CARDINAL HEALTH INC
Form 10-K
August 20, 2013
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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, 2013
or

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

For the transition period from _____ to _____
Commission File Number: 1-11373

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

Ohio	31-0958666
(State or other jurisdiction of incorporation or organization)	(IRS 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 Website, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes þ No ¨
Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§229.405 of this chapter) 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 o
Non-accelerated filer o (Do not check if a smaller reporting company)	Smaller reporting company o

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

The aggregate market value of voting stock held by non-affiliates of the registrant on December 31, 2012, based on the closing price on December 31, 2012, was $13,998,206,699.

The number of the registrant's common shares, without par value, outstanding as of August 9, 2013, was the following: 339,461,413.

Documents Incorporated by Reference:

Portions of the registrant's Definitive Proxy Statement to be filed for its 2013 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

This Form 10-K (including information incorporated by reference) includes forward-looking statements, addressing expectations, prospects, estimates and other matters that are dependent upon future events or developments. 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,” “likely,” and sim and include statements reflecting future

results or guidance, statements of outlook and expense 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.

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 healthcare services company providing pharmaceutical and medical products and services that help pharmacies, hospitals, ambulatory surgery centers, clinical laboratories, physician offices and other healthcare providers focus on patient care while reducing costs, enhancing efficiency and improving quality. We also provide medical products to patients in the home. Our fiscal year ends on June 30. References to fiscal 2013, 2012 and 2011 are to the fiscal years ended June 30, 2013, 2012 and 2011, respectively. Except as otherwise specified, information in this Form 10-K is provided as of June 30, 2013.

Pharmaceutical Segment

In the United States, including Puerto Rico, the Pharmaceutical segment:

- distributes branded and generic pharmaceutical, over-the-counter healthcare and consumer products through its Pharmaceutical Distribution division to retailers (including chain and independent drug stores and pharmacy departments of supermarkets and mass merchandisers), hospitals and other healthcare providers. This division:
  - maintains prime vendor relationships that streamline the purchasing process resulting in greater efficiency and lower costs for our customers;
  - renders services to pharmaceutical manufacturers including distribution, inventory management, data reporting, new product launch support, and contract pricing and chargeback administration;
  - franchises retail pharmacies under the Medicine Shoppe® and Medicap® brands; and
  - provides pharmacy services to hospitals and other healthcare facilities;
- operates nuclear pharmacies and cyclotron facilities through its Nuclear Pharmacy Services division that manufacture, prepare and deliver radiopharmaceuticals for use in nuclear imaging and other procedures in hospitals and physician offices; and
- distributes specialty pharmaceutical products, provides services to pharmaceutical manufacturers, third-party payors and healthcare providers supporting the marketing, distribution and payment for specialty pharmaceutical products, and operates a specialty pharmacy through its Specialty Solutions division.

In China, the Pharmaceutical segment distributes branded, generic and specialty pharmaceuticals, over-the-counter and consumer products as well as provides logistics, marketing and other services and operates specialty pharmacies through Cardinal Health China.

Pharmaceutical Distribution

Our Pharmaceutical Distribution division generates gross margin when the aggregate selling price to our customers exceeds the aggregate cost

of products sold, net of cash discounts. Gross margin includes margin from our generic pharmaceutical programs and margin from branded pharmaceutical agreements. Margin from our generic pharmaceutical programs includes price discounts and rebates and may include price appreciation on some products. Our earnings on generic pharmaceuticals are generally highest during the period immediately following the initial launch of a generic product because generic pharmaceutical selling prices are generally highest during that period and tend to decline over time, although this may vary. Margin from branded pharmaceutical agreements refers primarily to fees we receive for rendering a range of distribution and related services to manufacturers and also includes benefits from pharmaceutical price appreciation.

Bulk and Non-Bulk Sales

The Pharmaceutical segment historically has differentiated between bulk and non-bulk sales based on the nature of our customers’ operations when presenting information on the segment's operations. The table below shows the Pharmaceutical segment's revenue, segment expenses, segment profit and segment profit as a percentage of revenue for bulk and non-bulk sales:

(in millions)	2013		2012		2011	
Non-bulk sales:						
Revenue from non-bulk sales	$61,309		$57,738		$51,816	
Segment expenses allocated to non-bulk sales (1)	59,693		56,334		50,622	
Segment profit from non-bulk sales (1)	$1,616		$1,404		$1,194	
Segment profit from non-bulk sales as a percentage of revenue from non-bulk sales (1)	2.64	%	2.43	%	2.31	%
Bulk sales:						
Revenue from bulk sales	$29,788		$40,187		$41,928	
Segment expenses allocated to bulk sales (1)	29,670		40,033		41,793	
Segment profit from bulk sales (1)	$118		$154		$135	
Segment profit from bulk sales as a percentage of revenue from bulk sales (1)	0.40	%	0.38	%	0.32	%

(1) Segment expenses and profit required complex and subjective estimates and allocations based upon assumptions, past experience and judgment that we believe were reasonable.

Bulk sales consisted of sales to retail chain customers' centralized warehouse operations and customers' mail order businesses in the United States. All other sales were classified as non-bulk. Sales to a retail chain pharmacy customer were classified as bulk sales with respect to its warehouse operations and non-bulk sales with respect to its retail stores.

Substantially all bulk sales consisted of products shipped in the same form that we received them from the manufacturer; a small portion of bulk sales were broken down into smaller units prior to shipping. In contrast, non-bulk sales required more complex servicing. For non-bulk sales, we may have received inventory in large or full case quantities and broken it down into smaller quantities, warehoused the product for a longer period of time, picked individual products specific to a customer's order and delivered that smaller order to a customer location.

Bulk sales generated significantly lower segment profit as a percentage of revenue than non-bulk sales. Customers received lower pricing on bulk sales of the same products than non-bulk sales, as bulk sales required fewer services to be provided to these customers, and hence, less costs were incurred by us in providing these products. In addition, bulk sales in the aggregate generated higher segment cost of products sold as a percentage of revenue than non-bulk sales due to the mix of products sold

within the bulk category. Segment distribution, selling, general and administrative expenses as a percentage of revenue from bulk sales were substantially lower than from non-bulk sales because bulk sales required substantially fewer services to be rendered by us than non-bulk sales.

In light of the reduction in bulk sales after the expiration of our pharmaceutical distribution contract with Walgreen Co. ("Walgreens"), we do not expect the distinction between revenue and profit from bulk sales to be meaningful in the future. As such, in the future, we do not expect to present separate information on bulk and non-bulk sales to investors.

Specialty Pharmaceutical Products and Services

We refer to products and services offered by our Specialty Solutions division as “specialty pharmaceutical products and services.” The Specialty Solutions division currently (1) distributes oncology, rheumatology, urology and other pharmaceutical products ("specialty pharmaceutical products") to physician offices; (2) distributes human plasma products and some specialty pharmaceutical products to hospitals and other healthcare providers; (3) provides various consulting and other services to pharmaceutical manufacturers, third-party payors and healthcare providers primarily supporting the marketing, distribution and payment for specialty pharmaceutical products; and (4) operates a specialty pharmacy. Our use of the terminology "specialty pharmaceutical products and services" may not be comparable to the use of that terminology by other industry participants.

Pharmaceutical Segment Financial Statements

See Note 14 of the “Notes to Consolidated Financial Statements” for Pharmaceutical segment revenue, profit and assets for fiscal 2013, 2012 and 2011.

Medical Segment

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

Medical Segment Financial Statements

See Note 14 of the “Notes to Consolidated Financial Statements” for Medical segment revenue, profit and assets for fiscal 2013, 2012 and 2011.

Acquisitions and Divestitures

In the past five fiscal years, we completed the following four acquisitions:

Date	Company	Location	Line of Business	Acquisition Price (in millions)	
Mar 18, 2013	AssuraMed, Inc. ("AssuraMed")	Twinsburg, Ohio	Medical products distribution	$2,070	
Dec 21, 2010	Kinray, Inc.	Whitestone, New York	Pharmaceutical, generic, health and beauty, and home health care products distribution	$1,336	
Nov 29, 2010	Cardinal Health China	Shanghai, China	Pharmaceutical and medical products distribution	$458	(1)
Jul 15, 2010	Healthcare Solutions Holding, LLC	Ellicott City, Maryland	Specialty pharmaceutical services	$520	(2)

("P4 Healthcare")

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

(2) Includes $506 million in cash paid on the acquisition date and $14 million paid in fiscal 2012 and 2013 in connection with the contingent consideration obligation. The contingent consideration obligation had an acquisition date fair value of $92 million.

In addition, we completed several smaller acquisitions during the last five fiscal years, including purchasing Borschow Hospital & Medical Supplies, Inc. in fiscal 2009 and Futuremed Healthcare Products Corporation in fiscal 2012. During the past five fiscal years, we also completed several divestitures, including selling our United Kingdom-based Martindale injectable manufacturing business in fiscal 2010. In addition, effective August 31, 2009, we separated our clinical and medical products businesses through a distribution to our shareholders of 81 percent of the then outstanding common stock of CareFusion Corporation ("CareFusion") and retained the remaining shares of CareFusion common stock (the "CareFusion Spin-Off"). During fiscal 2010 and 2011, we disposed of the remaining shares of CareFusion common stock.

Customers

Our largest customers, CVS Caremark Corporation (“CVS”) and Walgreens accounted for approximately 23 percent and 20 percent, respectively, of our fiscal 2013 revenue. In the aggregate, our five largest customers, including CVS and Walgreens, accounted for approximately 52 percent of our fiscal 2013 revenue. In March 2013, we announced that our pharmaceutical distribution contract with Walgreens, which expires at the end of August 2013, would not be renewed. Our pharmaceutical distribution contract with Express Scripts, Inc. ("Express Scripts"), which was our third largest customer in fiscal 2012, expired in September 2012.

In addition, we have agreements with group purchasing organizations (“GPOs”) that act as agents to negotiate vendor contracts on behalf of their members. Our two largest GPO relationships in terms of member revenue are with Novation, LLC and Premier Purchasing Partners, L.P. Sales to members of these two GPOs collectively accounted for 13 percent of our revenue in fiscal 2013.

Suppliers

We rely on many different suppliers. Products obtained from our five largest suppliers accounted for an aggregate of approximately 25 percent of our revenue during fiscal 2013, but no single supplier's products accounted for more than 6 percent of that revenue. Overall, we believe our relationships with our suppliers are good.

The Pharmaceutical Distribution division 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.

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 wholesale distributors with national reach (including McKesson Corporation, AmerisourceBergen Corporation and H.D. Smith), regional wholesale distributors (including Morris & Dickson Co., L.L.C.), self-warehousing chains, specialty distributors, third-party logistics companies (including United Parcel Service, Inc.) and nuclear pharmacies, among others. In addition, the Pharmaceutical segment has experienced competition from a number of organizations offering generic pharmaceuticals, including telemarketers. We also compete with manufacturers that sell all or part of their product offerings direct.

In the Medical segment, we compete with many different distributors, including Owens & Minor, Inc., Thermo Fisher Scientific Inc., McKesson Corporation, Henry Schein, Inc., Medline Industries, Inc., Mediq NV (through Byram Healthcare) and CCS Medical Holdings, Inc. We also compete with regional medical products distributors and third-party logistics companies. In addition,we compete with manufacturers that sell all or part of their product offerings direct. Competitors of the Medical segment's manufacturing and procedural kit businesses include Kimberly-Clark Corporation, Ansell Limited, DeRoyal Industries Inc., Medline Industries, Inc., Professional Hospital Supply and Medical Action Industries.

Employees

At June 30, 2013, we had approximately 24,200 employees in the United States and approximately 9,400 employees outside of the United States. Overall, we consider our employee relations to be good.

Intellectual Property

We rely on a combination of trade secret, patent, copyright and trademark laws, nondisclosure and other contractual provisions, and technical measures to protect our products, services and intangible assets. We hold patents relating to: (1) medical and surgical products, such as fluid suction and irrigation devices; surgical waste management systems; surgical and medical examination gloves; surgical drapes, gowns and facial protection

products; and patient temperature management products; and (2) the distribution of our nuclear pharmacy products and service offerings. We also operate under licenses for certain proprietary technologies, and in certain instances we license our technologies to third parties.

We believe that we have taken all necessary steps to protect our proprietary rights, but no assurance can be given that we will be able to successfully enforce or protect our rights in the event that they are infringed upon by a third party. While all of these proprietary rights are important to our operations, we do not consider any particular patent, trademark, license, franchise or concession to be material to our overall business.

Regulatory Matters

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

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

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

Distribution

The FDA, DEA and various state authorities regulate the marketing, purchase, storage and distribution of pharmaceutical and medical products under various state and federal statutes including the Prescription Drug Marketing Act of 1987 and the Federal Controlled Substances Act (the "CSA"), which governs the sale, packaging, storage and distribution of controlled substances. Wholesale distributors of controlled substances must hold valid DEA registrations and state-level licenses, meet various security and operating standards, and comply with the CSA. As further discussed in Note 8 of the "Notes to Consolidated Financial Statements," in May 2012, we entered into a settlement agreement with the DEA pursuant to which our Lakeland, Florida pharmaceutical distribution center's registration to distribute controlled substances will be reinstated by the DEA in May 2014, subject to our compliance with the settlement agreement. Prior to reinstatement, our Lakeland facility will continue to distribute pharmaceutical products (other than controlled substances) while controlled substances will be shipped to customers from our other distribution centers.

Manufacturing and Marketing

Our subsidiaries that manufacture and source medical devices or pharmaceuticals may be subject to regulation by the FDA and comparable

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

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 or a regulatory agency identify a quality or regulatory issue, we investigate and take appropriate corrective action, which may include withdrawing the product from the market, correcting the product at the customer location, revising product labeling, and notifying customers.

Nuclear Pharmacies and Related Businesses

Our nuclear pharmacies and cyclotron facilities require licenses or permits and must abide by regulations from the NRC, applicable state boards of pharmacy and the radiologic health agency or department of health of each state in which we operate. In addition, our cyclotron facilities must comply with the FDA's good manufacturing practices regulations for positron emission tomography, or PET, drugs.

