CARDINAL HEALTH INC
Form 10-K
August 13, 2015
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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, 2015
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 o
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 o 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 o
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 o
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 or registrant on December 31, 2014, was the following: $26,604,792,216.

The number of the registrant’s common shares, without par value, outstanding as of July 31, 2015, was the following: 327,359,492.

Documents Incorporated by Reference:

Portions of the registrant’s Definitive Proxy Statement to be filed for its 2015 Annual Meeting of Shareholders are incorporated by reference into the sections of this Form 10-K addressing the requirements of Part III of Form 10-K.

Cardinal Health
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Key Highlights

Introduction

This Key Highlights section provides a brief overview of Cardinal Health, Inc. and does not contain all of the information you should consider. Please read the entire Form 10-K carefully before voting or making an investment decision. As used in this report, “we,” “our,” “us” and similar pronouns refer to Cardinal Health, Inc. and its subsidiaries, unless the context requires otherwise.

References to Fiscal Years

Our fiscal year ends on June 30. References to fiscal 2015, 2014 and 2013 are to the fiscal years ended June 30, 2015, 2014 and 2013, respectively. Except as otherwise specified, information in this Form 10-K is provided as of June 30, 2015.

Non-GAAP Financial Measures

In the accompanying financial analysis of information, we sometimes use information derived from consolidated financial data but not presented in our financial statements prepared in accordance with U.S. generally accepted accounting principles (“GAAP”). Certain of these data are considered “non-GAAP financial measures” under the Securities and Exchange Commission (“SEC”) rules. The reasons we use these non-GAAP financial measures and the reconciliations to their most directly comparable GAAP financial measures are included in the “Supplemental Information” section following Management’s Discussion and Analysis of Financial Condition and Results of Operations ("MD&A") in this Form 10-K.

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 MD&A, 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,” similar expressions, 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 in “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.

Key Highlights

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Management's Discussion and Analysis of Financial Condition and Results of Operations (MD&A)

About Cardinal Health

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 and products company that improves the cost-effectiveness of health care. We help pharmacies, hospitals, 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 manage our business and report our financial results in two segments: Pharmaceutical and Medical.

Pharmaceutical Segment

Our Pharmaceutical segment distributes branded and generic pharmaceutical, specialty pharmaceutical, over-the-counter healthcare and consumer products in the United States. This segment also operates nuclear pharmacies and cyclotron facilities, provides pharmacy operations, medication therapy management and patient outcomes services to hospitals and other healthcare providers, provides services to healthcare companies supporting the marketing, distribution and payment for specialty pharmaceutical products and manufacturers and repackages generic pharmaceuticals and over-the-counter healthcare products. This segment also imports and distributes pharmaceuticals, over-the-counter healthcare and consumer products as well as provides specialty pharmacy and other services in China.

Medical Segment

Our Medical segment distributes a broad range of medical, surgical and laboratory products and provides services to hospitals, ambulatory surgery centers, clinical laboratories 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 our own Cardinal Health brand medical and surgical products, which are sold in the United States, Canada, Europe and other regions internationally.

Non-GAAP Financial Measures

We use "non-GAAP financial measures" in the "Fiscal 2015 Overview" section and include the reasons we use these non-GAAP financial measures and the reconciliations to their most directly comparable GAAP financial measures in the “Supplemental Information” section following MD&A. The remaining sections of MD&A refer to GAAP measures only.

MD&A Results of Operations

Consolidated Results

Fiscal 2015 Overview

Revenue

Revenue for fiscal 2015 was $102.5 billion, a 13 percent increase from the prior-year period due primarily to sales growth from existing and new pharmaceutical distribution customers. Revenue growth was negatively impacted in fiscal 2015 due to the previously disclosed expiration of our pharmaceutical distribution contract with Walgreen Co. ("Walgreens") on August 31, 2013.

GAAP and Non-GAAP Operating Earnings

(in millions)	2015	2014	Change	
GAAP	$2,161	$1,885	15	%
Restructuring and employee severance	44	31		
Amortization and other acquisition-related costs	281	223		
Impairments and (gain)/loss on disposal of assets	(19)	15		
Litigation (recoveries)/charges, net	5	(21)		
Non-GAAP	$2,472	$2,133	16	%

GAAP operating earnings increased 15 percent to $2.2 billion compared to the prior year, reflecting sales growth from existing and new customers and strong performance from our Pharmaceutical segment generics program, offset in part by customer pricing changes and the Walgreens contract expiration in the prior-year period. Non-GAAP operating earnings increased 16 percent to $2.5 billion during fiscal 2015 also due to the factors impacting GAAP operating earnings.

GAAP and Non-GAAP Diluted EPS

	2015	2014	Change	
GAAP	$3.61	$3.37	7	%
Restructuring and employee severance	0.09	0.06		
Amortization and other acquisition-related costs	0.54	0.42		
Impairments and (gain)/loss on disposal of assets	(0.03)	0.03		
Litigation (recoveries)/charges, net	0.06	(0.04)		
Loss on extinguishment of debt	0.11	—		
Non-GAAP	$4.38	$3.84	14	%

GAAP diluted EPS increased $0.24 or 7 percent to $3.61 during fiscal 2015 and non-GAAP diluted EPS increased $0.54 or 14 percent to $4.38 during fiscal 2015. GAAP and non-GAAP diluted EPS increased primarily due to the factors impacting GAAP and non-GAAP operating earnings as well as a lower share count driven by share repurchases and partially offset by an increase in income taxes. GAAP diluted EPS was also impacted by a $37 million after-tax loss on extinguishment of debt in the current year.

Cash and Equivalents

Our cash and equivalents balance was $4.6 billion and $2.9 billion at June 30, 2015 and 2014, respectively. In June 2015, we issued $1.5 billion of additional debt to fund a portion of the acquisitions of The Harvard Drug Group ("Harvard Drug"), which closed on July 2, 2015, and the Cordis business of Johnson & Johnson, which is expected to close during the second quarter of fiscal 2016. These acquisitions are both discussed in more detail in "Significant Developments in Fiscal 2015 and Trends" that follows this section. During fiscal 2015, net cash provided by operating activities of $2.5 billion was deployed for share repurchases of $1.0 billion, acquisitions of $503 million and cash dividends of $460 million. In addition, during the second quarter of fiscal 2015, we refinanced $1.2 billion of long-term debt at lower interest rates and longer maturities.

MD&A Results of Operations

Significant Developments in Fiscal 2015 and Trends

Acquisitions

Harvard Drug
On July 2, 2015 we completed the acquisition of Harvard Drug for$1.1 billion, net of cash acquired, using existing cash and proceeds from the debt offering in June 2015. The acquisition of Harvard Drug, a distributor of generic pharmaceuticals, over-the-counter healthcare and related products to retail, institutional and alternate care customers, is expected to enhance our Pharmaceutical segment's generic pharmaceutical distribution and services businesses. Harvard Drug also manufactures and repackages generic pharmaceuticals and over-the-counter healthcare products.
Cordis
On March 1, 2015, we entered into a binding offer letter with Ethicon, Inc., a wholly-owned subsidiary of Johnson & Johnson, to purchase its Cordis business for a purchase price of $1.9 billion in cash, subject

to certain adjustments. On May 27, 2015, Ethicon accepted the offer. The acquisition of Cordis, a manufacturer and distributor of interventional cardiology devices and endovascular solutions, is expected to expand our Medical segment's portfolio of self-manufactured products and its geographic scope. Cordis is a global company, with operations in more than 50 countries. The acquisition is expected to close in approximately 20 principal countries during the second quarter of fiscal 2016 and in the remaining countries afterward, subject to regulatory approval and customary closing conditions. We expect this acquisition to significantly reduce GAAP operating earnings and earnings before income taxes and discontinued operations in fiscal 2016, largely due to the expected impact of amortization and other acquisition-related costs.

Generic Sourcing Venture with CVS Health

In July 2014, we established Red Oak Sourcing, LLC ("Red Oak Sourcing"), a U.S.-based generic pharmaceutical sourcing venture with CVS Health Corporation (“CVS Health”) with an initial term of 10 years. Both companies have contributed sourcing and supply chain expertise to the 50/50 venture and have committed to source generic pharmaceuticals through arrangements negotiated by the venture. Red Oak Sourcing negotiates generic pharmaceutical supply contracts on behalf of both companies. We are required to pay 39

quarterly payments of $25.6 million to CVS Health which commenced in October 2014. Due to the achievement of a milestone, the quarterly payment to CVS Health will increase by $10 million beginning in fiscal 2016. In addition, if an additional milestone is achieved, the quarterly payment will increase in fiscal 2017 by a further $10 million resulting in a maximum quarterly payment of $45.6 million if all milestones are met.

Trends

Within our Pharmaceutical segment, pharmaceutical price appreciation on brand products and some generic products positively impacted our earnings during fiscal 2015, but, as is generally the case, the frequency and magnitude of future brand and generic product price appreciation is uncertain and the impact on earnings may be less in fiscal 2016 than in fiscal 2015.

