CARDINAL HEALTH INC
Form 10-K
August 26, 2010
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

Form 10-K

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

For the fiscal year ended June 30, 2010

or

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

Commission File Number: 1-11373

CARDINAL HEALTH, INC.

(Exact name of registrant as specified in its charter)

OHIO	**31-0958666**
(State or other jurisdiction of incorporation or organization)	***(I.R.S. Employer Identification No.)***
7000 CARDINAL PLACE, DUBLIN, OHIO	**43017**
(Address of principal executive offices)	***(Zip Code)***

(614) 757-5000

Registrant s telephone number, including area code

Securities registered pursuant to Section 12(b) of the Act:

Title of Class	Name of Each Exchange on Which Registered
COMMON SHARES (WITHOUT PAR VALUE)	NEW YORK STOCK EXCHANGE

Securities registered pursuant to Section 12(g) of the Act:

None.

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

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

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

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

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

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

Large accelerated filer þ	Accelerated filer ¨
Non-accelerated filer ¨ (Do not check if a smaller reporting company)	Smaller reporting company ¨

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

The aggregate market value of voting stock held by non-affiliates of the registrant on December 31, 2009, based on the closing price on December 31, 2009, was $11,647,605,557.

The number of registrant s Common Shares outstanding as of August 18, 2010, was as follows: Common Shares, without par value: 351,163,010.

Documents Incorporated by Reference:

Portions of the registrant s Definitive Proxy Statement to be filed for its 2010 Annual Meeting of Shareholders are incorporated by reference into Part III of this Annual Report on Form 10-K.

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Important Information Regarding Forward-Looking Statements

Portions of this Form 10-K (including information incorporated by reference) include forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995, as amended. Many forward-looking statements appear in Item 7 Management s Discussion and Analysis of Financial Condition and Results of Operations, but there are others throughout this document, which may be identified by words such as expect, anticipate, intend, plan, believe, will, should, could, would, project, continue, and similar expressions, and reflecting future results or guidance, statements of outlook and tax accruals. These matters are subject to risks and uncertainties that could cause actual results to differ materially from those projected, anticipated or implied. The most significant of these risks and uncertainties are described below in Item 1A Risk Factors and in Exhibit 99.1 to this Form 10-K. Forward-looking statements in this document speak only as of the date of this document. Except to the extent required by applicable law, we undertake no obligation to update or revise any forward-looking statement.

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PART I

Item 1: ***Business***

General

Cardinal Health, Inc. is an Ohio corporation formed in 1979. As used in this report, we, our, us and similar pronouns refer to Cardinal Health, Inc. and its subsidiaries, unless the context requires otherwise. We are a global healthcare solutions company providing products and services that help hospitals, physician offices and pharmacies reduce costs, improve safety and productivity, and deliver better care to patients. Except as otherwise specified, information in this Annual Report on Form 10-K is provided as of June 30, 2010, which is the end of our 2010 fiscal year.

Spin-Off of CareFusion Corporation

On August 31, 2009, we separated the clinical and medical products businesses from our other businesses through a pro rata distribution to shareholders of 81% of the then outstanding common stock of a wholly-owned subsidiary, CareFusion Corporation (CareFusion). We refer to this transaction as the Spin-Off. CareFusion s product lines are in the areas of intravenous, infusion, medication and supply dispensing, respiratory care, infection prevention and surgical instruments. We retained 19% of CareFusion common stock, which we are required to dispose of before August 31, 2014, pursuant to the private letter ruling we received from the Internal Revenue Service (the IRS) in connection with the Spin-Off. As of June 30, 2010, we owned approximately 30.5 million CareFusion shares. As part of the Spin-Off, Cardinal Health and CareFusion entered into a separation agreement and various other agreements relating to the separation, including a transition services agreement, a tax matters agreement, an employee matters agreement, intellectual property agreements and certain other commercial agreements.

Business Segments

For fiscal 2009, we reported financial information in three segments: Healthcare Supply Chain Services, Clinical and Medical Products, and All Other. From July 1, 2009 to August 31, 2009, we reported financial information in three different segments: Pharmaceutical, Medical and CareFusion. The Pharmaceutical segment included the businesses that were previously within the Healthcare Supply Chain Services segment that distributed pharmaceutical, radiopharmaceutical and over-the-counter healthcare products, as well as the businesses previously within the All Other segment. The Medical segment included the remaining businesses within the Healthcare Supply Chain Services segment and certain surgical and exam gloves, surgical drapes and apparel and fluid management businesses that were previously within the Clinical and Medical Products segment. The CareFusion segment included the businesses previously within the Clinical and Medical Products segment but not the above-referenced surgical and exam gloves, surgical drapes and apparel and fluid management businesses. All businesses in the CareFusion segment were part of the Spin-Off.

Once the Spin-Off was completed, our remaining businesses were organized into our current two segments: Pharmaceutical and Medical. The following business discussion is based on the two segments as they were structured for fiscal 2010.

Pharmaceutical Segment

The Pharmaceutical segment:

- distributes branded and generic pharmaceutical, over-the-counter healthcare, and consumer products through its pharmaceutical distribution business;

- operates nuclear pharmacies and cyclotron facilities that prepare and deliver radiopharmaceuticals for use in nuclear imaging and other procedures in hospitals and clinics;

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distributes specialty pharmaceutical products and provides third-party logistics support services to manufacturers; and

franchises retail pharmacies under the Medicine Shoppe® and Medicap® brands, and provides pharmacy services to hospitals and other healthcare facilities.

The pharmaceutical distribution business is a full-service wholesale distributor to retail customers (including chain and independent drug stores and pharmacy departments of supermarkets and mass merchandisers), hospitals, and alternate care providers (including mail order pharmacies) located throughout the United States and in Puerto Rico. Pharmaceutical distribution maintains prime vendor relationships that streamline the purchasing process resulting in greater efficiency and lower costs for our customers. Pharmaceutical distribution also helps pharmaceutical manufacturers with services including distribution, inventory management, data/reporting, new product launch support, and contract and chargeback administration.

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 (also referred to as branded margin) refers to compensation amounts under distribution service agreements with manufacturers and to pharmaceutical price appreciation. Compensation under the distribution service agreements may be a fee based on volume with or without pharmaceutical price appreciation. 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 generally are 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 Customers. The Pharmaceutical segment differentiates between bulk and non-bulk customers. Bulk customers consist of retail chain customers centralized warehouse operations and customers mail order businesses. All other customers are classified as non-bulk customers. A retail chain pharmacy customer may be both a bulk customer with respect to its warehouse operations and a non-bulk customer with respect to its retail stores.

Bulk customers can process large quantities of products in central locations. Substantially all deliveries to bulk customers consist of products shipped in the same form that we receive them from the manufacturer; a small portion of deliveries to bulk customers are broken down into smaller units prior to shipping. In contrast, non-bulk customers require more complex servicing. For non-bulk customers, 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 customers generate significantly lower segment profit as a percentage of revenue than non-bulk customers. Bulk customers receive lower pricing on sales of the same products than non-bulk customers due to volume pricing in a competitive market and due to lower costs related to the fewer services we provide. In

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addition, sales to bulk customers in aggregate generate higher segment cost of products sold as a percentage of revenue than sales to non-bulk customers, because bulk customers orders consist almost entirely of higher cost branded products. The higher segment cost of products sold as a percentage of revenue for bulk customers is also driven by the impact of branded manufacturer margin and manufacturer cash discounts. Branded manufacturer margin is lower due to the shorter time that products sold to bulk customers are held in inventory by us, allowing less opportunity for pharmaceutical price appreciation. Segment distribution, selling, general and administrative (SG&A) expenses as a percentage of revenue from bulk customers are substantially lower than from non-bulk customers because deliveries to bulk customers require substantially fewer services to be rendered by us than deliveries to non-bulk customers.

The following table shows the revenues, segment expenses, segment profit and segment profit as a percentage of revenue for bulk and non-bulk customers for fiscal 2010, 2009 and 2008.

(in millions)	2010	2009 (2)	2008 (2)
Non-bulk customers:			
Revenue from non-bulk customers	$ 45,795.4	$ 44,134.7	$ 42,199.7
Segment expenses allocated to non-bulk customers (1)	44,908.4	43,272.9	41,335.6
Segment profit from non-bulk customers (1)	887.0	861.8	864.1
Segment profit from non-bulk customers as a percentage of revenue from non-bulk customers (1)	1.94%	1.95%	2.05%
Bulk customers:			
Revenue from bulk customers	$ 43,994.5	$ 43,728.2	$ 37,298.6
Segment expenses allocated to bulk customers (1)	43,879.7	43,554.3	37,140.3
Segment profit from bulk customers (1)	114.8	173.9	158.3
Segment profit from bulk customers as a percentage of revenue from bulk customers (1)	0.26%	0.40%	0.42%

(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 2010, 2009 and 2008.

(2) During fiscal 2010, we revised some of the estimates used when allocating expenses between non-bulk customers and bulk customers. Prior period information has been adjusted to reflect this change.

See Note 16 to the Notes Consolidated Financial Statements for Pharmaceutical segment revenue, profit and assets for fiscal 2010, 2009 and 2008.

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. This segment also develops, manufactures and sources our own line of 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.

See Note 16 to the Notes Consolidated Financial Statements for Medical segment revenue, profit and assets for fiscal 2010, 2009 and 2008.

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Acquisitions and Divestitures

In the past five fiscal years, we completed the following two significant acquisitions, both of which were transferred to CareFusion as part of the Spin-Off.

Date (1)	Company	Location	Line of Business	Consideration Paid	
				Cash	Stock Options Converted (2)
				(Amounts in millions)	
June 21, 2007	VIASYS Healthcare Inc. (VIASYS)	Conshohocken, Pennsylvania	Respiratory, neurology, medical disposable and orthopedic products	$ 1,526(3)	0.1
May 12, 2008	Enturia Inc. (Enturia)	Leawood, Kansas	Infection prevention products	$ 490(4)	0.0

(1) Represents the date we became the majority shareholder.
(2) As a result of the acquisition, the outstanding stock options of the acquired company were converted into options to purchase Common Shares issued by us. This column represents the number of our Common Shares subject to converted stock options immediately following conversion.
(3) Includes the assumption of approximately $54 million in debt; also includes approximately $88 million of shares under equity compensation plans in July 2007.
(4) Includes the assumption of approximately $5 million in debt.

