CARDINAL HEALTH INC
Form 10-K
August 27, 2009
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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, 2009

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 ¨ 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. þ

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, 2008, based on the closing price on December 31, 2008, was $12,408,802,216.

The number of registrant s Common Shares outstanding as of August 25, 2009, was as follows: Common Shares, without par value: 359,683,531.

Documents Incorporated by Reference:

Portions of the registrant s Definitive Proxy Statement to be filed for its 2009 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. This includes, in particular, Item 7 Management s Discussion and Analysis of Financial Condition and Results of Operations of this Form 10-K as well as other portions of this Form 10-K. The words believe, expect, anticipate, project, will, could, would, and similar expressions, among others, generally id forward-looking statements, which speak only as of the date the statements were made. The matters discussed in these forward-looking statements are subject to risks, uncertainties and other factors that could cause actual results to differ materially from those projected, anticipated or implied in the forward-looking statements. The most significant of these risks, uncertainties and other factors are described in this Form 10-K (including in Item 1A Risk Factors) and in Exhibit 99.1 to this Form 10-K. Except to the limited extent required by applicable law, the Company undertakes no obligation to update or revise any forward-looking statements, whether as a result of new information, future events, or otherwise.

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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, the terms the Registrant, the Company and Cardinal Health refer to Cardinal Health, Inc. and its subsidiaries, unless the context requires otherwise. The Company is a leading provider of products and services that improve the safety and productivity of healthcare. Except as otherwise specified, information in this Annual Report on Form 10-K for the fiscal year ended June 30, 2009 (the Form 10-K) is provided as of June 30, 2009.

The description of the Company s business in this Item 1 should be read in conjunction with the consolidated financial statements and supplementary data included in this Form 10-K.

Spin-Off of CareFusion Corporation

On September 29, 2008, the Company announced that it intended to separate its clinical and medical products businesses from its other businesses, including its healthcare supply chain services business, through a pro rata distribution to its shareholders (the distribution or Spin-Off) of common stock of a wholly owned subsidiary, CareFusion Corporation (CareFusion), formed for the purpose of holding the majority of its clinical and medical products businesses. After the Spin-Off, the Company will retain certain surgical and exam gloves, surgical drapes and apparel and fluid management businesses that were previously part of its Clinical and Medical Products segment.

On July 10, 2009, the Company s Board of Directors approved the distribution to its shareholders of 80.1% or more of shares of CareFusion common stock on the basis of 0.5 shares of CareFusion common stock for each common share of the Company. The distribution will be made after the close of trading on August 31, 2009 to the Company s shareholders of record as of 5 p.m. EDT on August 25, 2009. Following the Spin-Off, the Company will retain no more than 19.9% of the outstanding CareFusion common stock. The Company is required to dispose of the retained shares of CareFusion common stock within five years of the distribution.

The distribution is subject to a number of conditions, including, among others:

- the private letter ruling that the Company received from the IRS not being revoked or modified in any material respect;
- the receipt of opinions from counsel to the Company to the effect that the contribution and distribution involved in the Spin-Off will qualify as a transaction that is described in Sections 355(a) and 368(a)(1)(D) of the Internal Revenue Code of 1986, as amended (the Code);
- no rating agency action that is likely to result in either the Company or CareFusion being downgraded below investment grade; and
- the making of a cash distribution from CareFusion to the Company prior to the distribution.

The Company cannot assure you that any or all of these conditions will be met.

Reportable Segments

Fiscal 2009 and 2010 Changes to Reportable Segments

For the fiscal year ended June 30, 2009, the Company reported financial information in three reportable segments: Healthcare Supply Chain Services; Clinical and Medical Products; and All Other. As discussed below under Changes to Reportable Segments For Fiscal 2010, effective July 1, 2009, the Company changed its

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reportable segments to three segments: Pharmaceutical, Medical and CareFusion. Effective upon the Spin-Off, the Company will change its reportable segments to two segments: Pharmaceutical and Medical. The following business discussion is based on the three reportable segments as they were structured for the fiscal year ended June 30, 2009.

Healthcare Supply Chain Services

Pharmaceutical Supply Chain Business. Through its pharmaceutical supply chain business, the Healthcare Supply Chain Services segment distributes a broad line of branded and generic pharmaceutical products, over-the-counter healthcare products and consumer products (collectively, pharmaceutical products). The pharmaceutical supply chain business (also referred to as the pharmaceutical distribution business) is one of the country s leading full-service wholesale distributors 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. As a full-service wholesale distributor, the pharmaceutical supply chain business complements its distribution activities by offering a broad range of support services to assist its customers in maintaining and helping to improve the efficiency and quality of their services. These support services include, among others:

- computerized order entry (online procurement, fulfillment and information) and order confirmation systems provided through cardinal.com;
- generic sourcing programs;
- product movement, inventory and management reports; and
- consultation on store operations and merchandising.

The Company s proprietary software systems feature customized databases specially designed to help its pharmaceutical supply chain customers order more efficiently, contain costs and monitor their purchases.

In addition, the pharmaceutical supply chain business provides services to branded pharmaceutical manufacturers, including distribution services, inventory management services, data/reporting services, new product launch support and contract and chargeback administration services. The pharmaceutical supply chain business also operates a pharmaceutical repackaging and distribution program that provides repackaged pharmaceutical products to its customers.