Prescription Drug Pedigree Tracking and Supply Chain Integrity

There have been increasing efforts by Congress and state and federal agencies to regulate the pharmaceutical distribution system in order to prevent the introduction of counterfeit, adulterated or mislabeled drugs into the pharmaceutical distribution system (also known as "pedigree tracking”). The U.S. House of Representatives passed a pedigree tracking bill in June 2013 that would initially establish a lot-based pedigree tracking system. Some states also have adopted or are considering adopting pedigree tracking laws. For example, effective July 2016, California will require that pharmaceutical wholesalers implement electronic track-and-trace capabilities for pharmaceutical products.

Government Healthcare Programs

We are subject to healthcare fraud and abuse laws. These laws generally prohibit companies 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 U.S. government-sponsored healthcare programs. They also prohibit submitting or causing to be submitted any fraudulent claim for payment by the federal government. Violations of these laws may result in criminal or civil penalties, as well as breach of contract claims and qui tam actions (false claims cases initiated by private parties purporting to act on behalf of federal or state governments).

AssuraMed is a Medicare-certified supplier with respect to a small portion of its business. It must meet defined Medicare quality standards and maintain accreditation to receive reimbursement from Medicare, and must comply with applicable billing, payment and record-keeping requirements. Failure to comply with Medicare supplier standards and billing requirements could result in civil and criminal sanctions, including the loss

of our ability to participate in Medicare and other federal and state healthcare programs.

In addition, our U.S. federal and state government contracts are subject to specific procurement regulations. Failure to comply with applicable rules or regulations or with a contractual or other requirements may result in qui tam actions, monetary damages and criminal and civil penalties. In addition, our government contracts could be terminated and we could be suspended or debarred from government contract work.

Health and Personal Information Practices

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

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

Environmental, Health and Safety Laws

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

Laws Relating to Foreign Trade and Operations

U.S. and international laws 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, which may require licenses or other authorizations for transactions within some countries or with some counterparties.

Similarly, we are subject to laws concerning the conduct of our foreign operations, including the U.S. Foreign Corrupt Practices Act, Chinese anti-corruption laws and other foreign anti-bribery laws. Among other things, these laws generally prohibit companies and their intermediaries from offering, promising or making payments to officials of foreign governments for the purpose of obtaining or retaining business.

Regulation in China

Our China operations are subject to national, regional and local regulations, including licensing and regulatory requirements of the China National Health and Family Planning Commission, Ministry of Commerce, Ministry of Finance, the China Food and Drug Administration, the National Reform and Development Commission and the General Administration of Customs.

Other Information

Although our agreements with manufacturers sometimes require us to maintain inventory levels within specified ranges, our distribution businesses are generally not required by our customers to maintain particular inventory levels other than as needed to meet service level requirements. Certain supply contracts with 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 14 of the “Notes to Consolidated Financial Statements” for revenue and long-lived assets by geographic area.

Available Information

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—Financial information—SEC filings” caption, as soon as reasonably practicable after we electronically file them with, or furnish them to, the Securities and Exchange Commission (the “SEC”).

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

Item 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 "Item 1: Business" 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 effective sourcing and enhanced cost control measures, our results of operations and financial condition could be adversely affected.

In addition, in recent years, the healthcare industry has continued to consolidate. Further consolidation among our customers and suppliers (including branded pharmaceutical manufacturers) could give the resulting enterprises greater bargaining power, which may adversely impact our results of operations.

CVS Caremark Corporation is a large customer that generates a significant amount of our revenue.

Our sales and credit concentration is significant. CVS accounted for approximately 23 percent of our fiscal 2013 revenue and 19 percent of our gross trade receivable balance at June 30, 2013. While we recently renewed our pharmaceutical distribution contracts with CVS, if CVS does not renew its contracts with us in the future, or terminates its contracts early, defaults in payment or significantly reduces its purchases of our products, our results of operations and financial condition could be adversely affected. Our contract with Walgreens will expire in August 2013

and sales to Walgreens accounted for approximately 20 percent of our fiscal 2013 revenue. We expect the expiration of the Walgreens contract to have an adverse impact on our results of operations, as discussed below in "Item 7: Management's Discussion and Analysis of Financial Condition and Results of Operations."

Our Pharmaceutical segment's margin may be affected by fewer or less profitable generic pharmaceutical launches, prices established by manufacturers and other factors that are beyond our control.

As described in greater detail in "Item 1: Business" above, margin in our Pharmaceutical segment consists, in part, of margin from our generic pharmaceutical programs and branded pharmaceutical price appreciation.

The number of new generic pharmaceutical launches varies from year to year, and the margin impact of new launches varies from product to product. Fewer generic pharmaceutical launches or launches that are less profitable than those previously experienced will have an adverse effect on our year-over-year margins. Additionally, prices for existing

generic pharmaceuticals generally decline over time, although this may vary. Price deflation on existing generic pharmaceuticals will have an adverse effect on our margins.

With respect to branded pharmaceutical price appreciation, if branded manufacturers increase prices less frequently or by amounts that are smaller than have been experienced historically, we will earn less margin from branded pharmaceutical agreements.

The U.S. healthcare environment is changing in many ways, some of which may not be favorable to us.

The healthcare industry continues to undergo significant changes designed to increase access to medical care, improve safety, contain costs and increase efficiencies. Medicare and Medicaid reimbursement levels have declined; the use of managed care has increased; distributors, manufacturers, healthcare providers and pharmacy chains have consolidated and have formed strategic alliances; and large purchasing groups are prevalent. The industry also has experienced a shift away from traditional healthcare venues like hospitals and into clinics and office settings, and, in some cases, patients' homes.

With respect to cost containment, the Patient Protection and Affordable Care Act and the Health Care and Education Reconciliation Act enacted in March 2010 have provisions designed to reduce costs of Medicare and Medicaid, including changing the federal upper payment limit for Medicaid reimbursement to no less than 175 percent of the average weighted manufacturer's price for generic pharmaceuticals. The Centers for Medicare and Medicaid Services is also considering providing states with alternatives to traditional reimbursement measures.

We could be adversely affected directly or indirectly (if our customers are adversely affected) by these and other changes in the delivery or pricing of, or reimbursement for, pharmaceuticals, medical devices or healthcare services.

Our business is subject to rigorous regulatory and licensing requirements.

The healthcare industry is highly regulated. As described in greater detail in "Item 1: Business" above, we are subject to regulation in the United States at both the federal and state level and in China and other foreign countries. 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 be adversely affected.

To lawfully operate our businesses, we are required to hold permits, licenses and other regulatory approvals from, and to comply with operating and security standards of, governmental bodies. Failure to maintain or renew necessary permits, licenses or approvals, or to comply with required standards, could have an adverse effect on our results of operations and financial condition.

Products that we manufacture, source, distribute or market are required to comply with regulatory requirements. Noncompliance or concerns over noncompliance may result in suspension of our ability to distribute, import or manufacture products, product recalls or seizures, or criminal and civil sanctions.

We are required to comply with laws relating to healthcare fraud and abuse. If we fail to comply with these laws, we could be subject to federal or state government investigations or qui tam actions (false claims cases initiated by private parties purporting to act on behalf of federal or state governments), which could result in civil and criminal sanctions, including the loss of licenses or the ability to participate in Medicare, Medicaid and other federal and state healthcare programs. The requirements of these laws are extremely complex and subject to varying interpretations. It is possible that regulatory authorities could challenge our policies and practices, which may adversely affect our operations, results of operations and financial condition.

AssuraMed is a Medicare-certified supplier with respect to a small portion of its business. Its failure to comply with Medicare supplier standards and billing requirements could result in civil and criminal sanctions, including the loss of our ability to participate in Medicare and other federal and state healthcare programs.

Our government contracts are subject to specific procurement regulations. Failure to comply with applicable rules or regulations or with a contractual or other requirement may result in qui tam actions, monetary damages and criminal and civil penalties. In addition, our government contracts could be terminated and we could be suspended or debarred from government contract work.

Our global operations are required to comply with the U.S. Foreign Corrupt Practices Act, Chinese anti-corruption and similar anti-bribery laws in other jurisdictions and with U.S. and foreign export control, trade embargo and customs laws. If we fail to comply with any of these laws, we could suffer civil and criminal sanctions.

Our China operations are subject to national, regional and local regulations. The regulatory environment in China is evolving, and officials in the Chinese government exercise broad discretion in deciding how to interpret and apply regulations. It is possible that the Chinese government's current or future interpretation and application of existing or new regulations will negatively impact our China operations, result in regulatory investigations or lead to fines or penalties.

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 of many jurisdictions. From time to time, legislative initiatives are proposed in the United States, such as the repeal of last-in, first-out ("LIFO") treatment of inventory or a change in the current U.S. taxation of

income earned by foreign subsidiaries, that could adversely affect our tax positions, effective tax rate, tax payments or financial condition. Tax laws 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. These challenges may adversely affect our effective tax rate, tax payments or financial condition.

The CareFusion Spin-Off may have unexpected tax consequences.

In connection with the August 2009 CareFusion Spin-Off, we received a private letter ruling from the Internal Revenue Service (“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 CareFusion 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 is 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 CareFusion 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. If the CareFusion 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.

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 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 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, or our customers' access to them, are interrupted, damaged by unforeseen events, cyber security incidents or other actions of third parties, or fail for any extended period of time.

In addition, data security breaches could adversely impact our operations, results of operations or our ability to satisfy legal requirements, including those related to patient-identifiable health information.

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 disputes or 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. We also may be named in breach of contract claims or qui tam actions (false claims cases initiated by private parties purporting to act on behalf of federal or state governments). Litigation is inherently unpredictable, and the unfavorable resolution of one or more of these legal proceedings could adversely affect our cash flows or results of operations.

Acquisitions can have unanticipated results.

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; future developments may impair the value of our purchased goodwill or intangible assets; or we may encounter unforeseen accounting, internal control, regulatory or compliance issues.

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 the availability of various components, compounds, raw materials (including radioisotopes) and energy supplied by others for our operations. Any of our supplier relationships could be interrupted due to events beyond our control, including natural disasters, or could be terminated. A sustained supply interruption could have an adverse effect on our business.

Our manufacturing businesses use oil-based resins, cotton, latex and other commodities as raw materials in many products. Prices of oil and gas also affect our distribution and transportation costs. Prices of these commodities are volatile and have fluctuated significantly in recent years, so costs to produce and distribute our products also have fluctuated. Due to competitive dynamics and contractual limitations, 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 surcharges, our results of operations could be adversely affected.

Our global operations are subject to economic, political and currency risks.

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

Economic conditions may adversely affect demand for our products and services.

Deterioration in general economic conditions in the United States and other countries in which we do business could adversely affect the amount of prescriptions filled and the number of medical procedures undertaken and, therefore, reduce purchases of our products and services by our customers, which could adversely affect our results of operations.

Item 1B: Unresolved Staff Comments

Not applicable.

Item 2: Properties

In the United States, at June 30, 2013, the Pharmaceutical segment operated 21 primary pharmaceutical distribution facilities and one national logistics center; two specialty distribution facilities and two other distribution facilities; one specialty pharmacy and over 150 nuclear pharmacy laboratories, manufacturing and distribution facilities. The Medical segment operated over 60 medical-surgical distribution, assembly, manufacturing, and research operation facilities. Our U.S. operating facilities are located in 45 states and in Puerto Rico.

Outside the United States, at June 30, 2013, our Medical segment operated over 20 facilities in Canada, the Dominican Republic, Malaysia, Malta, Mexico, and Thailand that engage in manufacturing, distribution or research. In addition, our Pharmaceutical and Medical segments utilized various distribution facilities in China.

At June 30, 2013, we owned over 70 operating facilities and leased more than 200 operating facilities. Our principal executive offices are headquartered in an owned building located at 7000 Cardinal Place in Dublin, Ohio.

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

In addition to the proceedings described below, the legal proceedings described in Note 8 of the "Notes to Consolidated Financial Statements" are incorporated in this "Item 3: Legal Proceedings" by reference.

In June 2012, Henry Stanley, Jr., a purported shareholder, filed a derivative action on behalf of Cardinal Health, Inc. in the U.S. District Court for the Southern District of Ohio (the "federal case") against the current and certain former members of our Board of Directors. A similar action was filed by Daniel Himmel, a purported shareholder, in the Common Pleas Court of Delaware County, Ohio (the "state case") against the current and certain former members of our Board of Directors and certain of our officers. The complaints allege that the defendants breached their fiduciary duties in connection with the DEA's suspension of our Lakeland, Florida distribution center's registration to distribute controlled substances in February 2012, and the suspension and reinstatement of such registrations at three of our facilities in 2007 and 2008. The state action also makes claims based on corporate waste and unjust enrichment. The complaints seek, among other things, unspecified money damages from the defendants and an award of attorney's fees. In October 2012, the court granted the defendants' motion to dismiss the federal action with prejudice, and in August 2013, the court of appeals affirmed the decision. In July

2013, the court granted the defendants' motion to dismiss the state action, and in August 2013, the plaintiff appealed the court's decision.

Separately, in September 2012, a purported shareholder made demand on our Board of Directors to take action against the current and certain former members of our Board of Directors to recover damages based on allegations similar to those set forth in the derivative actions above. Our Board of Directors formed a special committee of independent directors to investigate the allegations made in the shareholder demand. After receiving and evaluating the special committee's findings and recommendations, our Board of Directors determined in May 2013 that pursuing the shareholder claims was not in the best interest of the company.

Item 4: Mine Safety Disclosures

Not applicable.

Executive Officers of the Registrant

The following is a list of our executive officers as of August 9, 2013:

Name	Age	Position
George S. Barrett	58	Chairman and Chief Executive Officer
Jeffrey W. Henderson	48	Chief Financial Officer
Michael C. Kaufmann	50	Chief Executive Officer, Pharmaceutical segment
Donald M. Casey, Jr.	53	Chief Executive Officer, Medical segment
Craig S. Morford	54	Chief Legal and Compliance Officer
Carole S. Watkins	53	Chief Human Resources Officer
Mark R. Blake	42	Executive Vice President, Strategy and Corporate Development
Stephen T. Falk	48	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 August 2009. From January 2008 to August 2009, he served as Vice Chairman of Cardinal Health and Chief Executive Officer, Healthcare Supply Chain Services.

