group purchasing organizations ("GPOs") which act as purchasing agents that negotiate vendor contracts on behalf of their members.

The following table summarizes the revenue that was derived from GPO members through the contractual arrangements established with Novation, LLC and Premier Purchasing Partners, L.P., our two largest GPO relationships in terms of revenue:

	Percent of Revenue		
	2011	2010	2009
GPO members	14%	15%	15%

Our trade receivable balances are with individual members of the GPO, and therefore no significant concentration of credit risk exists with these types of arrangements.

Inventories. A substantial portion of our inventories (70 percent at June 30, 2011 and 73 percent June 30, 2010) is valued at the lower of cost, using the LIFO method, or market. These inventories are included within the core pharmaceutical distribution facilities of our Pharmaceutical segment (“distribution facilities”) and are primarily merchandise inventories. We believe that the average cost method of inventory valuation provides a reasonable approximation of the current cost of replacing inventory within the distribution facilities. As such, the LIFO reserve is the difference between (a) inventory at the lower of LIFO cost or market and (b) inventory at replacement cost determined using the average cost method of inventory valuation. In fiscal 2011 and 2010, we did not record any LIFO reserve reductions.

If we had used the average cost method of inventory valuation for all inventory within the distribution facilities, inventories would not have changed in fiscal 2011 or fiscal 2010. Inventories valued at LIFO were \$7.6 million and \$37.7 million higher than the average cost value as of June 30, 2011 and 2010, respectively. We do not record inventories in excess of replacement cost.

Our remaining inventory is primarily stated at the lower of cost, using the FIFO method, or market.

Inventories presented on the consolidated balance sheet are net of reserves for excess and obsolete inventory which were \$40.0 million and \$34.4 million at June 30, 2011 and 2010, respectively. We reserve for inventory obsolescence using estimates based on historical experience, sales trends, specific categories of inventory, and age of on-hand inventory.

Cash Discounts. Manufacturer cash discounts are recorded as a component of inventory cost and recognized as a reduction of cost of products sold when the related inventory is sold.

Property and Equipment. Property and equipment are carried at cost less accumulated depreciation. Property and equipment held for sale are recorded at the lower of cost or fair value less cost to sell. Depreciation expense is computed using the straight-line method over the estimated useful lives of the assets, including capital lease assets which are depreciated over the terms of their respective leases. We use the following range of useful lives for our property and equipment categories: buildings and improvements—1 to 50 years; machinery and equipment—2 to 20 years; furniture and fixtures—3 to 10 years.

The following table shows depreciation expense for fiscal 2011, 2010 and 2009:

(in millions)	Fiscal Year Ended June 30,		
	2011	2010	2009
Depreciation expense	\$243.7	\$233.4	\$206.9

When certain events or changes in operating conditions occur, an impairment assessment may be performed on the recoverability of the carrying amounts. Repairs and maintenance expenditures are expensed as incurred. Interest on long-term projects is capitalized using a rate that approximates the weighted average interest rate on long-term obligations, which was 4.21% at June 30, 2011. The amount of capitalized interest was immaterial for all fiscal years presented.

Business Combinations. The purchase price of an acquired business is allocated to the assets acquired and liabilities assumed based on their estimated fair values as of the date of acquisition, including identifiable intangible assets. When an acquisition involves contingent consideration, we recognize a liability equal to the fair value of the contingent consideration obligation at the date of acquisition. The excess of the purchase price over the estimated fair value of the net tangible and identifiable intangible assets acquired is recorded as goodwill. We base the fair values of identifiable intangible assets on detailed valuations that require management to make significant judgments, estimates and assumptions. Critical estimates and assumptions include: expected future cash flows for trade names, customer relationships and other identifiable intangible assets; discount rates that reflect the risk factors associated with future cash flows; and estimates of useful lives. See Note 2 for additional information regarding our acquisitions, including the contingent consideration related to the P4 Healthcare acquisition.

Goodwill and Other Intangibles. Purchased goodwill and intangible assets with indefinite lives are not amortized, but instead are tested for impairment annually or when indicators of impairment exist. Intangible assets with finite lives—primarily customer relationships, patents and trademarks—are amortized over their useful lives.

Goodwill impairment testing involves a comparison of estimated fair value of reporting units to the respective carrying amount. If estimated fair value exceeds the carrying amount, then no impairment exists. If the carrying amount exceeds the estimated fair value, then a second step is performed to determine the amount of impairment, which would be recorded as an expense to our results of operations. Application of goodwill impairment testing involves judgment, including but not limited to the identification of reporting units and estimating the fair value of each reporting unit. A reporting unit is defined as an operating segment or one level below an operating segment. In fiscal 2011, we identified four reporting units: Pharmaceutical segment, excluding our nuclear and pharmacy services division and Yong Yu division; Medical segment; nuclear and pharmacy services division; and Yong Yu division. Fair values can be determined using market, income or cost-based approaches. Our determination of estimated fair value of the reporting units is based on a combination of income-based and market-based approaches. Under the market-based approach we determine fair value by comparing our reporting units to similar businesses or guideline companies whose securities are actively traded in public markets. Under the income-based approach, we use a discounted cash flow model in which cash flows anticipated over several periods, plus a terminal value at the end of that time horizon, are discounted to their present value using an appropriate rate of return. To further confirm the fair value, we compare the aggregate fair value of our reporting units to our market capitalization. The use of alternate estimates and assumptions or changes in the industry or peer groups could materially affect the determination of fair value for each reporting unit and potentially result in goodwill impairment.

We performed annual impairment testing in fiscal 2011, 2010 and 2009 and concluded that there were no impairments of goodwill as the fair value of each reporting unit exceeded its carrying value. See Note 6 for additional information regarding goodwill and other intangible assets.

Income Taxes. We account for income taxes using the asset and liability method. The asset and liability method requires recognition of deferred tax assets and liabilities for expected future tax consequences of temporary differences that currently exist between the tax bases and financial reporting bases of our assets and liabilities. Deferred tax assets and liabilities are measured using enacted tax rates in the respective jurisdictions in which we operate. Deferred taxes are not provided on the unremitted earnings of subsidiaries outside of the United States when it is expected that these earnings are permanently reinvested.

Tax benefits from uncertain tax positions are 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 percent likely of being realized upon settlement. See Note 9 for additional information regarding income taxes.

Accounting for Vendor Reserves. In the ordinary course of business, our vendors may dispute deductions taken against payments otherwise due to them or assert other billing disputes. These disputed transactions are researched and resolved based upon our policy and findings of the research performed. At any given time, there are outstanding items in various stages of research and resolution. In determining appropriate reserves for areas of exposure with our vendors, we assess historical experience and current outstanding claims. We have established various levels of reserves based on the type of claim and status of review. Though the transaction types are relatively consistent, we periodically refine our estimate methodology by updating the reserve estimate percentages to reflect actual historical experience. The ultimate outcome of certain claims may be different than our original estimate and may require an adjustment. All adjustments to vendor reserves are included in cost of products sold. In addition, the reserve balance will fluctuate due to variations of outstanding claims from period to period, timing of settlements and specific vendor issues, such as bankruptcies. The following table summarizes vendor reserves at June 30, 2011 and 2010:

(in millions)	June 30,	
	2011	2010
Vendor reserves	\$41.0	\$27.8

Third-party returns are excluded from the vendor reserves above. See separate section in Note 1 for a description of third-party returns.

Accounting for Vendor Incentives. Fees for services and other incentives received from vendors relating to the purchase or distribution of inventory are generally reported as a reduction of cost of products sold in the consolidated statements of earnings. We consider these fees and other incentives to represent product discounts, and as a result the amounts are recorded as a reduction of product cost and are recognized through cost of products sold upon sale of the related inventory.

Other Accrued Liabilities. Other accrued liabilities represent various current obligations, including certain accrued operating expenses and taxes payable.

Share-Based Compensation. All share-based compensation to employees, including grants of stock options, is recognized in the consolidated statements of earnings based on the grant date fair value of the awards. The fair value of stock options is determined using a lattice valuation model. We believe the lattice model provides for better estimates because it has the ability to take into account employee exercise patterns based on changes in our stock price and other variables and it provides for a range of input assumptions.

The compensation expense recognized for all share-based awards is net of estimated forfeitures and is recognized ratably over the service period of the awards. We classify share-based compensation expense within distribution, selling, general and administrative ("SG&A") expenses to correspond with the same line item as the majority of the cash compensation paid to employees. However, certain share-based compensation incurred in connection with the Spin-Off is classified within restructuring and employee severance. See Note 17 for additional information regarding share-based compensation.

Dividends. The following table summarizes the cash dividends per Common Share that we paid for fiscal 2011, 2010 and 2009:

	Fiscal Year Ended		
	June 30,		
	2011	2010	2009
Cash dividends per Common Share	\$0.78	\$0.70	\$0.56

Revenue Recognition. We recognize 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 for deliveries that are directly shipped to customer warehouses from the manufacturer whereby we act 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 we incur credit risk from the customer, bear the risk of loss for incomplete shipments and do not receive a separate fee or commission for the transaction and, as such, are the primary obligor. Revenue from these sales is recognized when title transfers to the customer and we have no further obligation to provide services related to such merchandise.

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, third-party logistics 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 us 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.

Medicine Shoppe International, Inc. and Medicap Pharmacies Incorporated earn franchise fees. Franchise fees represent monthly fees that are either fixed or based upon franchisees' sales and are recognized as revenue when they are earned.

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.

Sales Returns and Allowances. Revenue is recorded net of sales returns and allowances. We recognize sales returns as a reduction of revenue and cost of products sold for the sales price and cost, respectively, when products are returned. Our customer return policies generally require that the product be physically returned, subject to restocking fees, in a condition suitable to be added back to inventory and resold at full value, or returned to vendors for credit ("merchantable product"). Product returns are generally consistent throughout the year and typically are not specific to any particular product or customer. Amounts recorded in revenue and cost of products sold under this accounting policy closely approximate what would have been recorded had we accrued for sales returns and allowances at the time of the sale transaction.

