CARDINAL HEALTH INC
Form 10-Q
May 05, 2015
Table of Contents

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
Form 10-Q

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

For the quarterly period ended March 31, 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)

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 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 number of the registrant's common shares, without par value, outstanding as of April 30, 2015, was the following: 330,833,516.

Cardinal Health, Inc. and Subsidiaries

Table of Contents

Item	Index*	Page
	Part I. Financial Information	
1	Financial Statements	3
	Condensed Consolidated Statements of Earnings for the Three and Nine Months Ended March 31, 2015 and 2014 (Unaudited)	3
	Condensed Consolidated Statements of Comprehensive Income for the Three and Nine Months Ended March 31, 2015 and 2014 (Unaudited)	4
	Condensed Consolidated Balance Sheets at March 31, 2015 (Unaudited) and June 30, 2014	5
	Condensed Consolidated Statements of Cash Flows for the Nine Months Ended March 31, 2015 and 2014 (Unaudited)	6
	Notes to Condensed Consolidated Financial Statements	7
2	Management's Discussion and Analysis of Financial Condition and Results of Operations	17
3	Quantitative and Qualitative Disclosures About Market Risk	22
4	Controls and Procedures	22
	Part II. Other Information	
1	Legal Proceedings	23
1A	Risk Factors	23
2	Unregistered Sales of Equity Securities and Use of Proceeds	23
6	Exhibits	24
	Signatures	25

* Items not listed are inapplicable.

Table of Contents Cardinal Health, Inc. and Subsidiaries
Part I. Financial Information

Item 1: Financial Statements
Condensed Consolidated Statements of Earnings (Unaudited)

	Three Months Ended March 31		Nine Months Ended March 31	
(in millions, except per common share amounts)	2015	2014	2015	2014
Revenue	$25,375	$21,427	$74,983	$68,190
Cost of products sold	23,916	20,130	70,729	64,285
Gross margin	1,459	1,297	4,254	3,905
Operating expenses:				
Distribution, selling, general and administrative expenses	803	736	2,393	2,233
Restructuring and employee severance	7	5	33	25
Amortization and other acquisition-related costs	77	56	190	160
Impairments and (gain)/loss on disposal of assets, net	(1)	—	(19)	10
Litigation (recoveries)/charges, net	(18)	(8)	54	(21)
Operating earnings	591	508	1,603	1,498
Other income, net	(2)	(33)	(6)	(43)
Interest expense, net	35	34	105	100
Loss on extinguishment of debt	—	—	60	—
Earnings before income taxes and discontinued operations	558	507	1,444	1,441
Provision for income taxes	193	192	524	512
Earnings from continuing operations	365	315	920	929
Earnings from discontinued operations, net of tax	—	—	—	3
Net earnings	$365	$315	$920	$932
Basic earnings per common share:				
Continuing operations	$1.10	$0.92	$2.77	$2.72
Discontinued operations	—	—	—	0.01
Net basic earnings per common share	$1.10	$0.92	$2.77	$2.73
Diluted earnings per common share:				
Continuing operations	$1.09	$0.91	$2.74	$2.69
Discontinued operations	—	—	—	0.01
Net diluted earnings per common share	$1.09	$0.91	$2.74	$2.70
Weighted-average number of common shares outstanding:				
Basic	330	342	332	341
Diluted	334	347	336	346
Cash dividends declared per common share	$0.3425	$0.3025	$1.0275	$0.9075

See notes to condensed consolidated financial statements.

Condensed Consolidated Statements of Comprehensive Income (Unaudited)

	Three Months Ended March 31		Nine Months Ended March 31	
(in millions)	2015	2014	2015	2014
Net earnings	$365	$315	$920	$932
Other comprehensive income/(loss):				
Net change in foreign currency translation adjustments	(53)	(24)	(117)	4
Net unrealized gain/(loss) on derivative instruments, net of tax	2	(5)	(6)	(2)
Total other comprehensive income/(loss), net of tax	(51)	(29)	(123)	2
Total comprehensive income	$314	$286	$797	$934

See notes to condensed consolidated financial statements.