Mr. Henderson has served as Chief Financial Officer since May 2005.

Mr. Kaufmann has served as Chief Executive Officer, Pharmaceutical segment, since August 2009. From April 2008 until August 2009, he served as our Group President, Pharmaceutical Supply Chain.

Mr. Casey has served as Chief Executive Officer, Medical segment, since April 2012. Before joining us, he served as Chief Executive Officer of the Gary and Mary West Wireless Health Institute, a non-profit research organization focused on lowering the cost of healthcare through novel technology solutions, from March 2010 to March 2012. Prior to that, he served as World Wide Franchise Chairman, Comprehensive Care at Johnson & Johnson, a developer and manufacturer of health care products, from 2007 to 2009.

Mr. Morford has served as Chief Legal and Compliance Officer since May 2009. From May 2008 to May 2009, he served as our Chief Compliance Officer.

Ms. Watkins has served as Chief Human Resources Officer since 2000.

Mr. Blake has served as Executive Vice President, Strategy and Corporate Development since October 2009. From August 2006 until October 2009, he held various business development positions with Medco Health Solutions, Inc., a pharmacy benefits management services company, including Vice President, Business Development and Senior Director, Business Development.

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 our Executive Vice President and General Counsel of Healthcare Supply Chain Services.

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

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, 2013 and 2012, and from July 1, 2013 through the period ended on August 9, 2013:

	High	Low	Dividends
Fiscal 2012			
Quarter Ended:			
September 30, 2011	$46.83	$37.99	$0.215
December 31, 2011	45.49	39.88	0.215
March 31, 2012	43.31	40.82	0.215
June 30, 2012	43.33	40.33	0.2375
Fiscal 2013			
Quarter Ended:			
September 30, 2012	$43.50	$37.75	$0.2375
December 31, 2012	42.65	39.29	0.275
March 31, 2013	47.09	41.62	0.275
June 30, 2013	48.76	41.85	0.3025
Fiscal 2014			
Through August 9, 2013	$51.57	$47.02	$0.3025

At August 9, 2013 there were approximately 10,827 shareholders of record of our 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) (in millions)
April 1 – 30, 2013	394	$42.93	—	$650
May 1 – 31, 2013	2,194,527	47.46	2,194,160	546
June 1 – 30, 2013	3,563,986	47.42	3,084,186	400
Total	5,758,907	$47.43	5,278,346	$400

(1) Includes 394, 207 and 265 common shares purchased in April, May and June 2013, respectively, through a rabbi trust as investments of participants in our Deferred Compensation Plan; 160 and 1,072 restricted shares surrendered in May and June 2013, respectively, by equity compensation plan participants upon vesting to meet tax withholding; and 478,463 common shares owned and tendered in June 2013 by an equity compensation plan participant to meet the exercise price and tax withholding for stock option exercises.

(2)

On August 8, 2012, our Board of Directors approved a $750 million share repurchase program (the "August 2012 program"), which expires on August 31, 2015. During fiscal 2013, we repurchased 10.2 million common shares having an aggregate cost of $450 million, including $350 million under the August 2012 program.

Performance Graphs

Five Year 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 (the "S&P 500 Index") and the Standard & Poor's Composite—500 Healthcare Index (the "S&P 500 Healthcare Index"). The line graph assumes, in each case, an initial investment of $100 on June 30, 2008, based on the market prices at the end of each fiscal year through and including June 30, 2013, and reinvestment of dividends. The S&P 500 Index and S&P 500 Healthcare Index investments are weighted on the basis of market capitalization at the beginning of each period. We have adjusted the market price of our common shares prior to August 31, 2009 to reflect the CareFusion Spin-Off on August 31, 2009.

	June 30 2008	2009	2010	2011	2012	2013
Cardinal Health, Inc.	$100.00	$60.26	$94.41	$130.20	$122.98	$141.79
S&P 500 Index	100.00	73.81	84.46	110.46	116.47	140.57
S&P 500 Healthcare Index	100.00	88.53	96.48	124.02	136.12	173.89

Post CareFusion Spin-Off Graph

We have included a second line graph below to show our cumulative total return compared with the cumulative total return of the S&P 500 Index and the S&P 500 Healthcare Index since the CareFusion Spin-Off on August 31, 2009. The line graph assumes, in each case, an initial investment of $100 on August 31, 2009 through and including June 30, 2013, and reinvestment of dividends. We have adjusted the market price of our common shares on August 31, 2009 to reflect the CareFusion Spin-Off.

	August 31 2009	June 30 2010	June 30 2011	June 30 2012	June 30 2013
Cardinal Health, Inc.	$100.00	$138.45	$190.95	$180.33	$207.88
S&P 500 Index	100.00	102.68	134.20	141.48	170.92
S&P 500 Healthcare Index	100.00	100.55	129.25	141.86	181.22

Item 6: Selected Financial Data

The consolidated financial data below includes 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 the consolidated financial statements and related notes and "Item 7: Management's Discussion and Analysis of Financial Condition and Results of Operations."

(in millions, except per common share amounts)	2013 (1)	2012	2011	2010	2009
Earnings Data:					
Revenue	$101,093	$107,552	$102,644	$98,503	$95,992
Earnings from continuing operations	$335	$1,070	$966	$587	$758
Earnings/(loss) from discontinued operations (2)	(1)	(1)	(7)	55	394
Net earnings	$334	$1,069	$959	$642	$1,152
Basic earnings/(loss) per common share:					
Continuing operations	$0.98	$3.10	$2.77	$1.64	$2.12
Discontinued operations (2)	—	—	(0.02)	0.15	1.10
Net basic earnings per common share	$0.98	$3.10	$2.75	$1.79	$3.22
Diluted earnings/(loss) per common share:					
Continuing operations	$0.97	$3.06	$2.74	$1.62	$2.10
Discontinued operations (2)	—	—	(0.02)	0.15	1.08
Net diluted earnings per common share	$0.97	$3.06	$2.72	$1.77	$3.18
Cash dividends declared per common share	$1.0900	$0.8825	$0.8000	$0.7200	$0.5950
Balance Sheet Data:					
Total assets	$25,819	$24,260	$22,846	$19,990	$25,119
Long-term obligations, less current portion	3,686	2,418	2,175	1,896	3,272
Shareholders' equity (3)	5,975	6,244	5,849	5,276	8,725

(1) During the fourth quarter of fiscal 2013, we recognized a non-cash goodwill impairment charge of $829 million ($799 million, net of tax) related to our Nuclear Pharmacy Services division.

(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 percent 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.

(3) As noted above, on August 31, 2009, we completed the distribution to our shareholders of 81 percent of the then outstanding common stock of CareFusion. The distribution of CareFusion common stock to our shareholders resulted in the recognition of a $3.7 billion non-cash dividend.

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.

Overview

We are a healthcare services company providing pharmaceutical and medical products and services that help pharmacies, hospitals, ambulatory surgery centers, clinical laboratories, physician offices and other healthcare providers focus on patient care while reducing costs, enhancing efficiency and improving quality. We also provide medical products to patients in the home.

We report our financial results in two segments: Pharmaceutical and Medical.

During fiscal 2013, revenue decreased 6 percent to $101.1 billion, largely due to the previously disclosed expiration of our pharmaceutical distribution contract with Express Scripts and the impact of brand-to-generic pharmaceutical conversions.

Gross margin increased 8 percent to $4.9 billion, reflecting strong performance in our Pharmaceutical segment generic programs. Operating earnings decreased 44 percent to $1.0 billion and earnings from continuing operations decreased 69 percent to $335 million due to an $829 million ($799 million, net of tax) non-cash goodwill impairment charge related to our Nuclear Pharmacy Services division.

Our cash and equivalents balance was $1.9 billion at June 30, 2013, compared to $2.3 billion at June 30, 2012. The decrease in cash and equivalents during fiscal 2013 was driven by acquisitions of $2.2 billion, share repurchases of $450 million and dividends of $353 million, offset by strong net cash provided by operating activities of $1.7 billion and net proceeds from long-term obligations of $981 million. We plan to execute a balanced deployment of available capital to position ourselves for sustainable competitive advantage and to enhance shareholder value.

Large Customers

On April 25, 2013, we announced the renewal of our pharmaceutical distribution contracts with CVS. CVS accounted for approximately 23 percent of our fiscal 2013 revenue.

Our pharmaceutical distribution contract with Walgreens will expire at the end of August 2013. Because sales to Walgreens generated approximately 20 percent of our consolidated revenue for fiscal 2013, we expect the expiration of this contract to have an adverse impact on our results of operations. We are taking steps to reduce our costs and otherwise mitigate the impact of the expiration of the Walgreens contract in fiscal 2014 and afterward. Largely as a result of the contract expiration, we do not currently expect diluted earnings per share from continuing operations to grow in fiscal 2014 compared to fiscal 2013, excluding the effects in both periods of restructuring and employee severance costs; acquisition-related costs and credits; impairments and gains and losses on disposal of assets (including the $829 million Nuclear Pharmacy Services division goodwill impairment charge in fiscal 2013); net litigation recoveries and charges; and charges and tax benefits associated with each of these items. After the expiration of this contract, we also anticipate

a significant net working capital decrease based on reduced inventory and accounts receivable, partially offset by reduced accounts payable. Based on the expected working capital decrease and other factors, we anticipate that the expiration of the Walgreens contract will result in a net after-tax benefit to cash flow from operating activities in fiscal 2014 in excess of $500 million.

Goodwill

In conjunction with the preparation of our consolidated financial statements for the fiscal year ended June 30, 2013, we recently completed our annual goodwill impairment test, which we perform annually in the fourth quarter. As part of this annual test, we concluded that the entire goodwill amount of our Nuclear Pharmacy Services division was impaired, resulting in a non-cash impairment charge of $829 million ($799 million, net of tax). This impairment charge does not impact our liquidity, cash flows from operations, or compliance with debt covenants.

The majority of the goodwill of our Nuclear Pharmacy Services division was acquired through our acquisition of Syncor International Corporation in fiscal 2003 ($681 million of goodwill). Excluding the impact of the impairment charge, we have a total of approximately $1.0 billion of invested capital in our Nuclear Pharmacy Services division (inclusive of the Syncor acquisition), accumulated over the past 12 years.

As previously disclosed in our Quarterly Reports on Form 10-Q for the quarters ended December 31, 2012, and March 31, 2013, our Nuclear Pharmacy Services division has experienced significant softness in the low-energy diagnostics market. During the second half of fiscal 2013, we experienced sustained volume declines and price erosion for the core, low-energy products provided by this division. In addition, we experienced reduced sales for some existing high-energy diagnostic products, slower-than-expected adoption of new high-energy diagnostic products, and recent reimbursement developments that may adversely impact the future growth of these products. Using this information, we adjusted our outlook and long-term business plans for this division during our annual budgeting process, which we recently concluded. This update resulted in significant reductions in the anticipated future cash flows and estimated fair value for this reporting unit. See Note 5 of the “Notes to Consolidated Financial Statements” for additional information.

Restructuring

On January 30, 2013, we announced a restructuring plan within our Medical segment. Under this restructuring plan, we are moving production of procedure kits from our facility in Waukegan, Illinois to other facilities and selling property and consolidating office space in Waukegan, Illinois. In addition, we reorganized our Medical segment and plan to sell our sterilization processes in El Paso, Texas. We estimate the total costs associated with this restructuring plan to be approximately $79 million on a pre-tax basis, of which $51 million was recognized during fiscal 2013. Of the estimated $28 million remaining costs to be recognized through the end of fiscal 2014, we estimate that approximately $3 million will be employee-related costs; $11 million will be facility exit and other costs; and $14 million will be an expected loss on disposal of the property in Waukegan, Illinois described above. We have evaluated this property and have determined that at June 30, 2013 it does not meet the criteria for classification as held for sale. The costs recognized during 2013 are classified as restructuring and employee severance and impairments and loss on disposal of assets in the consolidated statements of earnings. We

expect to start realizing cost savings and other benefits from the plan in fiscal 2014.

Acquisitions

On March 18, 2013, we completed the acquisition of AssuraMed for $2.07 billion, net of cash acquired, in an all-cash transaction. We funded the acquisition through the issuance of $1.3 billion in fixed rate notes and cash on hand. The acquisition of AssuraMed, a provider of medical supplies to homecare providers and patients in the home, expands our ability to serve this patient base. We expect the amortization of acquisition-related intangible assets to be a significant expense in future periods. Excluding the impact of amortization of acquisition-related intangible assets, this acquisition had a positive impact on operating earnings in fiscal 2013 and we expect it to have a positive impact on operating earnings in future periods. See Note 2 of the “Notes to Consolidated Financial Statements” for additional information on the AssuraMed acquisition.

Other Trends

Within our Pharmaceutical segment, we expect continued strength in our generic pharmaceutical programs as well as continued price appreciation from branded pharmaceutical products in fiscal 2014.

Within our Medical segment, variability in the cost of commodities such as oil-based resins, cotton, latex, diesel fuel and other commodities can have a significant impact on cost of products sold. Although commodity prices fluctuate, we do not expect changes in commodity prices to have a significant impact on our year-over-year results of operations in fiscal 2014. We also expect a continuation of relatively flat procedural-based utilization in fiscal 2014.

Results of Operations

Revenue

	Revenue			Change	
(in millions)	2013	2012	2011	2013	2012
Pharmaceutical	$91,097	$97,925	$93,744	(7)%	4 %
Medical	10,060	9,642	8,922	4 %	8 %
Total segment revenue	101,157	107,567	102,666	(6)%	5 %
Corporate	(64)	(15)	(22)	N.M.	N.M.
Total revenue	$101,093	$107,552	$102,644	(6)%	5 %

Fiscal 2013 Compared to Fiscal 2012

Pharmaceutical Segment

Revenue for fiscal 2013 compared to the prior year was negatively impacted by the expiration on September 30, 2012 of our pharmaceutical distribution contract with Express Scripts (approximately $6.7 billion), the revenue from which was classified as bulk sales. Revenue from existing pharmaceutical distribution customers decreased by approximately $3.6 billion, primarily as a result of brand-to-generic pharmaceutical conversions. Brand-to-generic pharmaceutical conversions impact our revenue because generic pharmaceuticals generally sell at a lower price than the corresponding brand product and because some of our customers primarily source generic products directly from manufacturers rather than from us. The decrease was partially offset by increased pharmaceutical distribution revenue from new customers (approximately $3.8 billion) and revenue growth within our Specialty Solutions division ($961 million).