The following table summarizes sales returns and allowances for the fiscal years ended June 30, 2011, 2010 and 2009:

(in millions)	Fiscal Year Ended June 30,		
	2011	2010	2009
Sales returns and allowances	\$1,651.4	\$1,516.2	\$1,391.4

Third-party Returns. Since we generally do not accept non-merchantable product returns from our customers, many of our customers return non-merchantable pharmaceutical products to our vendors through third parties. Generally, our customers do not have a direct relationship with our vendors; as such, our vendors pass the value of the returns to us (usually in the form of an accounts payable deduction). We in turn pass the value received, less an administrative fee, to our customer. In certain instances, we pass the estimated value of the return to our customer prior to processing the deduction with our vendors. Although, in general, we believe we have satisfactory contractual protections, we could be subject to claims from customers or vendors if our administration of this overall process was deficient in some respect or our contractual terms with vendors are in conflict with our contractual terms with our customers. We have maintained reserves for some of these situations based on their nature and our historical experience with their resolution.

Distribution Service Agreement and Other Vendor Fees. Our Pharmaceutical segment recognizes fees received from its distribution service agreements and other fees received from vendors related to the purchase or distribution of the vendors' inventory when those fees have been earned and we are entitled to payment. We recognize the fees as a reduction in the carrying value of the inventory that generated the fees, and as such the fees are recognized as a reduction of cost of products sold in our statements of earnings when that inventory is sold.

Shipping and Handling. Shipping and handling costs are included in SG&A expenses in our consolidated statements of earnings. Shipping and handling costs include all delivery expenses as well as all costs to prepare the product for shipment to the end customer.

The following table summarizes shipping and handling costs for fiscal 2011, 2010 and 2009:

(in millions)	Fiscal Year Ended June 30,		
	2011	2010	2009
Shipping and handling costs	\$325.7	\$293.5	\$289.7

Revenue received for shipping and handling was immaterial for all periods presented.

Translation of Foreign Currencies. Financial statements of our subsidiaries outside the United States are generally measured using the local currency as the functional currency. Adjustments to translate the assets and liabilities of these foreign subsidiaries into U.S. dollars are accumulated in shareholders' equity through accumulated other comprehensive income utilizing period-end exchange rates. Revenues and expenses of these foreign subsidiaries are translated using average exchange rates during the year.

The following table summarizes the foreign currency translation gains/(losses) included in accumulated other comprehensive income at June 30, 2011 and 2010:

(in millions)	June 30,	
	2011	2010
Foreign currency translation gains/(losses)	\$71.1	\$(1.0)

Foreign currency transaction gains and losses for the period are included in the consolidated statements of earnings in other (income)/expense, net, and were immaterial for fiscal 2011, 2010 and 2009, respectively.

Interest Rate, Currency and Commodity Risk Management. All derivative instruments are recognized at fair value on the balance sheet, and all changes in fair value are recognized in net earnings or shareholders' equity through accumulated other comprehensive income, net of tax.

For contracts that qualify for hedge accounting treatment, our policy requires that the hedge contracts must be effective at reducing the risk associated with the exposure being hedged and must be designated as a hedge at the inception of the contract. Hedge effectiveness is assessed periodically. Any contract not designated as a hedge, or so designated but ineffective, is adjusted to fair value and recognized in net earnings immediately. If a fair value or cash flow hedge ceases to qualify for hedge accounting the contract would continue to be carried on the balance sheet at fair value until settled, and future adjustments to the contract's fair value would be recognized in earnings immediately. If a forecasted transaction was no longer probable to occur, amounts previously deferred in accumulated other comprehensive income would be recognized immediately in earnings. See Note 12 for additional information regarding our derivative instruments, including the accounting treatment for instruments designated as fair value, cash flow and economic hedges.

Earnings per Common Share. Basic earnings per Common Share (“EPS”) is computed by dividing net earnings (the numerator) by the weighted average number of Common Shares outstanding during each period (the denominator). 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 as computed using the treasury stock method.

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 was effective for fiscal years beginning after November 15, 2009. As a result of this new guidance, we determined that our committed receivables sales facility no longer qualified as an off-balance sheet arrangement beginning in fiscal 2011. At June 30, 2011 and 2010, we had no amounts outstanding under this facility.

In July 2010, the FASB issued new accounting guidance which requires additional disclosures regarding the allowance for credit loss for financing receivables. This guidance requires an entity to provide additional disclosures related to the credit risk related to financing receivables and how that risk is analyzed in determining the related allowance for credit losses. We adopted this guidance on January 1, 2011. The adoption of this guidance did not have a material impact on our financial position or results of operations.

2. ACQUISITIONS

Fiscal 2011

During fiscal 2011, we completed several acquisitions, the most significant of which are described in more detail below. The results of the acquisitions described below are included within our Pharmaceutical segment. We also completed other acquisitions during this period that were not significant, individually or in the aggregate. The valuation of identifiable intangible assets utilizes significant unobservable inputs and thus represents a Level 3 fair value measurement. The fair value measurements of assets acquired and liabilities assumed as of the acquisition dates were completed during fiscal 2011. The consolidated financial statements include the results of operations from these business combinations from the date of acquisition. For fiscal 2011, these three acquisitions increased revenues by \$2.9 billion and operating earnings by \$61.3 million, compared to fiscal 2010.

Kinray. On December 21, 2010, we completed the acquisition of privately held Kinray, Inc. (“Kinray”) for \$1.3 billion in an all-cash transaction. Kinray is a wholesale pharmaceutical distribution company which serves retail independent pharmacies primarily in the New York metropolitan area.

Yong Yu. On November 29, 2010, we completed the acquisition of what is now our Yong Yu subsidiary for \$457.7 million, including the assumption of \$57.4 million in debt. Yong Yu is a health care distribution business headquartered in Shanghai, China.

P4 Healthcare. On July 15, 2010, we completed the acquisition of privately held Healthcare Solutions Holding, LLC (“P4 Healthcare”) for \$506.1 million in cash and certain contingent consideration. P4 Healthcare serves key participants across the chain of specialty care, including physicians, pharmaceutical companies and payors by providing essential tools, services and data to help improve the quality of patient outcomes and increase efficiency in the delivery of health care services.

In accordance with the agreement, the former owners of P4 Healthcare have the right to receive certain contingent payments based on targeted earnings before interest, taxes, depreciation, and amortization (“EBITDA”). The contingent consideration was to be earned over four measurement periods, which spanned three years, and each measurement period had specific targets and payout amounts. The contingent consideration payout was limited to \$150.0 million. Subsequent to June 30, 2011, we amended the agreement with the former owners to extend the fourth measurement period (beginning January 1, 2013) from six months to eighteen months and reduce the maximum contingent consideration payout to \$100.0 million.

We determined the estimated fair value of the contingent consideration obligation based on a probability-weighted income approach derived from EBITDA estimates and probability assessments with respect to the likelihood of achieving the various EBITDA targets. The fair value measurement is based on significant inputs not observable in the market and thus represents a Level 3 fair value measurement. At each reporting date, we revalue the contingent consideration obligation to estimated fair value and record changes in fair value as income or expense in our consolidated statement of earnings as acquisition-related costs. Changes in the fair value of the contingent consideration obligation may result from changes in the terms of the contingent payments, changes in discount periods and rates, changes in the timing and amount of EBITDA estimates, and changes in probability assumptions with respect to the timing and likelihood of achieving the EBITDA targets. Actual progress toward achieving the EBITDA targets for the remaining measurement periods may be different than our expectations of performance in future measurement periods. Failure to meet current expectations of progress could increase the probability of not achieving the targets within the measurement periods and result in a material reduction in the fair value of the contingent consideration obligation. The fair value of the contingent consideration obligation was \$75.4 million as of June 30, 2011, compared to the initial valuation of \$92.0 million. The \$16.6 million decrease in the contingent consideration liability reflects a cash payment of \$10.2 million for the first measurement period and changes in our estimate of performance in future measurement periods.

The following table summarizes the fair values of the assets acquired and liabilities assumed as of the acquisition date for the three acquisitions described above:

<u>(in millions)</u>	<u>Kinray</u>	<u>Yong Yu</u>	<u>P4 Healthcare</u>
Identifiable intangible assets			
Trade names (1)	\$ 16.8	\$ 4.3	\$ 16.0
Customer relationships (2)	116.0	51.7	163.0
Non-compete agreements (3)	0.0	0.0	9.7
Other (4)	0.0	0.0	37.0
Total identifiable intangible assets acquired	132.8	56.0	225.7
Cash and equivalents	0.0	3.9	0.0
Trade receivables, net	297.3	243.8	9.2
Inventories	180.8	133.1	0.1
Property and equipment, net	3.5	3.7	2.3
Other assets	18.8	52.0	2.8
Accounts payable	(268.5)	(218.8)	(1.2)
Other accrued liabilities	(12.4)	(55.8)	(8.3)
Short-term borrowings	0.0	(56.1)	0.0
Long-term obligations	0.0	(1.3)	0.0
Contingent consideration obligation	0.0	0.0	(92.0)
Total identifiable net assets acquired	352.3	160.5	138.6
Goodwill	983.7	239.8	367.5
Total net assets acquired	<u>\$1,336.0</u>	<u>\$ 400.3</u>	<u>\$ 506.1</u>

- (1) The weighted average lives of the trade names relating to the Kinray and Yong Yu acquisitions range from two to three years. P4 Healthcare trade names have indefinite lives.
- (2) The weighted average lives of customer relationships range from 4 to 15 years.
- (3) The weighted average life of non-compete agreements is five years.
- (4) The weighted average lives of other identified intangible assets range from 2 to 10 years.

Fiscal 2010

During fiscal 2010, we completed an acquisition that individually was not significant. The aggregate purchase price of this acquisition, which was paid in cash, was \$32.0 million, including the assumption of \$1.9 million of liabilities. The consolidated financial statements include the results of operations from this business combination from the date of the acquisition.

Fiscal 2009

During fiscal 2009, we completed an acquisition that individually was not significant. The aggregate purchase price of this acquisition, which was paid in cash, was \$128.6 million. Assumed liabilities of this acquired business were \$102.1 million. The consolidated financial statements include the results of operations from this business combination from the date of acquisition.