Nuclear Pharmacy Services Business and Other Pharmaceutical Supply Chain Businesses. Through its Nuclear Pharmacy Services business, the Healthcare Supply Chain Services segment also operates centralized nuclear pharmacies that prepare and deliver radiopharmaceuticals for use in nuclear imaging and other procedures in hospitals and clinics. The Healthcare Supply Chain Services segment also provides third-party logistics support services, distributes therapeutic plasma to hospitals, clinics and other providers located in the United States and manufactures and markets generic pharmaceutical products for sale to hospitals, clinics and pharmacies in the United Kingdom. The Healthcare Supply Chain Services segment also operates a specialty pharmacy that provides prescription fulfillment and clinical care services directly to individual patients requiring highly intensive therapies.

Medical Supply Chain Business. Through its medical supply chain business, the Healthcare Supply Chain Services segment distributes a broad range of branded and private-label medical and laboratory products, as well as the Company s own line of surgical and respiratory therapy products manufactured by the Clinical and Medical Products segment, to hospitals, laboratories and ambulatory care customers, such as surgery centers and physician offices.

In addition, the medical supply chain business helps customers reduce costs while improving the quality of patient care in a variety of ways, including online procurement, fulfillment and information provided through cardinal.com and supply-chain management. The medical supply chain business also assembles and distributes sterile and non-sterile procedure kits under the Presource® brand name.

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Pharmaceutical supply chain business model. The Healthcare Supply Chain Services segment s pharmaceutical supply chain business maintains prime vendor relationships with its customers that streamline the purchasing process for its customers by reducing the number of vendors. Using a prime vendor offers customers logistical savings and fosters partnerships between customer and distributor that result in greater efficiency and lower costs.

Five primary factors influence the pharmaceutical supply chain business gross margin for pharmaceutical products: customer discounts, manufacturer cash discounts, distribution service agreement fees, manufacturer rebates and incentives, and pharmaceutical price appreciation.

In general, the Company sells branded pharmaceutical products to its customers at a contract price that is based on the manufacturer s published price or another designated price at the time of sale (in either case, the manufacturer s designated price). The contract price generally is determined by applying a discount to the manufacturer s designated price. The term customer discounts refers to the difference in dollars between the sales price to customers for pharmaceutical products (net of discounts, rebates and incentives given to customers) and the manufacturer s designated price for those pharmaceutical products sold in a particular period.

The term manufacturer cash discounts refers to the aggregate amount in dollars of cash incentives the Company receives from manufacturers for prompt payment of invoices. Manufacturer cash discounts are typically a fixed percentage of the purchase price from the manufacturer.

The term distribution service agreement fees refers to aggregate fees paid by manufacturers for services provided by the Company related to the distribution of the manufacturers products. The Company s fee-for-service arrangements are reflected in written distribution service agreements, and may provide for a fee or a fee plus pharmaceutical price appreciation (as described below). In certain instances, the Company must achieve certain performance criteria to receive the maximum fees under the agreement. The fee is typically a fixed percentage of either the Company s purchases from the manufacturer or the Company s sales of the manufacturer s products to its customers.

The term pharmaceutical price appreciation refers to the impact on gross margin in dollars of pharmaceutical price appreciation for pharmaceutical products sold during a particular period. The impact happens when the Company purchases inventory and the manufacturer subsequently increases its published price. By virtue of the Company s contract price to customers being based upon the manufacturer s designated price at the time of the sale, the Company then sells that inventory on hand at a higher price. The Company continues to generate a portion of its gross margin from the sale of some manufacturers products from pharmaceutical price appreciation without receiving distribution service agreement fees. For these manufacturers, a reduction in the frequency and magnitude of price increases, as well as restrictions in the amount of inventory available to the Company, could adversely affect the Company s results of operations and financial condition.

The term manufacturer rebates and incentives refers to discounts the Company receives from manufacturers as a result of competition among manufacturers, including manufacturers of generic pharmaceuticals, in pricing their products. Manufacturer rebates and incentives are based on either the Company s purchases from the manufacturer or the Company s sales of the manufacturer s products to its customers. The Company generally earns the greatest margin dollars on generic pharmaceuticals during the period immediately following the initial launch of a generic product in the marketplace because generic pharmaceutical selling prices are generally deflationary.

Therefore, the Company s pharmaceutical supply chain business generates gross margin primarily to the extent that the selling price to its customers, net of customer discounts, exceeds in the aggregate, the cost of products sold, net of manufacturer cash discounts, distribution service agreement fees, pharmaceutical price appreciation and manufacturer rebates and incentives.

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With respect to its customers, the pharmaceutical supply chain business differentiates between bulk and non-bulk customers, because bulk customers generate significantly lower segment profit as a percentage of revenue than that generated by non-bulk customers. Bulk customers consist of customers centralized warehouse operations and customers mail order businesses. All other customers are classified as non-bulk customers (for example, retail stores, hospitals and alternate care sites). Bulk customers include the warehouse operations of retail chains whose retail stores are classified as non-bulk customers.

See Item 7 Management s Discussion and Analysis of Financial Condition and Results of Operations for additional information about the pharmaceutical supply chain business model.

Clinical and Medical Products

Through its Clinical and Medical Products segment, the Company provides products and services to hospitals and other healthcare providers. This segment develops, manufactures, leases and sells medical technology products, including Alaris® intravenous medication safety and infusion therapy delivery systems, software applications, needle-free disposables and related patient monitoring equipment and Pyxis® dispensing systems that automate the distribution and management of medications in hospitals and other healthcare facilities. The segment also develops, manufactures, leases and sells dispensing systems for medical supplies. This segment also develops and manufactures medical and surgical products for distribution to hospitals, physician offices, surgery centers and other healthcare providers. These products include the following: infection prevention products, such as single-use surgical drapes, gowns and apparel, exam and surgical gloves and fluid suction and collection systems; respiratory care products, such as ventilation equipment and supplies; and medical specialties products, such as reusable surgical instruments and biopsy needles. This segment also offers a line of skin disinfection products sold under the ChloraPrep® brand name and provides clinical intelligence solutions, including products and services that help identify and prevent hospital-acquired infections and provide barcode-enabled patient identification systems used in hospitals.