We also completed several smaller acquisitions during the last five fiscal years, including:

during fiscal 2006, purchasing the wholesale pharmaceutical, health and beauty and related drugstore products distribution business of The F. Dohmen Co. and certain of its subsidiaries, and the remaining shares of Source Medical Corporation, our Canadian joint venture;

during fiscal 2007, purchasing SpecialtyScripts, LLC; and

during fiscal 2009, purchasing Borschow Hospital & Medical Supplies, Inc.

On June 9, 2010, we entered into an agreement to acquire Healthcare Solutions Holding, LLC, which provides specialty healthcare services. On July 15, 2010, we completed that acquisition for a $517 million cash payment. The acquisition agreement also includes earn-out payments of up to $150 million over the next three years.

We completed several divestiture transactions during the past five fiscal years, including:

during fiscal 2007, selling our former Pharmaceutical Technologies and Services segment, other than certain generic-focused businesses, for approximately $3.2 billion in cash; our healthcare marketing services business; and our United Kingdom-based Intercare pharmaceutical distribution business.

during fiscal 2010, consummating the Spin-Off of CareFusion Corporation; and selling SpecialtyScripts, LLC and our United Kingdom-based Martindale injectable manufacturing business.

Customers

Our largest customers, Walgreen Co. (Walgreens) and CVS Caremark Corporation (CVS), accounted for approximately 24% and 22%, respectively, of our revenue for fiscal 2010. The aggregate of our five largest customers, including Walgreens and CVS, accounted for approximately 57% of our revenue for fiscal 2010.

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

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Novation, LLC, and Premier Purchasing Partners, L.P. Arrangements with these two GPOs accounted for approximately 15% of our revenue for fiscal 2010. Although GPO vendor selections may influence member sourcing decisions, GPO members generally are not required to comply with those vendor selections. Accordingly, we believe that the loss of an agreement with a GPO would not cause the loss of sales to all members of the GPO.

Suppliers

We rely on many different suppliers. Products obtained from our five largest suppliers accounted for an aggregate of approximately 20% of our revenue during fiscal 2010, but no single supplier s products accounted for more than 6% of that revenue. Overall, we believe our relationships with our suppliers are good. The loss of some suppliers could adversely affect our results of operations and financial condition if alternative sources were unavailable at reasonable prices.

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. At the present time, it is 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 from two nuclear reactors, which are experiencing prolonged downtimes. Based on information obtained from parties involved with the two affected nuclear reactors, we anticipate the supply of raw material to normalize 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 a number of regional medical products distributors and with third-party logistics companies. Competitors of the Medical segment s development and manufacturing business include Kimberly-Clark Corporation, Ansell Limited, DeRoyal Industries Inc., Medline Industries, Inc., and Mölnlycke Health Care.

Employees

As of June 30, 2010, we had approximately 22,600 employees in the United States and approximately 8,600 employees outside of the United States. Overall, we consider our employee relations to be good.

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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 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 ongoing operations. We enforce our intellectual property rights when they are infringed by others, and will continue to do so, where appropriate.

We have applied in the United States and other countries for registration of a number of trademarks and service marks. Some of our marks are registered, but our applications may not always be granted. We also hold common law rights in various trademarks and service marks.

We hold patents relating to aspects of our distribution operations, including our nuclear pharmacy products and service offerings. We also hold patents relating to medical and surgical products and devices, 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 have a number of pending patent applications in the United States and other countries, and we intend to pursue additional patents as appropriate. We may not always obtain the patents for which we apply. 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 and where they distribute, manufacture and sell their products, our subsidiaries may be subject to regulation by government entities including:

- the U.S. Drug Enforcement Administration (the DEA),
- the U.S. Food and Drug Administration (the FDA),
- the U.S. Nuclear Regulatory Commission (the NRC),
- the U.S. Department of Health and Human Services (HHS),
- 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 DEA, FDA and various state authorities regulate the marketing, purchase, storage and distribution of pharmaceutical 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 Controlled Substances Act and its accompanying regulations governing the sale, marketing, packaging, storage and distribution of controlled substances.

Manufacturing and marketing. Our subsidiaries that manufacture 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.

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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 certain 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 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. The FDA issued regulations, effective December 11, 2011, establishing current Good Manufacturing Practices for positron emission tomography (PET) drugs.

Prescription Drug Pedigree Tracking

State and federal agencies are concerned about preventing the introduction of counterfeit, diverted, adulterated or mislabeled pharmaceuticals into the pharmaceutical supply chain. Some states have adopted or are considering laws and regulations intended to protect the integrity of the pharmaceutical distribution system while other government agencies are currently evaluating their options. 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 and other similar technologies. In March 2010, the FDA issued guidance establishing standardized numerical identifiers (SNI) for prescription pharmaceutical packages.

In December 2006, we entered into a settlement to resolve a civil investigation by the New York Attorney General s Office focusing on sales and purchases of prescription pharmaceuticals in the secondary market. Pursuant to the settlement, we implemented a number of reforms within the pharmaceutical distribution business, including requirements that customers who are wholesalers certify their compliance with our wholesaler safe product practices.

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 us (and others in our industry) from 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 government-sponsored healthcare programs. We also cannot submit or cause to be submitted any fraudulent claim for payment by the federal government. Certain of our subsidiaries also maintain contracts with the federal government and are subject to regulatory requirements relating to government contractors.

Health Information Practices

Services and products provided by some of our businesses involve access to patient identifiable healthcare information. In the past few years, federal and state officials have focused on the questions of how patient

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identifiable healthcare information should be handled, which entities should compile that information, and how that work should proceed. Changes in legislation such as the Health Insurance Portability and Accountability Act of 1996 (HIPAA) and its accompanying regulations may affect how some information services or products are provided. The Health Information Technology for Economic and Clinical Health Act, adopted in February 2009, augmented HIPAA by increasing existing healthcare privacy requirements, including expanding HIPAA s reach to cover additional entities, requiring certain notifications if there is a breach of patient information and increasing penalties associated with noncompliance. In addition, certain jurisdictions where we do business regulate personal data protection and how information services or products are provided.

Franchising Laws

Our franchising operations, through Medicine Shoppe International, Inc. and Medicap Pharmacies Incorporated (collectively, Medicine Shoppe), are subject to regulation by the Federal Trade Commission. In addition, many states have laws that regulate the franchisor-franchisee relationship.

Environmental Laws

We are subject to various federal, state and local environmental laws and we have made, and will continue to make, necessary expenditures to comply with applicable laws. At the present time, we are participating in cleaning up environmental contamination at several sites, none of which are material to us.

Health and Safety Laws

We are subject to various federal, state and local laws, regulations and recommendations, both in the United States and other countries, relating to safe working conditions, laboratory and manufacturing practices, and the use, transportation and disposal of hazardous or potentially hazardous substances.

Laws Relating to Foreign Trade

Various U.S. 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.

Similarly, we are subject to laws and regulations concerning the conduct of our foreign operations, including the U.S. 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 making improper payments to non-U.S. government officials for the purpose of obtaining or retaining business. We operate in many parts of the world that have experienced some governmental corruption.

Other Information

Our distribution businesses generally are not required by our customers to maintain particular inventory levels other than as needed to meet service level requirements. Certain supply contracts with U.S. 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 to the Notes Consolidated Financial Statements for revenue and long-lived assets by geographic area.

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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.

CareFusion filed a registration statement on Form 10 (File No. 001-34273) with the SEC that discloses information regarding the Spin-Off and CareFusion.

Item 1A: ***Risk Factors***

The risks described below could materially and adversely affect our results of operations, financial condition, liquidity and cash flows. These are not the only risks we face. Our businesses also could be affected by risks that we are not presently aware of or that we currently consider immaterial to our operations.

We could suffer the adverse effects of competitive pressures.

As described in greater detail in the discussion of our business in Item 1 above, we operate in markets that are highly competitive. Because of competition, our businesses face continued pricing pressure from our customers and suppliers. If we are unable to offset margin reductions caused by these pricing pressures through steps such as enhanced cost control measures, our results of operations and financial condition could be adversely affected.

In addition, in recent years, the healthcare industry has been subject to increasing consolidation. If this consolidation trend continues among our customers and suppliers, it could give the resulting enterprises greater bargaining power, which may adversely impact our results of operations.

We have a few large customers that generate a significant amount of our revenue.

As described in greater detail in the discussion of our business in Item 1 above, our sales and credit concentration is significant. For example, Walgreens and CVS accounted for approximately 24% and 22%, respectively, of our revenue for fiscal 2010. The aggregate of our five largest customers, including Walgreens and CVS, accounted for approximately 57% of our revenue for fiscal 2010. In addition, Walgreens and CVS accounted for 32% and 21%, respectively, of our gross trade receivable balance at June 30, 2010. If one or more of our large customers default in payment, terminate or do not renew contracts, or significantly reduce their purchases of our products, our results of operations and financial condition could suffer.

In addition, approximately 15% of our revenue for fiscal 2010 was derived through the contractual arrangements established with two GPOs, Novation and Premier. GPO members generally are not required to comply with GPO vendor selections. Still, the loss of an agreement with a GPO could cause us to lose customers, which may adversely affect our results of operations and financial condition.

Our Pharmaceutical segment s margin may be affected by prices established by manufacturers or market forces that are beyond our control.

As described in greater detail in the discussion of our business in Item 1, we generate a portion of our branded manufacturer margin from pharmaceutical price appreciation. If branded manufacturers increase prices less frequently or by smaller amounts, or restrict the amount of inventory available to us, we will earn less branded manufacturer margin.

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In addition, prices for generic pharmaceuticals distributed by our pharmaceutical distribution business tend to decline over time, which could have an adverse effect on our generic manufacturer margin.

The U.S. healthcare environment is changing in many ways, some of which may not be favorable to us, as a result of recent federal healthcare legislation.

Our products and services are primarily intended to function within the current structure of the healthcare industry in the United States. In recent years, the healthcare industry has undergone significant changes designed to control costs. The use of managed care has increased; Medicare and Medicaid reimbursement levels have declined; distributors, manufacturers, healthcare providers and pharmacy chains have consolidated; and large, sophisticated purchasing groups have become more prevalent.