Acquisition-Related Costs

We classify costs incurred in connection with acquisitions as acquisition-related costs. These costs consist primarily of transaction costs, integration costs, changes in the fair value of contingent payments and amortization of acquisition-related intangible assets. Transaction costs are incurred during the initial evaluation of a potential targeted acquisition and primarily relate to costs to analyze, negotiate and consummate the transaction as well as financial and legal due diligence activities. Integration costs relate to activities needed to combine the operations of an acquired enterprise into our operations. As described above, we record changes in the fair value of contingent payments relating to acquisitions as income or expense in our acquisition-related costs. We amortize intangible assets related to acquisitions over their useful lives. Amortization of acquisition-related intangible assets was \$66.9 million, \$10.5 million and \$13.5 million for fiscal 2011, 2010 and 2009, respectively. See Note 6 for additional information regarding amortization of intangible assets.

3. RESTRUCTURING AND EMPLOYEE SEVERANCE

We consider restructuring activities as programs whereby we fundamentally change our 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 realignment 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.

The following table summarizes activity related to our restructuring and employee severance costs during fiscal 2011, 2010 and 2009:

(in millions)	Fiscal Year Ended June 30,		
	2011	2010	2009
Employee-related costs (1)	\$ 6.9	\$32.9	\$ 33.8
Facility exit and other costs (2)	8.6	57.8	70.9
Total restructuring and employee severance	<u>\$15.5</u>	<u>\$90.7</u>	<u>\$104.7</u>

- (1) Employee-related 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 consist of accelerated depreciation, equipment relocation costs, project consulting fees, and costs associated with restructuring our delivery of information technology infrastructure services.

Restructuring and employee severance for fiscal 2011, 2010 and 2009 included costs related to the following significant projects:

(in millions)	Fiscal Year Ended June 30,		
	2011	2010	2009
Spin-Off (1)	\$6.7	\$64.5	\$73.8
Segment Realignment (2)	0.0	2.0	15.7

- (1) We incurred restructuring expenses related to the Spin-Off consisting of employee-related costs, share-based 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 17 for further information regarding share-based compensation incurred in connection with the Spin-Off. Also included within these costs is \$18.6 million of costs related to the retirement of our former Chairman and Chief Executive Officer upon completion of the Spin-Off.
- (2) During fiscal 2009, we consolidated our businesses into two primary operating and reportable segments to reduce costs and align resources with the needs of each segment. In connection with the Spin-Off, these reportable segments were reorganized. Refer to Note 16 for additional information regarding our current reportable segments.

In addition to the significant restructuring programs discussed above, from time to time, we incur costs to implement smaller restructuring efforts for specific operations within our 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.

Restructuring and Employee Severance Accrual Rollforward

The following table summarizes activity related to liabilities associated with our restructuring and employee severance projects during fiscal 2011, 2010 and 2009:

<u>(in millions)</u>	<u>Employee Related Costs</u>	<u>Facility Exit and Other Costs</u>	<u>Total</u>
Balance at June 30, 2008	\$ 22.5	\$ 0.4	\$ 22.9
Additions	33.8	70.9	104.7
Payments and other adjustments	(43.1)	(59.0)	(102.1)
Balance at June 30, 2009	13.2	12.3	25.5
Additions	32.9	57.8	90.7
Payments and other adjustments	(36.9)	(62.7)	(99.6)
Balance at June 30, 2010	9.2	7.4	16.6
Additions	6.9	8.6	15.5
Payments and other adjustments	(10.1)	(11.4)	(21.5)
Balance at June 30, 2011	<u>\$ 6.0</u>	<u>\$ 4.6</u>	<u>\$ 10.6</u>

4. IMPAIRMENTS AND LOSS ON SALE OF ASSETS

During fiscal 2010, we recognized an \$18.1 million impairment charge 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 5 for further information regarding the sale of SpecialtyScripts. We did not recognize any material impairment charges during fiscal 2011.

5. DISCONTINUED OPERATIONS AND ASSETS HELD FOR SALE

CareFusion

We are a party to a transition services agreement and a tax matters agreement with CareFusion, among other agreements. We have determined that the continuing cash flows generated by these agreements do not constitute significant continuing involvement in the operations of CareFusion. Accordingly, the operating results of CareFusion are presented within discontinued operations for all periods presented through the date of the Spin-Off.

The results of CareFusion included in discontinued operations for fiscal 2011, 2010 and 2009 are summarized as follows:

(in millions)	Fiscal Year Ended June 30,		
	2011 (1)	2010 (2)	2009
Revenue	\$ 0.0	\$592.1	\$3,520.9
Earnings before income taxes	0.3	43.7	507.2
Income tax expense	(8.0)	(28.7)	(122.6)
Earnings/(loss) from discontinued operations	(7.7)	15.0	384.6

- (1) Reflects subsequent changes in certain estimates made at the time of the Spin-Off.
(2) Reflects the results of CareFusion through August 31, 2009, the date the Spin-Off was completed, and subsequent 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 our overall debt balance. 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 fiscal 2011, 2010 and 2009:

(in millions)	Fiscal Year Ended June 30,		
	2011	2010	2009
Interest expense allocated to CareFusion	\$0.0	\$12.8	\$75.2

There were no assets and liabilities from businesses held for sale for CareFusion at June 30, 2011 or 2010. Cash flows from discontinued operations are presented separately on the consolidated statements of cash flows.

Other

During the fourth quarter of fiscal 2007, we sold our 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 Annual Report on Form 10-K for the fiscal year ended June 30, 2009 for information regarding the sale of the PTS Business. We incurred minor amounts of activity related to the PTS Business during fiscal 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, we committed to plans to sell the United Kingdom-based Martindale injectable manufacturing business ("Martindale") within our Pharmaceutical segment, and Martindale met the criteria for classification as discontinued operations in the consolidated financial statements. During the fourth quarter of fiscal 2010, we completed the sale of Martindale resulting in a pre-tax gain of \$36.3 million. 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 through the date of sale.

During the fourth quarter of fiscal 2009, we also committed to plans to sell SpecialtyScripts within our Pharmaceutical segment, and SpecialtyScripts met the criteria for classification as held for sale in our consolidated financial statements. During the third quarter of fiscal 2010, we completed the sale of SpecialtyScripts. The results of SpecialtyScripts are reported within earnings from continuing operations on our consolidated statements of earnings through the date of sale because it did not satisfy the criteria for classification as discontinued operations.

The results included in discontinued operations of the PTS business for fiscal 2010 and 2009, and Martindale for fiscal 2011, 2010 and 2009, are summarized as follows:

(in millions)	Fiscal Year Ended June 30,		
	2011 (1)	2010	2009
Revenue	\$ 0.0	\$99.1	\$100.5
Earnings before income taxes	0.5	47.0	17.4
Income tax expense	0.0	(6.8)	(8.6)
Earnings from discontinued operations	0.5	40.2	8.8

(1) Reflects subsequent changes in certain estimates made at the time of sale.

There were no assets and liabilities from businesses held for sale for PTS Business, Martindale or SpecialtyScripts at June 30, 2011 and 2010.

6. GOODWILL AND OTHER INTANGIBLE ASSETS

Goodwill

The following table summarizes the changes in the carrying amount of goodwill, in total and by segment, during fiscal 2011 and 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	33.3	0.0	33.3
Foreign currency translation adjustments and other	(17.7)	(6.7)	(24.4)
Balance at June 30, 2010	1,248.4	957.0	2,205.4
Goodwill acquired, net of purchase price adjustments	1,598.5	33.0	1,631.5
Foreign currency translation adjustments and other	5.8	2.9	8.7
Balance at June 30, 2011	<u>\$ 2,852.7</u>	<u>\$992.9</u>	<u>\$3,845.6</u>

The increase in the Pharmaceutical segment in fiscal 2011 is primarily due to the acquisitions of Kinray, Yong Yu and P4 Healthcare. Goodwill recognized in connection with these acquisitions primarily represents the expected benefit from synergies of integrating these businesses as well as the existing workforce of the acquired entities. See Note 2 for further discussion of these acquisitions.

Other Intangible Assets

Intangible assets with definite lives are amortized over their useful lives, which range from two to twenty years. The detail of other intangible assets by class as of June 30, 2011 and 2010 is as follows:

(in millions)	June 30, 2011			June 30, 2010		
	Gross Intangible	Accumulated Amortization	Net Intangible	Gross Intangible	Accumulated Amortization	Net Intangible
Indefinite life intangibles:						
Trademarks and patents	\$ 26.5	\$ 0.0	\$ 26.5	\$ 10.2	\$ 0.0	\$ 10.2
Total indefinite life intangibles	26.5	0.0	26.5	10.2	0.0	10.2
Definite life intangibles:						
Trademarks and patents	43.4	25.2	18.2	20.3	14.1	6.2
Non-compete agreements	14.0	5.4	8.6	3.8	2.8	1.0
Customer relationships	392.7	89.2	303.5	48.4	41.1	7.3
Other	86.5	29.9	56.6	47.2	24.1	23.1
Total definite life intangibles	536.6	149.7	386.9	119.7	82.1	37.6
Total intangibles	<u>\$ 563.1</u>	<u>\$ 149.7</u>	<u>\$ 413.4</u>	<u>\$ 129.9</u>	<u>\$ 82.1</u>	<u>\$ 47.8</u>

The increase in identifiable intangible assets during fiscal 2011 is primarily due to the acquisitions of Kinray, Yong Yu and P4 Healthcare. See Note 2 for further discussion of these acquisitions.

The following table summarizes amortization of intangible assets during fiscal 2011, 2010 and 2009:

(in millions)	Fiscal Year Ended June 30,		
	2011	2010	2009
Amortization of intangible assets	\$67.7	\$11.2	\$15.0

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

(in millions)	2012	2013	2014	2015	2016
Amortization of intangible assets	\$74.3	\$64.8	\$56.6	\$41.3	\$34.0

7. HELD-TO-MATURITY INVESTMENTS

As of June 30, 2011, our held-to-maturity investments included fixed income debt securities with an amortized cost of \$142.0 million. The short-term portion of \$93.2 million is included within prepaid expenses and other in our consolidated balance sheet. The long-term portion of \$48.8 million is included within other long-term assets in our consolidated balance sheet. These investments vary in maturity date, ranging from three to sixteen months, and pay interest semi-annually. The held-to-maturity investments are stated at amortized cost, which approximates fair value. There were no held-to-maturity investments as of June 30, 2010.