This segment primarily distributes its products direct to the customer, although it also distributes some products through medical products distributors, including through the Healthcare Supply Chain Services segment. This segment offers products and services principally in the United States and also in Europe, Canada and other regions.

For information on comparative segment revenue, segment profit and related financial information, see Note 17 of Notes to Consolidated Financial Statements, which is incorporated herein by reference.

All Other

Through this segment, the Company is a franchisor of apothecary-style retail pharmacies through its Medicine Shoppe International, Inc. and Medicap Pharmacies Incorporated (Medicap, and together with Medicine Shoppe International, Inc., Medicine Shoppe) franchise systems in the United States and abroad. In March 2009, Medicine Shoppe initiated a buyout program to its franchisees. Under the program, existing franchisees could elect one of three choices: termination of the current franchise agreement and conversion to a new program; termination of current franchise agreement and exiting the franchise system; or remaining on the current franchise agreement.

This segment also provides pharmacy services to hospitals and other healthcare facilities, including full-service department outsourcing, transitional and turn-key services for acute care hospital pharmacies, as well as remote medication order entry and review and other services.

During fiscal 2009, the Company divested the Tecomet and MedSystems businesses that were part of this segment.

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Changes to Reportable Segments For Fiscal 2010

Effective July 1, 2009, the Company changed its reportable segments to three segments: Pharmaceutical, Medical and CareFusion. The Pharmaceutical segment encompasses the businesses previously within the Healthcare Supply Chain Services segment that distributed pharmaceutical, radiopharmaceutical and over-the-counter healthcare products as well as the businesses previously within the All Other segment. The Medical segment encompasses the remaining businesses within the Healthcare Supply Chain Services segment as well as certain surgical and exam gloves, surgical drapes and apparel and fluid management businesses previously within the Clinical and Medical Products segment. The CareFusion segment encompasses the businesses previously within the Clinical and Medical Products segment excluding the above-referenced surgical and exam gloves, surgical drapes and apparel and fluid management businesses and includes all businesses to be included in the Spin-Off. Upon completion of the Spin-Off, the CareFusion segment will be reported as discontinued operations, and the Company will operate with the two remaining segments.

Acquisitions and Divestitures

From July 1, 2004 to June 30, 2009, the Company completed the acquisitions described below.

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

(1) Represents the date the Company 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 the Company s Common Shares. This column represents the number of the Company s Common Shares subject to such converted stock options immediately following conversion.
(3) Includes the assumption of approximately $54 million in debt; also includes approximately $88 million of shares purchased under equity compensation plans in July 2007.
(4) Includes the assumption of approximately $5 million in debt.

The Company also has completed a number of other smaller acquisitions (asset purchases, stock purchases and mergers) during the last five fiscal years, including the following: Geodax Technology, Inc. during fiscal 2005; ParMed Pharmaceutical, Inc., Denver Biomedical, Inc., the wholesale pharmaceutical, health and beauty and related drugstore products distribution business of F. Dohmen Co., and certain of its subsidiaries, and the remaining shares of Source Medical Corporation, its Canadian joint venture during fiscal 2006; MedMined, Inc., Care Fusion Incorporated and SpecialtyScripts, LLC (SpecialtyScripts) during fiscal 2007; and Borschow Hospital & Medical Supplies, Inc. during fiscal 2009.

On an ongoing basis, the Company evaluates possible candidates for merger or acquisition and considers opportunities to expand its operations and services across all reportable segments. These acquisitions may involve the use of cash, stock or other securities as well as the assumption of indebtedness and liabilities.

From July 1, 2004 to June 30, 2009, the Company completed several divestiture transactions. These transactions include divesting the non-core domestic businesses of Syncor International Corporation (Syncor) in several transactions since acquiring Syncor in fiscal 2003. During fiscal 2006, the Company divested a significant portion of its specialty distribution business. During fiscal 2007, the Company completed the sale of its former Pharmaceutical Technologies and Services segment, other than certain generic-focused businesses (the

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segment, excluding the certain generic-focused businesses that were not sold, is referred to as the PTS Business) to an affiliate of The Blackstone Group. At the closing of the PTS Business sale, the Company received approximately $3.2 billion in cash, which represented the purchase price of approximately $3.3 billion as adjusted pursuant to certain provisions in the purchase agreement. Also during fiscal 2007, the Company divested its healthcare marketing services business and its United Kingdom-based Intercare pharmaceutical distribution business. During fiscal 2008, the Company divested its Tecomet (orthopedic implants and instruments) and MedSystems (enteral devices and airway management products) businesses.

The Company continues to evaluate the performance and strategic fit of its businesses and may decide to sell a business or product line based on such an evaluation. See Spin-Off of CareFusion Corporation above for information on the Company s plans to spin off CareFusion on August 31, 2009. In addition, during the fourth quarter of fiscal 2009, the Company approved plans to divest the United Kingdom-based Martindale injectable manufacturing business and SpecialtyScripts.

For additional information concerning certain of the transactions described above, see Notes 2, 3 and 8 of Notes to Consolidated Financial Statements and Item 7 Management s Discussion and Analysis of Financial Condition and Results of Operations.

Customers

The Company s largest customers, CVS Caremark Corporation (CVS) and Walgreen Co. (Walgreens), accounted for approximately 21% and 23%, respectively, of the Company s revenue for fiscal 2009. The aggregate of the Company s five largest customers, including CVS and Walgreens, accounted for approximately 54% of the Company s revenue for fiscal 2009. All of the Company s business with its five largest customers is included in its Healthcare Supply Chain Services segment. The loss of one or more of these five customers could adversely affect the Company s results of operations and financial condition.