In March 2010, Congress approved, and the President signed into law, the Patient Protection and Affordable Care Act and the Health Care and Education Reconciliation Act (collectively the Healthcare Reform Acts). Among other things, the Healthcare Reform Acts seek to expand health insurance coverage to approximately 32 million uninsured Americans. Many of the significant changes in the Healthcare Reform Acts do not take effect until 2014, including a requirement that most Americans carry health insurance. We expect expansion of access to health insurance to increase the demand for our products and services, but other provisions of the Healthcare Reform Acts could affect us adversely. The Healthcare Reform Acts contain many provisions designed to generate the revenues necessary to fund the coverage expansions and to reduce costs of Medicare and Medicaid. Beginning in 2013, each medical device manufacturer will have to pay a tax in an amount equal to 2.3% of the price for which the manufacturer sells its medical devices. We manufacture and sell devices that will be subject to this tax. Additionally, the Healthcare Reform Acts changed the federal upper payment limit for Medicaid reimbursement to no less than 175% of the average weighted manufacturer s price (AMP) from 250% of the lowest average manufacturer s price for generic pharmaceuticals. The AMP provision is expected to become effective in October 2010. We could be adversely affected by, among other things, changes in the delivery or pricing of or reimbursement for pharmaceuticals, medical devices, or healthcare services.

Our business requires consistent, diligent and rigorous compliance with regulatory and licensing requirements.

The healthcare industry is highly regulated. As described above in greater detail in the discussion of our business in Item 1, we are subject to regulation in the United States at both the federal and state level and in foreign countries. Many of our subsidiaries are required to register for permits or licenses with, and to comply with operating and security standards of, regulatory agencies. If we fail to comply with these regulatory requirements, or if allegations are made that we fail to comply, our results of operations and financial condition could suffer.

To lawfully operate our businesses, we are required to hold permits, licenses and other regulatory approvals from governmental bodies. Failure to maintain or renew, or obtain without significant delay, necessary permits, licenses or approvals could have an adverse effect on our results of operations and financial condition. For example, in fiscal 2008, the DEA suspended licenses to distribute controlled substances held by three of our distribution centers for almost a year because of alleged defects in our controlled substance anti-diversion controls.

Products that we manufacture, distribute or market are required to comply with regulatory requirements. Noncompliance or concerns over noncompliance could result in product corrective actions, recalls or seizures, warning letters, monetary sanctions, injunctions to halt manufacture and distribution of products, civil or criminal sanctions, governmental refusal to grant approvals, restrictions on operations, withdrawal of existing approvals and third party claims.

We are required to comply with laws and regulations relating to healthcare fraud and abuse. The scope and applicability of these laws is not always clear. If we fail to comply with them, we could be subject

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to federal or state government investigations and resulting civil and criminal penalties including the loss of licenses or the ability to participate in Medicare, Medicaid and other federal and state healthcare programs. The scope or requirements of these laws or regulations may be interpreted or applied by a regulator, prosecutor or judge in a manner that could negatively impact or require us to change our operations.

We could be subject to adverse changes in the tax laws or challenges to our tax positions.

We are a large multinational corporation with operations in the United States and many foreign countries. As a result, we are subject to the tax laws and regulations of many jurisdictions. From time to time, legislative initiatives are proposed, including proposals to repeal LIFO (last-in, first-out) treatment of inventory, that could adversely affect our tax positions, effective tax rate or tax payments. Tax laws and regulations are extremely complex and subject to varying interpretations. Tax authorities have challenged some of our tax positions and it is possible that they will challenge others. We may not be able to defend these challenges successfully, which may adversely affect our effective tax rate or tax payments.

Our business and operations depend on the proper functioning of information systems and critical facilities.

We rely on information systems to obtain, rapidly process, analyze and manage data to:

facilitate the purchase and distribution of thousands of inventory items from numerous distribution centers;

receive, process and ship orders on a timely basis;

manage the accurate billing and collections for thousands of customers;

process payments to suppliers;

facilitate the manufacturing and assembly of medical products; and

generate financial transactions and information.

Our business also depends on the proper functioning of our critical facilities, including our national logistics center. Our results of operations could be adversely affected if these systems or facilities are interrupted, damaged by unforeseen events or actions of third parties, or fail for any extended period of time.

The Medical segment is working on a medical business transformation project, which includes a new information system for supply chain and manufacturing related processes. The Medical segment is planning to transition selected processes to the new system throughout fiscal 2012 and 2013. If the system is not effectively implemented or fails to operate as intended, it could adversely affect the Medical segment s supply chain and manufacturing operations and the effectiveness of our internal control over financial reporting.

Because of the nature of our business, we may become involved in legal proceedings that could adversely impact our cash flows or results of operations.

Due to the nature of our businesses, which includes the manufacture and distribution of healthcare products, we may from time to time become involved in legal proceedings. For instance, some of the products we manufacture or distribute may be alleged to cause personal injury or violate the intellectual property rights of another party, subjecting us to product liability or infringement claims. While we generally obtain indemnity rights from the manufacturers of products we distribute, and we carry product liability insurance, it is possible that liability from such claims could exceed those protections. Litigation is inherently unpredictable and the unfavorable resolution of one or more of these legal proceedings could harm our cash flows or results of operations.

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Acquisitions are not always as successful as we expect them to be.

Historically, an important element of our growth strategy has been to acquire other businesses that expand or complement our existing businesses. Acquisitions involve risks: we may overpay for a business or fail to realize the synergies and other benefits we expect from the acquisition; we may encounter unforeseen accounting or internal control over financial reporting issues; or the acquired business may have regulatory or compliance issues that we did not anticipate.

We depend on certain suppliers to make their raw materials and products available to us and are subject to fluctuations in costs of raw materials and products.

We depend on various components, compounds, raw materials and energy (including radioisotopes and oil, oil-related and other commodities) supplied by others for our operations. Any of our supplier relationships could be interrupted due to natural disasters or other events or could be terminated. A sustained interruption in the flow of adequate supplies could have an adverse effect on our business. In addition, while we have processes to minimize volatility in component and material pricing, we may not be able to successfully manage price fluctuations.

Our manufacturing businesses use oil, oil-related and other commodities as raw materials in many products. Prices of oil and gas also affect our distribution and transportation costs. Oil and gas prices are volatile and have fluctuated significantly in recent years, so our costs to produce and distribute our products also have fluctuated. Because the healthcare industry is highly competitive and many customers and third-party payors have instituted cost-containment initiatives, we may be unable to pass along cost increases through higher prices. If we cannot fully offset cost increases through other cost reductions, or recover these costs through price increases or fuel surcharges, our results of operations could be adversely affected.

Our global operations are subject to a number of economic, political and regulatory risks.

Our global operations are affected by local economic environments, including inflation, recession, currency volatility and competition. Political changes can disrupt our supply chain as well as our customers and operating activities in a particular location. We may not be able to enter into hedges or obtain insurance to protect us against these risks, and any hedges that we enter into or insurance that we are able to obtain may be expensive and may not successfully mitigate these risks.

In addition, our global operations are subject to risks arising from violations of U.S. laws such as the U.S. Foreign Corrupt Practices Act and similar anti-bribery laws in other jurisdictions, and various export control and trade embargo laws and regulations, including those that may require licenses or other authorizations for transactions within certain countries or with certain counterparties. If we fail to comply with applicable laws and regulations, we could suffer civil and criminal penalties.

Risks associated with the Spin-Off of CareFusion.

This section describes some of the risks that exist as a result of the Spin-Off of CareFusion, which is described in greater detail in the Management s Discussion and Analysis of Financial Condition and Results of Operations in this Form 10-K.

CareFusion may not satisfy all of its contractual obligations. We entered into a number of agreements with CareFusion that govern the rights and obligations of the parties following the Spin-Off. We have certain rights under those agreements, including indemnification against certain liabilities allocated to CareFusion. The failure of CareFusion to perform its obligations under the agreements could have an adverse effect on our financial condition and results of operations.

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The transaction may have unexpected tax consequences. In connection with the Spin-Off, we received a private letter ruling from the IRS to the effect that the contribution by us of the assets of the clinical and medical products businesses to CareFusion and the distribution of CareFusion shares to our shareholders would qualify as a tax-free transaction under Sections 355 and 368(a)(1)(D) of the Internal Revenue Code (the Code). In addition, we received opinions of tax counsel to the effect that the Spin-Off would qualify as a transaction that is described in Sections 355(a) and 368(a)(1)(D) of the Code. The IRS private letter ruling and the opinions of counsel rely on certain facts, assumptions, representations and undertakings from us and CareFusion regarding the past and future conduct of the companies respective businesses and other matters. If any of these facts, assumptions, representations or undertakings are incorrect or not otherwise satisfied, we and our shareholders may not be able to rely on the IRS ruling or the opinions of tax counsel. Similarly, the IRS could determine on audit that the Spin-Off is taxable if it determines that any of the facts, assumptions, representations or undertakings are not correct or have been violated or if the IRS disagrees with the conclusions in the opinions of counsel that are not covered by the private letter ruling or for other reasons, including as a result of certain significant changes in stock ownership of either Cardinal Health or CareFusion. If the Spin-Off is determined to be taxable for U.S. federal income tax purposes, we and our shareholders that are subject to U.S. federal income tax could incur significant tax liabilities.

We may not be able to capture the full benefits from our minority investment in CareFusion. As of June 30, 2010, we owned approximately 30.5 million CareFusion shares. As with any investment in a publicly traded company, this investment is subject to risks and uncertainties relating to CareFusion s business, as disclosed in CareFusion s filings with the SEC. In addition, we entered into an agreement in connection with the Spin-Off under which we committed to vote all of our CareFusion shares in proportion to the votes cast by CareFusion s other shareholders and we do not have any representation on CareFusion s Board of Directors. As a result, we are not able to exert control or influence over CareFusion to act in a manner that we may believe best for protecting or enhancing the value of our investment.