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

Long-term obligations and other short-term borrowings consist of the following as of June 30, 2011 and 2010:

(in millions)	June 30,	
	2011	2010
4.00% Notes due 2015	\$ 536.6	\$ 534.7
4.625% Notes due 2020	500.1	0.0
5.50% Notes due 2013	306.9	305.1
5.65% Notes due 2012	211.7	216.1
5.80% Notes due 2016	306.9	308.9
5.85% Notes due 2017	158.0	158.0
6.00% Notes due 2017	209.6	213.1
6.75% Notes due 2011	0.0	218.7
7.80% Debentures due 2016	37.1	44.1
7.00% Debentures due 2026	124.5	124.5
Other obligations	110.6	6.1
Total	2,502.0	2,129.3
Less: current portion and other short-term borrowings	326.7	233.2
Long-term obligations, less current portion	<u>\$2,175.3</u>	<u>\$1,896.1</u>

Maturities of long-term obligations and other short-term borrowings for the next five fiscal years and thereafter are as follows:

(in millions)	2012	2013	2014	2015	2016	Thereafter	Total
Maturities of long-term obligations and other short-term borrowings	\$326.7	\$310.7	\$1.3	\$532.8	\$0.0	\$1,330.5	\$2,502.0

Long-Term Debt

The 4.00%, 5.50%, 5.65%, 5.80%, 5.85%, 6.00% and 6.75% Notes represent unsecured obligations. The 7.80% and 7.00% Debentures represent unsecured obligations of Allegiance Corporation (a wholly-owned subsidiary), which Cardinal Health, Inc. has guaranteed. None of these obligations are subject to a sinking fund and the Allegiance obligations are not redeemable prior to maturity. Interest is paid pursuant to the terms of the obligations. These notes are effectively subordinated to the liabilities of our subsidiaries, including trade payables of \$11.3 billion.

In December 2010, we sold \$500.0 million aggregate principal amount of fixed rate notes due 2020 with interest at 4.625% per year (“the 4.625% Notes”) in a registered offering. The 4.625% Notes mature on December 15, 2020. The notes are unsecured and unsubordinated obligations and rank equally in right of payment with all of our existing and future unsecured and unsubordinated indebtedness. We used the proceeds for general corporate purposes and to repay \$219.7 million of our 6.75% Notes on February 15, 2011.

The 5.65% Notes due 2012, 5.50% Notes due 2013, 6.00% Notes due 2017, and 4.625% Notes require us to offer to purchase the notes at 101% of the principal amount plus accrued and unpaid interest, if we have a defined change of control and specified ratings below investment grade by S&P, Moody’s, and Fitch.

On September 24, 2009, we 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 \$1.1 billion of the following series of debt securities: (i) 7.80% Debentures due October 15, 2016 of Allegiance Corporation; (ii) our 6.75% Notes due February 15, 2011; (iii) our 6.00% Notes due June 15, 2017; (iv) 7.00% Debentures due October 15, 2026 of Allegiance Corporation; (v) our 5.85% Notes due December 15, 2017; (vi) our 5.80% Notes due October 15, 2016; (vii) our 5.65% Notes due June 15, 2012; (viii) our 5.50% Notes due June 15, 2013; and (ix) our 4.00% Notes due June 15, 2015. In connection with the debt tender, we 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. The debt tender was completed using a portion of the \$1.4 billion of cash distributed to us from CareFusion in connection with the Spin-Off.

Other Financing Arrangements

In addition to cash and equivalents, at June 30, 2011 and 2010, our sources of liquidity included a \$1.5 billion commercial paper program backed by a \$1.5 billion revolving credit facility. On May 12, 2011, we replaced our prior revolving credit facility with a new \$1.5 billion facility that expires in May 2016. The revolving credit facility exists largely to support issuances of commercial paper as well as other short-term borrowings for general corporate purposes.

We also maintain a \$950.0 million committed receivables sales facility program. On November 9, 2010, we amended our committed receivables sales facility to extend its term to November 2012. The committed receivables sales facility exists largely to provide liquidity by selling interests in our receivables.

We had no outstanding borrowings from the commercial paper program and no outstanding balance under the committed receivables sales facility program at June 30, 2011 and 2010. We also had no outstanding balance under the revolving credit facility at June 30, 2011 and 2010, except for \$44.3 million and \$48.2 million, respectively, of standby letters of credit. Our revolving credit facility and committed receivables sales facility require us to maintain a consolidated interest coverage ratio, as of any fiscal quarter end, of at least 4-to-1 and a consolidated leverage ratio of no more than 3.25-to-1. As of June 30, 2011, we were in compliance with these financial covenants.

We also maintain other short-term credit facilities and an unsecured line of credit that allowed for borrowings up to \$173.9 million and \$4.8 million at June 30, 2011 and 2010, respectively. The \$110.6 million and \$6.1 million balance of other obligations at June 30, 2011 and 2010, respectively, consisted primarily of additional notes, loans and capital leases.

9. INCOME TAXES

Earnings before income taxes and discontinued operations are as follows for fiscal 2011, 2010 and 2009:

(in millions)	Fiscal Year Ended June 30,		
	2011	2010	2009
U.S. Operations	\$1,299.5	\$ 979.6	\$ 959.2
Non-U.S. Operations	218.8	232.0	200.6
	<u>\$1,518.3</u>	<u>\$1,211.6</u>	<u>\$1,159.8</u>

The provision for income taxes from continuing operations consists of the following for fiscal 2011, 2010 and 2009:

(in millions)	Fiscal Year Ended June 30,		
	2011	2010	2009
Current:			
Federal	\$387.5	\$429.4	\$192.2
State and local	19.7	63.3	45.6
Non-U.S.	16.9	11.7	14.4
Total	424.1	504.4	252.2
Deferred:			
Federal	92.5	103.0	125.0
State and local	28.6	18.2	23.0
Non-U.S.	6.9	(1.0)	1.4
Total	128.0	120.2	149.4
Total provision	<u>\$552.1</u>	<u>\$624.6</u>	<u>\$401.6</u>

A reconciliation of the provision based on the federal statutory income tax rate to our effective income tax rate from continuing operations is as follows for fiscal 2011, 2010 and 2009:

	Fiscal Year Ended June 30,		
	2011	2010	2009
Provision at Federal statutory rate	35.0%	35.0%	35.0%
State and local income taxes, net of federal benefit	2.2	4.7	1.8
Foreign tax rate differential	(2.5)	(3.3)	(3.8)
Nondeductible/nontaxable items	0.6	0.2	1.6
Deferred state tax rate adjustment	0.4	(0.5)	1.5
Change in measurement of an uncertain tax position	2.4	1.3	0.0
Valuation allowances	(0.6)	(2.3)	(3.1)
Unremitted foreign earnings	(0.1)	13.9	0.0
Other	(1.0)	2.6	1.6
Effective income tax rate	<u>36.4%</u>	<u>51.6%</u>	<u>34.6%</u>

As of June 30, 2011, we had \$2.1 billion of total undistributed earnings from non-U.S. subsidiaries, of which \$1.4 billion are intended to be permanently reinvested in non-U.S. operations. We recorded a charge of \$168.3 million during fiscal 2010 to reflect the anticipated repatriation of certain foreign earnings. With respect to the earnings that are considered permanently reinvested, no U.S. tax provision has been accrued related to the repatriation of these earnings. It is not practicable to estimate the amount of U.S. tax that might be payable on the eventual remittance of such earnings.

Deferred income taxes arise from temporary differences between financial reporting and tax reporting bases of assets and liabilities and operating loss and tax credit carryforwards for tax purposes. The components of the deferred income tax assets and liabilities as of June 30, 2011 and 2010 are as follows:

(in millions)	June 30,	
	2011	2010
Deferred income tax assets:		
Receivable basis difference	\$ 46.0	\$ 43.5
Accrued liabilities	104.9	132.1
Share-based compensation	96.6	112.6
Loss and tax credit carryforwards	198.9	206.1
Deferred tax assets related to uncertain tax positions	157.0	152.7
Other	97.0	113.2
Total deferred income tax assets	700.4	760.2
Valuation allowance for deferred income tax assets	(157.7)	(182.6)
Net deferred income tax assets	542.7	577.6
Deferred income tax liabilities:		
Inventory basis differences	(980.1)	(878.7)
Property-related	(159.3)	(156.8)
Goodwill and other intangibles	(69.4)	(66.1)
Unremitted foreign earnings	(140.0)	(142.0)
Other	(3.1)	(3.7)
Total deferred income tax liabilities	(1,351.9)	(1,247.3)
Net deferred income tax liabilities	\$ (809.2)	\$ (669.7)

Deferred tax assets and liabilities in the preceding table, after netting by taxing jurisdiction, are in the following captions in the consolidated balance sheet at June 30, 2011 and 2010:

(in millions)	June 30,	
	2011	2010
Current deferred tax asset (1)	\$ 29.2	\$ 42.5
Noncurrent deferred tax asset (2)	9.5	3.5
Current deferred tax liability (3)	(762.9)	(616.8)
Noncurrent deferred tax liability (4)	(85.0)	(98.9)
Net deferred tax liability	<u>\$(809.2)</u>	<u>\$(669.7)</u>

- (1) Included in "Prepaid Expenses and Other" in our consolidated balance sheets.
- (2) Included in "Other Assets" in our consolidated balance sheets.
- (3) Included in "Other Accrued Liabilities" in our consolidated balance sheets.
- (4) Included in "Deferred Income Taxes and Other Liabilities" in our consolidated balance sheets.