Businesses in each of the Company s reportable segments have agreements with group purchasing organizations (GPOs) that act as agents that negotiate vendor contracts on behalf of their members. Approximately 16% of the Company s revenue for fiscal 2009 was derived from GPO members through the contractual arrangements established with Novation, LLC (Novation) and Premier Purchasing Partners, L.P. (Premier), the Company s two largest GPO relationships in terms of member revenue. Although GPO vendor selections are influential to GPO member sourcing decisions, compliance by GPO members with those vendor selections is generally voluntary. As such, the Company believes the loss of any of the Company s agreements with a GPO would not mean the loss of sales to all members of the GPO, although the loss of such an agreement could adversely affect the Company s results of operations and financial condition. See Note 1 of Notes to Consolidated Financial Statements for further information regarding the Company s concentrations of credit risk and major customers.

Suppliers

The Company obtains its products from many different suppliers. Products obtained from the Company s five largest suppliers accounted on a combined basis for approximately 22% of the Company s revenue during fiscal 2009. No one supplier s products accounted for more than 6% of the Company s revenue in fiscal 2009. Overall, the Company believes that its relationships with its suppliers are good. The loss of certain suppliers could adversely affect the Company s results of operations and financial condition if alternative sources of supply were unavailable at reasonable prices.

The pharmaceutical supply chain business uses a fee-for-service model with respect to the compensation it receives for the services it provides to pharmaceutical manufacturers. These fee-for-service arrangements are reflected in written distribution service agreements. Distribution service agreements between the Company and pharmaceutical manufacturers generally range from a one-year term with an automatic renewal feature to a five-

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year term. These agreements are generally only terminable prior to expiration of their term upon the following conditions: the mutual agreement of the parties; an uncured breach of the agreement; or the occurrence of a bankruptcy filing or similar insolvency event. Some agreements allow the manufacturer to terminate the agreement without cause within a defined notice period. See the Pharmaceutical supply chain business model discussion under Reportable Segments Healthcare Supply Chain Services above for more information regarding distribution service agreement fees.

Competition

The Company operates in markets that are highly competitive.

Healthcare Supply Chain Services Segment

In the Healthcare Supply Chain Services segment, the Company s pharmaceutical supply chain business faces competition in the United States from 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 and third-party logistics companies, among others, on the basis of a value proposition that includes pricing, breadth of product lines, service offerings and support services. In addition, the Company has experienced increased competition from a number of sources with regard to generic pharmaceuticals, including generic telemarketers.

The pharmaceutical supply chain business has narrow profit margins and, accordingly, the Company s earnings depend significantly on its ability to:

- compete effectively on the pricing of pharmaceutical products;
- offer a compelling portfolio of generic pharmaceutical products, supported by low-cost sourcing arrangements with generic pharmaceutical manufacturers;
- distribute a large volume and variety of products efficiently;
- provide quality support services;
- enter into and maintain satisfactory arrangements with pharmaceutical manufacturers so it is compensated for the services it provides manufacturers; and
- effectively manage inventory and other working capital items.

The Healthcare Supply Chain Services segment s nuclear pharmacies face competition from nuclear pharmacy companies and distributors engaged in the preparation and delivery of radiopharmaceuticals for use in nuclear imaging procedures in hospitals and clinics, including numerous national and regional networks of radiopharmacies, numerous independent radiopharmacies and manufacturers and universities that have established their own radiopharmacies. This segment s nuclear pharmacies compete based upon a variety of factors, including price, quality, customer service, raw material availability, proprietary technologies or capabilities and responsiveness.

The Healthcare Supply Chain Services segment s medical supply chain business faces competition both in the United States and in Canada. Competitive factors within this business include price, order-filling accuracy (both invoicing and product selection), breadth of product offerings, product availability, low-cost offerings for commodity products, and service offerings. This business competes across several customer classes with many different distributors, including Owens & Minor, Inc., Thermo Fisher Scientific Inc., PSS World Medical, Inc., Henry Schein, Inc. and Medline Industries, Inc., among others. This business also competes with a number of regional medical products distributors and also with third-party logistics companies.

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Clinical and Medical Products Segment

The Company s Clinical and Medical Products segment faces competition in both its domestic and international markets. Its infusion and respiratory products compete based upon quality, technological innovation, price, brand recognition, patents and other intellectual property and the value proposition of helping improve patient outcomes while reducing overall costs associated with patient safety. Competitors with respect to infusion products include both domestic and foreign companies, including Hospira, Inc., B. Braun Melsungen AG, Baxter International Inc. and Fresenius SE. Competitors with respect to medical product and respiratory product manufacturers include Kimberly-Clark Corporation, Covidien Ltd., Teleflex Incorporated, Medline Industries, Inc., Ansell Limited, 3M Company, Getinge AB, Dräger Medical AG & Co. KG and Koninklijke Philips Electronics N.V., among others.

This segment s dispensing products (including supply dispensing products) compete based upon quality, relationships with customers, price, customer service and support capabilities, patents and other intellectual property and its ability to interface with customer information systems. Actual and potential competitors with respect to dispensing products include both existing domestic and foreign companies, including McKesson Corporation and Omnicell, Inc., as well as emerging companies that supply products for specialized markets and other outside service providers.

All Other Segment

The Company s All Other segment faces competition with respect to pharmacy franchising operations from other franchisors of pharmacies. Competition for this business is based primarily upon aggregation of purchase volume, operational support and assistance, benefits offered to both the pharmacist and the customer, access to third-party programs, brand awareness and marketing support and pricing. Medicine Shoppe also needs to be competitive with lower cost retail independent networks or cooperatives that provide support services to pharmacies, as well as a pharmacist s ongoing option to operate independently or work at a regional or national chain.