Revenue from bulk sales was $29.8 billion and $40.2 billion for fiscal 2013 and 2012, respectively. Bulk sales for fiscal 2013 decreased by 26 percent driven primarily by the expiration of our contract with Express Scripts and brand-to-generic conversions. Revenue from non-bulk sales was $61.3 billion and $57.7 billion for fiscal 2013 and 2012, respectively. Non-bulk sales for fiscal 2013 increased by 6 percent driven by growth from new customers. See “Item 1: Business” for more information about bulk and non-bulk sales. In light of the reduction in bulk sales after the expiration of our pharmaceutical distribution contract with Walgreens, we do not expect the distinction between revenue and profit from bulk sales to be meaningful in the future. As such, in the future, we do not expect to present separate information on bulk and non-bulk sales to investors.

Medical Segment

Revenue for fiscal 2013 compared to the prior year reflects the benefit of acquisitions ($459 million).

Fiscal 2012 Compared to Fiscal 2011

Pharmaceutical Segment

Revenue was positively impacted during fiscal 2012 compared to the prior year by acquisitions ($2.3 billion) and increased sales to existing customers ($2.0 billion).

Medical Segment

Revenue was positively impacted during fiscal 2012 compared to the prior year by increased volume from existing customers ($335 million), including the positive impact from sales of self-manufactured and private brand products and the transition during the fourth quarter of fiscal 2011 of our relationship with CareFusion from a fee-for-service arrangement to a traditional distribution model ($131 million).

Cost of Products Sold

Consistent with the change in revenue, cost of products sold decreased $6.8 billion (7 percent) during fiscal 2013, and increased by $4.5 billion (5 percent) during fiscal 2012. See the gross margin discussion below for additional drivers impacting cost of products sold.

Gross Margin

	Gross Margin			Change			
(in millions)	2013	2012	2011	2013		2012	
Gross margin	$4,921	$4,541	$4,162	8	%	9	%

Fiscal 2013 Compared to Fiscal 2012

Gross margin increased in fiscal 2013 compared to the prior year driven by strong performance in our generic pharmaceutical programs ($350 million) and acquisitions ($131 million). Increased margin from branded pharmaceutical distribution agreements (exclusive of the related volume impact) also had a positive impact on gross margin ($81 million). Pricing changes, including rebates (exclusive of the related volume impact), adversely impacted gross margin ($211 million), driven in part by customer and product mix. The adverse impact of these pricing changes is offset by sourcing programs and other sources of margin. As a result of significant market softness, gross margin from our Nuclear Pharmacy Services division decreased by $71 million in fiscal 2013.

The cost of oil-based resins, cotton, latex and other commodities used in our Medical segment self-manufactured products had a slightly favorable impact on gross margin. As described above, while the expiration of the

Express Scripts contract resulted in lower revenue, it had a slightly unfavorable impact on gross margin.

Fiscal 2012 Compared to Fiscal 2011

Gross margin increased in fiscal 2012 compared to the prior year primarily due to strong performance in our generic pharmaceutical programs ($344 million), including the impact of new product launches and price appreciation on a few specific products, and acquisitions ($137 million). Favorable Medical segment product sales mix and increased sales volume resulted in a $100 million favorable impact to gross margin. Pricing changes, including rebates (exclusive of the related volume impact), adversely impacted gross margin ($205 million). The adverse impact of these pricing changes was offset by sourcing programs and other sources of margin. Increased cost of oil-based resins, cotton, latex and other commodities used in our Medical segment self-manufactured products decreased gross margin by $66 million.

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

	SG&A Expenses			Change	
(in millions)	2013	2012	2011	2013	2012
SG&A expenses	$2,875	$2,677	$2,528	7 %	6 %

SG&A expenses increased during 2013 over fiscal 2012 primarily due to acquisitions ($84 million) and investment spending ($17 million).

Increased SG&A expenses in fiscal 2012 over fiscal 2011 were primarily due to acquisitions ($65 million) and business system investments, including the Medical segment business transformation project.

Segment Profit and Consolidated Operating Earnings

	Segment Profit and Operating Earnings			Change	
(in millions)	2013	2012	2011	2013	2012
Pharmaceutical	$1,734	$1,558	$1,329	11 %	17 %
Medical	372	332	373	12 %	(11)%
Total segment profit	2,106	1,890	1,702	11 %	11 %
Corporate	(1,110)	(98)	(188)	N.M.	N.M.
Total operating earnings	$996	$1,792	$1,514	(44)%	18 %

Segment Profit

We evaluate segment performance based upon segment profit, among other measures. Segment profit 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 loss on disposal of assets, litigation (recoveries)/charges, net, certain investment and other spending to our segments. These costs are retained at Corporate. Investment spending generally includes the first year spend for certain projects that require incremental investments in the form of additional operating expenses. We encourage our segments to identify investment projects that will promote innovation and provide future returns. As approval decisions for such projects are dependent upon executive management, the expenses for such projects are often retained at Corporate. See Note 14 of the "Notes to Consolidated Financial Statements" for additional information on segment profit.

Pharmaceutical Segment Profit

The principal drivers for the increase in fiscal 2013 over fiscal 2012 were strong performance in our generic pharmaceutical programs and increased margin from branded pharmaceutical distribution agreements. These benefits were partially offset by the unfavorable impact of pharmaceutical distribution pricing changes and significant market softness in our Nuclear Pharmacy Services division.

The principal drivers for the increase in fiscal 2012 over fiscal 2011 were strong performance in our generic pharmaceutical programs, including the impact of new product launches, and the positive impact of acquisitions, offset by the unfavorable impact of pharmaceutical distribution pricing changes.

Segment profit from bulk sales decreased $36 million in fiscal 2013 compared to fiscal 2012 and was 7 percent and 10 percent of Pharmaceutical segment profit in fiscal 2013 and 2012, respectively. Segment profit from non-bulk sales increased $212 million in fiscal 2013 over fiscal 2012 and was 93 percent and 90 percent of Pharmaceutical segment profit in fiscal 2013 and 2012, respectively. The generic pharmaceutical programs discussed above primarily impacted segment profit from non-bulk sales.

Medical Segment Profit

The principal drivers for the increase in fiscal 2013 over fiscal 2012 were the positive impact of acquisitions and decreased cost of commodities used in our self-manufactured products, partially offset by the unfavorable impact of pricing changes, driven in part by customer and product mix. Segment profit was also moderated by softness in procedural-based utilization. The 2.3 percent excise tax on certain manufactured or imported medical devices that became effective January 1, 2013 had a slightly unfavorable impact on segment profit.

The principal drivers for the decrease in fiscal 2012 over fiscal 2011 were the increased cost of commodities used in our self-manufactured products and an increase in SG&A expenses, including the impact of business system investments. These items were partially offset by the favorable impact of product sales mix and increased net sales volume.

Corporate

As discussed further below, the principal driver for the decrease in Corporate in fiscal 2013 was an $829 million non-cash goodwill impairment charge related to our Nuclear Pharmacy Services division, in addition to other costs not allocated to our segments.

Consolidated Operating Earnings

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

(in millions)	2013	2012	2011
Restructuring and employee severance	$71	$21	$15
Acquisition-related costs	158	33	90
Impairments and loss on disposal of assets	859	21	9
Litigation (recoveries)/charges, net	(38)	(3)	6

Restructuring and Employee Severance

In addition to other restructuring activities during fiscal 2013, we recognized $30 million of employee-related costs and $10 million of facility exit and other costs related to the restructuring within our Medical segment. We also recognized $11 million of employee-related costs as part of a restructuring plan within our Nuclear Pharmacy Services division during the fourth quarter of fiscal 2013.

Acquisition-Related Costs

Acquisition-related costs for fiscal 2013 included transaction costs associated with the purchase of AssuraMed ($20 million). Additionally, amortization of acquisition-related intangible assets was $118 million, $78 million and $67 million for fiscal 2013, 2012 and 2011, respectively. The increase in amortization during fiscal 2013 was primarily due to intangible assets from the acquisition of AssuraMed.

Acquisition-related costs for fiscal 2012 included income recognized upon adjustment of the contingent consideration obligation incurred in connection with the P4 Healthcare acquisition ($71 million). In early fiscal 2013, we terminated and settled the remaining contingent consideration obligation for $4 million.

Impairments and Loss on Disposal of Assets

During the fourth quarter of fiscal 2013, we recognized an $829 million ($799 million, net of tax) non-cash goodwill impairment charge related to our Nuclear Pharmacy Services division, as discussed further in the Overview section and in Note 5 of the "Notes to Consolidated Financial Statements."

In connection with our Medical segment restructuring plan discussed in Note 3, during fiscal 2013, we recognized an $11 million loss to write down our gamma sterilization assets in El Paso, Texas to the estimated fair value, less costs to sell. Also during fiscal 2013, we recorded an $8 million write-off of commercial software under development within our Pharmaceutical segment in connection with our decision to discontinue this project.

During fiscal 2012, we recorded a charge of $16 million to write off an indefinite-life intangible asset related to the P4 Healthcare trade name.

Litigation (Recoveries)/Charges, Net

During fiscal 2013, we recognized $38 million of income resulting from settlements of class action antitrust claims in which we were a class member.

Earnings Before Income Taxes and Discontinued Operations

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

	Earnings Before Income Taxes and Discontinued Operations			Change	
(in millions)	2013	2012	2011	2013	2012
Other income, net	$(15)	$(1)	$(22)	N.M.	N.M.
Interest expense, net	123	95	93	29 %	2 %
Gain on sale of investment in CareFusion	—	—	(75)	N.M.	N.M.

Interest Expense, Net

The increase in interest expense, net for fiscal 2013 over fiscal 2012 was primarily due to $1.3 billion of notes issued in connection with the AssuraMed acquisition.

Gain on Sale of Investment in CareFusion

We recognized $75 million of income during fiscal 2011 related to the sale of our investment in CareFusion common stock.

Provision for Income Taxes

Generally, fluctuations in the effective tax rate are due to changes within international and United States state effective tax rates resulting from our business mix and discrete items. A reconciliation of the provision based on the federal statutory income tax rate to our effective income tax rate from continuing operations is as follows (see Note 7 of the

"Notes to Consolidated Financial Statements" for a detailed disclosure of the effective tax rate reconciliation):

	2013		2012		2011	
Provision at Federal statutory rate	35.0	%	35.0	%	35.0	%
State and local income taxes, net of federal benefit	2.5		2.3		2.6	
Foreign tax rate differential	(4.0)		(2.2)		(3.1)	
Nondeductible/nontaxable items	(0.5)		—		0.6	
Nondeductible goodwill impairment	33.2		—		—	
Change in measurement of an uncertain tax position and impact of IRS settlements	(5.7)		0.9		2.4	
Other	1.8		1.0		(1.1)	
Effective income tax rate	62.3	%	37.0	%	36.4	%

Fiscal 2013 Compared to Fiscal 2012

The fiscal 2013 effective tax rate was unfavorably impacted by 33.2 percentage points ($295 million) due to the nondeductibility of substantially all of the goodwill impairment which was partially offset by the favorable impact of the revaluation of our deferred tax liability and related interest on unrepatriated foreign earnings as a result of an agreement with tax authorities ($64 million or 7.2 percentage points).

Fiscal 2012 Compared to Fiscal 2011

The fiscal 2012 effective tax rate was favorably impacted by a settlement of the fiscal 2001 and 2002 IRS audits ($40 million or 2.4 percentage points). The year-over-year comparison of the effective tax rate was unfavorably impacted by the release in fiscal 2011 of a previously established deferred tax valuation allowance.

Ongoing Audits

The IRS is currently conducting audits of fiscal years 2003 through 2010. We have received proposed adjustments from the IRS for fiscal years 2003 through 2007 related to our transfer pricing arrangements between foreign and domestic subsidiaries. The IRS has proposed additional taxes of $399 million, excluding penalties and interest. If this tax ultimately must be paid, CareFusion is liable under the tax matters agreement entered into in connection with the CareFusion Spin-Off for $142 million of the total amount. We disagree with these proposed adjustments, which we are contesting, and have accounted for the unrecognized tax benefits related to them. The IRS had also proposed additional taxes of $450 million, excluding penalties and interest, related to the transfer of intellectual property among subsidiaries of an acquired entity prior to its acquisition by us, for which CareFusion would be liable under the tax matters agreement. During the fourth quarter of fiscal 2013, CareFusion settled

this matter with the IRS. We have adjusted the indemnification receivable that we had recorded for this matter. The settlement has no net impact on our provision for income taxes.

Liquidity and Capital Resources

We currently believe that, based upon available capital resources (cash on hand and access to committed credit facilities) and projected operating cash flow, we have adequate capital resources to fund working capital needs; currently anticipated capital expenditures, business growth and expansion; contractual obligations; payments for tax settlements; and current and projected debt service requirements, dividends and share repurchases. During fiscal 2013, we completed the acquisition of AssuraMed, which we funded through the issuance of $1.3 billion in fixed rate notes and cash on hand, in addition to several other small acquisitions, which we funded with cash on hand. If we decide to engage in one or more additional acquisitions, depending on the size and timing of such transactions, we may need to access capital in addition to cash on hand.

Cash and Equivalents

Our cash and equivalents balance was $1.9 billion at June 30, 2013, compared to $2.3 billion at June 30, 2012. At June 30, 2013, our cash and equivalents were held in cash depository accounts with major banks or invested in high quality, short-term liquid investments. The decrease in cash and equivalents during fiscal 2013 was driven by acquisitions of $2.2 billion, share repurchases of $450 million and dividends of $353 million, offset by strong net cash provided by operating activities of $1.7 billion and net proceeds from long-term obligations of $981 million. Net cash provided by operating activities of $1.7 billion was driven primarily by increased gross margin, product mix and working capital changes. As expected, this increase was partially offset by the adverse impact of cash tax payments and the expiration of our pharmaceutical distribution contract with Express Scripts.