Under the private letter ruling from the IRS relating to the Spin-Off, we must dispose of the CareFusion shares as soon as practicable after the Spin-Off and consistent with our reasons for retaining the shares, but no later than August 31, 2014. As a result, we may be required to sell some or all of the shares at a time when we might not otherwise choose to do so. Additionally, any disposition of CareFusion shares by us in the public market, or the perception that such dispositions could occur, could adversely affect prevailing market prices for CareFusion shares and adversely affect the value or the terms and conditions of such disposition.

Item 1B: ***Unresolved Staff Comments***

Not applicable.

Item 2: ***Properties***

In the United States, the Pharmaceutical segment operates 24 pharmaceutical distribution facilities and one national logistics center; four specialty distribution facilities; and 170 nuclear pharmacy laboratory, manufacturing and distribution facilities. The Medical segment operates 50 medical-surgical distribution, assembly, manufacturing, and research operation facilities. Our U.S. operating facilities are located in 45 states and in Puerto Rico.

Outside of the United States, through our Medical segment, we own or lease 16 manufacturing, distribution and research operating facilities in Canada, the Dominican Republic, Malaysia, Malta, Mexico, and Thailand.

We own 65 operating facilities and lease 200 operating facilities. We own two adjoining four-story buildings at 7000 and 7200 Cardinal Place in Dublin, Ohio, where our principal executive offices are headquartered.

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We consider our operating properties to be in satisfactory condition and adequate to meet our present needs. However, we regularly evaluate operating properties and may make further additions and improvements or consolidate locations as we seek opportunities to expand our business.

Item 3: ***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 and regulatory matters. We do not believe that the outcome of any pending litigation will have a material adverse effect on the consolidated financial statements.

Item 4: ***Removed and Reserved***

Executive Officers of the Registrant

The following is a list of our executive officers as of August 18, 2010:

Name	Age	Position
George S. Barrett	55	Chairman and Chief Executive Officer
Jeffrey W. Henderson	45	Chief Financial Officer
Michael C. Kaufmann	47	Chief Executive Officer, Pharmaceutical segment
Michael A. Lynch	49	Chief Executive Officer, Medical segment
Craig S. Morford	51	Chief Legal and Compliance Officer
Carole S. Watkins	50	Chief Human Resources Officer
Mark R. Blake	39	Executive Vice President, Strategy and Corporate Development
Stephen T. Falk	45	Executive Vice President, General Counsel and Corporate Secretary

The business experience summaries provided below for our executive officers describe positions held during the last five years (unless otherwise indicated).

Mr. Barrett has served as Chairman and Chief Executive Officer since the Spin-Off on August 31, 2009. Prior to that, since January 2008, he served as Vice Chairman of Cardinal Health and Chief Executive Officer, Healthcare Supply Chain Services. Before he joined us, Mr. Barrett held several positions with Teva Pharmaceutical Industries Limited, a global pharmaceutical company. From November 2006 to January 2008, he was President and Chief Executive Officer of Teva North America and Executive Vice President Global Pharmaceutical Markets and a member of the Office of the Chief Executive Officer for Teva Pharmaceutical Industries. He was President and Chief Executive Officer of Teva North America and Group Vice President North America of Teva Pharmaceutical Industries from 2005 to 2006. Prior to that, Mr. Barrett served as President of Teva USA from 1998 to 2005.

Mr. Henderson has served as Chief Financial Officer since May 2005 and joined Cardinal Health as an Executive Vice President in April 2005.

Mr. Kaufmann has served as Chief Executive Officer, Pharmaceutical segment, since August 31, 2009. Prior to that, since April 2008, he served as Group President, Pharmaceutical Supply Chain. From April 2007 to April 2008, he was Group President of Healthcare Supply Chain Services Medical segment. From September 2005 April 2007, he was Chief Financial Officer of Healthcare Supply Chain Services. From May 2005 to September 2005, he was Executive Vice President, Sales, Marketing and Procurement.

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Mr. Lynch has served as Chief Executive Officer, Medical segment, since August 31, 2009. Prior to that, since September 2008, he served as Group President, Medical. From July 2004 to September 2008, he was Group President, Medical Products and Technologies.

Mr. Morford has served as Chief Legal and Compliance Officer since May 2009. From May 2008 to May 2009, he served as Chief Compliance Officer. Prior to joining us, from August 2007 to March 2008, he was the Acting Deputy Attorney General of the United States. From October 2006 to July 2007, he was United States Attorney in Nashville, Tennessee. From March 2005 to October 2006, he was First Assistant United States Attorney in the United States Attorney s office in Cleveland, Ohio.

Ms. Watkins has served as Chief Human Resources Officer and its predecessor position, Executive Vice President Human Resources, since August 2000.

Mr. Blake has served as Executive Vice President, Strategy and Corporate Development since October 2009. Prior to joining us, since October 2007, he was Vice President, Business Development of Medco Health Solutions, Inc. (Medco). From August 2006 to October 2007, he was Senior Director, Business Development, of Medco. From June 2005 to July 2006, he served as Director, Corporate Development, of Avaya, Inc.

Mr. Falk has served as Executive Vice President, General Counsel and Corporate Secretary since May 2009. From April 2007 to May 2009, he served as Executive Vice President and General Counsel of the Healthcare Supply Chain Services segment. From March 2005 to April 2007, he served as Vice President and General Counsel of the Pharmaceutical Technologies and Services segment.

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PART II

Item 5: ***Market for Registrant s Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities***

On August 31, 2009, each shareholder received 0.5 shares of CareFusion common stock for each of our Common Shares held on August 25, 2009, the record date for the Spin-Off. On August 31, 2010, the last trading day before the Spin-Off became effective, the closing price of our Common Shares, trading regular way (that is with an entitlement to shares of CareFusion common stock distributed in the Spin-Off), was $34.58. On September 1, 2009, the first trading day after the Spin-Off, the opening price of our Common Shares was $25.32 per share and the opening price of CareFusion stock was $19.65 per share. These stock prices were as reported on the New York Stock Exchange Composite Tape.

Our common shares are listed on the New York Stock Exchange under the symbol CAH. The following table reflects the range of the reported high and low closing prices of our common shares as reported on the New York Stock Exchange Composite Tape and the per share dividends declared for the fiscal years ended June 30, 2010 and 2009, and from July 1, 2010 through the period ended on August 18, 2010. The stock prices listed in the table below for quarter-end prices prior to August 31, 2009 have not been adjusted for the impact of the Spin-Off.

	High	Low	Dividends
Fiscal 2009			
Quarter Ended:			
September 30, 2008	$ 56.34	$ 48.54	$ 0.140
December 31, 2008	50.50	28.38	0.140
March 31, 2009	39.53	28.59	0.140
June 30, 2009	36.95	29.81	0.175
Fiscal 2010			
Quarter Ended:			
September 30, 2009	$ 35.63	$ 24.97	$ 0.175
December 31, 2009	32.95	26.22	0.175
March 31, 2010	36.45	31.31	0.175
June 30, 2010	36.45	32.80	0.195
Fiscal 2011			
Through August 18, 2010	$ 35.88	$ 30.94	$ 0.195

As of August 18, 2010 there were approximately 14,493 shareholders of record of the Common Shares.

We anticipate that we will continue to pay quarterly cash dividends in the future. The payment and amount of future dividends remain, however, within the discretion of our Board of Directors and will depend upon our future earnings, financial condition, capital requirements and other factors

Issuer Purchases of Equity Securities

Period	Total Number of Shares Purchased (1)	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Program (2)	Approximate Dollar Value of Shares That May Yet be Purchased Under the Program (2)
April 1 30, 2010	817	$ 35.68	0	$ 450,000,023
May 1 31, 2010	6,179	34.92	0	450,000,023
June 1 30, 2010	5,758,600	34.72	5,758,200	250,088,735
Total	5,765,596	$ 34.72	5,758,200	$ 250,088,735

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(1) Includes 129, 121 and 180 Common Shares purchased in April, May and June 2010, respectively, through a rabbi trust as investments of participants in our Deferred Compensation Plan. Also includes 688, 6,058 and 220 restricted shares surrendered in April, May and June 2010, respectively, by employees upon vesting to meet tax withholding.

(2) During the three months ended June 30, 2010, we repurchased approximately $200 million of our Common Shares under our existing $500 million share repurchase program announced on August 5, 2009. During July and August 2010, we repurchased an additional $250 million of our Common Shares completing the existing share repurchase program.

Performance Graph

The following line graph compares the cumulative total return of our Common Shares with the cumulative total return of the Standard & Poor s Composite 500 Stock Index and the Value Line Health Care Sector Index, an independently prepared index that includes more than 100 companies in the health care industry. The graph assumes, in each case, an initial investment of $100 on June 30, 2005, based on the market prices at the end of each fiscal year through and including June 30, 2010, and reinvestment of dividends (and taking into account the value of CareFusion shares distributed in the Spin-Off). The Value Line Health Care Index investment is weighted on the basis of market capitalization at the beginning of each fiscal year. The companies in the Value Line Health Care Index are referred to as the Peer Group in the line graph and accompanying chart.

June 30,	2005	2006	2007	2008	2009	2010
Cardinal Health, Inc.	100.00	112.18	123.89	91.28	55.00	86.17
Standard & Poors 500	100.00	108.63	131.00	113.81	83.98	96.10
Peer Group	100.00	104.00	116.53	105.89	91.08	100.30

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Item 6: ***Selected Financial Data***

The consolidated financial data include all business combinations as of the date of acquisition that occurred during these periods. The following selected consolidated financial data should be read in conjunction with our consolidated financial statements and related notes and Item 7 Management s Discussion and Analysis of Financial Condition and Results of Operations.