Additionally within our Pharmaceutical segment, as is generally the case, the impact and timing of future generic pharmaceutical product launches is uncertain and the impact on earnings may be less in fiscal 2016 than in fiscal 2015. See the Pharmaceutical Segment discussion within the "Business" section for additional information regarding pharmaceutical price appreciation and generic pharmaceutical product launches.

MD&A Results of Operations

Results of Operations

Revenue

	Revenue			Change			
(in millions)	2015	2014	2013	2015		2014	
Pharmaceutical	$91,116	$80,110	$91,097	14	%	(12	)%
Medical	11,395	10,962	10,060	4	%	9	%
Total segment revenue	102,511	91,072	101,157	13	%	(10	)%
Corporate	20	12	(64)	N.M.		N.M.	
Total revenue	$102,531	$91,084	$101,093	13	%	(10	)%

Fiscal 2015 Compared to Fiscal 2014

Pharmaceutical Segment
Revenue growth for fiscal 2015 compared to fiscal 2014 was primarily due to sales growth from existing and new pharmaceutical distribution customers, which increased revenue by $13.7 billion during fiscal 2015. The growth was primarily driven by increased sales to existing customers, including continued branded pharmaceutical price inflation and newly launched hepatitis C pharmaceutical products. The increase was partially offset by the Walgreens contract expiration in the prior-year period ($3.3 billion).
Medical Segment
Revenue growth for fiscal 2015 compared to fiscal 2014 was primarily due to acquisitions ($344 million).

Fiscal 2014 Compared to Fiscal 2013

Pharmaceutical Segment
Revenue for fiscal 2014 compared to fiscal 2013 was negatively impacted by the Walgreens contract expiration ($16.9 billion) and by the expiration of our pharmaceutical distribution contract with Express Scripts, Inc. ("Express Scripts") on September 30, 2012 ($2.0 billion). This decrease was partially offset by sales growth from existing pharmaceutical distribution customers ($7.1 billion).
Medical Segment
Revenue growth for fiscal 2014 compared to fiscal 2013 was primarily due to acquisitions ($816 million).

Cost of Products Sold

As a result of the same factors affecting the change in revenue, consolidated cost of products sold increased $10.9 billion (13 percent) and decreased $10.2 billion (11 percent) during fiscal 2015 and 2014, respectively. See the gross margin discussion for additional drivers impacting cost of products sold.

MD&A Results of Operations

Gross Margin

	Consolidated Gross Margin			Change			
(in millions)	2015	2014	2013	2015		2014	
Gross margin	$5,712	$5,161	$4,921	11	%	5	%

Fiscal 2015 Compared to Fiscal 2014

Consolidated gross margin increased during fiscal 2015 compared to fiscal 2014 by $551 million.
Consolidated gross margin growth during fiscal 2015 was positively impacted by sales growth from existing and new pharmaceutical distribution customers and was negatively impacted by the Walgreens contract expiration in the prior-year period. The net impact of these factors increased consolidated gross margin for fiscal 2015 by $516 million. In addition, acquisitions positively impacted gross margin by $101 million.
Consolidated gross margin rate contracted slightly during fiscal 2015, reflecting the adverse impact of customer pricing changes, the lower margin rate impact of newly launched hepatitis C pharmaceutical products, and new customer mix, largely offset by strong performance from our generics program, including benefits from Red Oak Sourcing.

Fiscal 2014 Compared to Fiscal 2013

Consolidated gross margin increased during fiscal 2014 compared to fiscal 2013 by $240 million.
Gross margin for fiscal 2014 was positively impacted by $32 million due to sales growth, which primarily reflects growth from existing customers, and was largely offset by the impact of the Walgreens contract expiration. In addition, acquisitions positively impacted gross margin by $221 million.
Gross margin rate, apart from the impact of the Walgreens contract expiration, was flat for fiscal 2014. Gross margin rate was positively impacted by strong performance from our generics program, including the impact of generic pharmaceutical price appreciation, and was adversely impacted by customer pricing changes.

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

	SG&A Expenses			Change			
(in millions)	2015	2014	2013	2015		2014	
SG&A expenses	$3,240	$3,028	$2,875	7	%	5	%

Fiscal 2015 Compared to Fiscal 2014

The increase in SG&A expenses during fiscal 2015 over 2014 was primarily due to acquisitions ($97 million) and an overall increase in volume of sales to existing and new customers.

Fiscal 2014 Compared to Fiscal 2013

SG&A expenses increased during fiscal 2014 over 2013 primarily due to acquisitions ($129 million).

MD&A Results of Operations

Segment Profit

We evaluate segment performance based upon segment profit, among other measures. See Note 15 of the "Notes to Consolidated Financial Statements" for additional information on segment profit.

	Segment Profit and Operating Earnings			Change	
(in millions)	2015	2014	2013	2015	2014
Pharmaceutical	$2,094	$1,745	$1,734	20 %	1 %
Medical	433	444	372	(3)%	19 %
Total segment profit	2,527	2,189	2,106	15 %	4 %
Corporate	(366)	(304)	(1,110)	N.M.	N.M.
Total consolidated operating earnings	$2,161	$1,885	$996	15 %	89 %

Fiscal 2015 Compared to Fiscal 2014

Pharmaceutical Segment Profit

The increase in Pharmaceutical segment profit in fiscal 2015 over 2014 reflected sales growth from existing and new pharmaceutical distribution customers and strong performance from our generics program, including benefits from Red Oak Sourcing, partially offset by the adverse impact of customer pricing changes and the Walgreens contract expiration in the prior-year period.

Medical Segment Profit

The decrease in Medical segment profit in fiscal 2015 compared to fiscal 2014 was primarily due to a decline in contribution from distribution of national brand products. This was partially offset by contributions from the strategic expansion of our portfolio of Cardinal Health brand products and services, driven by acquisitions and targeted cost reductions.

Corporate

As discussed further in sections that follow, the principal driver for the change in Corporate in fiscal 2015 compared to fiscal 2014 was amortization and other acquisition-related costs primarily due to costs incurred in connection with the pending acquisition of Cordis.

Fiscal 2014 Compared to Fiscal 2013

Pharmaceutical Segment Profit

The increase in fiscal 2014 over fiscal 2013 reflected the positive impact of sales growth, which primarily reflects growth from existing customers, and was largely offset by the impact of the Walgreens contract expiration. The impact of gross margin rate, apart from the impact of the Walgreens contract expiration, was flat for fiscal 2014. Gross margin rate was positively impacted by strong performance from our generics program, including the impact of generic pharmaceutical price appreciation, and was adversely impacted by customer pricing changes.

Medical Segment Profit

The principal driver for the increase in fiscal 2014 over fiscal 2013 was the positive impact of acquisitions.

Corporate

As discussed further in sections that follow, the principal driver for the change in Corporate in fiscal 2014 compared to fiscal 2013 was an $829 million non-cash goodwill impairment charge recognized in fiscal 2013 related to our Nuclear Pharmacy Services division.

MD&A Results of Operations

Other Components of Consolidated Operating Earnings

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

(in millions)	2015	2014	2013
Restructuring and employee severance	$44	$31	$71
Amortization and other acquisition-related costs	281	223	158
Impairments and (gain)/loss on disposal of assets, net	(19)	15	859
Litigation (recoveries)/charges, net	5	(21)	(38)

Restructuring and Employee Severance

The majority of restructuring and employee severance incurred during fiscal 2015, 2014 and 2013 were related to activities within our Medical segment.

Amortization and Other Acquisition-Related Costs

Amortization of acquisition-related intangible assets was $189 million, $187 million and $118 million for fiscal 2015, 2014 and 2013, respectively. During 2015, amortization and other acquisition-related costs included $44 million of transaction and integration costs associated with the pending acquisition of Cordis. We anticipate a significant increase in amortization of acquisition-related intangible assets in fiscal 2016 as a result of the Harvard Drug and Cordis acquisitions and in other acquisition-related costs due to the size and complexity of the Cordis integration.

Impairments and (Gain)/Loss on Disposal of Assets

During 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 4 of the "Notes to Consolidated Financial Statements".

Litigation (Recoveries)/Charges, Net

During fiscal 2015, we incurred litigation charges of $41 million related to the DEA investigation and related matters and $27 million related to the FTC investigation and we recognized litigation recoveries of $71 million, primarily consisting of settlements of class action antitrust claims in which we were a class member. These matters are discussed further in Note 9 of the "Notes to Consolidated Financial Statements." We recognized litigation recoveries resulting from settlements of class action antitrust claims of $24 million and $38 million during 2014 and 2013, respectively.

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)	2015	2014	2013	2015	2014
Other income, net	$(7)	$(46)	$(15)	N.M.	N.M.
Interest expense, net	141	133	123	6 %	8 %
Loss on extinguishment of debt	60	—	—	N.M.	N.M

Other Income, Net

Other income, net for fiscal 2014 included a $32 million pre-tax gain related to the sale of our minority interest in two investments.