This segment s pharmacy services business competes based on range and quality of services, price, effective use of information systems, development and implementation of clinical programs and the established base of existing operations. Competitors include both national and regional hospital pharmacy management and remote order entry firms, including Comprehensive Pharmacy Services, as well as self-managed hospitals and hospital systems.

Employees

As of June 30, 2009, the Company had approximately 29,600 employees in the United States and approximately 16,900 employees outside of the United States. Overall, the Company considers its employee relations to be good.

Intellectual Property

The Company relies on a combination of trade secret, patent, copyright and trademark laws, nondisclosure and other contractual provisions and technical measures to protect its products, services and intangible assets. These proprietary rights are important to the Company s ongoing operations. The Company operates under licenses for certain proprietary technology and in certain instances licenses its technology to third parties.

The Company has applied in the United States and certain foreign countries for registration of a number of trademarks and service marks, some of which have been registered, and also holds common law rights in various trademarks and service marks. It is possible that in some cases the Company may be unable to obtain the registrations for trademarks and service marks for which it has applied.

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Through its Healthcare Supply Chain Services segment, the Company holds patents relating to certain aspects of its nuclear pharmacy products. Through its Clinical and Medical Products segment, the Company holds patents relating to certain aspects of its automated pharmaceutical dispensing systems, automated medication management systems, medical devices, infusion therapy systems, infusion administration sets, drug delivery systems, infection surveillance and reporting systems, medical and surgical products and devices, including surgical and exam gloves, drapes, gowns, respiratory equipment and respiratory therapy devices, patient prep products, including antiseptic solutions and applicator devices, fluid suction and irrigation devices, devices for interventional procedures and surgical instruments. The Company also holds patents relating to certain processes and products across all segments.

The Company has a number of pending patent applications in the United States and certain foreign countries, and intends to pursue additional patents as appropriate. It is possible that in some cases the Company may be unable to obtain the patents for which it has applied. The Company has enforced and will continue to enforce its intellectual property rights in the United States and worldwide.

The Company does not consider any particular patent, trademark, license, franchise or concession to be material to its overall business.

Regulatory Matters

Food and Drug Laws

Certain of the Company s subsidiaries may be required to register for permits and/or licenses with, and comply with operating and security standards of, 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), and various state boards of pharmacy, state controlled substance agencies, state health departments and/or comparable state agencies as well as foreign agencies, and certain accrediting bodies depending upon the type of operations and location of product distribution, manufacturing and sale. These subsidiaries include those that:

- distribute and/or engage in logistics services for pharmaceuticals (including certain controlled substances) and/or medical devices;
- manage or own pharmacy operations including retail, hospital, specialty or nuclear pharmacies;
- purchase pharmaceuticals;
- develop, manufacture, package or repackage pharmaceutical products and medical devices;
- market pharmaceutical and medical device products; and
- provide consulting services and solutions that assist healthcare institutions and pharmacies in their operations as well as pharmaceutical manufacturers with regard to regulatory submissions and filings made to healthcare agencies such as the FDA.

The DEA, FDA and various state regulatory authorities regulate the distribution of pharmaceutical products and controlled substances. Wholesale distributors of controlled substances are required to hold valid DEA and state-level licenses, meet various security and operating standards, and comply with the Controlled Substance Act and its accompanying regulations governing the sale, marketing, packaging, storage and distribution of controlled substances. The DEA, FDA and state regulatory authorities have broad enforcement powers, including the ability to suspend the Company s distribution centers from distributing pharmaceutical products (including controlled substances), seize or recall products and impose significant criminal, civil and administrative sanctions for violations of these laws and regulations.

Between November 28, 2007, and December 7, 2007, the DEA suspended the licenses to distribute controlled substances held by three of the Company s distribution centers. The DEA asserted that the Company

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did not maintain effective controls against diversion of particular controlled substances into other than legitimate medical, scientific and industrial channels. On October 2, 2008, the Company entered into settlement agreements with the DEA and seven U.S. Attorneys Offices resulting in reinstatement of the suspended licenses. Under the terms of the settlement agreement with the DEA, the Company agreed to, among other things, maintain a compliance program designed to detect and prevent diversion of controlled substances. As part of the settlements with the DEA and the U.S. Attorneys Offices, the Company paid a total settlement amount of $34.0 million during the second quarter of fiscal 2009.

Certain of the Company s subsidiaries are subject to requirements of the Prescription Drug Marketing Act of 1987 and similar state laws, which regulate the marketing, purchase, storage and distribution of prescription drugs and prescription drug samples under prescribed minimum standards. Certain of the Company s subsidiaries that manufacture medical devices are subject to the Federal Food, Drug, and Cosmetic Act, as amended by the Medical Device Amendments of 1976, the Safe Medical Devices Act of 1990, as amended in 1992, the FDA Modernization Act of 1997, the Medical Device User Fee and Modernization Act of 2002, the Medical Device User Fee and Modernization Act of 1997, the Food and Drug Amendments Act of 2007, and comparable foreign regulations. In addition, certain of the Company s subsidiaries are subject to the Needlestick Safety and Prevention Act.

Laws regulating the manufacture and distribution of products also exist in most other countries where the Company s subsidiaries conduct business. In addition, the international manufacturing operations that reside primarily within the Company s Clinical and Medical Products segment are subject to local certification requirements, including compliance with domestic and/or foreign good manufacturing practices and quality system regulations established by the FDA and/or applicable foreign regulatory authorities.