At June 30, 2011, we had gross federal, state and international loss and credit carryforwards of \$225.4 million, \$568.9 million and \$131.8 million, respectively, the tax effect of which is an aggregate deferred tax asset of \$189.9 million. Substantially all of these carryforwards are available for at least three years or have an indefinite carryforward period. Approximately \$142.9 million of the valuation allowance at June 30, 2011 applies

to certain federal, state and international loss carryforwards that, in our opinion, are more likely than not to expire unutilized. However, to the extent that tax benefits related to these carryforwards are realized in the future, the reduction in the valuation allowance would reduce income tax expense.

We had \$746.8 million, \$730.6 million and \$848.8 million of unrecognized tax benefits at June 30, 2011, 2010 and 2009, respectively. The June 30, 2011, 2010 and 2009 balances include \$332.4 million, \$311.3 million and \$610.9 million, respectively, of unrecognized tax benefits that, if recognized, would have an impact on the effective tax rate. The remaining unrecognized tax benefits relate to tax positions for which ultimate deductibility is highly certain but for which there is uncertainty as to the timing of such deductibility. Recognition of these tax benefits would not affect our effective tax rate. We include the full amount of unrecognized tax benefits in deferred income taxes and other liabilities in the consolidated balance sheets. A reconciliation of the beginning and ending amounts of unrecognized tax benefits for fiscal 2011, 2010 and 2009 is as follows:

(in millions)	June 30,		
	2011	2010	2009
Balance at beginning of fiscal year	\$730.6	\$ 848.8	\$762.9
Additions for tax positions of the current year	15.9	43.1	64.5
Additions for tax positions of prior years	58.3	90.0	118.7
Reductions for tax positions of prior years	(20.1)	(240.0)	(54.3)
Settlements with tax authorities	(35.8)	(10.7)	(37.8)
Expiration of the statute of limitations	(2.1)	(0.6)	(5.2)
Balance at end of fiscal year	<u>\$746.8</u>	<u>\$ 730.6</u>	<u>\$848.8</u>

We recognize accrued interest and penalties related to unrecognized tax benefits in income tax expense. As of June 30, 2011, 2010 and 2009, we had \$267.2 million, \$233.0 million and \$246.8 million, respectively, accrued for the payment of interest and penalties. These balances are gross amounts before any tax benefits and are included in deferred income taxes and other liabilities in the consolidated balance sheet. For the year ended June 30, 2011, we recognized \$36.0 million of interest and penalties in income tax expense.

We file income tax returns in the U.S. federal jurisdiction, various U.S. state jurisdictions and various foreign jurisdictions. With few exceptions, we are subject to audit by taxing authorities for fiscal 2001 through the current fiscal year.

The Internal Revenue Service (“IRS”) is currently conducting audits of fiscal years 2001 through 2010. We have received proposed adjustments from the IRS for fiscal years 2003 through 2007 related to our 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 us. The IRS proposed additional taxes of \$849.0 million, excluding penalties and interest. If this tax ultimately must be paid, CareFusion is liable under the tax matters agreement for \$591.5 million of the total amount. We disagree with these proposed adjustments and are vigorously contesting them. We believe we are adequately reserved for the uncertain tax positions related to these matters.

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. We estimate that the range of the possible change in unrecognized tax benefits within the next 12 months is a decrease of approximately zero to \$215.0 million, exclusive of penalties and interest.

10. COMMITMENTS, CONTINGENT LIABILITIES AND LITIGATION

Commitments

The future minimum rental payments for operating leases having initial or remaining non-cancelable lease terms in excess of one year at June 30, 2011 are:

<u>(in millions)</u>	<u>2012</u>	<u>2013</u>	<u>2014</u>	<u>2015</u>	<u>2016</u>	<u>Thereafter</u>	<u>Total</u>
Minimum rental payments	\$72.2	\$58.4	\$38.3	\$27.4	\$19.2	\$ 39.3	\$254.8

Rental expense relating to operating leases was \$78.8 million, \$80.3 million and \$84.7 million in fiscal 2011, 2010 and 2009, respectively. Sublease rental income was not material for any period presented herein.

Legal Proceedings

We become involved from time-to-time in litigation and regulatory matters incidental to our business, including governmental investigations, enforcement actions, personal injury claims, employment matters, commercial disputes, intellectual property matters, disputes regarding environmental clean-up costs, litigation in connection with acquisitions and divestitures, and other matters arising out of the normal conduct of our business. We intend to vigorously defend ourselves in such litigation. We do not believe that the outcome of any pending litigation will have a material adverse effect on the consolidated financial statements.

Occasionally, we may suspect that products we manufacture, market or distribute do not meet product specifications, published standards or regulatory requirements. In such circumstances, we investigate and take appropriate corrective action. Such actions can lead to product recalls, costs to repair or replace affected products, temporary interruptions in product sales, and action by regulators.

We accrue for contingencies related to litigation and regulatory matters. We accrue an estimated loss contingency in our 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 can occur, assessing contingencies is highly subjective and requires judgments about future events. We regularly review contingencies to determine whether our accruals are adequate. The amount of ultimate loss may differ from these estimates.

We recognize income from the favorable outcome of litigation when we receive the associated cash or assets.

We recognize estimated loss contingencies for litigation and regulatory matters and income from favorable resolution of litigation in litigation (recoveries)/charges, net in our consolidated statements of earnings.

Insurance Proceeds

In fiscal 2010, we recognized \$27.2 million of income related to insurance proceeds released from escrow following the resolution of previously disclosed and settled securities and derivative litigation against certain of our directors and officers. This amount is comprised of \$25.7 million received from directors' and officers' insurance policies recognized in litigation (recoveries)/charges, net and \$1.5 million of accrued interest income recognized in interest expense, net.

Antitrust Litigation Proceeds

In fiscal 2010, we recognized \$40.8 million of income resulting from settlement of a class action antitrust claim in which we were a class member. This amount is recognized in litigation (recoveries)/charges, net.

Income Taxes

See Note 9 for discussion of contingencies related to our income taxes.

11. GUARANTEES

In the ordinary course of business, we agree to indemnify certain other parties under acquisition and disposition agreements, customer agreements, intellectual property licensing agreements, and other 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, we have not, individually or in the aggregate, made payments under these indemnification obligations in any material amounts. In certain circumstances, we believe that existing insurance arrangements, subject to the general deduction and exclusion provisions, would cover portions of the liability that may arise from these indemnification obligations. In addition, we believe that the likelihood of a material liability being triggered under these indemnification obligations is not significant.

We enter into agreements that obligate us to make fixed payments upon the occurrence of certain events. Such obligations primarily relate to obligations arising under acquisition transactions, where we have 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. See Note 2 for detail regarding the P4 Healthcare contingent consideration arrangement.

12. FINANCIAL INSTRUMENTS

We utilize derivative financial instruments to manage exposure to certain risks related to our ongoing operations. The primary risks managed through the use of derivative instruments include interest rate risk, currency exchange risk and commodity price risk. We do not use derivative instruments for trading or speculative purposes. While the majority of our derivative instruments are designated as hedging instruments, we also enter into derivative instruments that are designed to hedge a risk, but are not designated as hedging instruments. These derivative instruments are adjusted to current fair value through earnings at the end of each period.

Interest Rate Risk Management. We are exposed to the impact of interest rate changes. Our objective is to manage the impact of interest rate changes on cash flows and the market value of our borrowings. We utilize a mix of debt maturities along with both fixed-rate and variable-rate debt to manage changes in interest rates. In addition, we enter into interest rate swaps to further manage our exposure to interest rate variations related to our borrowings and to lower our overall borrowing costs.

Currency Exchange Risk Management. We conduct business in several major international currencies and are subject to risks associated with changing foreign exchange rates. Our objective is to reduce earnings and cash flow volatility associated with foreign exchange rate changes to allow management to focus its attention on business operations. Accordingly, we enter 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.

Commodity Price Risk Management. We are exposed to changes in the price of certain commodities. Our objective is to reduce earnings and cash flow volatility associated with forecasted purchases of these commodities to allow management to focus its attention on business operations. Accordingly, we enter into derivative contracts to manage the price risk associated with these forecasted purchases.

We are exposed to counterparty credit risk on all of our derivative instruments. Accordingly, we have established and maintain strict counterparty credit guidelines and enter into derivative instruments only with major financial institutions that are investment grade or better. We do not have significant exposure to any one counterparty; management believes the risk of loss is remote and, in any event, would not be material. Additionally, we do not require collateral under these agreements.

The following table summarizes the fair value of our assets and liabilities related to derivative financial instruments, and the respective line items in which they were recorded in the consolidated balance sheets as of June 30, 2011 and 2010:

		June 30,	June 30,
(in millions)	Balance Sheets Line Item	2011	2010
Assets:			
Derivatives designated as hedging instruments:			
Pay-floating interest rate swaps	Prepaid expenses and other	\$ 32.4	\$ 23.4
Foreign currency contracts	Prepaid expenses and other	0.8	3.9
Commodity contracts	Prepaid expenses and other	2.5	0.0
Total assets		<u>\$ 35.7</u>	<u>\$ 27.3</u>
Liabilities:			
Derivatives designated as hedging instruments:			
Foreign currency contracts	Deferred income taxes and		
	other liabilities	\$ 2.9	\$ 1.1
Derivatives not designated as hedging instruments:			
Commodity contracts	Other accrued liabilities	0.7	0.0
Total liabilities		<u>\$ 3.6</u>	<u>\$ 1.1</u>

Fair Value Hedges

We enter 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 consolidated statements of earnings.

During fiscal 2011 and 2010, we entered into pay-floating interest rate swaps with total notional values of \$250.0 million and \$1.0 billion, respectively. The fair value of these pay-floating interest rate swaps is included in the consolidated balance sheet as of June 30, 2011 and 2010.

The following table summarizes the interest rate swaps designated as fair value hedges outstanding as of June 30, 2011 and 2010:

(in millions)	June 30, 2011		June 30, 2010	
	Notional Amount	Maturity Date	Notional Amount	Maturity Date
Pay-floating interest rate swaps	\$1,256.0	June 2012 – December 2020	\$1,006.0	June 2012 – June 2015

The following table summarizes the gain/(loss) recognized in earnings for interest rate swaps designated as fair value hedges for fiscal 2011, 2010 and 2009:

(in millions)	Statements of Earnings Line Item	Fiscal Year Ended June 30,		
		2011	2010	2009
Pay-floating interest rate swaps	Interest expense, net	\$ 36.2	\$ 47.3	\$ 21.6
Fixed-rate debt	Interest expense, net	(36.2)	(47.3)	(21.6)

There was no ineffectiveness associated with these derivative instruments.