During fiscal 2012, we deployed $450 million of cash on share repurchases, $300 million on dividends, $263 million on capital expenditures and $174 million on acquisitions. During fiscal 2012, we received net proceeds from long-term obligations of $290 million.

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

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 (quarterly revenue divided by 90 days). DIOH is calculated as inventories, net divided by ((quarterly cost of products sold plus chargeback billings) divided by 90 days). DPO is calculated as accounts payable divided by ((quarterly cost of products sold plus chargeback billings) divided by 90 days). Chargeback billings are the difference between a product’s wholesale acquisition cost and the contract price. Chargeback billings were $4.3 billion, $4.0 billion and $3.6 billion for fiscal 2013, 2012 and 2011, respectively. Beginning in the first quarter of fiscal 2013, we changed our method of calculating DSO in order to align it with the 90-day convention that we use in the calculation of DIOH and DPO. Prior to this change, we calculated DSO by dividing trade receivables, net by (monthly revenue divided by 30 days). In connection with this change, we have

revised prior-year information to conform to the new method of calculating DSO.

	2013	2012	2011
Days sales outstanding	22.3	21.4	20.7
Days inventory on hand	26.5	23.9	22.5
Days payable outstanding	38.9	35.6	34.8

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 in the regular course of business.

DSO and DIOH increased in fiscal 2013 over fiscal 2012 primarily as a result of the expiration of our pharmaceutical distribution contract with Express Scripts. DPO increased primarily due to the expiration of our pharmaceutical distribution contract with Express Scripts and brand-to-generic conversions.

DSO increased in fiscal 2012 over fiscal 2011 due to the implementation of our Medical segment's business transformation project, which led to an increase in trade receivables at June 30, 2012. DIOH increased in fiscal 2012 as a result of inventory increases related to on-boarding a new pharmaceutical customer and our Medical segment's business transformation project implementation.

The cash and equivalents balance at June 30, 2013 included $428 million of cash held by subsidiaries outside of the United States. Although the vast majority of this cash is available for repatriation, permanently bringing the money into the United States could trigger U.S. federal, state and local income tax obligations. As a U.S. parent company, we may temporarily access cash held by our foreign subsidiaries without becoming subject to U.S. federal income tax through intercompany loans.

After the expiration of the Walgreens contract in fiscal 2014, we anticipate a significant net working capital decrease based on reduced inventory and accounts receivable, partially offset by reduced accounts payable. Based on the expected working capital decrease and other factors, we anticipate that the expiration of the Walgreens contract will result in a net after-tax benefit to cash flow from operating activities in fiscal 2014 in excess of $500 million.

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. At times, availability under our committed receivables sales facility program may be less than $950 million based on receivables concentration limits and our outstanding eligible receivables balance. 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, 2013 and 2012. We also had no outstanding balance under the revolving credit facility at June 30, 2013 and 2012, except for $43 million and $44 million, respectively, of standby letters of credit for each year. Our revolving credit facility and committed 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, 2013, we were in compliance with these financial covenants.

On November 6, 2012, we renewed our $950 million committed

receivables sales facility program until November 6, 2014. Following the expiration of our pharmaceutical distribution contract with Walgreens, we expect that availability under our committed receivables sales facility program will be less than $950 million based on our then outstanding eligible receivables balance. On June 4, 2013, we extended the term of our $1.5 billion revolving credit facility to June 4, 2018.

Long-term Obligations

As of June 30, 2013, we had total long-term obligations of $3.9 billion compared to $2.9 billion at June 30, 2012. On February 19, 2013, we sold in a registered offering $400 million aggregate principal amount of 1.7% Notes that mature on March 15, 2018, $550 million aggregate principal amount of 3.2% Notes that mature on March 15, 2023 and $350 million aggregate principal amount of 4.6% Notes that mature on March 15, 2043.

We used cash on hand to repay $300 million of our 5.5% Notes that were due on June 15, 2013.

Funding of AssuraMed Acquisition

We funded the acquisition of AssuraMed through the issuance of $1.3 billion in the notes described above and cash on hand. We obtained a commitment letter in February 2013 from certain financial institutions for a $1.3 billion unsecured bridge term loan facility that could have been used to complete the acquisition. We incurred fees of $5 million related to the facility, which are included in interest expense, net. No amounts were drawn under the facility and we terminated the commitment letter in connection with the notes offering.

Capital Expenditures

Capital expenditures during fiscal 2013, 2012 and 2011 were $195 million, $263 million and $291 million, respectively, which were primarily related to information technology projects.

We expect capital expenditures in fiscal 2014 to be between $245 million and $265 million.

Dividends

During fiscal 2013, we paid quarterly dividends totaling $1.025 per share, an increase of 19 percent from fiscal 2012. On May 1, 2013, our Board of Directors approved a 10 percent increase in our quarterly dividend to $0.3025 per share, or $1.21 per share on an annualized basis, payable on July 15, 2013 to shareholders of record on July 1, 2013. On August 7, 2013, our Board of Directors approved our 116th consecutive regular quarterly dividend, payable to shareholders of record on October 1, 2013.

Share Repurchases

During fiscal 2013, we repurchased $450 million of our common shares. We funded the repurchases with cash on hand. At June 30, 2013, we had $400 million remaining under our current repurchase authorization which expires August 31, 2015.

Interest Rate and Currency Risk Management

We use interest rate swaps, foreign currency forward contracts and commodity swaps to manage our exposure to cash flow variability. We also use interest rate swaps to protect the value of our debt and foreign currency forward contracts to protect the value of our existing foreign currency assets and liabilities. See "Item 7A: Quantitative and Qualitative Disclosures About Market Risk" below as well as Notes 1 and 11 of the “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.

Off-Balance Sheet Arrangements

We had no significant off-balance sheet arrangements at June 30, 2013.

Contractual Obligations

At June 30, 2013, our contractual obligations, including estimated payments due by period, are as follows:

(in millions)	2014	2015 to 2016	2017 to 2018	There-after	Total
Long-term debt and short-term borrowings (1)	$167	$525	$1,344	$1,796	$3,832
Interest on long-term debt	153	273	182	627	1,235
Capital lease obligations (2)	1	21	—	—	22

Other liabilities (3)	3	2	—	—	5
Operating leases (4)	89	131	80	65	365
Purchase obligations (5)	137	54	24	25	240
Total contractual obligations	$550	$1,006	$1,630	$2,513	$5,699

(1) Represents maturities of our long-term debt obligations and other short-term borrowings excluding capital lease obligations described below. See Note 6 of the "Notes to Consolidated Financial Statements" for further information.

(2) Represents maturities of our capital lease obligations included within long-term debt in our consolidated balance sheets.

(3) Represents cash outflows by period for certain of our liabilities in which cash outflows could be reasonably estimated. Certain long-term liabilities, such as unrecognized tax benefits and deferred taxes, including those related to the audits of fiscal 2003 through 2010, 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 7 of the "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 8 of the "Notes to Consolidated Financial Statements."

(5) A purchase obligation is defined as an agreement to purchase goods or services that is legally enforceable and specifies all significant terms, including 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.

Recent Financial Accounting Standards

See Note 1 of the "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 our financial condition and results of operations and (ii) require use of complex and subjective estimates based upon past experience and management's judgment. Other people applying reasonable judgment to the same facts and circumstances could develop different estimates. Because estimates are inherently uncertain, actual results may differ. In this section, we describe the significant 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 the "Notes to Consolidated Financial Statements."

Allowance for Doubtful Accounts

Trade receivables are primarily comprised of amounts owed to us through our distribution businesses and are presented net of an allowance for doubtful accounts of $134 million and $126 million at June 30, 2013 and 2012, respectively. We also provide financing to various customers. Such financing arrangements range from 120 days to 7 years, at interest rates that are generally subject to fluctuation. Interest income on these arrangements is recognized as it is earned. The financings may be collateralized, guaranteed by third parties or unsecured. Finance notes and accrued interest receivables are reported net of an allowance for doubtful accounts of $17 million and $16 million at June 30, 2013 and 2012, respectively, and are included in other assets (current portion is included in prepaid expenses and other). We must use judgment when deciding whether to extend credit and when estimating 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.

Our methodology for estimating the allowance for doubtful accounts is assessed annually based on historical losses and economic, business and market trends. In addition, the allowance is 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:

(in millions, except percentages)	2013	2012	2011
Allowance for doubtful accounts	$152	$143	$150
Reduction to allowance for customer deductions and write-offs	34	30	22
Charged to costs and expenses	41	22	27
Allowance as a percentage of customer receivables	2.3 %	2.2 %	2.4 %
Allowance as a percentage of revenue	0.15 %	0.13 %	0.15 %

A hypothetical 0.1 percent increase or decrease in the reserve as a percentage of trade receivables and finance notes receivables at June 30, 2013, would result in an increase or decrease in bad debt expense of $6 million.

We believe the reserve maintained and expenses recorded in fiscal 2013 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 revenue.

Inventories

A substantial portion of our inventories (65 percent and 69 percent at June 30, 2013 and 2012, respectively) are valued at the lower of cost, using the LIFO 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 core 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.

The remaining inventory is stated at the lower of cost, using the 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 our inventories would not have changed in fiscal 2013 or 2012. Primarily because prices for our generic pharmaceutical inventories have continued to decline, inventories valued at LIFO were $97 million and $72 million higher than the average cost value as of June 30, 2013 and 2012, respectively. We do not record inventories in excess of replacement cost. As such, we did not record any changes in our LIFO reserve in fiscal 2013 and 2012.

Inventories presented in the consolidated balance sheets are net of reserves for excess and obsolete inventory which were $40 million and $37 million at June 30, 2013 and 2012, respectively. We reserve for inventory obsolescence using estimates based on historical experience, sales trends, specific categories of inventory and age of on-hand inventory. If actual conditions are less favorable than our assumptions, additional inventory reserves may be required.

Business Combinations

The assets acquired and liabilities assumed in a business combination, including identifiable intangible assets, are based on their estimated fair values as of the acquisition date. The excess of the purchase price over the estimated fair value of the net tangible and identifiable intangible assets acquired is recorded as goodwill. We base the fair values of identifiable intangible assets on detailed valuations that require management to make significant judgments, estimates and assumptions. Critical estimates and assumptions include: expected future cash flows for customer relationships, trade names and other identifiable intangible assets; discount rates that reflect the risk factors associated with future cash flows; and estimates of useful lives. When an acquisition involves contingent consideration, we recognize a liability equal to the fair value of the contingent consideration obligation at the acquisition date. The estimate of fair value of a contingent consideration obligation requires subjective assumptions to be made regarding future business results, discount rates and probabilities assigned to various potential business result scenarios. Subsequent revisions to these assumptions could materially change the estimate of the fair value of contingent consideration obligations and therefore could materially affect our financial position or results of

operations. See Note 2 of the “Notes to Consolidated Financial Statements” for additional information regarding our acquisitions.

Goodwill and Other Intangible Assets

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, trademarks and patents, and non-compete agreements, are amortized over their useful lives.

Goodwill impairment testing involves a comparison of the estimated fair value of reporting units to the respective carrying amount. This step may be performed utilizing either a qualitative or quantitative assessment. If the 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, if any. An impairment charge is the amount by which the carrying amount of goodwill exceeds the estimated implied fair value of goodwill. We estimate the implied fair value of goodwill as the excess of the estimated fair value of the reporting unit over the estimated fair value of its net tangible and identifiable intangible assets. This is the same manner we use to recognize goodwill from a business combination. Goodwill impairment testing involves judgment, including the identification of reporting units, the estimation of the fair value of each reporting unit and, if necessary, the estimation of the implied fair value of goodwill. A reporting unit is defined as an operating segment or one level below an operating segment (also known as a component).

We have two operating segments, which are the same as our reportable segments: Pharmaceutical and Medical. These operating segments are comprised of divisions (components), for which discrete financial information is available. Components are aggregated into reporting units for purposes of goodwill impairment testing to the extent that they share similar economic characteristics. Our reporting units are: Pharmaceutical operating segment (excluding our Nuclear Pharmacy Services division and Cardinal Health China - Pharmaceutical division); Nuclear Pharmacy Services division; Cardinal Health China - Pharmaceutical division; Medical operating segment (excluding our AssuraMed division); and AssuraMed division.

Fair value 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 the income-based and market-based approaches. Under the income-based approach, we use a discounted cash flow model in which cash flows anticipated over several future periods, plus a terminal value at the end of that time horizon, are discounted to their present value using an appropriate risk-adjusted rate of return. We use our internal forecasts to estimate future cash flows and include an estimate of long-term growth rates based on our most recent views of the long-term outlook for each reporting unit. Actual results may differ materially from those used in our forecasts. We use discount rates that are commensurate with the risks and uncertainty inherent in the respective reporting units and in our internally-developed forecasts. Discount rates used in our reporting unit valuations ranged from 9 to 12 percent. 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. To further confirm fair value, we compare the aggregate fair value of our reporting units to our total market capitalization. Estimating the fair value of reporting units requires the use of estimates and significant judgments

that are based on a number of factors including actual operating results. 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 2013, 2012 and 2011 and, with the exception of our Nuclear Pharmacy Services division, concluded that there were no impairments of goodwill as the estimated fair value of each reporting unit exceeded its carrying value. For our fiscal 2013 and 2012 testing, we elected to bypass the optional qualitative assessment. If we were to alter our impairment testing by increasing the discount rate in the discounted cash flow analysis by 1 percent, there still would not be any impairment indicated for any of these reporting units for fiscal 2013, 2012 or 2011. As discussed further in Note 5 of the “Notes to Consolidated Financial Statements”, during

the fourth quarter of fiscal 2013 we recognized an $829 million ($799 million, net of tax) non-cash goodwill impairment charge related to our Nuclear Pharmacy Services division, which is included in impairments and loss on disposal of assets in our consolidated statements of earnings.

We review intangible assets with finite lives for impairment whenever events or changes in circumstances indicate that the related carrying amounts may not be recoverable. Determining whether an impairment loss occurred requires a comparison of the carrying amount to the sum of the undiscounted cash flows expected to be generated by the asset.