Condensed Consolidated Balance Sheets

(in millions)	March 31, 2015 (Unaudited)	June 30, 2014
Assets		
Current assets:		
Cash and equivalents	$3,183	$2,865
Trade receivables, net	6,095	5,380
Inventories, net	9,163	8,266
Prepaid expenses and other	1,190	1,428
Total current assets	19,631	17,939
Property and equipment, net	1,407	1,459
Goodwill and other intangibles, net	6,033	5,870
Other assets	817	765
Total assets	$27,888	$26,033
Liabilities and Shareholders' Equity		
Current liabilities:		
Accounts payable	$13,851	$12,149
Current portion of long-term obligations and other short-term borrowings	283	801
Other accrued liabilities	2,261	2,165
Total current liabilities	16,395	15,115
Long-term obligations, less current portion	3,720	3,171
Deferred income taxes and other liabilities	1,404	1,346
Shareholders' equity:		
Preferred shares, without par value:		
Authorized—500 thousand shares, Issued—none	—	—
Common shares, without par value:		
Authorized—755 million shares, Issued—364 million shares at March 31, 2015 and June 30, 2014	2,992	2,980
Retained earnings	5,353	4,774
Common shares in treasury, at cost: 33 million shares and 27 million shares at March 31, 2015 and June 30, 2014, respectively	(1,923)	(1,423)
Accumulated other comprehensive income/(loss)	(53)	70
Total shareholders' equity	6,369	6,401
Total liabilities and shareholders' equity	$27,888	$26,033

See notes to condensed consolidated financial statements.

Condensed Consolidated Statements of Cash Flows (Unaudited)

	Nine Months Ended March 31	
(in millions)	2015	2014
Cash flows from operating activities:		
Net earnings	$920	$932
Earnings from discontinued operations, net of tax	—	(3)
Earnings from continuing operations	920	929
Adjustments to reconcile earnings from continuing operations to net cash provided by operating activities:		
Depreciation and amortization	336	344
Loss on extinguishment of debt	60	—
Gain on sale of other investments	(5)	(32)
Impairments and (gain)/loss on disposal of assets, net	(19)	10
Share-based compensation	80	72
Provision for bad debts	42	31
Change in operating assets and liabilities, net of effects from acquisitions:		
Decrease/(increase) in trade receivables	(718)	1,473
Decrease/(increase) in inventories	(850)	350
Increase/(decrease) in accounts payable	1,657	(1,392)
Other accrued liabilities and operating items, net	169	23
Net cash provided by operating activities	1,672	1,808
Cash flows from investing activities:		
Acquisition of subsidiaries, net of cash acquired	(319)	(168)
Additions to property and equipment	(139)	(138)
Purchase of available-for-sale securities and other investments	(134)	(27)
Proceeds from sale of available-for-sale securities and other investments	129	47
Proceeds from maturities of available-for-sale securities	24	—
Proceeds from divestitures and disposal of held for sale assets	53	—
Net cash used in investing activities	(386)	(286)
Cash flows from financing activities:		
Payment of contingent consideration obligation	(3)	—
Net change in short-term borrowings	(9)	65
Reduction of long-term obligations	(1,221)	(1)
Proceeds from long-term obligations, net of issuance costs	1,182	—
Net proceeds from issuance of common shares	59	219
Tax proceeds from share-based compensation	56	36
Dividends on common shares	(346)	(312)
Purchase of treasury shares	(686)	(389)
Net cash used in financing activities	(968)	(382)
Net increase in cash and equivalents	318	1,140
Cash and equivalents at beginning of period	2,865	1,901

Cash and equivalents at end of period	$3,183	$3,041

See notes to condensed consolidated financial statements.