Cash Flow Hedges

We enter into derivative instruments to hedge our 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.

We enter into foreign currency contracts to protect the value of anticipated foreign currency revenues and expenses. At June 30, 2011 and 2010, we held contracts to hedge probable, but not firmly committed, revenue and expenses. The principal currencies hedged are the Canadian dollar, European euro, Mexican peso and Thai baht.

We enter into commodity contracts to manage the price risk associated with forecasted purchases of certain commodities used in our Medical segment.

The following table summarizes the outstanding cash flow hedges as of June 30, 2011 and 2010:

(in millions)	June 30, 2011		June 30, 2010	
	Notional		Notional	
	Amount	Maturity Date	Amount	Maturity Date
Foreign currency contracts	\$163.0	July 2011 – June 2012	\$145.7	July 2010 – June 2011
Commodity contracts	22.4	July 2011 – March 2014	24.2	July 2010 – June 2013

The following table summarizes the accumulated gain/(loss) included in OCI for derivative instruments designated as cash flow hedges as of June 30, 2011 and 2010:

(in millions)	June 30,	
	2011	2010
Foreign currency contracts	\$(1.8)	\$2.6
Commodity contracts	2.5	0.0

The following table summarizes the gain/(loss) reclassified from accumulated OCI into earnings for derivative instruments designated as cash flow hedges for fiscal 2011, 2010 and 2009:

(in millions)	Statements of Earnings Line Item	Fiscal Year Ended June 30,		
		2011	2010	2009
Pay-fixed interest rate swaps	Interest expense, net	\$ 0.0	\$ (2.1)	\$ (7.6)
Foreign currency contracts	Revenue	0.3	0.0	0.0
Foreign currency contracts	Cost of products sold	(2.7)	(10.5)	10.9
Foreign currency contracts	SG&A expenses	3.1	1.4	(4.0)
Commodity contracts	SG&A expenses	1.6	0.2	(0.6)

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

Economic (Non-designated) Hedges

Foreign Currency. We enter into foreign currency contracts to manage our 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. During fiscal 2010, we received cash receipts from a cross currency swap settlement totaling \$42.5 million. These proceeds are classified as cash provided by operating activities in the consolidated statement of cash flows.

Commodity Contracts. During fiscal 2011, we entered into swap contracts of certain commodities to mitigate price volatility for materials we purchase or use in our manufacturing and distribution businesses. These instruments do not qualify for hedge accounting and as such fair value changes as well as periodic settlements of these contracts are recorded within other (income)/expense, net in our consolidated statements of earnings.

The following table summarizes the economic (non-designated) derivative instruments outstanding as of June 30, 2011 and 2010:

	June 30, 2011		June 30, 2010	
	Notional		Notional	
(in millions)	Amount	Maturity Date	Amount	Maturity Date
Foreign currency contracts	\$391.8	July 2011	\$472.6	July 2010
Commodity contracts	10.0	July 2011 – June 2012	0.0	—

The following table summarizes the gain/(loss) recognized in earnings for economic (non-designated) derivative instruments for fiscal 2011, 2010 and 2009:

	Statements of Earnings Line Item	Fiscal Year Ended June 30,		
		2011	2010	2009
Foreign currency contracts	Other income/expense, net	\$ 36.2	\$ 23.7	\$ (8.6)
Commodity contracts	Other income/expense, net	(1.1)	0.0	0.0

Fair Value of Financial Instruments

The carrying amounts of cash and equivalents, trade receivables, accounts payable, other short-term borrowings, and other accrued liabilities at June 30, 2011 and 2010 approximate their fair value due to their short-term maturities.

Cash balances are invested in accordance with our 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 following table summarizes the estimated fair value of our long-term obligations and other short-term borrowings compared to the respective carrying amounts at June 30, 2011 and 2010:

(in millions)	June 30,	
	2011	2010
Long-term obligations and other short-term borrowings	\$2,619.4	\$2,310.4
Carrying amount	2,502.0	2,129.3

The fair value of our long-term obligations and other short-term borrowings is estimated based on either the quoted market prices for the same or similar issues or other inputs derived from available market information.

The following is a summary of the fair value gain/(loss) of our derivative instruments, based upon the estimated amount that we would receive (or pay) to terminate the contracts as of June 30, 2011 and 2010. The fair values are based on quoted market prices for the same or similar instruments.

(in millions)	June 30, 2011		June 30, 2010	
	Notional Amount	Fair Value Gain/(Loss)	Notional Amount	Fair Value Gain/(Loss)
Interest rate swaps	\$1,256.0	\$ 32.4	\$1,006.0	\$ 23.4
Foreign currency contracts	554.8	(2.1)	618.3	2.8
Commodity contracts	32.4	1.8	24.2	0.0

See Note 13 for further information regarding fair value measurements.

13. 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 June 30, 2011:

(in millions)	Fair Value Measurements			
	Level 1	Level 2	Level 3	Total
Cash Equivalents (1)	\$1,065.6	\$ 0.0	\$ 0.0	\$1,065.6
Forward Contracts (2)	0.0	32.1	0.0	32.1
Other Investments (3)	79.7	0.0	0.0	79.7
Contingent Consideration (4)	0.0	0.0	(75.4)	(75.4)
Total	<u>\$1,145.3</u>	<u>\$32.1</u>	<u>\$(75.4)</u>	<u>\$1,102.0</u>

The following table presents the fair values for those assets measured on a recurring basis as of June 30, 2010:

(in millions)	Fair Value Measurements			
	Level 1	Level 2	Level 3	Total
Cash Equivalents (1)	\$2,019.0	\$ 0.0	\$ 0.0	\$2,019.0
Investment in CareFusion (5)	691.5	0.0	0.0	691.5
Forward Contracts (2)	0.0	26.2	0.0	26.2
Other Investments (3)	71.3	0.0	0.0	71.3
Total	<u>\$2,781.8</u>	<u>\$26.2</u>	<u>\$ 0.0</u>	<u>\$2,808.0</u>

- (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) The fair value of 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 non-performance 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 12 for further information regarding the fair value of financial instruments.
 - (3) The other investments balance includes investments in mutual funds, which are used to offset fluctuations in 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.
 - (4) Contingent consideration represents the obligation incurred in connection with the acquisition of P4 Healthcare. The fair value of the contingent consideration obligation is determined based on a probability-weighted income approach derived from EBITDA estimates and probability assessments with respect to the likelihood of achieving the various EBITDA targets. The fair value measurement is based on significant inputs unobservable in the market and thus represents a Level 3 measurement. The \$16.6 million decrease in the contingent consideration liability reflects a cash payment of \$10.2 million for the first measurement period, and changes in our estimate of performance in future measurement periods. Failure to meet current expectations of progress could increase the probability of not achieving the targets within the measurement periods and result in a material reduction in the fair value of the contingent consideration obligation. See Note 2 for additional information regarding the contingent consideration obligation related to the P4 Healthcare acquisition.
 - (5) The fair value of our investment in CareFusion common stock was determined using the quoted market price of the security.

14. SHAREHOLDERS' EQUITY

At June 30, 2011 and 2010, authorized capital shares consisted of the following: 750.0 million Class A common shares, without par value; 5.0 million Class B common shares, without par value; and 0.5 million non-voting preferred shares, without par value. The Class A common shares and Class B common shares are collectively referred to below as "Common Shares". Holders of Common Shares are entitled to share equally in any dividends declared by the Board of Directors and to participate equally in all distributions of assets upon liquidation. Generally, the holders of Class A common shares are entitled to one vote per share, and the holders of Class B common shares are entitled to one-fifth of one vote per share on proposals presented to shareholders for vote. Under certain circumstances, the holders of Class B common shares are entitled to vote as a separate class. Only Class A common shares were outstanding as of June 30, 2011 and 2010.

We repurchased \$500.0 million of our Common Shares, in aggregate, through share repurchase programs during fiscal 2011, 2010 and 2009, as described below. We funded the repurchases through available cash. The Common Shares repurchased are held in treasury to be used for general corporate purposes.

Fiscal 2011

On November 3, 2010, our board of directors approved a new \$750.0 million share repurchase program which expires November 30, 2013. During the twelve months ended June 30, 2011, we did not repurchase any of our Common Shares under this program.

During the three months ended September 30, 2010, we repurchased 7.5 million Common Shares having an aggregate cost of approximately \$250.0 million, which completed the authorized amount of share repurchases available under our share repurchase program in place at September 30, 2010.

The average price paid per common share for all Common Shares repurchased during fiscal 2011 was \$33.22.

Fiscal 2010

During fiscal 2010, we repurchased 7.4 million Common Shares having an aggregate cost of approximately \$250.0 million, of which \$19.8 million cash settled in fiscal 2011. The average price paid per common share for all Common Shares repurchased during fiscal 2010 was \$33.85.

Fiscal 2009

We did not repurchase any Common Shares during fiscal 2009.

15. EARNINGS PER 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 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 fiscal 2011, 2010 and 2009:

(in millions)	Fiscal Year Ended June 30,		
	2011	2010	2009
Weighted-average Common Shares—basic	348.6	358.8	357.6
Effect of dilutive securities:			
Employee stock options, restricted shares and restricted share units	3.9	2.6	3.9
Weighted-average Common Shares—diluted	<u>352.5</u>	<u>361.4</u>	<u>361.5</u>

The following table presents the number of potentially dilutive securities that were anti-dilutive for fiscal 2011, 2010 and 2009:

(in millions)	Fiscal Year Ended June 30,		
	2011	2010	2009
Anti-dilutive securities	<u>11.4</u>	<u>19.0</u>	<u>28.8</u>

16. SEGMENT INFORMATION

Our operations are principally managed on a products and services basis and are comprised of two reportable segments: Pharmaceutical and Medical. The factors for determining the reportable segments include the manner in which management evaluates our performance combined with the nature of the individual business activities. The results of the acquisitions of Kinray, Yong Yu and P4 Healthcare are included within our Pharmaceutical segment from the date of acquisition. See Note 2 for a description of these acquisitions.