Interest Expense, Net

We expect interest expense to increase in fiscal 2016 as a result of the additional $1.5 billion of debt issued to fund the Harvard Drug acquisition and pending Cordis acquisition.

Loss on Extinguishment of Debt

In December 2014, we redeemed certain debt resulting in a loss on the extinguishment of debt of $60 million ($37 million, net of tax). See Note 7 of "Notes to Consolidated Financial Statements" for additional information.

Provision for Income Taxes

The provision for income taxes increased $120 million in fiscal 2015 over fiscal 2014 due to an increase in earnings before income taxes and discontinued operations and an increase in our effective tax rate of 3.1 percentage points. Generally, fluctuations in the effective tax rate are due to changes within international and U.S. state effective tax rates resulting from our business mix and discrete items. A reconciliation of the provision based on the federal statutory income tax rate to our effective income tax rate from continuing operations is as follows (see Note 8 of the "Notes to Consolidated Financial Statements" for a detailed disclosure of the effective tax rate reconciliation):

	2015	2014	2013
Provision at Federal statutory rate	35.0 %	35.0 %	35.0 %
State and local income taxes, net of federal benefit	4.1	2.2	2.5
Foreign tax rate differential	(2.4)	(1.2)	(4.0)
Nondeductible/nontaxable items	0.7	(0.2)	(0.5)
Nondeductible goodwill impairment	—	—	33.2
Change in measurement of uncertain tax positions and impact of IRS settlements	0.9	(0.4)	(5.7)
Other	0.1	(0.1)	1.8
Effective income tax rate	38.4 %	35.3 %	62.3 %

Fiscal 2015

The fiscal 2015 effective income tax rate was impacted by the state and local income tax rate, which increased 1.9 percentage points due to the de-recognition of certain state tax benefits. The foreign tax rate differential also increased 1.2 percentage points primarily due to recognition of deferred tax benefits resulting from new tax legislation. In addition, the change in measurement of uncertain tax positions increased 1.3 percentage points primarily as a result of proposed assessment of additional tax.

Ongoing Audits

The IRS is currently conducting audits of fiscal years 2006 through 2010.

Fiscal 2014

The fiscal 2014 effective tax rate was impacted by net favorable discrete items of $37 million, which reduced the rate by 2.1 percentage points. The discrete items include the favorable impact of the settlement of federal and state tax controversies ($80 million) and release of valuation allowances ($12 million) and the unfavorable impact of remeasurement of unrecognized tax benefits ($65 million), primarily as a result of proposed assessments of additional tax.

Fiscal 2013

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 related to our Nuclear Pharmacy Services division, 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).

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Liquidity and Capital Resources

We currently believe that, based upon available capital resources (cash on hand and committed credit facilities) and projected operating cash flow, we have adequate capital resources to fund working capital needs; currently anticipated capital expenditures, currently anticipated business growth and expansion (including the pending acquisition of Cordis); contractual obligations; tax payments; and current and projected debt service requirements, dividends and share repurchases. 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 markets for additional financing.

Cash and Equivalents

Our cash and equivalents balance was $4.6 billion at June 30, 2015 and $2.9 billion at June 30, 2014. We acquired Harvard Drug on July 2, 2015 for $1.1 billion, net of cash acquired, and expect to acquire Cordis during the second quarter of fiscal 2016 for $1.9 billion. At June 30, 2015, our cash and equivalents were held in cash depository accounts with major banks or invested in high quality, short-term liquid investments.

During fiscal 2015, net cash provided by operating activities of $2.5 billion was positively impacted by working capital improvements. These funds were deployed for $1.0 billion of share repurchases, $503 million of acquisitions and $460 million of cash dividends. In addition, during the second quarter of fiscal 2015, we refinanced $1.2 billion of long-term debt at lower interest rates and longer maturities and during the fourth quarter of fiscal 2015, we received proceeds from the issuance of additional long-term debt of $1.5 billion to fund the Harvard Drug and Cordis acquisitions.

The cash and equivalents balance at June 30, 2015 included $423 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.

During fiscal 2014 we deployed $673 million of cash on share repurchases, $519 million on acquisitions and $415 million on dividends. Net cash provided by operating activities of $2.5 billion benefited from a net working capital decrease in excess of $500 million as a result of the Walgreens contract expiration.

During fiscal 2013, we deployed $2.2 billion of cash on acquisitions, $450 million on share repurchases and $353 million on dividends. During fiscal 2013, we received net proceeds from the issuance of long-term debt of $981 million, which were used for the acquisition of AssuraMed, Inc. Net cash provided by operating activities was $1.7 billion.

Changes in working capital, which impact operating cash flow, can vary significantly depending on factors such as the timing of customer payments, inventory purchases and payments to vendors in the regular course of business, as well as fluctuating working capital needs driven by customer and product mix.

Financial Instruments and Other Financing Arrangements

Credit Facilities and Commercial Paper

On November 3, 2014, we renewed our committed receivables sales facility program through Cardinal Health Funding, LLC until November 3, 2017 and increased the size of the facility from $700 million to $950 million with the inclusion of certain receivables from the Medical segment. Other sources of liquidity include a $1.5 billion revolving credit facility and a commercial paper program of up to $1.5 billion, backed by the revolving credit facility. At both June 30, 2015 and 2014, we had no outstanding balances or borrowings under these facilities, except for standby letters of credit of $41 million under the committed receivables sales facility program.

Our revolving credit facility and committed receivables sales facility program require us to maintain, as of any fiscal quarter end, a consolidated interest coverage ratio of at least 4-to-1 and a consolidated leverage ratio of no more than 3.25-to-1. As of June 30, 2015, we were in compliance with these financial covenants.

Available-for-Sale Securities

At June 30, 2015 and 2014, we held $193 million and $100 million, respectively, of marketable securities, which are classified as available-for-sale.

Long-Term Obligations

In June 2015, we sold $550 million aggregate principal amount of 1.95% Notes that mature on June 15, 2018, $500 million aggregate principal amount of 3.75% Notes that mature on September 15, 2025 and $450 million aggregate principal amount of 4.9% Notes that mature on September 15, 2045. We used a portion of the proceeds from this offering to acquire Harvard Drug on July 2, 2015 and plan to use the remainder to acquire Cordis during the second quarter of fiscal 2016.

In November 2014, we sold $450 million aggregate principal amount of 2.4% Notes that mature on November 15, 2019, $400 million aggregate principal amount of 3.5% Notes that mature on November 15, 2024, and $350 million aggregate principal amount of 4.5% Notes that mature on November 15, 2044.

In December 2014, we used the net proceeds from the November offering, together with cash on hand, to redeem all of our outstanding 4.0% Notes due 2015, 5.8% Notes due 2016, 5.85% Notes due 2017 and 6.0% Notes due 2017 at a redemption price equal to 100% of the principal amount and accrued but unpaid interest, plus the make-whole premium applicable to each series of notes. As a result of this redemption, during the second quarter of fiscal 2015, we incurred a loss on the extinguishment of debt of $60 million ($37 million, net of tax).

Risk Management

We use interest rate swaps, foreign currency contracts and commodity contracts to manage our exposure to cash flow variability. We also use interest rate swaps to protect the value of our debt and use foreign currency forward contracts to protect the value of our existing and forecasted foreign currency assets and liabilities. See the "Quantitative and Qualitative Disclosures About Market Risk" section as well as Notes 1 and 12 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.

Capital Deployment

Capital Expenditures

Capital expenditures during fiscal 2015, 2014 and 2013 were $300 million, $249 million and $195 million, respectively.

We expect capital expenditures in fiscal 2016 to be between $510 million and $540 million primarily for growth projects in our core businesses, information technology projects and integration of the Cordis acquisition.

Dividends

During fiscal 2015, we paid quarterly dividends totaling $1.37 per share, an increase of 13 percent from fiscal 2014. On May 6, 2015 our Board of Directors approved a 13 percent increase in our quarterly dividend to $0.3870 per share, or $1.55 per share on an annualized basis, which was paid on July 15, 2015 to shareholders of record on July 1, 2015. On August 5, 2015, our Board of Directors approved a quarterly dividend of $0.3870 per share, or $1.55 per share on an annualized basis, payable on October 15, 2015 to shareholders of record on October 1, 2015.

Share Repurchases

During fiscal 2015, we repurchased $1.0 billion of our common shares.

On October 29, 2013, our Board of Directors approved a $1.0 billion share repurchase program and on August 6, 2014, the Board of Directors authorized an additional $1.0 billion under the program, for a total of $2.0 billion. This program expires on December 31, 2016. At June 30, 2015, we had $693 million remaining under this repurchase authorization.