1. Basis of Presentation and Summary of Significant Accounting Policies

Basis of Presentation

Our condensed consolidated financial statements include the accounts of all majority-owned or controlled subsidiaries, and all significant intercompany transactions and amounts have been eliminated. To conform to the current year presentation, certain prior year amounts have been reclassified. References to "we," "our" and similar pronouns in this Quarterly Report on Form 10-Q for the quarter ended March 31, 2015 (this "Form 10-Q") refer to Cardinal Health, Inc. and its majority-owned or controlled subsidiaries unless the context requires otherwise. The results of businesses acquired or disposed of are included in the condensed consolidated financial statements from the effective date of the acquisition or up to the date of disposal, respectively.

Our condensed consolidated financial statements have been prepared in accordance with the U.S. Securities and Exchange Commission ("SEC") instructions to Quarterly Reports on Form 10-Q and include all of the information and disclosures required by accounting principles generally accepted in the United States ("GAAP") for interim financial reporting. The preparation of financial statements in conformity with GAAP requires us to make estimates and assumptions that affect amounts reported in the condensed consolidated financial statements and accompanying notes. Actual amounts may differ from these estimated amounts. In addition, operating results presented for this fiscal 2015 interim period are not necessarily indicative of the results that may be expected for the full fiscal year ending June 30, 2015.

These condensed consolidated financial statements are unaudited and are presented pursuant to the rules and regulations of the SEC. Accordingly, the condensed consolidated financial statements included in this Form 10-Q should be read in conjunction with the audited consolidated financial statements and related notes contained in our Annual Report on Form 10-K for the fiscal year ended June 30, 2014 (the "2014 Form 10-K"). In our opinion, all adjustments necessary for a fair presentation of the condensed consolidated financial statements have been included. Except as disclosed elsewhere in this Form 10-Q, all such adjustments are of a normal and recurring nature.

Sale of Investments

During the three months ended March 31, 2014 we sold our minority equity interests in two investments for proceeds of $47 million, which resulted in a pre-tax gain of $32 million included in other income, net in the condensed consolidated statements of earnings.

Recent Financial Accounting Standards

In April 2015, the Financial Accounting Standards Board ("FASB"), issued amended accounting guidance that clarifies the circumstances under which a cloud computing customer would account for the arrangement as a license of internal-use software. If it is determined that a software license does not exist in the arrangement, the customer would account for this arrangement as a service contract. This amendment will be effective for us in the first quarter of fiscal 2017, with early adoption permitted. We are currently evaluating the impact of adoption on our financial position and results of operations and the timing of adoption.

Also, in April 2015, the FASB issued amended accounting guidance related to the presentation of debt issuance costs in the financial statements. This guidance requires an entity to present such costs in the balance sheet as a direct deduction from the related debt rather than as an asset. This amendment will be effective for us in the first quarter of fiscal 2017, with early adoption permitted. Adoption of the guidance would reclassify debt issuance costs from other assets to long-term obligations, less current portion within the condensed consolidated balance sheet. We do not expect the adoption to have a material impact on our financial position or results of operations, and are currently evaluating the timing of adoption.

In August 2014, the FASB issued amended accounting guidance related to uncertainties about an entity’s ability to continue as a going concern. This guidance requires management to evaluate whether there is substantial doubt about a company’s ability to continue as a going concern. This amendment will be effective for us in the fourth quarter of fiscal 2017, with early adoption permitted. We do not expect the adoption of this guidance to impact our financial

statement disclosures.

In May 2014, the FASB issued amended accounting guidance related to revenue recognition. This guidance is based on the principle that revenue is recognized in an amount that reflects the consideration to which an entity expects to be entitled in exchange for the transfer of goods or services to customers. The guidance also requires additional disclosure about the nature, amount, timing and uncertainty of revenue and cash flows arising from customer contracts, including significant judgments and changes in judgments and assets recognized from costs incurred to obtain or fulfill a contract. This amendment will be effective for us in the first quarter of fiscal 2018. We are continuing to evaluate the options for adoption and the impact on our financial position and results of operations.

In July 2013, the FASB issued amended accounting guidance related to the presentation of an unrecognized tax benefit when a net operating loss carryforward, a similar tax loss, or a tax credit carryforward exists. This guidance requires an entity to present an unrecognized tax benefit, or a portion of an

unrecognized tax benefit, as a reduction to a deferred tax asset for a net operating loss carryforward, a similar tax loss, or a tax credit carryforward, unless certain conditions exists. We adopted this guidance in the first quarter of fiscal 2015. The adoption of this guidance did not impact our financial position or results of operations.