The Pharmaceutical segment distributes branded and generic pharmaceutical, over-the-counter healthcare and consumer products. It also operates nuclear pharmacies and cyclotron facilities that prepare and deliver radiopharmaceuticals for use in nuclear imaging and other procedures in hospitals and clinics. In addition, this segment provides third-party logistics support services to hospitals, clinics, and other providers; franchises retail pharmacies under the Medicine Shoppe[®] and Medicap[®] brands; and provides pharmacy services to hospitals and other healthcare facilities. This segment also distributes specialty pharmaceutical products and provides services to pharmaceutical manufacturers, third-party payors and healthcare service providers supporting the marketing, distribution and payment for specialty pharmaceutical products. This segment also provides pharmaceutical

repackaging services; helps pharmaceutical manufacturers with services, including distribution, inventory management, data/reporting, new product launch support, and contract and chargeback administration; and maintains prime vendor relationships that streamline the purchasing process resulting in greater efficiency and lower costs for our customers. Through our Yong Yu business, this segment imports and distributes pharmaceuticals and healthcare products in China.

The Medical segment distributes a broad range of medical, surgical and laboratory products to hospitals, surgery centers, laboratories, physician offices and other healthcare providers. This segment also develops, manufactures and sources medical and surgical products. These products include sterile and non-sterile procedure kits; single-use surgical drapes, gowns and apparel; exam and surgical gloves; and fluid suction and collection systems. Our medical and surgical products are sold directly or through third-party distributors in the United States, Canada, Europe, South America, and the Asia/Pacific region.

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

(in millions)	Fiscal Year Ended June 30,		
	2011	2010	2009
Segment revenue:			
Pharmaceutical (1)	\$ 93,743.5	\$89,789.9	\$87,862.9
Medical (2)	8,921.5	8,750.1	8,159.3
Total segment revenue	102,665.0	98,540.0	96,022.2
Corporate (3)	(20.8)	(37.2)	(30.7)
Total consolidated revenue	<u>\$102,644.2</u>	<u>\$98,502.8</u>	<u>\$95,991.5</u>

- (1) The Pharmaceutical segment's revenue is primarily derived from the distribution of branded and generic pharmaceutical, over-the-counter healthcare, and consumer products.
- (2) The Medical segment's revenue is primarily 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.

We evaluate segment performance based upon segment profit, among other measures. 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 share-based 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, acquisition-related costs (including amortization of acquisition-related intangible assets), impairments and loss on sale of assets, litigation (recoveries)/charges, net, certain investment and other 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. We encourage our segments to identify investment projects that will promote innovation and provide future returns. As approval decisions for such projects are dependent upon executive management, the expenses for such projects are often retained at Corporate. Investment spending within Corporate was \$13.8 million and \$26.5 million for fiscal 2011 and 2010, respectively. See Notes 2, 3, 4 and 10, respectively, for further discussion of our acquisition-related costs, restructuring and employee severance, impairments and loss on sale of assets and litigation (recoveries)/charges, net. In addition, Spin-Off costs included in SG&A of \$9.6 million and \$10.8 million for fiscal 2011 and 2010, respectively, are not allocated to our segments. 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 consolidated financial statements:

(in millions)	Fiscal Year Ended June 30,		
	2011	2010	2009
Segment profit:			
Pharmaceutical	\$1,328.9	\$1,011.4	\$1,048.4
Medical	372.7	428.6	385.7
Total segment profit	1,701.6	1,440.0	1,434.1
Corporate	(187.6)	(133.1)	(146.7)
Total consolidated operating earnings	<u>\$1,514.0</u>	<u>\$1,306.9</u>	<u>\$1,287.4</u>

The following tables include depreciation and amortization expense and capital expenditures for fiscal 2011, 2010 and 2009 for each segment:

(in millions)	Depreciation and Amortization Expense		
	Fiscal Year Ended June 30,		
	2011	2010	2009
Pharmaceutical	\$ 42.2	\$ 41.3	\$ 37.9
Medical	61.9	62.9	69.6
Corporate	209.2	150.2	118.3
Total depreciation and amortization expense	<u>\$313.3</u>	<u>\$254.4</u>	<u>\$225.8</u>

(in millions)	Capital Expenditures		
	Fiscal Year Ended June 30,		
	2011	2010	2009
Pharmaceutical	\$ 55.0	\$ 32.5	\$105.3
Medical	122.6	81.2	59.1
Corporate	113.7	146.6	256.8
Total capital expenditures	<u>\$291.3</u>	<u>\$260.3</u>	<u>\$421.2</u>

The following table includes total assets at June 30, 2011, 2010 and 2009 for each segment as well as reconciling items necessary to total the amounts reported in the consolidated financial statements:

(in millions)	June 30,		
	2011	2010	2009
Pharmaceutical	\$16,125.9	\$12,102.9	\$12,638.9
Medical	3,894.8	3,867.5	3,759.8
Corporate	2,825.2	4,019.8	8,720.1
Total consolidated assets	<u>\$22,845.9</u>	<u>\$19,990.2</u>	<u>\$25,118.8</u>

The following table presents revenue and net property and equipment by geographic area:

(in millions)	Revenue			Property and Equipment, Net		
	For the Fiscal Year Ended June 30,			June 30,		
	2011	2010	2009	2011	2010	2009
United States	\$101,080.2	\$97,662.7	\$95,248.2	\$1,397.6	\$1,355.0	\$1,346.7
International	1,564.0	840.1	743.3	114.6	113.8	117.8
Total	<u>\$102,644.2</u>	<u>\$98,502.8</u>	<u>\$95,991.5</u>	<u>\$1,512.2</u>	<u>\$1,468.8</u>	<u>\$1,464.5</u>

17. SHARE-BASED COMPENSATION AND SAVINGS PLANS

Share-Based Compensation Plans

We maintain stock incentive plans (collectively, the “Plans”) for the benefit of certain of our officers, directors and employees. Employee stock options granted under the Plans from fiscal 2008 through fiscal 2011 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 market price of the Common Shares underlying the option at the date of grant. Employee stock 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 market price of the Common Shares underlying the option at the date of grant. Employee restricted shares and restricted share units granted under the Plans since fiscal 2007 generally vest in equal installments over three years and entitle holders to dividends or cash dividend equivalents. Restricted shares and restricted share units accrue dividends or cash dividend equivalents that are payable upon vesting of the awards.

The compensation expense recognized for all share-based compensation awards is net of estimated forfeitures and is recognized using the straight-line method over the applicable service period. We classify share-based compensation within SG&A expenses to correspond with the same line item as the majority of the cash compensation paid to employees. However, as described in Note 3, certain share-based compensation incurred in connection with the Spin-Off is classified within restructuring and employee severance.

The following table provides total share-based compensation expense from continuing operations by type of award for fiscal 2011, 2010 and 2009:

(in millions)	Fiscal Year Ended June 30,		
	2011	2010 (1)(2)	2009 (3)(4)
Restricted share and share unit expense	\$52.2	\$ 56.8	\$ 62.8
Employee stock option expense	25.9	41.0	36.6
Employee stock purchase plan expense	0.0	1.1	12.6
Stock appreciation right (income)/expense	1.4	0.6	(2.1)
Total share-based compensation expense from continuing operations	<u>\$79.5</u>	<u>\$ 99.5</u>	<u>\$ 109.9</u>

- (1) Excludes share-based compensation expense charged to discontinued operations, which was approximately \$2.3 million, net of tax benefits of \$1.5 million, during fiscal 2010.
- (2) Share-based compensation expense charged to restructuring and employee severance related to the Spin-Off was approximately \$9.9 million, net of tax benefits of \$5.7 million, during fiscal 2010.
- (3) Excludes share-based compensation expense charged to discontinued operations, which was approximately \$14.1 million, net of tax benefits of \$6.3 million, during fiscal 2009.
- (4) Share-based compensation expense charged to restructuring and employee severance related to the Spin-Off was approximately \$4.9 million, net of tax benefits of \$2.6 million, during fiscal 2009.

The following table summarizes the total tax benefit from continuing operations related to share-based compensation for fiscal 2011, 2010 and 2009:

(in millions)	Fiscal Year Ended June 30,		
	2011	2010	2009
Tax benefit from continuing operations related to share-based compensation	\$ 28.9	\$36.1	\$37.3

Stock Options

The following summarizes all stock option transactions under the Plans from June 30, 2009 through June 30, 2011:

	Stock Options	Weighted Average Exercise Price	Weighted Average Remaining Contractual	Aggregate
<u>(in millions, except per share amounts)</u>	<u>Outstanding (1)</u>	<u>per Common Share (2)</u>	<u>Life in Years</u>	<u>Intrinsic Value</u>
Balance at June 30, 2009	29.4	\$ 59.25	3.9	\$ 1.8
Granted	7.2	28.09		
Exercised	(1.4)	27.04		
Canceled and forfeited	(11.1)	62.46		
Balance at June 30, 2010	24.1	\$ 37.88	3.9	\$ 56.9
Granted	4.1	31.07		
Exercised	(2.6)	30.16		
Canceled and forfeited	(2.5)	43.34		
Balance at June 30, 2011	23.1	\$ 37.02	3.6	\$ 217.0
Exercisable at June 30, 2011	15.2	\$ 40.73	2.6	\$ 93.8

- (1) The stock options granted, canceled and forfeited activity for fiscal 2010 included the impact of our stock option exchange program and the adjustments to outstanding stock options in connection with the Spin-Off, as discussed below.
- (2) Exercise prices related to stock options have been adjusted in connection with the Spin-Off for dates after August 31, 2009, the effective date of the adjustments.