	At or for the Fiscal Year Ended June 30,				
	2010	2009	2008	2007	2006 (1)
	(In millions, except per common share amounts)				
Earnings Data:					
Revenue	$ 98,502.8	$ 95,991.5	$ 87,408.2	$ 84,220.4	$ 77,389.4
Earnings from continuing operations	587.0	758.2	847.2	532.1	825.7
Earnings from discontinued operations (2)	55.2	393.4	453.4	1,399.0	174.4
Net earnings	$ 642.2	$ 1,151.6	$ 1,300.6	$ 1,931.1	$ 1,000.1
Basic earnings per Common Share					
Continuing operations	$ 1.64	$ 2.12	$ 2.37	$ 1.35	$ 1.96
Discontinued operations (2)	0.15	1.10	1.26	3.54	0.42
Net basic earnings per Common Share	$ 1.79	$ 3.22	$ 3.63	$ 4.89	$ 2.38
Diluted earnings per Common Share					
Continuing operations	$ 1.62	$ 2.10	$ 2.33	$ 1.31	$ 1.93
Discontinued operations (2)	0.15	1.08	1.24	3.46	0.40
Net diluted earnings per Common Share	$ 1.77	$ 3.18	$ 3.57	$ 4.77	$ 2.33
Cash dividends declared per Common Share	0.720	0.595	0.500	0.390	0.270
Balance Sheet Data:					
Total assets	$ 19,990.2	$ 25,118.8	$ 23,448.2	$ 23,153.8	$ 23,433.3
Long-term obligations, less current portion and other short-term borrowings	1,896.1	3,271.6	3,681.7	3,447.3	2,503.4
Shareholders equity (3)	5,276.1	8,724.7	7,747.5	7,376.9	8,490.7

(1) During the first quarter of fiscal 2006, we adopted new accounting guidance regarding share-based compensation. Prior to this accounting guidance, we accounted for share-based awards under the intrinsic value method, and share-based compensation was included as pro forma disclosure within the notes to the financial statements.

(2) On August 31, 2009, we separated the clinical and medical products businesses from our other businesses through a pro rata distribution to shareholders of 81% of the then outstanding common stock of CareFusion and met the criteria for classification of these businesses as discontinued operations. During the fourth quarter of fiscal 2009, we committed to plans to sell our United Kingdom-based Martindale injectable manufacturing business within our Pharmaceutical segment, and met the criteria for classification of this business as discontinued operations. During the second quarter of fiscal 2007, we committed to plans to sell our former Pharmaceutical Technologies and Services segment, other than certain generic-focused businesses (the segment, excluding the certain generic-focused businesses that were not sold, is referred to as the PTS Business) and met the criteria for classification as discontinued operations. During the first quarter of fiscal 2006, we decided to discontinue our sterile pharmaceutical manufacturing business in Humacao, Puerto Rico, and met the criteria for classification as discontinued operations. For additional information regarding discontinued operations, see Note 5 of Notes to Consolidated Financial Statements.

(3) In the first quarter of fiscal 2008, we adopted new accounting guidance regarding the accounting for uncertainty in income taxes recognized in the financial statements. This accounting guidance provides that a tax benefit from an uncertain tax position may be recognized when it is more likely than not that the position will be sustained upon examination, including resolutions of any related appeals or litigation processes, based on the technical merits. The amount recognized is measured as the largest amount of tax benefit that is greater than 50% likely of being realized upon settlement. The cumulative effect of adopting this accounting guidance was a $139.3 million reduction of retained earnings.

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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 Form 10-K. 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 $98.5 billion global company serving the healthcare industry with products and services that help hospitals, physician offices and pharmacies reduce costs, improve safety and productivity, and deliver better care to patients. We report our financial results in two segments: Pharmaceutical and Medical.

Our 2010 fiscal year was a significant transition year as we completed the spin-off of CareFusion, transitioned to a new management team, commenced a number of key programs to enhance and refocus our operations and responded to the challenging economic environment and uncertain healthcare industry landscape. During fiscal 2010, our Medical segment profit grew by 11 percent, while continuing to make key strategic investments. Our Pharmaceutical segment profit declined by 3 percent, primarily due to pricing changes on renewed customer contracts, the negative impact of actions we took to improve our strategic positioning, the negative impact from the year-over-year value of generic launches and a severe supply shortage in nuclear pharmacy. These items were largely offset by our execution on major programs and disciplined cost controls.

Our cash and equivalents balance was $2.8 billion at June 30, 2010, compared to $1.2 billion at June 30, 2009. The increase was primarily derived from net cash provided by operating activities of $2.0 billion as a result of earnings and very successful working capital management in fiscal 2010.

We plan to continue to execute a balanced deployment of available capital to position ourselves for sustainable competitive advantage and to create shareholder value. This includes reinvesting in the business; during fiscal 2010 we made capital expenditures totaling $260 million, with the majority being in the area of information technology projects. We may seek to complement our internal capabilities or scale with acquisitions, such as the acquisition of Healthcare Solutions Holding, LLC (P4 Healthcare) that we recently completed during early fiscal 2011. During fiscal 2010, we paid quarterly dividends of $0.175 per share, or $0.70 per share on an annualized basis. On May 5, 2010, the board of directors approved an 11 percent increase in the quarterly dividend beginning in July 2010. In fiscal 2010 we also repurchased $250 million of shares (of which $20 million cash settled in July 2010).

Trends

As we enter fiscal 2011, we expect low single-digit growth in the primary markets that we serve. Actual revenue growth realized in our two segments may vary from market trends based on customer gains and losses, product and customer sales mix shifts, and growth of the specific customers that we serve.

Our gross margin has been relatively flat over the past three years and decreased as a percentage of revenues primarily as a result of competitive pressures. We began a number of business programs to improve gross margin and increase the sales of higher margin products, which had some success in fiscal 2010. Going forward, our gross margin could be influenced by the rates of growth in our key markets, product and customer sales mix, competitive pricing intensity, sourcing activity, the rate and value of generic pharmaceutical launches, and price changes for our products, including generic and branded pharmaceutical price appreciation or deflation.

Our Pharmaceutical segment s nuclear pharmacy services business dispenses several products prepared using a particular radioisotope. At the present time, it is difficult to acquire sufficient quantities of that

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radioisotope from third party suppliers because of a continued and prolonged shortage of a critical raw material used to derive that radioisotope from two nuclear reactors, which are experiencing prolonged downtimes. Based on information obtained from parties involved with the two affected nuclear reactors, we anticipate the supply of raw material to normalize in the first half of fiscal 2011.

Within the Medical segment, variability in the cost of raw materials such as oil, oil-related and other commodities can have a significant impact on the cost of products sold. In fiscal 2011, we anticipate a negative year-over-year impact from higher commodity prices.

In March 2010, Congress approved, and the President signed into law, the Patient Protection and Affordable Care Act and the Health Care and Education Reconciliation Act (the Health Reform Acts). The Health Reform Acts seek to expand health insurance coverage to approximately 32 million uninsured Americans. Many of the significant changes in the Healthcare Reform Acts do not take effect until 2014, including a requirement that most Americans carry health insurance. Although we expect expansion of access to health insurance to increase the demand for our products and services, the overall effect of the provisions of the Health Reform Acts on us is uncertain and could be adverse. The Health Reform Acts contain many provisions designed to generate the revenues necessary to fund the coverage expansions and to reduce costs of Medicare and Medicaid. We could be adversely affected by, among other things, changes in the delivery or pricing of or reimbursement for pharmaceuticals, medical devices or healthcare services. In addition, beginning in 2013, each medical device manufacturer will have to pay a tax in an amount equal to 2.3% of the price for which the manufacturer sells its medical devices. We manufacture and sell medical devices that will be subject to this tax.

Acquisitions and Divestitures

In July 2010, subsequent to the end of fiscal 2010, we completed the acquisition of P4 Healthcare for a cash payment of $517 million. The acquisition agreement also includes earn-out payments of up to $150 million over the next three years. With this acquisition, we plan to expand our presence in specialty pharmaceutical services and distribution. P4 Healthcare s results will be reported within our Pharmaceutical segment.

We consider acquisitions to expand our role as a provider of services and innovative products to the healthcare industry, especially those that complement our existing operations and provide opportunities for us to develop synergies with, and strengthen, the acquired business. There can be no assurance, however, that we will be able to successfully take advantage of any such opportunity if and when it arises or consummate any such transaction, if pursued. As additional transactions are pursued or consummated, we would incur additional acquisition related charges, and may need to enter into funding arrangements for such acquisitions. There can be no assurance that the integration efforts associated with any such transaction will be successful.

During the fourth quarter of fiscal 2010, we sold our United Kingdom-based Martindale injectable manufacturing business (Martindale) for $141 million.

Spin-Off of CareFusion Corporation

On August 31, 2009, we separated the clinical and medical products businesses from our other businesses through a pro rata distribution to shareholders of approximately 81% of the then outstanding shares of CareFusion common stock (the Spin-Off). We retained certain surgical and exam gloves, surgical drapes and apparel and fluid management businesses that were previously part of our clinical and medical products business. As explained elsewhere in this Form 10-K, the Spin-Off had a significant impact on our results of operations and financial condition.

During fiscal 2010, we sold approximately 10.9 million shares of the 41.4 million shares of CareFusion common stock that we held immediately after the Spin-Off for $271 million, which resulted in a gross pre-tax realized gain of approximately $45 million. As of June 30, 2010, our ownership of approximately 30.5 million

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shares of CareFusion common stock had an estimated fair value of $692 million. Under the private letter ruling from the IRS relating to the Spin-Off, we must dispose of the CareFusion shares as soon as practicable after the Spin-Off and consistent with our reasons for retaining the shares, but no later than August 31, 2014. CareFusion has registered the CareFusion stock we own with the SEC, although we may sell the stock under an exemption from registration.

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

Our Continuing 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, an employee matters agreement, intellectual property agreements and certain other commercial agreements with CareFusion. These agreements, including the separation agreement, provide for the 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.

Pursuant to our transition services agreement with CareFusion, for fiscal 2010 we recognized approximately $99 million in transition service fee income which approximately offsets the costs associated with providing the transition services. Additionally, during fiscal 2010 we purchased $606 million of CareFusion trade receivables pursuant to an accounts receivable factoring arrangement between CareFusion and us.

Under the tax matters agreement in connection with the Spin-Off, CareFusion is obligated to indemnify us for certain tax exposures and transaction taxes prior to the Spin-Off. As of June 30, 2010, we have a $245 million indemnification receivable on our balance sheet related to this item.

Results of Operations

Revenue

	Change		Revenue		
	2010	2009	2010	2009	2008
Pharmaceutical	2%	11%	$ 89,789.9	$ 87,862.9	$ 79,498.3
Medical	7%	3%	8,750.1	8,159.3	7,916.7
Corporate	N.M.	N.M.	(37.2)	(30.7)	(6.8)
Consolidated revenue	3%	10%	$ 98,502.8	$ 95,991.5	$ 87,408.2

Fiscal 2010 Compared to Fiscal 2009

Pharmaceutical segment

Pharmaceutical segment revenue was positively impacted 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).