The FDA and other governmental agencies in the United States, as well as governmental agencies outside of the United States, administer requirements covering the design, testing, safety, effectiveness, manufacturing, labeling, promotion and advertising, distribution and post-market surveillance of certain of the Company s manufactured products. The Company must obtain specific approval or clearance from the FDA and foreign regulatory authorities before it can market and sell many of its products in a particular country. Even after the Company obtains regulatory approval or clearance to market a product, the product and the Company s manufacturing processes are subject to continued review by the FDA and other regulatory authorities.

The Company is subject to possible legal actions by the FDA and other regulatory agencies. Such actions may include product recalls, product seizures, injunctions to halt manufacture and distribution of products, and other civil, administrative or criminal sanctions. From time to time, the Company institutes compliance actions, such as removing products from the market that were found not to meet applicable requirements. See Note 11 of Notes to Consolidated Financial Statements for a discussion of a Consent Decree for Condemnation and Permanent Injunction between the Company and the FDA to resolve seizure litigation over Alaris® SE pumps.

The Company operates nuclear pharmacies and related businesses, such as cyclotron facilities used to produce positron emission tomography (PET) products used in medical imaging. This business operates in a regulated industry which requires licenses or permits from the NRC, the radiologic health agency and/or department of health of each state in which it operates and the applicable state board of pharmacy. In addition, the FDA is also involved in the regulation of cyclotron facilities where PET products are produced.

To assess and facilitate compliance with applicable FDA, DEA, NRC and other state, federal and foreign regulatory requirements, the Company regularly reviews its quality systems to assess their effectiveness and identify areas for improvement. As part of its quality review, the Company performs assessments of its suppliers of the raw materials, components and finished goods that are incorporated into the medical devices that it manufactures. In addition, the Company conducts quality management reviews designed to inform management of key issues that may affect the quality of products and services. From time to time, the Company may determine that products manufactured or marketed by the Company do not meet Company specifications,

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published standards, such as those issued by the International Standards Organization, or regulatory requirements. When a quality or regulatory issue is identified by the Company, it investigates the issue and takes appropriate corrective action, such as withdrawal of the product from the market, correction of the product at the customer location, notice to the customer of revised labeling and other actions.

Prescription Drug Pedigree Tracking

There have been increasing efforts by various levels of government agencies, including state boards of pharmacy and comparable government agencies, to regulate the pharmaceutical supply chain in order to prevent the introduction of counterfeit, diverted, adulterated or mislabeled pharmaceuticals into the supply chain. To date, 28 states have adopted some form of pedigree tracking requirements, 15 of which currently require prescription drug pedigrees in certain situations.

Federal regulations requiring pedigree and chain of custody tracking in certain circumstances were adopted under the federal Prescription Drug Marketing Act effective December 1, 2006. A preliminary injunction was issued by a federal district court, however, against implementation of some of these federal regulations. The injunction was affirmed by a federal appellate court on July 10, 2008. If the injunction is lifted, the additional regulatory requirements could increase the overall regulatory burden and costs associated with the Company s pharmaceutical supply chain business, and could adversely affect the Company s results of operations and financial condition.

In addition, the Federal Drug Administration Amendments Act of 2007, which went into effect on October 1, 2007, requires the FDA to establish standards for identification, validation, authentication, and tracking and tracing of prescription drugs and to identify and validate effective technologies for the purpose of securing the pharmaceutical supply chain against counterfeit drugs. The FDA must develop a standardized numerical identifier by April 1, 2010.

On December 26, 2006, the Company entered into a civil 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. The Company has voluntarily undertaken and implemented a number of business reforms within its pharmaceutical supply chain business as required by the settlement, including requirements that wholesale customers certify their compliance with wholesaler safe product practices established by the Company. In connection with the settlement, the Company agreed to conduct annual agreed-upon procedures testing in 2007, 2008 and 2009 to assess its compliance with the procedures outlined in the settlement.

Healthcare Fraud and Abuse Laws

The Company is also subject to extensive and frequently changing laws and regulations relating to healthcare fraud and abuse. The federal government continues to scrutinize potentially fraudulent practices affecting Medicare, Medicaid and other government healthcare programs. Furthermore, the Company s activities as a pharmaceutical and medical device manufacturer and distributor, and its relationships with other pharmaceutical and medical-surgical product manufacturers and healthcare providers subject its business to laws and regulations on healthcare fraud and abuse, which, among other things, generally prohibit the Company from soliciting, offering, receiving or paying any remuneration in order to induce the ordering or purchasing of items or services that are in any way paid for by Medicare, Medicaid or other government-sponsored healthcare programs, or submitting or causing to be submitted any fraudulent claim for payment by the federal government. Certain of the Company s subsidiaries also maintain contracts with the federal government and are subject to certain regulatory requirements relating to government contractors.

Many of the regulations applicable to the Company relating to healthcare fraud and abuse are vague or indefinite and may be interpreted or applied by a prosecutorial, regulatory or judicial authority in a manner that could require the Company to make changes in its operations. If the Company fails to comply with applicable

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laws and regulations, it could suffer civil and criminal penalties. Additionally, in connection with these laws and regulations, the Company may be subjected to federal or state government investigations and possible penalties may be imposed upon the Company, false claims actions may have to be defended, private payors may file claims and the Company may be excluded from Medicare, Medicaid or other government-funded healthcare programs. Any such proceeding or investigation could have an adverse impact on the Company s results of operations.