Acquisitions

In fiscal 2015, we acquired a number of businesses in both the Pharmaceutical and Medical segments for an aggregate of $503 million, and as previously noted, entered into agreements to acquire Harvard Drug and Cordis. We expect these acquired businesses to enhance our core strategic areas of generics, health systems and hospital solutions (including manufactured medical products), specialty pharmaceutical products and services, international and alternate sites of care.

Contractual Obligations

At June 30, 2015, our contractual obligations, including estimated payments due by period, are as follows:

(in millions)	2016	2017 to 2018	2019 to 2020	There-after	Total
Long-term debt and short-term borrowings (1)	$280	$1,242	$450	$3,487	$5,459
Interest on long-term debt	197	348	294	1,591	2,430
Capital lease obligations (2)	1	24	4	4	33
Other liabilities (3)	3	—	—	—	3
Operating leases (4)	103	146	80	77	406
Purchase obligations and other payments (5)	324	308	248	426	1,306
Total contractual obligations	$908	$2,068	$1,076	$5,585	$9,637

(1) Represents maturities of our long-term debt obligations and other short-term borrowings excluding capital lease obligations described below. See Note 7 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. Long-term liabilities, such as unrecognized tax benefits and deferred taxes, have been excluded from the table above because of the inherent uncertainty of the underlying tax positions or because of the inability to reasonably estimate the timing of any cash outflows. See Note 8 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 9 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. Purchase obligations and other payments also includes 39 quarterly payments of $25.6 million that we are required to pay CVS Health, which commenced in October 2014 in connection with the establishment of Red Oak Sourcing. Purchase obligations and other payments does not include contingent payments under the sourcing venture that were not yet determined as of June 30, 2015, including the quarterly $10 million increase that began in fiscal 2016. See Note 9 of the “Notes to Consolidated Financial Statements” for additional information.

Off-Balance Sheet Arrangements

We had no significant off-balance sheet arrangements at June 30, 2015.

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 the 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 a discussion of 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 $135 million and $137 million at June 30, 2015 and 2014, respectively. We also provide financing to various customers. Such financing arrangements range from 270 days to 5 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 related accrued interest are reported net of an allowance for doubtful accounts of $14 million and $18 million at June 30, 2015 and 2014, respectively, and are included in other assets (current portion is included in prepaid expenses and other) in the consolidated balance sheets. 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 general 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)	2015	2014	2013
Allowance for doubtful accounts	$150	$156	$152
Reduction to allowance for customer deductions and write-offs	70	51	34
Charged to costs and expenses	59	51	41
Allowance as a percentage of customer receivables	2.2 %	2.8 %	2.3 %
Allowance as a percentage of revenue	0.15 %	0.17 %	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, 2015, would result in an increase or decrease in bad debt expense of $7 million.

We believe the reserve maintained and expenses recorded in fiscal June 30, 2015 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 (58 percent and 61 percent at June 30, 2015 and 2014, respectively) are valued at the lower of cost, using the last-in, first-out ("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 generally tend to rise, which results in an increase in cost of products sold, whereas prices for generic pharmaceuticals generally 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 there is a decrease in inventory levels that have experienced pharmaceutical price appreciation, the result generally will be a decrease in future cost of products sold as our

older inventory is held at a lower cost. Conversely, if there is a decrease in inventory levels that have experienced a pharmaceutical price decline, the result generally will be an increase in future cost of products sold as 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 2015 or 2014. Inventories valued at LIFO were $114 million and $98 million higher than the average

cost value at June 30, 2015 and 2014, 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 2015 and 2014.
Inventories presented in the consolidated balance sheets are net of reserves for excess and obsolete inventory which were $57 million

and $44 million at June 30, 2015 and 2014, 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 identifiable net 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, trademarks, trade names, patents, developed technology 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, which may be performed utilizing either a qualitative or quantitative assessment. A reporting unit is defined as an operating segment or one level below an operating segment (also known as a component). 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 identifiable net 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.
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 Cardinal Health at Home division); and Cardinal Health at Home 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 8.5 to 11 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 2015, 2014 and 2013 and, with the exception of our Nuclear Pharmacy Services

division which was fully impaired in fiscal 2013, concluded that there were no impairments of goodwill as the estimated fair value of each reporting unit exceeded its carrying value. With the exception of our Nuclear Pharmacy Services division in fiscal 2013, 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 2015, 2014 or 2013. As discussed further in Note 4 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.

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 $88 million and $82 million at June 30, 2015 and 2014, respectively. Approximately 75 percent of the vendor reserve at the end of fiscal 2015 pertained to the Pharmaceutical segment compared to 68 percent at the end of fiscal 2014. 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.

Loss Contingencies

We accrue for contingencies related to disputes, litigation and regulatory matters if it is probable that a liability has been incurred and the amount of the loss can be reasonably estimated. Because these matters are inherently unpredictable and unfavorable developments or resolutions can occur, assessing contingencies is highly subjective and requires judgments about future events.

We regularly review contingencies to determine whether our accruals and related disclosures are adequate. The amount of ultimate loss may differ from these estimates. See Note 9 of the "Notes to Consolidated Financial Statements" for additional information regarding loss contingencies.

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)	2015	2014
Net deferred income tax assets	$498	$444
Net deferred income tax liabilities	1,853	1,653
Loss and credit carryforwards included in net deferred income tax assets	197	191
Net valuation allowance against deferred income tax assets (1)	87	94

(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 8 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 $20 million for fiscal 2015.

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 restricted share units and performance share units is determined by the grant date market price of our common shares. The compensation expense associated with nonvested performance share units is dependent on our periodic assessment of the probability of the targets being achieved and our estimate, which may vary over time, of the number of shares that ultimately will be issued. 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 post-vesting forfeitures 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 16 of the "Notes to Consolidated Financial Statements" for additional information regarding share-based compensation.

Supplemental Information — Non-GAAP Financial Measures

Supplemental Information

Financial Measures That Supplement U.S. Generally Accepted Accounting Principles Measures (Non-GAAP Financial Measures)

The 'Key Highlights" section and the "Fiscal 2015 Overview" discussion within MD&A in this Form 10-K contains financial measures that are not calculated in accordance with GAAP. In general, the measures exclude items and charges that we do not believe reflect our core business and relate more to strategic, multi-year corporate activities, or the items and charges relate to activities or actions that may have occurred over multiple or in prior periods without predictable trends. We use these non-GAAP financial measures internally to evaluate our performance, evaluate the balance sheet, engage in financial and operational planning and determine incentive compensation.

We provide these non-GAAP financial measures to investors as supplemental metrics to assist readers in assessing the effects of items and events on our financial and operating results and in comparing our performance to that of our competitors. However, the

non-GAAP financial measures used by us may be calculated differently from, and therefore may not be comparable to, similarly titled measures used by other companies.

The non-GAAP financial measures disclosed by us should not be considered a substitute for, or superior to, financial measures calculated in accordance with GAAP, and the financial results calculated in accordance with GAAP and reconciliations to those financial statements should be carefully evaluated.

Following are definitions of the non-GAAP financial measures presented in this Form 10-K and reconciliations of the differences between the non-GAAP financial measures and their most directly comparable GAAP financial measures.

Definitions

Growth rate calculation: Except for compound annual growth rates (CAGR), growth rates in this Form 10-K are determined by dividing the difference between current period results and prior period results by prior period results. CAGR is determined by subtracting one from ((the ending value divided by the beginning value) raised to the power of (one divided by the number of years)), calculated using fiscal 2011 as the base year.

Non-GAAP diluted EPS from continuing operations: non-GAAP earnings from continuing operations divided by diluted weighted-average shares outstanding.

Non-GAAP earnings from continuing operations: earnings from continuing operations excluding (1) restructuring and employee severance, (2) amortization and other acquisition-related costs, (3) impairments and (gain)/loss on disposal of assets, (4) litigation (recoveries)/charges, net, (5) LIFO charges/(credits)[1], (6) loss on extinguishment of debt, (7) other spin-off costs[2] and (8) gain on sale of CareFusion stock, each net of tax.

Non-GAAP operating earnings: operating earnings excluding (1) restructuring and employee severance, (2) amortization and other acquisition-related costs, (3) impairments and (gain)/loss on disposal of assets, (4) litigation (recoveries)/charges, net, (5) LIFO charges/(credits) and (6) other spin-off costs.

[1] The inventories of our core pharmaceutical distribution facilities in the Pharmaceutical segment are valued at the lower of cost, using the LIFO method, or market. These charges or credits are included in cost of products sold, and represent changes in our LIFO inventory reserve. We did not record any LIFO charges or credits in fiscal 2015, 2014 or 2013, respectively.

[2] Costs incurred in connection with our spin-off of CareFusion which are included in distribution, selling, general and administrative expenses.