Vendor Reserves

In the ordinary course of business, our vendors may dispute deductions taken against payments otherwise due to them or assert other billing disputes. These disputed transactions are researched and resolved based upon our policy and findings of the research performed. At any given time, there are outstanding items in various stages of research and resolution. In determining appropriate reserves for areas of exposure with our vendors, we assess historical experience and current outstanding claims. We have established various levels of reserves based on the type of claim and status of review. Though the transaction types are relatively consistent, we periodically refine our 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 $66 million and $75 million at June 30, 2013 and 2012, respectively. Approximately 60 percent of the vendor reserve at the end of fiscal 2013 pertained to the Pharmaceutical segment compared to 79 percent at the end of fiscal 2012. The reserve balance will fluctuate due to variations of outstanding claims from period-to-period, timing of settlements, and specific vendor issues, such as bankruptcies.

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

Provision for Income Taxes

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

Deferred income taxes arise from temporary differences between financial reporting and tax reporting bases of assets and liabilities, as well as net operating loss and tax credit carryforwards for tax purposes. The following table presents information about our tax position at June 30:

(in millions)	2013	2012
Net deferred income tax assets	$510	$480
Net deferred income tax liabilities	1,638	1,462
Net loss and credit carryforwards included in net deferred income tax assets	158	120
Net valuation allowance against deferred income tax assets (1)	88	86

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

Expiring loss and credit 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, others 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 of the technical merits of the position, including resolutions of any related appeals or litigation processes. The amount recognized is measured as the largest amount of tax benefit that is greater than 50 percent likely of being realized upon settlement. See Note 7 of the “Notes to Consolidated Financial Statements” for additional information regarding unrecognized tax benefits.

If any of our assumptions or estimates were to change, an increase or decrease in our effective income tax rate by 1 percent would have caused income tax expense to increase or decrease $9 million for fiscal 2013.

Share-Based Compensation

Share-based compensation to employees is recognized in the consolidated statements of earnings based on the grant date fair value of the awards. The fair value of stock options is determined using a lattice valuation model. We believe the lattice model provides reasonable 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. We analyze historical data to estimate option exercise behaviors and employee terminations to be used within the lattice model. The expected life of the options granted is 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 (up to ten years). As required, the forfeiture estimates are 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. See Note 15 of the "Notes to Consolidated Financial Statements" for additional information regarding share-based compensation.

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 price-related changes. We maintain a 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 11 of the “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. Principal drivers of this foreign exchange exposure include the Canadian dollar, Chinese renminbi, European euro, Mexican peso, Thai baht, Malaysian ringgit and Japanese yen.

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. These analyses include the estimated impact of our hedging program, which mitigates our businesses' transactional exposure. At both June 30, 2013 and 2012, we had hedged approximately 45 percent of our businesses' transactional exposures. The following table summarizes the analysis as it relates to our businesses' transactional exposure and the impact of a hypothetical 10 percent increase or decrease at June 30:

(in millions)	2013	2012
Net estimated transactional exposure	$368	$357
Sensitivity gain/loss	$37	$36
Estimated offsetting impact of hedges	(17)	(16)
Estimated net gain/loss	$20	$20

Translational Exposure

We have exposure related to the translation of financial statements of our foreign operations into U.S. dollars, our functional currency. We perform a similar analysis to that described above related to this translational exposure. We do not typically hedge any of our translational exposure and no hedging impact was included in our analysis at June 30, 2013 and 2012. The following table summarizes our businesses' translational exposure and the impact of a hypothetical 10 percent strengthening or weakening in the U.S. dollar at June 30:

(in millions)	2013	2012
Net estimated translational exposure	$53	$53
Sensitivity gain/loss	5	5

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 perform an annual sensitivity analysis on our forecasted exposure to interest rates for the following fiscal year. This analysis assumes a hypothetical 10 percent change in interest rates. At both June 30, 2013 and 2012, the potential increase or decrease in annual interest expense under this analysis as a result of this hypothetical change was $2 million.

Commodity Price Sensitivity

We are exposed to market price changes for commodities, including oil-based resins, cotton, latex, and diesel fuel. We typically purchase raw materials at market prices and some finished goods at prices based in part on a commodity price index. As part of our risk management program, we perform sensitivity analysis on our forecasted commodity exposure for the following fiscal year. Our forecasted commodity exposure at June 30, 2013 decreased from the prior year primarily as a result of commodity prices and changes in purchasing volumes.

At June 30, 2013 and 2012, we had hedged a portion of these commodity exposures (see Note 11 of the “Notes to Consolidated Financial Statements” for further discussion). The table below summarizes our analysis of these forecasted commodity exposures and a hypothetical 10 percent fluctuation in commodity prices at June 30:

(in millions)	2013	2012
Estimated commodity exposure	$369	$403
Sensitivity gain/loss	$37	$40
Estimated offsetting impact of hedges	(1)	(1)
Estimated net gain/loss	$36	$39

We also are exposed to fluctuations in commodities' prices through the purchase of finished goods and various other energy-related commodities, including natural gas and electricity, through our normal course of business where our contracts are not directly tied to a commodity index. We believe our total gross range of exposure to commodities, including the items listed in the table above, is $500 million to $600 million at June 30, 2013.

Item 8: Financial Statements and Supplementary Data

Report of Independent Registered Public Accounting Firm

The Board of Directors and Shareholders of Cardinal Health, Inc.

We have audited the accompanying consolidated balance sheets of Cardinal Health, Inc. and subsidiaries as of June 30, 2013 and 2012, and the related consolidated statements of earnings, comprehensive income, shareholders' equity, and cash flows for each of the three years in the period ended June 30, 2013. 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 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 Cardinal Health, Inc. and subsidiaries at June 30, 2013 and 2012, and the consolidated results of their operations and their cash flows for each of the three years in the period ended June 30, 2013, in conformity with 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, present 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), Cardinal Health, Inc. and subsidiaries' internal control over financial reporting as of June 30, 2013, based on criteria established in Internal Control-Integrated Framework (1992) issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated August 20, 2013 expressed an unqualified opinion thereon.

/s/ Ernst & Young LLP

Columbus, Ohio
August 20, 2013

Consolidated Statements of Earnings

(in millions, except per common share amounts)	2013	2012	2011
Revenue	$101,093	$107,552	$102,644
Cost of products sold	96,172	103,011	98,482
Gross margin	4,921	4,541	4,162
Operating expenses:			
Distribution, selling, general and administrative expenses	2,875	2,677	2,528
Restructuring and employee severance	71	21	15
Acquisition-related costs	158	33	90
Impairments and loss on disposal of assets	859	21	9
Litigation (recoveries)/charges, net	(38)	(3)	6
Operating earnings	996	1,792	1,514
Other income, net	(15)	(1)	(22)
Interest expense, net	123	95	93
Gain on sale of investment in CareFusion	—	—	(75)
Earnings before income taxes and discontinued operations	888	1,698	1,518
Provision for income taxes	553	628	552
Earnings from continuing operations	335	1,070	966
Loss from discontinued operations, net of tax	(1)	(1)	(7)
Net earnings	$334	$1,069	$959
Basic earnings/(loss) per common share:			
Continuing operations	$0.98	$3.10	$2.77
Discontinued operations	—	—	(0.02)
Net basic earnings per common share	$0.98	$3.10	$2.75
Diluted earnings/(loss) per common share:			
Continuing operations	$0.97	$3.06	$2.74
Discontinued operations	—	—	(0.02)
Net diluted earnings per common share	$0.97	$3.06	$2.72
Weighted-average number of common shares outstanding:			
Basic	341	345	349
Diluted	344	349	353

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

Consolidated Statements of Comprehensive Income

(in millions)	2013	2012	2011
Net earnings	$334	$1,069	$959
Other comprehensive income/(loss):			
Net change in foreign currency translation adjustments	18	(34)	72
Net unrealized gain/(loss) on derivative instruments, net of tax	13	(6)	(4)
Reclassification of unrealized gain upon realization from sale of remaining investment in CareFusion, net of tax	—	—	(61)
Total other comprehensive income/(loss), net of tax	31	(40)	7
Total comprehensive income	$365	$1,029	$966

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

Consolidated Balance Sheets

(in millions)	June 30 2013	2012
Assets		
Current assets:		
Cash and equivalents	$1,901	$2,274
Trade receivables, net	6,304	6,355
Inventories, net	8,373	7,864
Prepaid expenses and other	1,192	1,017
Total current assets	17,770	17,510
Property and equipment, net	1,489	1,551
Goodwill and other intangibles, net	5,574	4,392
Other assets	986	807
Total assets	$25,819	$24,260
Liabilities and Shareholders' Equity		
Current liabilities:		
Accounts payable	$12,295	$11,726
Current portion of long-term obligations and other short-term borrowings	168	476
Other accrued liabilities	2,127	1,972
Total current liabilities	14,590	14,174
Long-term obligations, less current portion	3,686	2,418
Deferred income taxes and other liabilities	1,568	1,424
Shareholders' equity:		
Preferred shares, without par value:		
Authorized—500 thousand shares, Issued—none	—	—
Common shares, without par value:		
Authorized—755 million shares, Issued—364 million shares at June 30, 2013 and 2012	2,953	2,930
Retained earnings	4,038	4,093
Common shares in treasury, at cost: 25 million shares and 21 million shares at June 30, 2013 and 2012, respectively	(1,084)	(816)
Accumulated other comprehensive income	68	37
Total shareholders' equity	5,975	6,244
Total liabilities and shareholders' equity	$25,819	$24,260

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

Consolidated Statements of Shareholders' Equity

(in millions)	Common Shares		Retained Earnings	Treasury Shares		Accumulated Other Comprehensive Income/(Loss)	Total Shareholders' Equity
	Shares Issued	Amount		Shares	Amount		
Balance at June 30, 2010	364	$2,890	$2,647	(7)	$(331)	$ 70	$ 5,276
Net earnings			959				959
Other comprehensive income						7	7
Employee stock plans activity, including tax impact of $14 million	—	8		3	124		132
Treasury shares acquired				(8)	(250)		(250)
Dividends declared			(281)				(281)
Other			6				6
Balance at June 30, 2011	364	2,898	3,331	(12)	(457)	77	5,849
Net earnings			1,069				1,069
Other comprehensive loss						(40)	(40)
Employee stock plans activity, including tax impact of $4 million	—	32		1	91		123
Treasury shares acquired				(10)	(450)		(450)
Dividends declared			(307)				(307)
Balance at June 30, 2012	364	2,930	4,093	(21)	(816)	37	6,244
Net earnings			334				334
Other comprehensive income						31	31
Employee stock plans activity, including tax impact of $19 million	—	23		6	182		205
Treasury shares acquired				(10)	(450)		(450)
Dividends declared			(374)				(374)
Other			(15)				(15)
Balance at June 30, 2013	364	$2,953	$4,038	(25)	$(1,084)	$ 68	$ 5,975

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

Consolidated Statements of Cash Flows

(in millions)	2013	2012	2011
Cash flows from operating activities:			
Net earnings	$334	$1,069	$959
Loss from discontinued operations, net of tax	1	1	7
Earnings from continuing operations	335	1,070	966
Adjustments to reconcile earnings from continuing operations to net cash provided by operating activities:			
Depreciation and amortization	397	325	313
Gain on sale of investment in CareFusion	—	—	(75)
Impairments and loss on disposal of assets	859	21	9
Share-based compensation	93	85	80
Provision for deferred income taxes	21	158	128
Provision for bad debts	31	22	27
Change in fair value of contingent consideration obligation	—	(71)	(7)
Change in operating assets and liabilities, net of effects from acquisitions:			
Decrease/(increase) in trade receivables	216	(129)	(457)
Increase in inventories	(370)	(495)	(665)
Increase in accounts payable	426	319	1,356
Other accrued liabilities and operating items, net	(281)	(129)	(280)
Net cash provided by operating activities	1,727	1,176	1,395
Cash flows from investing activities:			
Acquisition of subsidiaries, net of cash acquired	(2,239)	(174)	(2,300)
Additions to property and equipment	(195)	(263)	(291)
Purchase of held-to-maturity securities and other investments	(12)	(35)	(156)
Proceeds from sale of property and equipment	—	3	3
Proceeds from maturities of held-to-maturity securities	71	92	10
Proceeds from sale of CareFusion common stock	—	—	706
Net cash used in investing activities	(2,375)	(377)	(2,028)
Cash flows from financing activities:			
Payment of contingent consideration obligation	(4)	—	(10)
Net change in short-term borrowings	(1)	13	46
Reduction of long-term obligations	(305)	(251)	(229)
Proceeds from long-term obligations, net of issuance costs	1,286	496	495
Net proceeds from issuance of common shares	121	42	63
Tax disbursements from share-based compensation	(19)	(4)	(14)
Dividends on common shares	(353)	(300)	(274)
Purchase of treasury shares	(450)	(450)	(270)
Net cash provided by/(used in) financing activities	275	(454)	(193)
Net increase/(decrease) in cash and equivalents	(373)	345	(826)
Cash and equivalents at beginning of period	2,274	1,929	2,755
Cash and equivalents at end of period	$1,901	$2,274	$1,929

Supplemental information:			
Cash payments for interest	$128	$118	$116
Cash payments for income taxes	899	513	588

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

1. Basis of Presentation and Summary of Significant Accounting Policies

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

Our fiscal year ends on June 30. References to fiscal 2013, 2012 and 2011 in these consolidated financial statements are to the fiscal years ended June 30, 2013, 2012 and 2011, respectively.

Basis of Presentation

Our consolidated financial statements include the accounts of all majority-owned and controlled subsidiaries, and all significant intercompany transactions and amounts have been eliminated. To conform to the current year presentation, certain prior year disclosure amounts have been reclassified. The results of businesses acquired or disposed of are included in the consolidated financial statements from the effective date of the acquisition or up to the date of disposal, respectively.

Use of Estimates

Our consolidated financial statements are prepared in accordance with accounting principles generally accepted in the United States (“GAAP”). The preparation of financial statements in accordance with GAAP requires us to make estimates, judgments and assumptions that affect the amounts reported in the consolidated financial statements and accompanying notes. Estimates, judgments and assumptions are used in the accounting and disclosure related to, among other items, allowance for doubtful accounts, inventory valuation, business combinations, goodwill and other intangible asset impairment, vendor reserves, income taxes and share-based compensation. Actual amounts could ultimately differ from these estimated amounts.