Revenue from non-bulk customers was $45.8 billion, $44.1 billion and $42.2 billion for fiscal 2010, 2009 and 2008, respectively. Revenue from bulk customers was $44.0 billion, $43.7 billion and $37.3 billion for fiscal 2010, 2009 and 2008, respectively. See Item 1: Business for more information about bulk and non-bulk customers.

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Medical segment

Medical segment revenue was positively impacted 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 the favorable impact of foreign exchange ($55 million). In addition, in connection with the Spin-Off, we recognized previously deferred inter-company 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.

Fiscal 2009 Compared to Fiscal 2008

Pharmaceutical segment

Pharmaceutical segment revenue was positively impacted by pharmaceutical price appreciation and increased volume from existing customers (a combined impact of $7.8 billion). Revenue was negatively impacted by lost customer revenue from the DEA s suspensions of licenses to distribute controlled substances held by three of our distribution centers and because of enhanced controlled substance anti-diversion efforts that we undertook. We resumed controlled substance distributions from distribution centers that were impacted by the license suspensions during the second quarter of fiscal 2009.

Medical segment

Medical segment revenue was positively impacted by increased volume from existing hospital, laboratory and ambulatory care customers ($386 million). Revenue was negatively impacted by foreign exchange ($88 million).

Cost of Products Sold

Consistent with the increases in revenue, our cost of products sold increased $2.5 billion, or 3%, during fiscal 2010 and increased by $8.6 billion, or 10%, during fiscal 2009.

Gross Margin

	Change		Gross Margin		
	2010	2009	2010	2009	2008
Gross margin	1%	(1)%	$ 3,780.7	$ 3,747.5	$ 3,777.1

Fiscal 2010 Compared to Fiscal 2009

Pharmaceutical segment

Gross margin decreased $65 million 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; however, this was partially offset by efficiencies gained within SG&A.

Increased branded margin (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. Several factors can

influence branded margin, including: our service level performance under distribution service agreements; our inventory level and mix; and the magnitude and timing of pharmaceutical price appreciation.

Sales volume growth in pharmaceutical distribution had a positive impact of $22 million.

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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 as a result of the factors listed below.

Increased sales volume resulted in a $67 million increase in gross margin.

Decreased cost of oil, oil-related and other commodities favorably impacted gross margin by $36 million.

Fiscal 2009 Compared to Fiscal 2008

Pharmaceutical segment

Gross margin increased by $48 million as a result of the factors listed below.

Pricing changes on renewed customer contracts (exclusive of the related volume impact) decreased gross margin by $132 million.

Higher sales volume, mainly as a result of growth in pharmaceutical distribution, increased gross margin by $122 million.

Timing of new generic pharmaceutical launches resulted in higher generic margins of $69 million.

Medical segment

Gross margin decreased $69 million as a result of the factors listed below.

The higher cost of oil, oil-related and other commodities decreased gross margin by $34 million.

The negative impact of foreign exchange impacted gross margin by $32 million.

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

	Change		SG&A		
	2010	2009	2010	2009	2008
SG&A	3%	%	$ 2,408.0	$ 2,333.5	$ 2,340.6

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). Included within SG&A were $11 million and $5 million of costs related to the Spin-Off for fiscal 2010 and 2009, respectively.

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Fiscal 2009 Compared to Fiscal 2008

Cost control programs enabled us to decrease SG&A expenses in fiscal 2009 by $7 million even though we incurred higher bad debt expense ($38 million). The increased bad debt expense was due to poor economic conditions affecting certain customers and four regional chain customers of our Pharmaceutical segment filing for bankruptcy.

Segment Profit and Operating Earnings

	Change		Segment Profit and Operating Earnings		
	2010	2009	2010	2009	2008
Pharmaceutical	(3)%	1%	$ 1,001.8	$ 1,035.7	$ 1,022.4
Medical	11%	(6)%	427.7	384.9	411.3
Total Segment Profit	1%	(1)%	1,429.5	1,420.6	1,433.7
Corporate	N.M.	N.M.	(122.6)	(133.2)	(41.3)
Consolidated Operating Earnings	2%	(8)%	$ 1,306.9	$ 1,287.4	$ 1,392.4

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, impairments and (gain)/loss on sale of assets, litigation (credits)/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 retained at Corporate. In addition, Spin-Off costs included within SG&A are not allocated to our segments.

Pharmaceutical segment

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 solid branded margin growth.

The principal drivers for the increase during fiscal 2009 were increased volume and contributions from new generic launches. The increase was partially offset by pricing changes on renewed customer contracts, the impact from anti-diversion activities and bad debt expense.

Segment profits from sales to bulk customers as a percentage of Pharmaceutical segment profit were 11%, 17% and 15% in fiscal 2010, 2009 and 2008. The decrease from fiscal 2009 to fiscal 2010 was due to pricing changes on renewed bulk customer contracts.

Medical segment

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. Segment profit growth was partially dampened from increased spending on strategic projects.

The decrease during fiscal 2009 was primarily due to increased cost of raw materials associated with commodity price movements and the negative impact of foreign exchange.

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Consolidated Operating Earnings

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

	2010	2009	2008
Restructuring and Employee Severance	$ 90.7	$ 104.7	$ 55.3
Acquisition Related Costs	8.4	2.8	2.6
Impairments and (Gain)/Loss on Sale of Assets	29.1	13.9	(33.3)
Litigation (Credits)/Charges, Net	(62.4)	5.2	19.5

Fiscal 2010

Restructuring and employee severance: Fiscal 2010 restructuring and employee severance charges included $65 million of costs arising from the Spin-Off, including approximately $19 million of costs related to the retirement of our former Chairman and Chief Executive Officer. We expect to incur additional costs associated with existing restructuring activities primarily arising from the Spin-Off totaling approximately $15 million.

Impairments and (gain)/loss on sale of assets: 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 (credits)/charges, net: We received income of $41 million resulting from settlement of a class action antitrust claim alleging that a defendant branded pharmaceutical manufacturer took improper actions to delay the entry of a generic version of a branded pharmaceutical. In addition, we received $26 million of income for insurance proceeds released from escrow after litigation against certain directors and officers was resolved.

Fiscal 2009

Restructuring and employee severance: During fiscal 2009, restructuring and employee severance primarily related to the Spin-Off ($74 million) and realignment of our segment operating structure ($16 million).

Fiscal 2008

Restructuring and employee severance: During fiscal 2008, restructuring and employee severance primarily related to the relocation of our medical products distribution headquarters and certain corporate functions from Waukegan, Illinois to our corporate headquarters in Dublin ($28 million) and realignment of our business operations ($10 million).

Impairments and (gain)/loss on sale of assets: During fiscal 2008, we divested an investment within our Pharmaceutical segment and recognized a $23 million gain.

Litigation (credits)/charges, net: We recognized litigation charges totaling $74 million due to the resolution of the DEA license suspensions ($34 million) and other matters. These charges were offset by $58 million of income related to the settlement of several derivative actions against certain directors and officers.

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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:

	Change		Earnings Before Income Taxes and Discontinued Operations		
	2010	2009	2010	2009	2008
Other (income)/expense, net	N.M.	N.M.	$ (13.5)	$ 13.2	$ (38.8)
Interest expense, net	(1)%	(16)%	113.5	114.4	136.1
Loss on extinguishment of debt	N.M.	N.M.	39.9	0.0	0.0
Gain on sale of CareFusion common stock	N.M.	N.M.	(44.6)	0.0	0.0

Fiscal 2010 Compared to Fiscal 2009

Other (income)/expense, net: Other (income)/expense, net is favorable compared to fiscal 2009 primarily due to income of $6 million related to the performance of our deferred compensation plan assets versus a $12 million expense in fiscal 2009. The income and expense related to the performance of the deferred compensation plan assets is offset within SG&A. Other (income)/expense, net was also favorably impacted by foreign exchange ($16 million).

Loss on extinguishment of debt: On September 24, 2009, we completed a debt tender for up to $1.2 billion of certain outstanding debt securities, ultimately purchasing more than $1.1 billion. The offer was funded by a $1.4 billion cash distribution received from CareFusion immediately prior to the Spin-Off. In connection with the debt tender, we incurred a pre-tax loss for the early retirement of debt of approximately $40 million, which included an early tender premium of $66 million, the write-off of $5 million of unamortized debt issuance costs, and an offsetting $32 million fair value adjustment to the debt related to previously terminated interest rate swaps.

Gain on sale of CareFusion common stock: We recognized $45 million of income related to realized gains from the sale of shares of CareFusion common stock.

Fiscal 2009 Compared to Fiscal 2008

Other (income)/expense, net: Other (income)/expense, net was unfavorable compared to fiscal 2008 primarily due to the impact of foreign exchange.

Interest expense, net: The decrease in interest expense, net was due to the favorable impact of interest rate swaps on fixed rate debt.

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Provision for Income Taxes

Generally, fluctuations in the effective tax rate are due to changes within international and U.S. 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 2010, 2009 and 2008 (see Note 9 of Notes to Consolidated Financial Statements for a detailed disclosure of the effective tax rate reconciliation):

	Fiscal Year Ended June 30,		
	2010	2009	2008
Provision at Federal statutory rate	35.0%	35.0%	35.0%
State and local income taxes, net of federal benefit	4.7	1.8	4.4
Foreign tax rate differential	(2.0)	(3.8)	(7.2)
Unremitted foreign earnings and capital gain from repatriation	13.9	0.0	3.7
Valuation allowances	(2.3)	(3.1)	(3.7)
Other	2.3	4.7	2.4
Effective income tax rate	51.6%	34.6%	34.6%

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 which resulted in a higher percentage of our pretax income being generated in the U.S. than in lower tax rate international jurisdictions. A favorable audit settlement with a state taxing authority in fiscal 2009 (see below) also unfavorably impacted the year-over-year comparison of the effective tax rate.