Supplemental Information — GAAP to Non-GAAP Reconciliations

GAAP to Non-GAAP Reconciliations

(in millions, except per common share amounts)	Operating Earnings	Operating Earnings Growth Rate	Earnings from Continuing Operations	Earnings from Continuing Operations Growth Rate	Diluted EPS from Continuing Operations	Diluted EPS from Continuing Operations Growth Rate
Fiscal Year 2015						
GAAP	$2,161	15 %	$1,212	4 %	$3.61	7 %
Restructuring and employee severance	44		29		0.09	
Amortization and other acquisition-related costs	281		181		0.54	
Impairments and (gain)/loss on disposal of assets	(19)		(9)		(0.03)	
Litigation (recoveries)/charges, net	5		19		0.06	
Loss on extinguishment of debt	—		37		0.11	
Non-GAAP	$2,472	16 %	$1,469	11 %	$4.38	14 %
Fiscal Year 2014						
GAAP	$1,885	89 %	$1,163	247 %	$3.37	247 %
Restructuring and employee severance	31		20		0.06	
Amortization and other acquisition-related costs	223		144		0.42	
Impairments and (gain)/loss on disposal of assets	15		10		0.03	
Litigation (recoveries)/charges, net	(21)		(13)		(0.04)	
Non-GAAP	$2,133	4 %	$1,324	3 %	$3.84	3 %
Fiscal Year 2013						
GAAP	$996	(44)%	$335	(69)%	$0.97	(68)%
Restructuring and employee severance	71		44		0.13	
Amortization and other acquisition-related costs	158		106		0.31	
Impairments and (gain)/loss on disposal of assets	859		822		2.39	
Litigation (recoveries)/charges, net	(38)		(23)		(0.07)	
Non-GAAP	$2,046	10 %	$1,284	15 %	$3.73	16 %
Fiscal Year 2012						
GAAP	$1,792	18 %	$1,070	11 %	$3.06	12 %
Restructuring and employee severance	21		13		0.04	
Amortization and other acquisition-related costs	33		24		0.07	
Impairments and (gain)/loss on disposal of assets	21		13		0.04	
Litigation (recoveries)/charges, net	(3)		(2)		(0.01)	
Other Spin-Off costs	2		1		—	

Non-GAAP	$1,866	13	%	$1,119	13	%	$3.21	15	%
	Fiscal Year 2011								
GAAP	$1,514	16	%	$966	65	%	$2.74	69	%
Restructuring and employee severance	15			10			0.03		
Amortization and other acquisition-related costs	90			68			0.19		
Impairments and (gain)/loss on disposal of assets	9			6			0.02		
Litigation (recoveries)/charges, net	6			7			0.02		
Other Spin-Off costs	10			6			0.02		
Gain on sale of CareFusion stock	—			(75)			(0.21)		
Non-GAAP	$1,644	18	%	$988	22	%	$2.80	25	%

The sum of the components may not equal the total due to rounding.

We apply varying tax rates depending on the item's nature and tax jurisdiction where it is incurred.

Selected Financial Data

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 “Management’s Discussion and Analysis of Financial Condition and Results of Operations.”

(in millions, except per common share amounts)	2015	2014	2013(1)	2012	2011
Earnings Data:					
Revenue	$102,531	$91,084	$101,093	$107,552	$102,644
Operating Earnings	$2,161	$1,885	$996	$1,792	$1,514
Earnings from continuing operations	$1,212	$1,163	$335	$1,070	$966
Earnings/(loss) from discontinued operations	3	3	(1)	(1)	(7)
Net earnings	$1,215	$1,166	$334	$1,069	$959
Basic earnings/(loss) per common share:					
Continuing operations	$3.65	$3.41	$0.98	$3.10	$2.77
Discontinued operations	0.01	0.01	—	—	(0.02)
Net basic earnings per common share	$3.66	$3.42	$0.98	$3.10	$2.75
Diluted earnings/(loss) per common share:					
Continuing operations	$3.61	$3.37	$0.97	$3.06	$2.74
Discontinued operations	0.01	0.01	—	—	(0.02)
Net diluted earnings per common share	$3.62	$3.38	$0.97	$3.06	$2.72
Cash dividends declared per common share	$1.4145	$1.2500	$1.0900	$0.8825	$0.8000
Balance Sheet Data:					
Total assets	$30,142	$26,033	$25,819	$24,260	$22,846
Long-term obligations, less current portion	5,211	3,171	3,686	2,418	2,175
Shareholders’ equity	6,256	6,401	5,975	6,244	5,849

(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.

Disclosures About Market Risk

Quantitative and Qualitative Disclosures About Market Risk

We 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 12 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, we 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, Thai baht, Mexican peso, European euro, Singapore dollar, Japanese yen, and the Australian dollar.

Transactional Exposure

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 transactional exposure. At June 30, 2015 and 2014, we had hedged approximately 37 and 48 percent of transactional exposures, respectively. The following table summarizes the analysis as it relates to transactional exposure and the impact of a hypothetical 10 percent fluctuation in foreign currencies, assuming rates collectively shift in the same direction and we are unable to change customer pricing in response to those shifts, for the upcoming fiscal year period:

	June 30	
(in millions)	2015 (1)	2014 (1)
Net estimated transactional exposure	$392	$378
Sensitivity gain/loss	$39	$38
Estimated offsetting impact of hedges	(15)	(18)
Estimated net gain/loss	$24	$20

(1) This analysis excludes exposures that may be added as a result of acquisitions that have not yet closed as of June 30, 2015.

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, 2015 and 2014.

The following table summarizes translational exposure and the impact of a hypothetical 10 percent strengthening or weakening in the U.S. dollar, assuming rates collectively shift in the same direction and we are unable to change customer pricing in response to those shifts, for the upcoming fiscal year period:

	June 30	
(in millions)	2015 (1)	2014 (1)
Net estimated translational exposure	$55	$62
Sensitivity gain/loss	6	6

(1) This analysis excludes exposures that may be added as a result of acquisitions that have not yet closed as of June 30, 2015.

Disclosures About Market Risk

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 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 upcoming fiscal year. This analysis assumes a hypothetical 10 percent change in interest rates. At June 30, 2015 and 2014, the

potential increase or decrease in annual interest expense under this analysis as a result of this hypothetical change was $3 million and $4 million, respectively.

During fiscal 2015 and 2014, we purchased marketable securities, which are classified as available-for-sale and are carried at fair value in the consolidated balance sheets. The fair value is subject to change primarily as a result of changes in market interest rates and investment risk related to the issuers' credit worthiness. At June 30, 2015 and 2014, a hypothetical increase or decrease of 100 basis points in interest rates would cause a potential increase or decrease of up to $2 million and $1 million, respectively, in the estimated fair value.

Commodity Price Sensitivity

We are directly exposed to market price changes for certain commodities, including oil-based resins, nitrile, cotton, diesel fuel and latex. We typically purchase raw materials at either market prices or prices tied to a commodity index and some finished goods at prices based in part on a commodity price index. We also are indirectly exposed to fluctuations in certain commodity prices through the purchase of finished goods and various 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. As part of our risk management program, we perform sensitivity analysis on our forecasted commodity exposure for the upcoming fiscal year. Our forecasted commodity exposure at June 30, 2015 increased from the prior year primarily as a result of changes in purchasing volumes and commodity pricing. At June 30, 2015 and 2014, we had hedged a portion of these direct commodity exposures (see Note 12 of the “Notes to Consolidated Financial Statements” for further discussion).

The table below summarizes our analysis of these forecasted direct and indirect commodity exposures and the potential gain/loss given a hypothetical 10 percent fluctuation in commodity prices, assuming pricing collectively shifts in the same direction, for the upcoming fiscal year period:

	June 30	
(in millions)	2015 (1)	2014 (1)
Estimated commodity exposure	$405	$321
Sensitivity gain/loss	$41	$32
Estimated offsetting impact of hedges	(1)	(1)
Estimated net gain/loss	$40	$31

(1) This analysis excludes exposures that may be added as a result of acquisitions that have not yet closed as of June 30, 2015.

We believe our total gross range of direct and indirect exposure to commodities, including the items listed in the table above but excluding exposures that may be added as a result of acquisitions that have not yet closed as of June 30,

2015, is $400 million to $500 million for fiscal 2016.

Business

Business

General

We are a healthcare services and products company that improves the cost-effectiveness of health care. We help pharmacies, hospitals, 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.

Pharmaceutical Segment

In the United States, our 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;
- provides pharmacy operations, medication therapy management and patient outcomes services to hospitals and other healthcare providers; and
- manufactures and repackages generic pharmaceuticals and over-the-counter healthcare products;
- 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 development, marketing, distribution and payment for specialty pharmaceutical products; and provides specialty pharmacy services through its Specialty Solutions division.

In China, the Pharmaceutical segment distributes branded, generic and specialty pharmaceutical, over-the-counter healthcare and consumer products, provides logistics, marketing and other services and operates direct-to-patient specialty pharmacies through Cardinal Health China.

See Note 15 of the “Notes to Consolidated Financial Statements” for Pharmaceutical segment revenue, profit and assets for fiscal 2015, 2014 and 2013.