CareFusion Spin-Off

Effective August 31, 2009, we separated our clinical and medical products businesses through a distribution to our shareholders of 81 percent of the then outstanding common stock of CareFusion Corporation ("CareFusion") and retained the remaining shares of CareFusion common stock (the "CareFusion Spin-Off"). During fiscal 2010 and 2011, we disposed of the remaining shares of CareFusion common stock. We are a party to a separation agreement and various other agreements relating to the separation, including a tax matters agreement, a transition services agreement and an accounts receivable factoring agreement.

Under the tax matters agreement, CareFusion is obligated to indemnify us for certain tax exposures and transaction taxes prior to the CareFusion Spin-Off. The indemnification receivable was $186 million and $265 million at June 30, 2013 and 2012, respectively, and is included in other assets in the consolidated balance sheets.

Under the transition services agreement, during fiscal 2013, 2012 and 2011, we recognized $3 million, $3 million and $65 million, respectively, in transition service fee income.

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

Cash Equivalents

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

Receivables

Trade receivables are primarily comprised of amounts owed to us through our distribution businesses and are presented net of an allowance for doubtful accounts of $134 million and $126 million at June 30, 2013 and 2012, respectively. An account is considered past due on the first day after its due date. In accordance with contract terms, we generally have the ability to charge customers service fees or higher prices if an account is considered past due.

We continuously monitor past due accounts and establish appropriate reserves to cover potential losses, which are based primarily on historical collection rates and the credit worthiness of the customer. We write off any amounts deemed uncollectible against the established allowance for doubtful accounts.

We provide financing to various customers. Such financing arrangements range from 120 days to 7 years, at interest rates that are generally subject to fluctuation. Interest income on these arrangements is recognized as it is earned. The financings may be collateralized, guaranteed by third parties or unsecured. Finance notes and accrued interest receivables were $161 million (current portion $29 million) and $163 million (current portion $33 million) at June 30, 2013 and 2012, respectively, and are included in other assets (current portion is included in prepaid expenses and other). Finance notes receivable are reported net of an allowance for doubtful accounts of $17 million and $16 million at June 30, 2013 and 2012, respectively. We estimate an allowance for these financing receivables based on historical collection rates and the credit worthiness of the customer.

Concentrations of Credit Risk

We maintain cash depository accounts with major banks and invest in high quality, short-term liquid instruments. Such investments are made only in instruments issued by highly rated institutions. These investments mature within three months and we have not historically incurred any related losses.

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

Major Customers

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

	Percent of Revenue			Percent of Gross Trade Receivables at June 30	
	2013	2012	2011	2013	2012
CVS Caremark Corporation	23 %	22 %	22 %	19 %	19 %
Walgreen Co.	20 %	21 %	23 %	24 %	25 %

On March 19, 2013, we announced that our pharmaceutical distribution contract with Walgreen Co., which is scheduled to expire at the end of August 2013, will not be renewed.

We have entered into agreements with group purchasing organizations (“GPOs”) which act as purchasing agents that negotiate vendor contracts on behalf of their members. Novation, LLC and Premier Purchasing Partners, L.P. are our two largest GPO member relationships in terms of revenue. Sales to members of these two GPOs collectively accounted for 13 percent, 13 percent and 14 percent of revenue for fiscal 2013, 2012 and 2011, respectively. Our trade receivable balances are with individual members of the GPO, and therefore no significant concentration of credit risk exists with these types of arrangements.

Inventories

A substantial portion of our inventories (65 percent and 69 percent at June 30, 2013 and 2012, respectively) are valued at the lower of cost, using the last-in, first-out ("LIFO") method, or market. These inventories are included within the core pharmaceutical distribution facilities of our Pharmaceutical segment (“distribution facilities”) and are primarily merchandise inventories. We believe that the average cost method of inventory valuation provides a reasonable approximation of the current cost of replacing inventory within the distribution facilities. As such, the LIFO reserve is the difference between (a) inventory at the lower of LIFO cost or market and (b) inventory at replacement cost determined using the average cost method of inventory valuation.

If we had used the average cost method of inventory valuation for all inventory within the distribution facilities, the value of our inventories would not have changed in fiscal 2013 or 2012. Inventories valued at LIFO were $97 million and $72 million higher than the average cost value as of June 30, 2013 and 2012, respectively. We do not record inventories in excess of replacement cost. As such, we did not record any changes in our LIFO reserve in fiscal 2013 and 2012. Our remaining inventory is primarily stated at the lower of cost, using the first-in, first-out method, or market.

Inventories presented in the consolidated balance sheets are net of reserves for excess and obsolete inventory which were $40 million and $37 million at June 30, 2013 and 2012, respectively. We reserve for inventory obsolescence using estimates based on historical experience, sales trends, specific categories of inventory and age of on-hand inventory.

Cash Discounts

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

Property and Equipment

Property and equipment are carried at cost less accumulated depreciation. Property and equipment held for sale are recorded at the lower of cost or fair value less cost to sell. When certain events or changes in operating conditions occur, an impairment assessment may be performed on the recoverability of the carrying amounts.

As a result of the reductions in the anticipated future cash flows in our Nuclear Pharmacy Services division, as discussed in Note 5, we also performed recoverability testing for the long-lived assets of this division, which consist primarily of improvements, machinery and equipment. Based on the assessment performed, we determined that the carrying amounts of the long-lived assets are recoverable.

Depreciation expense is computed using the straight-line method over the estimated useful lives of the assets, including capital lease assets which are depreciated over the terms of their respective leases. We generally use the following range of useful lives for our property and equipment categories: buildings and improvements—3 to 39 years; machinery and equipment—3 to 20 years; and furniture and fixtures—3 to 7 years. We recorded depreciation expense of $259 million, $241 million and $244 million, for fiscal 2013, 2012 and 2011, respectively.

The following table presents the components of property and equipment, net at June 30:

(in millions)	2013	2012
Land, building and improvements	$1,398	$1,126
Machinery and equipment	2,149	2,291
Furniture and fixtures	122	120
Total property and equipment, at cost	3,669	3,537
Accumulated depreciation and amortization	(2,180)	(1,986)
Property and equipment, net	$1,489	$1,551

Repairs and maintenance expenditures are expensed as incurred. Interest on long-term projects is capitalized using a rate that approximates the weighted-average interest rate on long-term obligations, which was 3.78 percent at June 30, 2013. The amount of capitalized interest was immaterial for all periods presented.

Business Combinations

The assets acquired and liabilities assumed in a business combination, including identifiable intangible assets, are based on their estimated fair values as of the acquisition date. The excess of the purchase price over the estimated fair value of the net tangible and identifiable intangible assets acquired is recorded as goodwill. We base the fair values of identifiable intangible assets on detailed valuations that require management to make significant judgments, estimates and assumptions. Critical estimates and assumptions include: expected future cash flows for customer relationships, trade names and other identifiable intangible assets; discount rates that reflect the risk factors associated with future cash flows; and estimates of useful lives. When an acquisition involves contingent consideration, we recognize a liability equal to the fair value of the contingent consideration obligation at the acquisition date. The estimate of fair value of a contingent consideration obligation requires subjective assumptions to be made regarding future business results, discount rates and probabilities assigned to various potential business result scenarios. Subsequent revisions to these assumptions could materially change the estimate of the fair value of contingent consideration obligations and

therefore could materially affect our financial position or results of operations. See Note 2 for additional information regarding our acquisitions.

Goodwill and Other Intangible Assets

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, trademarks and patents, and non-compete agreements, are amortized over their useful lives.

Goodwill impairment testing involves a comparison of the estimated fair value of reporting units to the respective carrying amount. This step may be performed utilizing either a qualitative or quantitative assessment. If the 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, if any. An impairment charge is the amount by which the carrying amount of goodwill exceeds the estimated implied fair value of goodwill. We estimate the implied fair value of goodwill as the excess of the estimated fair value of the reporting unit over the estimated fair value of its net tangible and identifiable intangible assets. This is the same manner we use to recognize goodwill from a business combination. Goodwill impairment testing involves judgment, including the identification of reporting units, the estimation of the fair value of each reporting unit and, if necessary, the estimation of the implied fair value of goodwill. A reporting unit is defined as an operating segment or one level below an operating segment (also known as a component).

We have two operating segments, which are the same as our reportable segments: Pharmaceutical and Medical. These operating segments are comprised of divisions (components), for which discrete financial information is available. Components are aggregated into reporting units for purposes of goodwill impairment testing to the extent that they share similar economic characteristics. Our reporting units are: Pharmaceutical operating segment (excluding our Nuclear Pharmacy Services division and Cardinal Health China - Pharmaceutical division); Nuclear Pharmacy Services division; Cardinal Health China - Pharmaceutical division; Medical operating segment (excluding our AssuraMed division); and AssuraMed division.

Fair value 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 the income-based and market-based approaches. Under the income-based approach, we use a discounted cash flow model in which cash flows anticipated over several future periods, plus a terminal value at the end of that time horizon, are discounted to their present value using an appropriate risk-adjusted rate of return. We use our internal forecasts to estimate future cash flows and include an estimate of long-term growth rates based on our most recent views of the long-term outlook for each reporting unit. Actual results may differ materially from those used in our forecasts. We use discount rates that are commensurate with the risks and uncertainty inherent in the respective reporting units and in our internally-developed forecasts. Discount rates used in our reporting unit valuations ranged from 9 to 12 percent. 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. To further confirm fair value, we compare the aggregate fair value of our

reporting units to our total market capitalization. Estimating the fair value of reporting units requires the use of estimates and significant judgments that are based on a number of factors including actual operating results. 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 2013, 2012 and 2011 and, with the exception of our Nuclear Pharmacy Services division, concluded that there were no impairments of goodwill as the estimated fair value of each reporting unit exceeded its carrying value. For our fiscal 2013 and 2012 testing, we elected to bypass the optional qualitative assessment. As discussed further in Note 5, during the fourth quarter of fiscal 2013 we recognized an $829 million ($799 million, net of tax) goodwill impairment charge related to our Nuclear Pharmacy Services division, which is included in impairments and loss on disposal of assets in our consolidated statements of earnings.

We review intangible assets with finite lives for impairment whenever events or changes in circumstances indicate that the related carrying amounts may not be recoverable. Determining whether an impairment loss occurred requires a comparison of the carrying amount to the sum of the undiscounted cash flows expected to be generated by the asset.

Vendor Reserves

In the ordinary course of business, our vendors may dispute deductions taken against payments otherwise due to them or assert other billing disputes. These disputed transactions are researched and resolved based upon our policy and findings of the research performed. At any given time, there are outstanding items in various stages of research and resolution. In determining appropriate reserves for areas of exposure with our vendors, we assess historical experience and current outstanding claims. We have established various levels of reserves based on the type of claim and status of review. Though the transaction types are relatively consistent, we periodically refine our methodology by updating the reserve estimate percentages to reflect actual historical experience. The ultimate outcome of certain claims may be different than our original estimate and may require an adjustment. All adjustments to vendor reserves are included in cost of products sold. In addition, the reserve balance will fluctuate due to variations of outstanding claims from period-to-period, timing of settlements and specific vendor issues, such as bankruptcies. Vendor reserves were $66 million and $75 million at June 30, 2013 and 2012, respectively, excluding third-party returns. See separate section in Note 1 for a description of third-party returns.

Vendor Incentives

Fees for services and other incentives received from vendors relating to the purchase or distribution of inventory represent product discounts and are recorded as a reduction of cost of products sold in the consolidated statements of earnings upon sale of the related inventory.

Income Taxes

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

of subsidiaries outside of the United States when it is expected that these earnings are permanently reinvested.
Tax benefits from uncertain tax positions are recognized when it is more likely than not that the position will be sustained upon examination of the technical merits of the position, including resolutions of any related appeals or litigation processes. The amount recognized is measured as the largest amount of tax benefit that is greater than 50 percent likely of being realized upon settlement. See Note 7 for additional information regarding income taxes.

Other Accrued Liabilities

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

Share-Based Compensation

Share-based compensation to employees is recognized in the consolidated statements of earnings based on the grant date fair value of the awards. The fair value of stock options is determined using a lattice valuation model. The compensation expense recognized for share-based awards is net of estimated forfeitures and is recognized ratably over the service period of the awards. We generally classify share-based compensation expense within distribution, selling, general and administrative ("SG&A") expenses to correspond with the same line item as the majority of the cash compensation paid to employees. See Note 15 for additional information regarding share-based compensation.

Dividends

We paid cash dividends per Common Share of $1.025, $0.86 and $0.78 for fiscal 2013, 2012 and 2011, respectively.

Revenue Recognition

We recognize revenue when persuasive evidence of an arrangement exists, product delivery has occurred or the services have been rendered, the price is fixed or determinable, and collectability is reasonably assured.

Pharmaceutical Segment

The Pharmaceutical segment recognizes distribution revenue when title transfers to its customers and we have no further obligation to provide services related to such merchandise.
Revenue for deliveries that are directly shipped to customer warehouses from the manufacturer whereby we act as an intermediary in the ordering and delivery of products is recorded gross in accordance with accounting standards addressing reporting revenue on a gross basis as a principal versus on a net basis as an agent. This revenue is recorded on a gross basis since we incur credit risk from the customer, bear the risk of loss for incomplete shipments and do not receive a separate fee or commission for the transaction and, as such, are the primary obligor. Revenue from these sales is recognized when title transfers to the customer and we have no further obligation to provide services related to such merchandise.
Radiopharmaceutical revenue is recognized upon delivery of the product to the customer and we have no further obligation to provide services related to such merchandise.

Medical Segment

The Medical segment recognizes revenue when title transfers to its customers and we have no further obligation to provide services related to such merchandise.