Deficit Reduction Act of 2005

The Deficit Reduction Act of 2005 (DRA) was intended to reduce net Medicare and Medicaid spending by approximately $11 billion over five years. Effective January 1, 2007, the DRA changed the federal upper payment limit for Medicaid reimbursement from 150% of the published price for generic pharmaceuticals to 250% of the lowest average manufacturer price (AMP). On July 17, 2007, Centers for Medicare and Medicaid Services (CMS) published a final rule implementing these provisions and clarifying, among other things, the AMP calculation methodology and the DRA provision requiring manufacturers to publicly report AMP for branded and generic pharmaceuticals. On December 19, 2007, a federal district court issued a preliminary injunction prohibiting use of the AMP calculation in connection with Medicaid reimbursement pending resolution of a lawsuit claiming that CMS had acted unlawfully in adopting the rule. On July 15, 2008, the U.S. Congress enacted into law over the U.S. President s veto the Medicare Improvements for Patients and Providers Act of 2008. The law delays the adoption of CMS s July 17, 2007 rule and prevents CMS from publishing AMP data until October 1, 2009.

The Company expects the use of an AMP benchmark to result in a reduction in the Medicaid reimbursement rates to its customers for certain generic pharmaceuticals, which may indirectly impact the prices that the Company can charge its customers for generic pharmaceuticals and cause corresponding declines in the Company s gross margin. There can be no assurance that the changes in the reimbursement formula and related reporting requirements and other provisions of the DRA will not have an adverse effect on the Company s business.

Health Information Practices

Services and products provided by certain of the Company s businesses involve access to healthcare information gathered and assessed for the benefit of healthcare clients. Greater scrutiny on a federal and state level is being placed on how patient identifiable healthcare information should be handled and on identifying the appropriate parties and the means to do so. Changes in regulations and/or legislation such as the Health Insurance Portability and Accountability Act of 1996 (HIPAA) and its accompanying federal regulations, such as those pertaining to privacy and security, may affect how some of these information services or products are provided. In February 2009, the Health Information Technology for Economic and Clinical Health Act (HITECH Act) was signed into law. The HITECH Act augmented HIPAA by further expanding existing healthcare privacy requirements, expanding HIPAA s reach to cover additional entities and increasing penalties associated with noncompliance. In addition, certain of the Company s operations, depending upon their location, may be subject to additional state or foreign regulations affecting personal data protection and how information services or products are provided. Failure to comply with HIPAA, the HITECH Act and other such laws may subject the Company and/or its subsidiaries to civil and/or criminal penalties, which could be significant.

Franchising Laws

The Company s franchising operations, through Medicine Shoppe, are subject to Federal Trade Commission regulations and rules and regulations adopted by certain states that require franchisors to make certain disclosures to prospective franchisees prior to the sale of franchises. In addition, many states have adopted laws that regulate the franchisor-franchisee relationship. The most common provisions of such laws establish restrictions on the ability of franchisors to terminate or refuse to renew franchise agreements. From time to time, similar legislation is proposed or is pending in additional states.

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Environmental Laws

The Company s operations are affected by federal, state and local environmental laws. The Company has made, and intends to continue to make, necessary expenditures for compliance with applicable environmental laws. The Company is participating in cleaning up environmental contamination at certain sites.

Health and Safety Laws

The Company is also subject to various federal, state and local laws, regulations and recommendations, both in the United States and abroad, 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

The Company is also subject to U.S. and international import and export laws and regulations that require the Company to abide by certain standards relating to the importation and exportation of finished goods, raw materials and supplies and the handling of information. The Company must also comply with various export control and trade embargo laws and regulations, including those administered by the Department of Treasury s Office of Foreign Assets Control and the Department of Commerce s Bureau of Industry and Security, which may require licenses or other authorizations for transactions relating to certain countries and/or with certain individuals identified by the U.S. government. The Company is also subject to certain laws and regulations concerning the conduct of its foreign operations, including the U.S. Foreign Corrupt Practices Act, foreign anti-bribery laws and laws pertaining to the accuracy of the Company s internal books and records. The U.S. Foreign Corrupt Practices Act and foreign anti-bribery 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. The Company operates in many parts of the world that have experienced governmental corruption to some degree, and in certain circumstances strict compliance with anti-bribery laws may conflict with local customs and practices

Despite the Company s training and compliance program, the Company s internal control policies and procedures may not always protect it from reckless or criminal acts committed by employees or agents in contravention of Company policies. The costs associated with complying with the various applicable federal regulations, as well as state and foreign regulations and laws, could be significant and the failure to comply with all such legal requirements could have an adverse effect on the Company s results of operations and financial condition.

Other Information

The Company s distribution businesses are generally not required by its customers to maintain particular inventory levels other than as may be required to meet service level requirements. Certain supply contracts with U.S. government entities require the Company s Healthcare Supply Chain Services and Clinical and Medical Products segments to maintain sufficient inventory to meet emergency demands. The Company does not believe that the requirements contained in these U.S. government supply contracts materially impact inventory levels.

The Company s customer return policies generally require that the product be physically returned, subject to restocking fees, and 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.

The Company s practice is to offer market payment terms to its customers.

Research and Development

For information on company-sponsored research and development costs in the last three fiscal years, see Note 1 of Notes to Consolidated Financial Statements, which is incorporated herein by reference.

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Revenue and Long-Lived Assets by Geographic Area

For information on revenue and long-lived assets by geographic area, see Note 17 of Notes to Consolidated Financial Statements, which is incorporated herein by reference.

Available Information and Exchange Certifications

The Company s Annual Report on Form 10-K, Quarterly Reports on Form 10-Q, Current Reports on Form 8-K and amendments to those reports filed or furnished pursuant to Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended (the Exchange Act), are made available free of charge on the Company s website (www.cardinalhealth.com, under the Investors Financials/SEC filings captions) as soon as reasonably practicable after the Company electronically files these materials with, or furnishes them to, the Securities and Exchange Commission (the SEC).