Pharmaceutical Distribution

Our Pharmaceutical Distribution division generates gross margin when the aggregate selling price to our customers exceeds the aggregate cost of products sold. Gross margin includes margin from our generic pharmaceutical program, margin from pharmaceutical distribution agreements with branded manufacturers and margin from over-the-counter healthcare and consumer products. It also includes cash discounts. Margin from our generic pharmaceutical program includes price discounts and rebates from manufacturers 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. Margin from pharmaceutical distribution agreements with branded manufacturers 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.

Sourcing Venture With CVS Health

In July 2014, we established Red Oak Sourcing, a U.S.-based generic pharmaceutical sourcing venture with CVS Health with an initial term of 10 years. Both companies have contributed sourcing and supply chain expertise to the 50/50 venture and have committed to source generic pharmaceuticals through arrangements negotiated by the venture. Red Oak Sourcing negotiates generic pharmaceutical supply contracts on behalf of both companies.

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 distributes oncology, rheumatology, urology, nephrology and other pharmaceutical products ("specialty pharmaceutical products") and human-derived plasma products to hospitals, dialysis clinics, physician offices and other healthcare providers; provides consulting, patient support, logistics and other services to pharmaceutical manufacturers, third-party payors and healthcare providers primarily supporting the development, marketing, distribution and payment for specialty pharmaceutical products; and provides specialty pharmacy services. Our use of the terminology "specialty pharmaceutical products and services" may not be comparable to the terminology used by other industry participants.

Business

Medical Segment

Our Medical segment distributes a broad range of national brand and our own Cardinal Health brand medical, surgical and laboratory products and provides services to hospitals, ambulatory surgery centers, clinical laboratories and other healthcare providers in the United States, Canada and China and to patients in the home in the United States through our Cardinal Health at Home division. During fiscal 2015, we entered into an agreement with Henry Schein, Inc. to consolidate our physician office organization into Henry Schein, Inc. as part of a broader commercial relationship.
This segment also manufactures, sources and develops our own higher-margin, Cardinal Health brand medical and surgical products. Manufactured products include: single-use surgical drapes, gowns and apparel; exam and surgical gloves; fluid suction and collection systems; cardiovascular products; wound care products; and orthopedic products. We will expand this segment's product line to

include the cardiac and endovascular products manufactured by Cordis once our acquisition of Cordis, which is discussed elsewhere in this Form 10-K, is completed. We expect to continue to expand our manufactured products through acquisitions and internal development. Our manufactured products are sold directly or through third-party distributors in the United States, Canada, Europe and other regions internationally.
This segment also assembles and offers sterile and non-sterile procedure kits. In addition, the segment provides supply chain services, including spend management, distribution management and inventory management services, to healthcare providers.
See Note 15 of the “Notes to Consolidated Financial Statements” for Medical segment revenue, profit and assets for fiscal 2015, 2014 and 2013.

Acquisitions

We have acquired a number of businesses over the last several years that have enhanced our core strategic areas of generics, health systems and hospital solutions (including manufactured medical products), specialty pharmaceutical products and services, international and alternate sites of care. We expect to continue to pursue additional acquisitions in the future.
Since July 1, 2010, we have completed, or expect to complete, the following six larger acquisitions:

Date	Company	Location	Line of Business	Acquisition Price (in millions)	
Pending	Cordis business of Johnson & Johnson	Fremont, CA	Cardiac and endovascular products	$1,944	
07/15	The Harvard Drug Group	Livonia, MI	Pharmaceutical product distribution	$1,115	
03/13	AssuraMed, Inc.	Twinsburg, OH	Medical product distribution	$2,070	
12/10	Kinray, Inc.	Whitestone, NY	Pharmaceutical product distribution	$1,336	
11/10	Yong Yu	Shanghai, China	Pharmaceutical and medical product distribution	$458	(1)
07/10	Healthcare Solutions Holding, LLC	Ellicott City, MD	Specialty pharmaceutical services	$520	(2)

(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 a 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 in fiscal 2015, Tradex International, Inc., a supplier of disposable gloves, and Metro Medical Supply, Inc., a distributor of specialty pharmaceuticals and medical and surgical products; in fiscal 2014, Access Closure, Inc., a manufacturer and distributor of extravascular closure devices; and in fiscal 2012, Futuremed Healthcare Products Corporation, a Canadian medical product distributor.

Business

Customers

Our largest customer, CVS Health, accounted for 27 percent of our fiscal 2015 revenue. In the aggregate, our five largest customers, including CVS Health, accounted for 41 percent of our fiscal 2015 revenue.
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, under numerous contracts across all of our businesses, collectively accounted for 18 percent of our revenue in fiscal 2015.

Suppliers

We rely on many different suppliers. Products obtained from our five largest suppliers accounted for an aggregate of 22 percent of our revenue during fiscal 2015, but no single supplier's products accounted for more than 7 percent of revenue.
The Pharmaceutical Distribution division is a party to distribution service agreements with most pharmaceutical manufacturers. These

agreements have terms ranging from one year to five years. Most provide for an automatic renewal feature of one year. Some agreements allow either party, and in some instances, only the manufacturer to terminate the agreement without cause subject to 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 price, service offerings, support services and breadth of product lines.
In the Pharmaceutical segment, we compete with wholesale distributors with national reach (including McKesson Corporation and AmerisourceBergen Corporation), regional wholesale distributors, self-warehousing chains, specialty distributors, third-party logistics companies, companies that provide services supporting the development, marketing, distribution and payment for specialty pharmaceutical products 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 directly.
In the Medical segment, we compete with many different national medical product distributors, including Owens & Minor, Inc., McKesson Corporation and Medline Industries, Inc. We also compete with regional medical product distributors and companies that distribute medical products to patients in the home as well as third-party logistics companies. In addition, we compete with manufacturers that sell all or part of their product offerings directly. Competitors of the Medical segment's manufacturing and procedural kit businesses include diversified healthcare companies as well as companies that are more focused on specific product categories.

Employees

At June 30, 2015, we had approximately 24,400 employees in the United States and approximately 10,100 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 some medical and surgical products and to 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.

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. Drug Enforcement Administration (the “DEA”);
- the U.S. Food and Drug Administration (the “FDA”) and other agencies within the U.S. Department of Health and Human Services, including the Centers for Medicare and Medicaid Services, the Office of Inspector General and the Office for Civil Rights;
- the U.S. Nuclear Regulatory Commission (the “NRC”);
- the U.S. Federal Trade Commission; (the "FTC);
- U.S. Customs and Border Protection;
- state boards of pharmacy;
- state controlled substance agencies;
- state health departments, insurance departments, Medicaid 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 for failure to comply with applicable legal or regulatory requirements. 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.

Manufacturing and Marketing

The FDA and other domestic and foreign governmental agencies administer requirements that cover the design, testing, safety, effectiveness, manufacturing (including good manufacturing practices), quality systems, labeling, promotion and advertising, distribution, importation and post-market surveillance of most of our manufactured products. In addition, we need specific approval or clearance from regulatory authorities before we can market and sell some of these products in the United States and certain other countries. Even after we obtain approval or clearance to market a product, the product and our manufacturing processes are subject to continued regulatory oversight. It can be costly and time-consuming to obtain regulatory approvals or clearances to market a

medical device, and such approvals or clearances might not be granted on a timely basis, if at all.

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 issued by 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 Tracing and Supply Chain Integrity

In November 2013, the U.S. Congress enacted the Drug Supply Chain Security Act. This law establishes a phased-in national system for tracing pharmaceutical products through the pharmaceutical distribution supply chain to prevent the introduction of counterfeit, adulterated or mislabeled drugs. The first phase of implementation began on January 1, 2015, and upon full implementation in 2023, we and other supply chain stakeholders will participate in an electronic, interoperable, prescription drug tracing system.

Government Healthcare Programs

We are subject to U.S. federal healthcare fraud and abuse laws. These laws generally prohibit persons 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 federally-funded healthcare programs. They also prohibit submitting or causing to be submitted any fraudulent claim for payment by the federal government. There are similar state healthcare fraud and abuse laws that apply to Medicaid and other state-funded healthcare programs. 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).

Our Cardinal Health at Home business and a few of our other businesses are Medicare-certified suppliers or participate in state Medicaid programs. These businesses are subject to accreditation and quality standards and other rules and regulations, including applicable billing, payment and record-keeping requirements. In addition, a few of our businesses manufacture or repackage pharmaceuticals and are subject to federal and state laws that establish eligibility for reimbursement by federal and state healthcare programs. Failure to comply with applicable standards and regulations could result in civil or criminal sanctions, including the

loss of our ability to participate in Medicare, Medicaid 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 contractual or other requirements may result in monetary damages and criminal or civil penalties as well as termination of our government contracts or our suspension or debarment from government contract work.

Health and Personal Information Practices

We collect, handle and maintain patient-identifiable healthcare information. The Health Insurance Portability and Accountability Act of 1996 ("HIPAA"), as augmented by the Health Information Technology for Economic and Clinical Health Act, as well as some state and foreign laws, regulate the use and disclosure of patient-identifiable health information, including requiring specified privacy and security measures.