The following table provides data related to all stock option activity for fiscal 2011, 2010 and 2009:

<u>(in millions, except per share data and years)</u>	<u>2011</u>	<u>2010</u>	<u>2009</u>
Weighted-average grant date fair value per stock option (1)	\$ 6.40	\$ 6.44	\$13.67
Aggregate intrinsic value of exercised options	25.8	7.3	14.0
Cash received upon exercise	63.0	40.0	39.2
Cash tax disbursements realized related to exercise	(13.7)	(16.1)	(2.9)
Total compensation cost, net of estimated forfeitures, related to unvested stock options not yet recognized, pre-tax	28.7	32.0	54.3
Weighted-average period in years over which stock option compensation cost is expected to be recognized	1.7	1.9	1.4

- (1) The weighted-average grant date fair value per stock option does not include the impact of our stock option exchange program.

The fair values of the stock options granted to our employees and directors during fiscal 2011, 2010 and 2009 were estimated on the date of grant using a lattice valuation model. We believe the lattice model provides for better estimates because it has the ability to take into account employee exercise patterns based on changes in our stock price and other variables and it provides for a range of input assumptions, which are disclosed in the table below. The risk-free rate is based on the United States Treasury yield curve at the time of the grant. We analyzed historical data to estimate option exercise behaviors and employee terminations to be used within the lattice model. During fiscal 2011 and 2010, we calculated separate option valuations for two groups of employees. During fiscal 2009, we calculated separate option valuations for three groups of employees. The groups were determined using similar historical exercise behaviors. The expected life of the options granted was calculated from the option valuation model and represents the length of time in years that the options granted are expected to be outstanding. The range of expected lives in the table below results from the separate groups of

employees identified based on their option exercise behaviors. Expected volatilities are based on implied volatility from traded options on our Common Shares and historical volatility over a period of time commensurate with the contractual term of the option grant (7 years). The following table provides the range of assumptions used for options valued during fiscal 2011, 2010 and 2009:

	2011	2010 (1)	2009
Risk-free interest rate	1.22% – 1.70%	1.93% – 2.47%	1.52% – 3.48%
Expected life in years	4.8 – 5.2	4.4 – 5.2	4.5 – 7.0
Expected volatility	27.0% – 32.0%	32.0%	27.0% – 30.0%
Dividend yield	2.17% – 2.52%	1.96% – 2.76%	1.00% – 2.33%

(1) The range of assumptions used for options in fiscal 2010 does not include the impact of our stock option exchange program.

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 our Common Shares.

The following summarizes all transactions related to restricted shares and restricted share units under the Plans from June 30, 2009 through June 30, 2011:

		Weighted Average Grant Date Fair Value
(in millions, except per share amounts)	Shares (1)	Per Share (2)
Nonvested at June 30, 2009	3.1	57.10
Granted	2.1	27.43
Vested	(1.6)	51.11
Canceled and forfeited	(0.3)	42.94
Nonvested at June 30, 2010	3.3	33.33
Granted	2.0	31.42
Vested	(1.4)	36.11
Canceled and forfeited	(0.3)	32.45
Nonvested at June 30, 2011	3.6	31.31

- (1) The restricted shares and restricted share units canceled and forfeited activity for fiscal 2010 included the impact of the adjustments to outstanding awards in connection with the Spin-Off, 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.

	Fiscal Year Ended June 30,		
(in millions)	2011	2010	2009
Total compensation cost, net of estimated forfeitures, related to nonvested restricted share and share unit awards not yet recognized, pre-tax	\$55.9	\$57.5	\$100.6
Weighted-average period in years over which restricted share and share unit cost is expected to be recognized	1.7	1.8	1.8

Stock Option Exchange Program

On May 6, 2009, the Board of Directors authorized, and on June 23, 2009, 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 our 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 was

completed on July 17, 2009 with 9.8 million outstanding eligible stock options 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 compensation. We did not incur incremental expense associated with the modification.

Adjustments to Stock Incentive Plans

In connection with the Spin-Off, on August 31, 2009, we adjusted share-based compensation awards granted under the Plans into awards based on our Common Shares and/or CareFusion common stock, as applicable. For purposes of the vesting of these equity awards, continued employment or service with us or with CareFusion is treated as continued employment for purposes of both our and CareFusion's equity awards. See Note 17 to the consolidated financial statements in the Annual Report on Form 10-K for fiscal 2010 for an explanation of these adjustments.

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

The following table summarizes the share-based compensation awards outstanding as of June 30, 2011:

(in millions)	Our Awards		CareFusion Awards	
	Stock Options	Restricted Shares and Share Units	Stock Options	Restricted Shares and Share Units
Held by our employees and former employees	21.8	3.6	5.9	0.0
Held by CareFusion employees	1.3	0.0		
Total	23.1	3.6		

Employee Savings Plans

Substantially all of our domestic non-union employees are eligible to be enrolled in our company-sponsored contributory retirement savings plans, which include features under Section 401(k) of the Internal Revenue Code of 1986, as amended, and provide for matching and profit sharing contributions by us. Our contributions to the plans are determined by the Board of Directors subject to certain minimum requirements as specified in the plans.

The following table summarizes the total expense for our employee retirement savings plans for fiscal 2011, 2010 and 2009:

(in millions)	Fiscal Year Ended June 30,		
	2011	2010	2009
Employee retirement savings plans expense	\$69.9	\$84.3	\$72.4

18. SELECTED QUARTERLY FINANCIAL DATA (UNAUDITED)

The following is selected quarterly financial data for fiscal 2011 and 2010. The sum of the quarters may not equal year-to-date due to rounding.

<u>(in millions, except per common share amounts)</u>	<u>First Quarter</u>	<u>Second Quarter</u>	<u>Third Quarter</u>	<u>Fourth Quarter</u>
Fiscal 2011				
Revenue	\$24,437.5	\$25,371.8	\$26,071.4	\$26,763.5
Gross margin	962.2	994.2	1,162.2	1,043.4
Distribution, selling, general and administrative expenses	581.5	606.7	669.5	670.2
Earnings from continuing operations	294.4	215.0	249.5	207.3
Earnings/(loss) from discontinued operations	0.4	0.4	(3.5)	(4.6)
Net earnings	294.8	215.4	246.0	202.7
Earnings from continuing operations per Common Share:				
Basic	\$ 0.84	\$ 0.62	\$ 0.72	\$ 0.59
Diluted	0.84	0.61	0.71	0.58
 <u>(in millions, except per common share amounts)</u>	 <u>First Quarter</u>	 <u>Second Quarter</u>	 <u>Third Quarter</u>	 <u>Fourth Quarter (1)</u>
Fiscal 2010				
Revenue	\$24,780.7	\$24,919.7	\$24,342.8	\$24,459.6
Gross margin	908.8	957.7	1,010.1	904.1
Distribution, selling, general and administrative expenses	583.3	602.6	625.9	585.8
Earnings/(loss) from continuing operations	(61.8)	230.2	224.8	193.8
Earnings/(loss) from discontinued operations	23.6	4.3	(2.4)	29.7
Net earnings/(loss)	(38.2)	234.5	222.4	223.5
Earnings/(loss) from continuing operations per Common Share:				
Basic	\$ (0.17)	\$ 0.64	\$ 0.63	\$ 0.54
Diluted	(0.17)	0.64	0.62	0.54

- (1) During the fourth quarter of fiscal 2010, we recorded an out-of-period increase in income tax expense of \$14.7 million related to our state provision-to-return reconciliation (of which \$5.1 million pertained to the first three quarters of fiscal 2010 and \$9.6 million pertained to fiscal 2009). The amounts were not material individually or in the aggregate to current or prior periods.

19. SUBSEQUENT EVENTS

During July and August 2011, we repurchased 6.7 million Common Shares having an aggregate cost of approximately \$300.0 million. These repurchases are pursuant to the \$750.0 million share repurchase program referenced in Note 14. The average price paid per common share for all Common Shares repurchased during July and August 2011 was \$44.89.

In August 2011, we terminated \$640.0 million (notional amount) of pay-floating interest rate swaps and received net settlement proceeds of \$33.7 million. These swaps were previously designated as fair value hedges. 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.

CARDINAL HEALTH, INC. AND SUBSIDIARIES
SCHEDULE II—VALUATION AND QUALIFYING ACCOUNTS (3)

<u>Description</u>	<u>Balance at Beginning of Period</u>	<u>Charged to Costs and Expenses</u>	<u>Charged to Other Accounts (1) (In millions)</u>	<u>Deductions (2)</u>	<u>Balance at End of Period</u>
Fiscal Year 2011:					
Accounts receivable	\$ 123.5	\$ 23.4	\$ 4.6	\$ (17.0)	\$ 134.5
Finance notes receivable	16.2	3.6	0.0	(4.9)	14.9
Net investment in sales-type leases	0.4	0.2	0.0	0.0	0.6
	<u>\$ 140.1</u>	<u>\$ 27.2</u>	<u>\$ 4.6</u>	<u>\$ (21.9)</u>	<u>\$ 150.0</u>
Fiscal Year 2010:					
Accounts receivable	\$ 103.3	\$ 24.3	\$ 4.1	\$ (8.2)	\$ 123.5
Finance notes receivable	13.7	2.7	0.1	(0.3)	16.2
Net investment in sales-type leases	0.6	(0.2)	0.0	0.0	0.4
	<u>\$ 117.6</u>	<u>\$ 26.8</u>	<u>\$ 4.2</u>	<u>\$ (8.5)</u>	<u>\$ 140.1</u>
Fiscal Year 2009:					
Accounts receivable	\$ 101.8	\$ 46.7	\$ 0.2	\$ (45.4)	\$ 103.3
Finance notes receivable	11.5	4.6	0.4	(2.8)	13.7
Net investment in sales-type leases	0.6	0.1	0.0	(0.1)	0.6
	<u>\$ 113.9</u>	<u>\$ 51.4</u>	<u>\$ 0.6</u>	<u>\$ (48.3)</u>	<u>\$ 117.6</u>

- (1) During fiscal 2011, 2010 and 2009 recoveries of amounts provided for or written off in prior years were \$0.3 million, \$4.2 million and \$0.5 million, respectively.
- (2) Write-off of uncollectible accounts.
- (3) Amounts included herein pertain to the continuing operations of the Company.