You may read and copy any materials the Company files 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 an Internet site that contains reports, proxy and information statements, and other information regarding the Company (*http://www.sec.gov*).

In addition, in connection with the Company s planned Spin-Off of CareFusion, CareFusion has filed a registration statement on Form 10 (File No. 001-34273) with the SEC. You may obtain additional information regarding the Spin-Off and CareFusion by reviewing the registration statement.

The Company submitted the certification of its Chief Executive Officer required by Section 303A.12(a) of the New York Stock Exchange (NYSE) Listed Company Manual, relating to the Company s compliance with the NYSE s corporate governance listing standards, to the NYSE in December 2008 with no qualifications.

The Company included the certifications of its Chief Executive Officer and Chief Financial Officer required by Section 302 of the Sarbanes-Oxley Act of 2002 and related rules, relating to the quality of the Company s public disclosure, in this Annual Report on Form 10-K as Exhibits 31.1 and 31.2.

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

The risks described below could materially and adversely affect the Company s results of operations, financial condition, liquidity and cash flows. These risks are not the only risks that the Company faces. The Company s business operations could also be affected by additional factors that are not presently known to it or that the Company currently considers not to be material to its operations.

Competitive pressures could adversely affect the Company s results of operations and financial condition.

The Company operates in markets that are highly competitive. Its pharmaceutical supply chain business competes with two national, full-line wholesale distributors, McKesson Corporation and AmerisourceBergen Corporation, and a number of regional wholesale distributors, self-warehousing retail pharmacy chains, direct selling manufacturers, specialty distributors, generic pharmaceutical telemarketing distributors and third-party logistics companies, among others. The Company s medical products distribution business encounters competition from numerous and varied competitors in all areas of their businesses. As a result, the Company s businesses face continued pricing pressure from their customers. In some cases, the Company is able to offset revenue reductions caused by these pricing pressures by lowering its costs through effective product sourcing and cost controls. If the Company is unable to effectively mitigate future pricing pressures, its 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 the Company s customers and vendors, it could give the resulting enterprises greater bargaining power, which may adversely impact the Company s gross margin.

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Substantial defaults or a material reduction in purchases of the Company s products by large customers could have an adverse effect on the Company s results of operations and financial condition.

In recent years, a significant portion of the Company s revenue growth has been derived from a limited number of large customers. The Company s largest customers, CVS and Walgreens, accounted for approximately 21% and 23%, respectively, of the Company s revenue for fiscal 2009. The aggregate of the Company s five largest customers, including CVS and Walgreens, accounted for approximately 54% of the Company s revenue for fiscal 2009. In addition, CVS and Walgreens accounted for 19% and 33%, respectively, of the Company s gross trade receivable balance at June 30, 2009. As a result, the Company s sales and credit concentration is significant. Any defaults in payment or a material reduction in purchases from these or other large customers could have an adverse effect on the Company s results of operations and financial condition.

In addition, certain of the Company s businesses have entered into agreements with GPOs. Approximately 16% of the Company s revenue for fiscal 2009 was derived from GPO members through the contractual arrangements established with Novation and Premier. Generally, compliance by GPO members with GPO vendor selections is voluntary. Still, the loss of an agreement with a GPO could have an adverse effect on the Company s results of operations and financial condition because the Company could lose customers or may need to reduce prices as a result.

The Company may face significant uncertainty in the industry due to government healthcare reform.

Political, economic and regulatory influences are subjecting the healthcare industry to fundamental changes. The Company anticipates that the current administration, Congress and certain state legislatures will continue to review and assess alternative healthcare delivery systems and payment methods with an objective of ultimately reducing healthcare costs and expanding access. Public debate of these issues will likely continue in the future. The uncertainties regarding the ultimate features of reform initiatives and their enactment and implementation may have an adverse effect on the Company s customers purchasing decisions regarding its products and services. At this time, the Company cannot predict which, if any, healthcare reform proposals will be adopted, when they may be adopted or what impact they may have on the Company.

Changes in the U.S. healthcare environment could adversely affect the Company s results of operations and financial condition.

The Company s 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 changed significantly in an effort to reduce costs. These changes include increased use of managed care, cuts in Medicare and Medicaid reimbursement levels, consolidation of pharmaceutical and medical-surgical supply distributors and medical product manufacturers, pharmaceutical manufacturers, the consolidation of healthcare providers and pharmacy chains, and the development of large, sophisticated purchasing groups.

The Company expects the healthcare industry to continue to change significantly in the future. Some of these changes, such as adverse changes in government funding of healthcare services, legislation or regulatory requirements relating to matters including privacy of patient information, or changes in the delivery or pricing of or reimbursement for pharmaceuticals, medical devices, healthcare services or mandated benefits, may cause healthcare industry participants to reduce the amount of the Company s products and services they purchase or the price they are willing to pay for such products and services. Changes in the healthcare industry s or in any of the Company s suppliers pricing, reimbursement, selling, inventory, distribution or supply policies or practices, or regulatory and quality requirements, or changes in the Company s customer mix, could also significantly reduce the Company s revenue, increase the Company s costs or otherwise significantly affect its results of operations.

Generic pharmaceuticals. The use of generic pharmaceuticals has increased over the past several years, and healthcare and public policy trends indicate that the use of generic pharmaceuticals will continue to increase over

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the next few years as a result of efforts to lower the overall cost of healthcare and the expiration of certain pharmaceutical patents. A decrease in the availability or changes in pricing of or reimbursements for generic pharmaceuticals could adversely affect the Company s results of operations and financial condition.

Prescript