We also collect, handle 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.

In Europe, we are subject to the European Union (“EU”) data protection regulations, including the EU Directive on Data Protection, which requires member states to impose minimum restrictions on the collection and use of personal data that, in some respects, are more stringent, and impose more significant burdens on subject businesses, than current privacy standards in the United States.

Antitrust Laws

The U.S. federal government and most states have enacted antitrust laws that prohibit certain types of conduct deemed to be anti-competitive. Violations of federal or state antitrust laws can result in various sanctions, including criminal and civil penalties. Private plaintiffs also could bring civil lawsuits against us for alleged antitrust law violations, including claims for treble damages. As previously disclosed, in April 2015, we settled allegations by the FTC resulting

from an investigation into supplier arrangements involving our Nuclear Pharmacy Services division primarily focused on the period between 2003 and 2008. In that settlement, we agreed to a court order and injunction under federal antitrust laws, and agreed, among other things, to pay $27 million to the FTC, which the FTC has stated will be used to establish a fund for allegedly aggrieved third parties.

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 and laboratory practices.

Laws Relating to Foreign Trade and Operations

U.S. and foreign 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 U.S. and foreign laws concerning the conduct of our foreign operations, including the U.S. Foreign Corrupt Practices Act, Chinese anti-corruption laws, the U.K. Bribery Act 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, the State Administration of Industry and Commerce, the Ministry of Commerce, the Ministry of Finance, the China Food and Drug Administration, the National Development and Reform Commission, the General Administration of Customs, the Ministry of Industrial and Information Technology and the China Insurance Regulatory Commission.

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

Business

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 Reporting—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.

Risk Factors

Risk Factors

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

We could suffer the adverse effects of competitive pressures.

As described in greater detail in the "Business" section, 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 sourcing or cost control measures, additional service offerings and sales of higher margin products, 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 could give the resulting enterprises greater bargaining power, which may adversely impact our results of operations.

Our Pharmaceutical segment's margins are affected by prices established by manufacturers, the frequency and magnitude of generic pharmaceutical launches, and other factors that are beyond our control.

Gross margin in our Pharmaceutical segment is impacted by pharmaceutical price appreciation and the number and value of pharmaceutical launches. In past years, these items have impacted year-over-year margins.

Prices for generic pharmaceuticals generally decline over time. But at times, some generic products experience price appreciation, which may positively impact our margins. The frequency and magnitude of future generic product price appreciation is uncertain.

Prices for branded pharmaceuticals, on the other hand, generally increase over time. The frequency and magnitude of branded product price appreciation also is uncertain, and branded manufacturers may determine not to increase prices or to implement only modest increases, which can limit our margins.

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.

Our business is subject to rigorous regulatory and licensing requirements.

The healthcare industry is highly regulated. As described in greater detail in the "Business" section, 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 obtain and hold permits, licenses and other regulatory approvals from, and to comply with operating and security standards of, numerous 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 must 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 or civil sanctions. In addition, it can be costly and time-consuming to obtain regulatory approvals to market a medical device, and such approvals might not be granted on a timely basis, if at all.

We are required to comply with laws relating to healthcare fraud and abuse. The requirements of these laws are complex and subject to varying interpretations, and it is possible that regulatory authorities could challenge our policies and practices. 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 or criminal sanctions, including the loss of licenses or the ability to

participate in Medicare, Medicaid and other federal and state healthcare programs. Such sanctions and damages could adversely affect our results of operations and financial condition.

Our Cardinal Health at Home business and a few of our other businesses are Medicare-certified suppliers, participate in state Medicaid programs or manufacture or repackage pharmaceuticals that are purchased through federal or state healthcare program. Their failure to comply with applicable standards and regulations could result in civil or criminal sanctions, including the loss of our ability to participate in Medicare, Medicaid 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 contractual or other requirements may result in monetary damages and criminal or civil penalties as well as termination of our government contracts or our suspension or debarment from government contract work.

We collect, handle and maintain patient-identifiable healthcare information and other sensitive personal information, which are subject to federal, state and foreign laws that regulate the use and disclosure of such information. Regulations currently in place continue to evolve, and new laws in this area could further restrict our ability to collect, handle and maintain personal or patient information, or could require us to incur additional compliance costs, either of which could have an adverse impact on our results of operations. Violations of federal, state or foreign laws concerning

privacy and data protection could subject us to civil or criminal penalties, breach of contract claims, costs for remediation and harm to our reputation.

The U.S. federal government and most states have enacted antitrust laws that prohibit certain types of conduct deemed to be anti-competitive. Violations of federal or state antitrust laws can result in various sanctions, including criminal and civil penalties. Private plaintiffs also could bring civil lawsuits against us for alleged antitrust law violations, including claims for treble damages.

Our global operations are required to comply with the U.S. Foreign Corrupt Practices Act, Chinese anti-corruption laws, the U.K. Bribery Act and similar anti-bribery laws in other jurisdictions and 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 or 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.

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

Our sales and credit concentration is significant. CVS Health accounted for 27 percent of our fiscal 2015 revenue and 20 percent of our gross trade receivable balance at June 30, 2015. If CVS Health were to terminate the agreement due to an alleged default by us, default in payment or significantly reduce its purchases of our products and services, our results of operations and financial condition could be adversely affected.

The anticipated benefits of our generic pharmaceutical sourcing venture with CVS Health may not be realized.

In July 2014, we established the Red Oak Sourcing venture with CVS Health with an initial term of 10 years. Red Oak Sourcing negotiates generic pharmaceutical supply contracts on behalf of both companies. We are required to pay quarterly payments to CVS Health. If the venture does not continue to be successful, our results of operations and financial condition could be adversely affected.

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, or 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 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 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 generally declined and the basis for payments is changing, shifting away from fee-for-service and towards value-based payments and risk-sharing models. 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 is experiencing a shift away from traditional healthcare venues like hospitals and into clinics and physician offices, and, in some cases, patients' homes. We could be adversely affected directly or indirectly (if our customers are adversely affected) by these and other changes in the delivery, pricing or utilization of, or reimbursement for, pharmaceuticals, medical products or healthcare services.

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

We rely on our 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 our information systems or critical facilities, or our customers' access to them, are interrupted; these systems or facilities are damaged; or these systems or facilities fail, whether due to physical disruptions, such as fire, natural disaster, pandemic or power outage, or due to cyber security incidents or other actions of third parties.

Our business relies on the secure transmission, storage and hosting of patient-identifiable health information, financial information and other sensitive information relating to our customers, company and workforce. The techniques used by those seeking to obtain unauthorized access to our information systems or to those of a third-party service provider, or to disable them, degrade their service or sabotage them, change frequently. In addition, these techniques may be difficult to detect for a long time and often are not recognized until launched against a target. As a result, we may be unable to anticipate these techniques or to implement adequate preventative measures. Any compromise of our information systems or those of a third-party

service provider, including the unauthorized access, use or disclosure of sensitive information, could adversely impact our operations, results of operations or our ability to satisfy legal requirements, including those related to patient-identifiable health information.

The Pharmaceutical segment is in the initial phases of a multi-year upgrade of certain finance and operating systems. If these system upgrades are not effectively implemented or they fail to operate as intended, it could adversely affect the Pharmaceutical segment's supply chain operations and the effectiveness of our internal control over financial reporting.

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

Due to the nature of our businesses, which includes the manufacture and distribution of healthcare products, we may from time to time become involved in disputes or legal proceedings. For instance, some of the products that we manufacture or distribute may be alleged to cause personal injury, subjecting us to product liability claims. 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).

Our Medical segment's manufacturing businesses operate in an industry characterized by extensive intellectual property litigation. Patent litigation can result in significant damage awards and injunctions that could prevent the manufacture and sale of affected products or force us to make royalty payments in order to continue selling the affected products.

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. In fiscal 2015, we spent $503 million to acquire other businesses, and we acquired Harvard Drug in July 2015 for $1.1 billion and entered into an agreement to acquire Cordis for $1.9 billion. 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. Once completed, the Cordis acquisition will subject us to additional risks relating to regulatory matters, legal proceedings, tax laws or positions and, as discussed later in this section, global operations.

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 can fluctuate significantly, causing our costs to produce and distribute our products to fluctuate. 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 results of operations may suffer upon the bankruptcy, insolvency, or other credit failure of a customer or supplier that has a substantial amount owed to us.

Most of our customers buy products and services from us on credit, which is made available to customers based on our assessment of creditworthiness. In addition, our relationships with suppliers give rise to amounts owed to us for returned or defective goods and chargebacks, and amounts due to us for services provided to the suppliers. The

bankruptcy, insolvency or other credit failure of any customer or supplier that has a substantial amount owed to us could adversely affect our results of operations.