Fiscal 2009 Compared to Fiscal 2008

The effective tax rate was unfavorably impacted by 3.4 percentage points due to changes in our business mix which resulted in a higher percentage of our pretax income being generated in the U.S than in lower tax rate international jurisdictions. The effective tax rate was favorably impacted by 1.4 percentage points due to an audit settlement with a state taxing authority. In addition, the effective tax rate was favorably impacted by 3.1 percentage points due to the release of a valuation allowance on a deferred tax asset established for a capital loss carryforward.

Ongoing Audits

The IRS currently has ongoing audits of fiscal years 2001 through 2007. 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 $598 million, excluding penalties and interest. If this tax ultimately must be paid, CareFusion is liable under the tax matters agreement for $462 million of the total amount. We disagree with these proposed adjustments and intend to vigorously contest them, but we believe our reserves for these matters are adequate.

Earnings from Discontinued Operations

Earnings from discontinued operations were $55 million for fiscal 2010. CareFusion operating results are included within earnings from discontinued operations for all periods through the date of the Spin-Off. Earnings from discontinued operations, net of tax, decreased by $60 million during fiscal 2009 primarily because CareFusion s earnings declined in large part because hospitals deferred capital spending. See Note 5 in the Notes to Consolidated Financial Statements for additional information on discontinued operations.

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Liquidity and Capital Resources

We currently believe that, based upon available capital resources (cash on hand and ownership of shares of CareFusion common stock), projected operating cash flow, and access to committed credit facilities, we have adequate access to 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. In the first quarter of fiscal 2011, we acquired P4 Healthcare using 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 $2.8 billion at June 30, 2010, compared to $1.2 billion at June 30, 2009. The increase was primarily derived from net cash provided by operating activities of $2.0 billion. Net cash provided by operating activities is primarily driven by net earnings and changes in working capital. 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,		
	2010	2009	2008
Days sales outstanding	18.6	19.1	19.6
Days inventory on hand	21.5	23.1	24.1
Days payable outstanding	32.1	30.5	31.1

Focused efforts to manage customer accounts and reduce delinquency rates have led to improved DSO. The significant improvement in DIOH 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 2010, we deployed $260 million on capital expenditures, $253 million on dividends and $230 million on share repurchases (an additional $20 million repurchased during fiscal 2010 settled during fiscal 2011) as part of our balanced capital deployment strategy. 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.

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During fiscal 2009, we deployed $421 million on capital expenditures, $301 million on repayment of long-term obligations and $200 million on dividends. During fiscal 2008, we deployed $1.2 billion on share repurchases, $189 million on capital expenditures and $173 million on dividends. Also during fiscal 2008, we received $300 million from the issuance of long-term obligations and $228 million from shares issued under our share-based compensation plans.

The cash and equivalents balance at the end of fiscal 2010 included $398 million of cash held by subsidiaries outside of the United States. Although the vast majority of this cash is available for repatriation, 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 by taking intercompany loans. The previously disclosed cash held by our foreign subsidiaries does not include intercompany loans of $844 million and $237 million from our foreign entities which are currently planned to be repaid by fiscal 2013 and fiscal 2020, respectively.

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 and 2008 of $341 million and ($224) million, respectively, primarily related to the earnings and changes in working capital for CareFusion.

Ownership of Shares of CareFusion Common Stock

During fiscal 2010, we sold approximately 10.9 million shares of the 41.4 million shares of CareFusion common stock that we held immediately after the Spin-Off, which resulted in cash proceeds of $271 million. As of June 30, 2010, our remaining 30.5 million shares of CareFusion common stock had an estimated fair value of $692 million. Under the private letter ruling from the IRS relating to the Spin-Off, we must dispose of the CareFusion shares as soon as practicable after the Spin-Off and consistent with our reasons for retaining the shares, but no later than August 31, 2014. CareFusion has registered the CareFusion stock owned by us with the SEC, although we may sell the stock under an exemption from registration.

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. 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, 2010. 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 receivables sales facility program 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, 2010, we were in compliance with these financial covenants.

Long-term Obligations

As of June 30, 2010, we had total long-term obligations of $2.1 billion compared to $3.6 billion at June 30, 2009. The decrease in long-term obligations was primarily driven by the debt tender completed in September 2009, resulting in the purchase of more than $1.1 billion debt securities. Additionally, in October 2009, we repaid our $350 million floating rate notes that had reached their maturity.

During fiscal 2009, we repaid $150 million of 6.25% notes that had reached their maturity and we also repaid $149 million for the preferred debt securities.

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Capital Expenditures

Capital expenditures during fiscal 2010, 2009 and 2008 of $260 million, $421 million and $189 million, respectively, primarily related to information technology projects and investments to improve the efficiency of our distribution facilities. Fiscal 2009 capital expenditures included $151 million to repurchase assets under an operating lease arrangement.

We expect capital expenditures in fiscal 2011 to be generally in line with the level of spending in fiscal 2010. We anticipate that we will be able to fund these expenditures through cash provided by operating activities. Fiscal 2011 capital expenditures will be largely focused on information technology projects.

Dividends

During fiscal 2010, we paid quarterly dividends of $0.175 per share, or $0.70 per share on an annualized basis. On May 5, 2010, our board of directors approved an 11 percent increase in the quarterly dividend to $0.195 per share, or $0.78 per share on an annualized basis, payable on July 15, 2010 to shareholders of record on July 1, 2010. On August 4, 2010, our board of directors approved our 104th consecutive regular quarterly dividend.

Share Repurchases

During fiscal 2010, we repurchased $250 million of our Common Shares, of which $20 million cash settled in July 2010. During July and August 2010, we repurchased an additional $250 million of our Common Shares which completes share repurchases under our current Board authorization. We funded the repurchases through available cash.

During fiscal 2009, we did not repurchase any of our Common Shares. During fiscal 2008, we repurchased approximately $1.1 billion of our Common Shares. A portion of the after-tax net proceeds of approximately $3.1 billion from the sale of our PTS Business were used to repurchase shares during the first quarter of fiscal 2008.

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, 2010, our contractual obligations, including estimated payments due by period, are as follows:

(in millions)	2011	2012-2013	2014-2015	Thereafter	Total
On Balance Sheet:					
Long-term debt (1)	$ 232.4	$ 517.5	$ 530.9	$ 843.1	$ 2,123.9
Interest on long-term debt	103.0	185.7	160.4	183.4	632.5
Capital lease obligations (2)	1.6	3.3	1.2		6.1
Other long-term liabilities (3)	9.2	0.7	1.1		11.0
Unsettled share repurchases	19.8				19.8
Off-Balance Sheet:					
Operating leases (4)	65.8	93.5	35.9	26.2	221.4
Purchase obligations (5)	172.5	82.2	1.2	0.4	256.3
Total contractual obligations	$ 604.3	$ 882.9	$ 730.7	$ 1,053.1	$ 3,271.0

(1) Represents maturities of our long-term debt obligations excluding capital lease obligations described below. See Note 8 in Notes to Consolidated Financial Statements for further information.

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(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.

Off-Balance Sheet Arrangements

See Liquidity and Capital Resources Capital Resources above and Note 18 in Notes to Consolidated Financial Statements, which is incorporated herein by reference, for a discussion of off-balance sheet arrangements.

Recent Financial Accounting Standards

See Note 1 in 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.

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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 (in millions)	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)
2010	$ 140.1	2.6%	0.14%	$ 8.5	$ 26.8
2009	$ 117.6	2.2%	0.12%	$ 48.3	$ 51.4
2008	$ 113.9	2.5%	0.13%	$ 19.4	$ 19.9

A hypothetical 0.1% increase or decrease in the reserve as a percentage of trade receivables, sales-type leases and finance notes receivables at June 30, 2010, would result in an increase or decrease in bad debt expense of approximately $5.3 million.

We believe the reserve maintained and expenses recorded in fiscal 2010 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 (73% at June 30, 2010, and 74% at June 30, 2009) 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 2010 and 2009, 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 2010 or fiscal 2009. In fact, primarily because prices for our generic pharmaceutical inventories have continued to decline, inventories at LIFO were $37.7 million and $34.9 million higher than the average cost value as of June 30, 2010, and 2009, respectively. However, we do not record inventories in excess of current market value.

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Inventories recorded on the consolidated balance sheets are net of reserves for excess and obsolete inventory, which were $34.4 million at June 30, 2010, and $39.5 million at June 30, 2009. We determine reserves for inventory obsolescence based on historical experiences, 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. However, these reserves are unlikely to have a material adverse impact on the consolidated financial statements.

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 2010, we identified three reporting units: Pharmaceutical segment excluding our nuclear and pharmacy services division, Medical segment and nuclear and pharmacy services 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-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 2010 and concluded that there were no impairments of goodwill as the fair value of each reporting unit exceeded its carrying value. Due to the Spin-Off and reorganization of the reporting units, goodwill was also tested for impairment in the first quarter of fiscal 2010. Based on this analysis there was no impairment. We also performed annual impairment testing in fiscal 2009 and 2008 using similar fair value approaches; however, our market-based approach historically included a review of the price/earnings ratio for publicly traded companies that were similar in nature, scope and size to our reporting units to the extent available. Based on this analysis there was no impairment. 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%, there still would not be any impairment indicated for any of our reporting units for fiscal 2010 or 2009.

Vendor Reserves

In the ordinary course of business, our vendors may dispute deductions or billings taken against payments otherwise due to them. 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

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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 $26.8 million at June 30, 2010, and $53.6 million at June 30, 2009. Approximately 57% of the vendor reserve at June 30, 2010, pertained to the Pharmaceutical segment, compared to 80% at the end of fiscal 2009. 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 certain 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 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:

Year ended June 30,	Net deferred income tax assets (in millions)	Net deferred income tax liabilities (in billions)	Net loss and credit carryforwards included in net deferred income tax assets (in millions)	Net valuation allowance (in millions) against deferred tax assets (1)
2010	$ 578	$ 1.2	$ 197	$ 183
2009	$ 622	$ 1.8	$ 193	$ 152

(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% likely of being realized upon settlement (see Note 1 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% on earnings before income taxes and discontinued operations would have caused income tax expense to increase or decrease by $12.1 million for fiscal 2010.