Sales Returns and Allowances

Revenue is recorded net of sales returns and allowances. Our customer return policies generally require that the product be physically returned, subject to restocking fees, in a condition suitable to be added back to inventory and resold at full value, or returned to vendors for credit (“merchantable product”). Product returns are generally consistent throughout the year and typically are not specific to any particular product or customer.
Effective June 30, 2013, we updated our policy to accrue for estimated sales returns and allowances at the time of sale based upon historical customer return trends, margin rates and processing costs. This prospective change did not have a material effect on consolidated revenue, cost of products sold and operating earnings. At June 30, 2013, the accrual for estimated sales returns and allowances was $291 million, the impact of which is reflected in trade receivables, net and inventories, net in the consolidated balance sheets. Prior to this change in policy, we recognized sales returns as a reduction of revenue and cost of products sold for the sales price and cost, respectively, when products were returned.

Amounts recorded in revenue and cost of products sold under our prior accounting policy closely approximated what would have been recorded had we accrued for estimated sales returns and allowances at the time of the sale transaction. As such, retrospective adoption of our new policy to accrue for estimated sales returns and allowances would not have materially changed our results of operations and financial position in fiscal 2012 or 2011. Sales returns and allowances were $2.3 billion, $1.9 billion and $1.7 billion, for fiscal 2013, 2012 and 2011, respectively.

Third-Party Returns

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

Distribution Service Agreement and Other Vendor Fees

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

Shipping and Handling

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

for shipment to the end customer. Shipping and handling costs were $419 million, $389 million and $342 million, for fiscal 2013, 2012 and 2011, respectively. Revenue received for shipping and handling was immaterial for all periods presented.

Restructuring and Employee Severance

We consider restructuring activities to be programs whereby we fundamentally change our operations, such as closing and consolidating facilities, moving manufacturing of a product to another location, production or business process sourcing, employee severance (including rationalizing headcount or other significant changes in personnel) and realigning operations (including substantial realignment of the management structure of a business unit in response to changing market conditions). See Note 3 for additional information regarding our restructuring activities.

Acquisition-Related Costs

We classify costs incurred in connection with acquisitions as acquisition-related costs in our consolidated statements of earnings. These costs consist primarily of transaction costs, integration costs, changes in the fair value of contingent consideration obligations and amortization of acquisition-related intangible assets. Transaction costs are incurred during the initial evaluation of a potential acquisition and primarily relate to costs to analyze, negotiate and consummate the transaction as well as due diligence activities. Integration costs relate to activities required to combine the operations of an acquired enterprise into our operations. We record changes in the fair value of contingent consideration obligations relating to acquisitions as income or expense in acquisition-related costs. See Note 5 for additional information regarding amortization of acquisition-related intangible assets and Note 10 for additional information regarding changes in the fair value of contingent consideration obligations.

Translation of Foreign Currencies

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

The foreign currency translation gains/(losses) included in AOCI at June 30, 2013 and 2012 are presented in Note 12. Foreign currency transaction gains and losses for the period are included in the consolidated statements of earnings in other income, net, and were immaterial for all periods presented.

Interest Rate, Currency and Commodity Risk

All derivative instruments are recognized at fair value on the consolidated balance sheets and all changes in fair value are recognized in net earnings or shareholders' equity through AOCI, net of tax.

For contracts that qualify for hedge accounting treatment, our policy requires that the hedge contracts must be effective at reducing the risk associated with the exposure being hedged and must be designated as a hedge at the inception of the contract. Hedge effectiveness is assessed periodically. Any contract not designated as a hedge, or so designated but ineffective, is adjusted to fair value and recognized immediately in net earnings. If a fair value or cash flow hedge ceases to qualify for hedge accounting treatment, the contract would continue to be carried on the

balance sheet at fair value until settled and future adjustments to the contract's fair value would be recognized immediately in net earnings. If a forecasted transaction was no longer considered probable of occurring, amounts previously deferred in AOCI would be recognized immediately in net earnings. See Note 11 for additional information regarding our derivative instruments, including the accounting treatment for instruments designated as fair value, cash flow and economic hedges.

Earnings per Common Share

Basic earnings per share ("EPS") is computed by dividing net earnings (the numerator) by the weighted-average number of common shares outstanding during each period (the denominator). Diluted EPS is similar to the computation for basic EPS, except that the denominator is increased by the dilutive effect of vested and nonvested stock options, restricted shares, restricted share units and performance share units, computed using the treasury stock method. The

total number of common shares issued, less the common shares held in treasury, is used to determine the common shares outstanding. See Note 13 for additional information regarding EPS.

Recent Financial Accounting Standards

In July 2013, the Financial Accounting Standards Board ("FASB") issued amended accounting guidance related to the presentation of an unrecognized tax benefit when a net operating loss carryforward, a similar tax loss, or a tax credit carryforward exists. This guidance requires an entity to present an unrecognized tax benefit, or a portion of an unrecognized tax benefit, as a reduction to a deferred tax asset for a net operating loss carryforward, a similar tax loss, or a tax credit carryforward, unless certain conditions exists. This guidance will be effective for us in the first quarter of fiscal 2015, with early adoption permitted. We do not expect the adoption of this guidance to impact our financial position or results of operations.

In March 2013, the FASB issued amended accounting guidance related to a parent company's accounting for the cumulative translation adjustment upon derecognition of certain subsidiaries or group of assets within a foreign entity or of an investment in a foreign entity. The amended guidance requires the release of any cumulative translation adjustment into net income only upon complete or substantially complete liquidation of a controlling interest in a subsidiary or a group of assets within a foreign entity. Also, it requires the release of all or a pro rata portion of the cumulative translation adjustment to net income in case of sale of an equity method investment that is a foreign entity. This amendment will be effective for us in the first quarter of fiscal 2015, with early adoption permitted. We do not expect the adoption of this guidance to impact our financial position or results of operations.

In February 2013, the FASB issued amended accounting guidance related to reclassifications out of AOCI. An entity is required to present, either parenthetically on the face of the statement where net income is presented or in the notes, the significant amounts, by component, reclassified out of AOCI by the respective line items of net income and to report changes in its AOCI balances by component. This amendment will be effective for us in the first quarter of fiscal 2014, with early adoption permitted. We do not expect the adoption of this guidance to impact our financial position or results of operations.

In January 2013, the FASB issued updated guidance to limit the scope of the balance sheet offsetting disclosures to derivatives, repurchase agreements and securities lending transactions to the extent they are

offset in the financial statements or subject to an enforceable master netting arrangement or similar arrangement. This guidance will be effective for us and applied retrospectively in the first quarter of fiscal 2014. We do not expect the adoption of this guidance to impact our financial position or results of operations.

In July 2012, the FASB issued amended accounting guidance related to testing indefinite-lived intangible assets for impairment. Under this guidance, a company is no longer required to calculate the fair value of an indefinite-lived intangible asset unless the company determines, based on a qualitative assessment, that it is more likely than not that its estimated fair value is less than its carrying amount. This guidance will be effective for us in fiscal 2014, with early adoption permitted. The adoption of this guidance will not impact our financial position or results of operations.

In June 2011, the FASB issued amended accounting guidance related to the presentation of comprehensive income. This guidance requires that comprehensive income, the components of net income and the components of other comprehensive income ("OCI") be presented either in a single continuous statement of comprehensive income or in two separate, but consecutive statements. We adopted this amended guidance on a retrospective basis in the first quarter of fiscal 2013 and have elected to report comprehensive income and its components in a separate statement of comprehensive income. The adoption of this guidance did not impact our financial position or results of operations.

2. Acquisitions

We have completed several acquisitions since July 1, 2010, including the acquisitions described below. The pro forma results of operations and the results of operations for acquisitions since the acquisition date have not been separately disclosed because the effects were not significant enough compared to the consolidated financial statements, individually or in the aggregate.

AssuraMed

On March 18, 2013, we completed the acquisition of AssuraMed, Inc. ("AssuraMed") for $2.07 billion, net of cash acquired, in an all-cash transaction. We funded the acquisition through the issuance of $1.3 billion in fixed rate notes, as discussed in Note 6, and cash on hand. The acquisition of AssuraMed, a provider of medical supplies to homecare providers and patients in the home, expands our ability to serve this patient base. Transaction costs associated with the purchase of AssuraMed were $20 million and are included in acquisition-related costs in the consolidated statements of earnings.

The assessment of fair value is preliminary and is based on information that was available at the time the consolidated financial statements were prepared. The valuation of identifiable intangible assets utilizes significant unobservable inputs and thus represents a Level 3 nonrecurring fair value measurement, as further defined in Note 10. The estimated fair value of the identifiable intangible assets was determined using an income-based approach, which includes market participant expectations of the cash flows that an asset could generate over its remaining useful life, discounted back to present value using an appropriate rate of return. The discount rate used to arrive at the present value of the identifiable intangible assets was 9.5 percent to reflect the internal rate of return and uncertainty in the cash flow projections.

The following table summarizes the estimated fair values of the assets acquired and liabilities assumed at the acquisition date for AssuraMed:

(in millions)	Amount	Weighted-Average Useful Lives of Identifiable Intangible Assets
Identifiable intangible assets:		
Customer relationships	$460	9
Trade names	160	11
Other	7	3
Total identifiable intangible assets acquired	627	9
Cash and equivalents	25	
Trade receivables	117	

Inventories	70
Prepaid expenses and other	88
Property and equipment	40
Accounts payable	(71)
Other accrued liabilities	(23)
Deferred income taxes and other liabilities	(180)
Total identifiable net assets acquired	693
Goodwill	1,402
Total net assets acquired	$2,095

Kinray

On December 21, 2010, we completed the acquisition of privately-held Kinray, Inc. for $1.3 billion in an all-cash transaction. The valuation of the acquired assets and liabilities resulted in goodwill of $984 million and identifiable intangible assets of $133 million.

Cardinal Health China

On November 29, 2010, we completed the acquisition of Cardinal Health China for $458 million, including the assumption of $57 million in debt. The valuation of the acquired assets and liabilities resulted in goodwill of $240 million and identifiable intangible assets of $56 million.

P4 Healthcare

On July 15, 2010, we completed the acquisition of privately-held Healthcare Solutions Holding, LLC (“P4 Healthcare”) for $506 million in cash and certain contingent consideration. The valuation of the acquired assets and liabilities resulted in goodwill of $368 million and identifiable intangible assets of $226 million.

In accordance with the acquisition agreement, as amended, the former owners of P4 Healthcare had the right to receive certain contingent payments based on targeted earnings before interest, taxes, depreciation and amortization ("EBITDA"). The contingent consideration was limited to $100 million. In fiscal 2011, we paid $10 million in accordance with the agreement. In fiscal 2012, we recorded a $71 million decrease in the fair value of the obligation and in fiscal 2013, we terminated and settled the remaining contingent consideration obligation for $4 million. See Note 10 for an explanation of the fair value measurement for the contingent consideration obligation.

3. Restructuring and Employee Severance

The following table summarizes restructuring and employee severance costs relating to our restructuring activities:

(in millions)	2013 (3)	2012	2011
Employee-related costs (1)	$59	$20	$7
Facility exit and other costs (2)	12	1	8
Total	$71	$21	$15

(1) Employee-related costs primarily consist of termination benefits provided to employees who have been involuntarily terminated and duplicate payroll costs during transition periods.

(2) Facility exit and other costs primarily consist of lease termination costs, accelerated depreciation, equipment relocation costs, project consulting fees and costs associated with restructuring our delivery of information technology infrastructure services.

(3) Includes $30 million of employee-related costs and $10 million of facility exit and other costs related to the restructuring within our Medical segment described further below.

On January 30, 2013, we announced a restructuring plan within our Medical segment. Under this restructuring plan, we are moving production of procedure kits from our facility in Waukegan, Illinois to other facilities and selling property and consolidating office space in Waukegan, Illinois. In addition, we have reorganized our Medical segment and plan to sell our sterilization processes in El Paso, Texas.

At this time, we estimate the total costs associated with this restructuring plan to be approximately $79 million on a pre-tax basis, of which $51 million was recognized during fiscal 2013, including the employee-related costs and facility exit and other costs discussed above, as well as the gamma sterilization assets write-down as discussed in Note 4. Of the estimated $28 million remaining costs to be recognized through the end of fiscal 2014, we estimate that approximately $3 million will be employee-related costs; $11 million will be facility exit and other costs; and $14 million will be an expected loss on disposal of the property in Waukegan, Illinois described above. We have evaluated this property and have determined that at June 30, 2013 it does not meet the criteria for classification as held for sale.

We recognized $11 million of employee-related costs related to a restructuring plan within our Nuclear Pharmacy Services division during the fourth quarter of fiscal 2013.

The following table summarizes activity related to liabilities associated with restructuring and employee severance:

(in millions)	Employee-Related Costs	Facility Exit and Other Costs	Total
Balance at June 30, 2010	$9	$7	$16
Additions	7	8	15
Payments and other adjustments	(10)	(11)	(21)
Balance at June 30, 2011	$6	$4	$10
Additions	22	1	23
Payments and other adjustments	(12)	(3)	(15)
Balance at June 30, 2012	$16	$2	$18
Additions	63	2	65
Payments and other adjustments	(24)	(2)	(26)
Balance at June 30, 2013	$55	$2	$57

4. Impairments and Loss on Disposal of Assets

During the fourth quarter of fiscal 2013, we recognized an $829 million ($799 million, net of tax) goodwill impairment charge related to our Nuclear Pharmacy Services division, as discussed further in Note 5.

In connection with our Medical segment restructuring plan discussed in Note 3, during fiscal 2013, we recognized an $11 million loss to write down our gamma sterilization assets in El Paso, Texas to the estimated fair value, less costs to sell, as these assets met the criteria for classification as held for sale. The fair value of our gamma sterilization assets was estimated using the expected selling price. These are unobservable inputs and thus the fair value represents

a Level 3 nonrecurring fair value measurement.

Also during fiscal 2013, we recorded an $8 million write-off of commercial software under development within our Pharmaceutical segment in connection with our decision to discontinue this project.

During fiscal 2012, we recorded a charge of $16 million to write off an indefinite-life intangible asset related to the P4 Healthcare trade name, an asset within our Pharmaceutical segment. We rebranded P4 Healthcare under the Cardinal Health Specialty Solutions name.

5. Goodwill and Other Intangible Assets

Goodwill

The following table summarizes the changes in the carrying amount of goodwill, by segment and in total:

(i