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

We conduct our operations in various regions of the world outside of the United States, including North America, South America, Europe and Asia. The scope and complexity of our international operations will expand with the acquisition of Cordis. Global economic and regulatory developments can affect our business in many ways. 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 to protect us against these risks, and any hedges may not successfully mitigate these risks. Divergent or unfamiliar regulatory systems and labor markets can increase the risks and burdens of operating in numerous countries.

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. In addition, deteriorating economic conditions may increase bankruptcies, insolvencies or other credit failures of customers or suppliers, which, if they have a substantial amount owed to us, also could adversely affect our results of operations.

Properties and Legal Proceedings

Properties

In the United States, at June 30, 2015, the Pharmaceutical segment operated 22 primary pharmaceutical distribution facilities and one national logistics center; six specialty distribution facilities; and over 150 nuclear pharmacy and cyclotron facilities. The Medical segment operated 78 medical-surgical distribution, assembly, manufacturing and other facilities. Our U.S. operating facilities are located in 45 states and in Puerto Rico.
Outside the United States, at June 30, 2015, 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 and pharmacy facilities in China.

At June 30, 2015, 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 or enhance the efficiency of our business.

Legal Proceedings

In addition to the proceedings described below, the legal proceedings described in Note 9 of the "Notes to Consolidated Financial Statements" are incorporated in this "Legal Proceedings" section by reference.
In June 2015, Erste-Sparinvest Kapitalanlagegesellschaft m.b.H., the plaintiff in a derivative action in the U.S. District Court for the Southern District of Ohio, voluntarily dismissed its complaint and the court dismissed the action without prejudice. The plaintiff, a purported shareholder, had filed the action in January 2015 against the current and certain former members of our Board of Directors alleging that the defendants breached their fiduciary duties by failing to implement and maintain a system to prevent diversion of controlled substances in connection with, among other things, the DEA’s past suspensions of our distribution centers’ registrations. The derivative complaint sought, among other things, unspecified money damages against the defendants and an award of attorney's fees. In dismissing the complaint, the plaintiff stated that it believed it was unlikely to be able to sustain its burden of proof regarding the allegations. Neither we nor any of the other defendants made any payments or other concessions in connection with the dismissal.

Market for Registrant's Common Equity

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, 2015 and 2014 and paid quarterly. It also reflects the range of the reported high and low closing prices of our common shares from July 1, 2015 through the period ended on July 31, 2015 and the per share dividends declared from July 31, 2015 through the period ended on August 5, 2015:

	High	Low	Dividends
Fiscal 2014			
Quarter Ended:			
September 30, 2013	$53.57	$47.02	$0.3025
December 31, 2013	67.48	52.95	0.3025
March 31, 2014	73.54	65.26	0.3025
June 30, 2014	71.31	63.80	0.3425
Fiscal 2015			
Quarter Ended:			
September 30, 2014	$77.66	$69.59	$0.3425
December 31, 2014	83.04	72.13	0.3425
March 31, 2015	91.25	79.19	0.3425
June 30, 2015	91.50	83.65	0.3870
Fiscal 2016	$87.02	$82.29	$0.3870

At July 31, 2015 there were approximately 9,693 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 2015	150	$90.23	—	$1,043
May 2015	1,959,760	88.10	1,959,563	870
June 2015	2,006,653	88.39	2,006,458	693
Total	3,966,563	$88.25	3,966,021	$693

(1) Reflects 150, 197 and 195 common shares purchased in April, May and June 2015, respectively, through a rabbi trust as investments of participants in our Deferred Compensation Plan.

(2) On October 29, 2013, our Board of Directors approved a $1.0 billion share repurchase program and on August 6, 2014, the Board of Directors authorized an additional $1.0 billion under the program, for a total of $2.0 billion. This program expires on December 31, 2016. During the three months ended June 30, 2015, we repurchased 4.0 million common shares under this program.

Market for Registrant's Common Equity

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, 2010, based on the market prices at the end of each fiscal year through and including June 30, 2015, 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.

	June 30					
	2010	2011	2012	2013	2014	2015
Cardinal Health, Inc.	$100.00	$137.92	$130.26	$150.19	$222.46	$276.10
S&P 500 Index	100.00	130.68	137.75	166.10	206.92	222.24
S&P 500 Healthcare Index	100.00	128.54	141.09	180.23	234.38	290.99

Reports

Management Reports

Evaluation of Disclosure Controls and Procedures

We evaluated, with the participation of our principal executive officer and principal financial officer, the effectiveness of our disclosure controls and procedures (as defined in Rule 13a-15(e) under the Securities Exchange Act of 1934 (the "Exchange Act")) as of June 30, 2015. Based on this evaluation, our principal executive officer and principal financial officer have concluded that our disclosure controls and procedures were effective as of June 30, 2015 to provide reasonable assurance that information required to be disclosed in our reports under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the SEC rules and forms and that such information is accumulated and communicated to management as appropriate to allow timely decisions regarding required disclosure.

Management’s Report on Internal Control Over Financial Reporting

Management is responsible for establishing and maintaining adequate internal control over financial reporting as defined in Rule 13a-15(f) under the Exchange Act. Our internal control system is designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also controls deemed effective now may become inadequate in the future because of changes in conditions, or because compliance with the policies or procedures has deteriorated or been circumvented.

Management assessed the effectiveness of our internal control over financial reporting as of June 30, 2015. In making this assessment, management used the criteria established in the Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (2013 framework) (the “COSO criteria”). Based on management’s assessment and the COSO criteria, management believes that our internal control over financial reporting was effective as of June 30, 2015.

Our independent registered public accounting firm, Ernst & Young LLP, has issued a report on our internal control over financial reporting. Ernst & Young LLP’s report appears following this "Management Reports" section and expresses an unqualified opinion on the effectiveness of our internal control over financial reporting.

Changes in Internal Control Over Financial Reporting

There were no changes in our internal control over financial reporting during the quarter ended June 30, 2015 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

Reports

Report of Independent Registered Public Accounting Firm on Internal Control Over Financial Reporting
The Board of Directors and Shareholders of Cardinal Health, Inc.
We have audited Cardinal Health, Inc. and subsidiaries' internal control over financial reporting as of June 30, 2015, based on criteria established in Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (2013 framework) (the COSO criteria). Cardinal Health, Inc. and subsidiaries' management is responsible for maintaining effective internal control over financial reporting, and for its assessment of the effectiveness of internal control over financial reporting included in the accompanying "Management's Report on Internal Control Over Financial Reporting." Our responsibility is to express an opinion on the company's internal control over financial reporting based on our audit.
We conducted our audit 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 effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, testing and evaluating the design and operating effectiveness of internal control based on the assessed risk, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.
A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of the company's assets that could have a material effect on the financial statements.
Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.
In our opinion, Cardinal Health, Inc. and subsidiaries maintained, in all material respects, effective internal control over financial reporting as of June 30, 2015, based on the COSO criteria.
We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheets of Cardinal Health, Inc. and subsidiaries as of June 30, 2015 and 2014 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, 2015 of Cardinal Health, Inc. and subsidiaries and our report dated August 13, 2015 expressed an unqualified opinion thereon.
/s/ Ernst & Young LLP

Columbus, Ohio
August 13, 2015

Reports

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, 2015 and 2014, 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, 2015. 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, 2015 and 2014, and the consolidated results of their operations and their cash flows for each of the three years in the period ended June 30, 2015, 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, presents fairly in all material respects the information set forth therein.
We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), Cardinal Health, Inc. and subsidiaries' internal control over financial reporting as of June 30, 2015, based on criteria established in Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (2013 framework) and our report dated August 13, 2015 expressed an unqualified opinion thereon.
/s/ Ernst & Young LLP

Columbus, Ohio
August 13, 2015

Financial Statements

Financial Statements

Consolidated Statements of Earnings

(in millions, except per common share amounts)	2015	2014	2013
Revenue	$102,531	$91,084	$101,093
Cost of products sold	96,819	85,923	96,172
Gross margin	5,712	5,161	4,921
Operating expenses:			
Distribution, selling, general and administrative expenses	3,240	3,028	2,875
Restructuring and employee severance	44	31	71
Amortization and other acquisition-related costs	281	223	158
Impairments and (gain)/loss on disposal of assets, net	(19)	15	859
Litigation (recoveries)/charges, net	5	(21)	(38)
Operating earnings	2,161	1,885	996
Other income, net	(7)	(46)	(15)
Interest expense, net	141	133	123
Loss on extinguishment of debt	60	—	—
Earnings before income taxes and discontinued operations	1,967	1,798	888
Provision for income taxes	755	635	553
Earnings from continuing operations	1,212	1,163	335
Earnings/(loss) from discontinued operations, net of tax	3	3	(1)
Net earnings	$1,215	$1,166	$334
Basic earnings per common share:			
Continuing operations	$3.65	$3.41	$0.98
Discontinued operations	0.01	0.01	—
Net basic earnings per common share	$3.66	$3.42	$0.98
Diluted earnings per common share:			