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

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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 2010, we calculated separate option valuations for two separate groups of employees. During fiscal 2009 and 2008, 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 7A: ***Quantitative and Qualitative Disclosures about Market Risk***

Our businesses are exposed to cash flow and earnings fluctuations as a result of certain market risks. These market risks primarily relate to foreign exchange, interest rate, and commodity related changes. We maintain a comprehensive hedging program to manage volatility related to these market exposures which employs operational, economic, and derivative financial instruments in order to mitigate risk. See Notes 1 and 12 of Notes to Consolidated Financial Statements for further discussion regarding our use of derivative instruments.

Foreign Exchange Rate Sensitivity

By nature of our global operations, our businesses are exposed to cash flow and earnings fluctuations resulting from foreign exchange rate variation. These exposures are transactional and translational in nature. Since we manufacture and sell products throughout the world, our foreign currency risk is diversified. Principal drivers of this diversified foreign exchange exposure include the Canadian dollar, European euro, Mexican peso, and Thai baht.

Transactional Exposure

Our businesses transactional exposure arises from the purchase and sale of goods and services in currencies other than our functional currency or the functional currency of our subsidiaries. As part of our risk management program, at the end of each fiscal year we perform a sensitivity analysis on our forecasted transactional exposure for the upcoming fiscal year. The fiscal 2010 and fiscal 2009 analyses utilize a currency portfolio model, encompassing both implied volatility and historical correlation to estimate the net potential gain or loss. These analyses included the estimated impact of our hedging program, which mitigates our businesses transactional exposure. At June 30, 2010 and 2009, we had hedged approximately 45% and 46%, respectively, of our businesses transactional exposures. The following table summarizes the analysis as it relates to our businesses transactional exposure (in millions):

	2010	2009
Net estimated transactional exposure	$ 318.9	$ 336.9
Sensitivity gain/loss	$ 35.3	$ 45.4
Estimated offsetting impact of hedges	(17.8)	(22.5)
Estimated net gain/loss	$ 17.5	$ 22.9

Translational Exposure

Our businesses also have exposure related to the translation of financial statements of our foreign divisions into U.S. dollars, our functional currency. We perform a similar analysis as described above related to this

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translational exposure. We do not typically hedge any of our translational exposure and no hedging impact was included in our analysis at June 30, 2010 and 2009. The following table summarizes our businesses translational exposure and the impact of a hypothetical 10% strengthening or weakening in the U.S. dollar (in millions):

	2010	2009
Net estimated translational exposure	$ 35.3	$ 63.3
Sensitivity gain/loss	$ 3.5	$ 6.3

Interest Rate Sensitivity

We are exposed to changes in interest rates primarily as a result of our borrowing and investing activities to maintain liquidity and fund business operations. The nature and amount of our long-term and short-term debt can be expected to fluctuate as a result of business requirements, market conditions and other factors. Our policy is to manage exposures to interest rates using a mix of fixed and floating rate debt as deemed appropriate by management. We utilize interest rate swap instruments to mitigate our exposure to interest rate movements.

As part of our risk management program, we annually perform a sensitivity analysis on our forecasted exposure to interest rates for the following fiscal year. This analysis assumes a hypothetical 10% change in interest rates. At June 30, 2010 and 2009, the potential increase or decrease in interest expense under this analysis as a result of this hypothetical change was $0.3 million and $0.1 million, respectively.

Commodity Price Sensitivity

We purchase certain commodities for use in our manufacturing and distribution processes, which include latex, nitrile, diesel fuel and polypropylene, among others. We typically purchase these commodities at market prices, and as a result, are affected by price fluctuations. As part of our risk management program, we perform sensitivity analysis on our forecasted commodity exposure for the following fiscal year. At June 30, 2010 and 2009, we had hedged a portion of these commodity exposures (see Note 12 of Notes to Consolidated Financial Statements for further discussion). The table below summarizes our analysis of these forecasted commodity exposures and a hypothetical 10% fluctuation in commodity prices as of June 30, 2010 and 2009 (in millions):

	2010	2009
Estimated commodity exposure	$ 240.4	$ 117.8
Sensitivity gain/loss	$ 24.0	$ 11.8
Estimated offsetting impact of hedges	(1.2)	(1.0)
Estimated net gain/loss	$ 22.8	$ 10.8

We also have exposure to certain energy related commodities, including natural gas and electricity through our normal course of business. These exposures result primarily from operating our distribution, manufacturing, and corporate facilities. In certain deregulated markets, we from time to time enter into long-term purchase contracts to supply these items at a specific price.

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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, 2010 and 2009, and the related consolidated statements of earnings, shareholders equity, and cash flows for each of the three years in the period ended June 30, 2010. Our audits also included the financial statement schedule listed in the Index at Item 15(a)(2). 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, 2010 and 2009, and the consolidated results of their operations and their cash flows for each of the three years in the period ended June 30, 2010, 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, 2010, 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 26, 2010 expressed an unqualified opinion thereon.

/s/ Ernst & Young LLP
Ernst & Young LLP
Columbus, Ohio

August 26, 2010

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CARDINAL HEALTH, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF EARNINGS

	Fiscal Year Ended June 30,		
	2010	2009	2008
	(In millions, except per common share amounts)		
Revenue	$ 98,502.8	$ 95,991.5	$ 87,408.2
Cost of products sold	94,722.1	92,244.0	83,631.1
Gross margin	3,780.7	3,747.5	3,777.1
Operating expenses			
Distribution, selling, general and administrative expenses	2,408.0	2,333.5	2,340.6
Restructuring and employee severance	90.7	104.7	55.3
Acquisition related costs	8.4	2.8	2.6
Impairments and (gain)/loss on sale of assets	29.1	13.9	(33.3)
Litigation (credits)/charges, net	(62.4)	5.2	19.5
Operating earnings	1,306.9	1,287.4	1,392.4
Other (income)/expense, net	(13.5)	13.2	(38.8)
Interest expense, net	113.5	114.4	136.1
Loss on extinguishment of debt	39.9	0.0	0.0
Gain on sale of CareFusion common stock	(44.6)	0.0	0.0
Earnings before income taxes and discontinued operations	1,211.6	1,159.8	1,295.1
Provision for income taxes	624.6	401.6	447.9
Earnings from continuing operations	587.0	758.2	847.2
Earnings from discontinued operations, net of tax	55.2	393.4	453.4
Net earnings	$ 642.2	$ 1,151.6	$ 1,300.6
Basic earnings per Common Share:			
Continuing operations	$ 1.64	$ 2.12	$ 2.37
Discontinued operations	0.15	1.10	1.26
Net basic earnings per Common Share	$ 1.79	$ 3.22	$ 3.63
Diluted earnings per Common Share:			
Continuing operations	$ 1.62	$ 2.10	$ 2.33
Discontinued operations	0.15	1.08	1.24
Net diluted earnings per Common Share	$ 1.77	$ 3.18	$ 3.57
Weighted average number of Common Shares outstanding:			
Basic	358.8	357.6	358.2
Diluted	361.4	361.5	364.0

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

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CARDINAL HEALTH, INC. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

	June 30, 2010	June 30, 2009
	(In millions)	
ASSETS		
Current assets:		
Cash and equivalents	$ 2,755.3	$ 1,221.6
Trade receivables, net	5,170.6	5,214.9
Inventories	6,355.9	6,832.8
Prepaid expenses and other	637.1	523.0
Assets from businesses held for sale and discontinued operations	0.0	7,189.4
Total current assets	14,918.9	20,981.7
Property and equipment, at cost:		
Land, buildings and improvements	1,121.5	1,110.8
Machinery and equipment	1,868.8	1,777.8
Furniture and fixtures	103.4	112.7
Total property and equipment, at cost	3,093.7	3,001.3
Accumulated depreciation and amortization	(1,624.9)	(1,536.8)
Property and equipment, net	1,468.8	1,464.5
Other assets:		
Investment in CareFusion	691.5	0.0
Goodwill and other intangibles, net	2,253.2	2,266.9
Other	657.8	405.7
Total assets	$ 19,990.2	$ 25,118.8
LIABILITIES AND SHAREHOLDERS EQUITY		
Current liabilities:		
Current portion of long-term obligations and other short-term borrowings	$ 233.2	$ 366.2
Accounts payable	9,494.9	9,041.9
Other accrued liabilities	1,809.5	1,496.2
Liabilities from businesses held for sale and discontinued operations	0.0	1,370.9
Total current liabilities	11,537.6	12,275.2
Long-term obligations, less current portion	1,896.1	3,271.6
Deferred income taxes and other liabilities	1,280.4	847.3
Shareholders equity:		
Preferred Shares, without par value:		
Authorized 0.5 million shares, Issued none	0.0	0.0
Common Shares, without par value:		
Authorized 755.0 million shares, Issued 363.6 million shares and 363.7 million shares at June 30, 2010 and 2009, respectively	2,889.9	3,031.6
Retained earnings	2,647.2	5,953.9

Common Shares in treasury, at cost: 7.2 million shares and 3.7 million shares at June 30, 2010 and 2009, respectively	(331.0)	(343.0)
Accumulated other comprehensive income	70.0	82.2
Total shareholders equity	5,276.1	8,724.7
Total liabilities and shareholders equity	$ 19,990.2	$ 25,118.8

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

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CARDINAL HEALTH, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF SHAREHOLDERS EQUITY

	Common Shares			Treasury Shares		Accumulated Other Comprehensive Income/(Loss)	Total Shareholders Equity
	Shares Issued	Amount	Retained Earnings	Shares	Amount		
				(In millions)			
BALANCE JUNE 30, 2007	493.0	$ 3,931.3	$ 11,539.9	(124.9)	$ (8,215.3)	$ 121.0	$ 7,376.9
Comprehensive income:							
Net earnings			1,300.6				1,300.6
Foreign currency translation adjustments						93.2	93.2
Unrealized loss on derivatives, net of tax						(5.3)	(5.3)
Net change in minimum pension liability, net of tax						1.9	1.9
Total comprehensive income							1,390.4
Impact of adopting income tax guidance (see Note 9)			(139.3)				(139.3)
Employee stock plans activity, including tax benefits of $42.1 million	(0.3)	97.8		6.1	293.2		391.0
Treasury shares acquired				(16.8)	(1,091.6)		