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

2. Acquisitions

While we have completed acquisitions during the nine months ended March 31, 2015, the pro forma results of operations and the results of operations for acquired businesses since the acquisition dates have not been separately disclosed because the effects were not significant compared to the consolidated financial statements, individually or in the aggregate. The cash paid for these acquisitions, net of cash acquired, was $319 million.

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. The acquisition of Cordis, a manufacturer and distributor of interventional cardiology devices and endovascular solutions, will expand the Medical segment's portfolio of self-manufactured products. We expect to finance the acquisition with $1.0 billion in new long-term debt with the remaining amount funded by cash on hand. In March 2015, we also entered into a $1.0 billion senior unsecured bridge term loan that may be used to complete this acquisition, as discussed further in Note 6. Cordis is a global company, with operations in more than 50 countries. The acquisition is expected to close in approximately 20 principal countries towards the end of calendar year 2015 and in the remaining countries afterward, subject to regulatory approval and customary closing conditions. Transaction and integration costs associated with the acquisition of Cordis were $21 million and $24 million during the three and nine months ended March 31, 2015, respectively, and are included in amortization and other acquisition-related costs in the condensed consolidated statements of earnings.

AccessClosure

On May 9, 2014, we completed the acquisition of Access Closure, Inc. ("AccessClosure") for $320 million in an all-cash transaction. We funded the acquisition with cash on hand. The acquisition of AccessClosure, a manufacturer and distributor of extravascular closure devices, expands the Medical segment's portfolio of self-manufactured products. The assessment of fair value for AccessClosure is preliminary and is based on information that was available at the time the condensed consolidated financial statements were prepared.

3. Restructuring and Employee Severance

The following tables summarize restructuring and employee severance costs related to our restructuring activities:

	Three Months Ended March 31	
(in millions)	2015	2014
Employee-related costs (1)	$3	$2
Facility exit and other costs (2)	4	3
Total restructuring and employee severance	$7	$5

	Nine Months Ended March 31	
(in millions)	2015	2014
Employee-related costs (1)	$24	$10
Facility exit and other costs (2)	9	15

Total restructuring and employee severance	$33	$25

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

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

The majority of restructuring costs incurred during the nine months ended March 31, 2015 and 2014 related to restructuring activities within our Medical segment.

In connection with a restructuring plan within our Medical segment announced on January 30, 2013, we completed the sale of our property in Waukegan, Illinois during the second quarter of fiscal 2015, which resulted in a $1 million loss on disposal of held for sale assets.

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

(in millions)	Employee-Related Costs	Facility Exit and Other Costs	Total
Balance at June 30, 2014	$24	$—	$24
Additions	21	1	22
Payments and other adjustments	(27)	(1)	(28)
Balance at March 31, 2015	$18	$—	$18

4. Goodwill and Other Intangible Assets

Goodwill

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

(in millions)	Pharmaceutical	Medical	Total
Balance at June 30, 2014	$2,158	$2,720	$4,878
Goodwill acquired, net of purchase price adjustments	20	186	206
Foreign currency translation adjustments and other	—	(29)	(29)
Balance at March 31, 2015	$2,178	$2,877	$5,055

Other Intangible Assets

Other intangible assets are amortized over periods ranging from one to twenty years. The following tables summarize other intangible assets by class at:

	March 31, 2015		
(in millions)	Gross Intangible	Accumulated Amortization	Net Intangible
Indefinite-life intangibles:			
Trademarks and other	$15	$—	$15
Total indefinite-life intangibles	15	—	15
Definite-life intangibles:			
Customer relationships	1,088	466	622
Trademarks, trade names and patents	229	84	145
Developed technology and other	320	124	196
Total definite-life intangibles	1,637	674	963
Total other intangible assets	$1,652	$674	$978

	June 30, 2014		
(in millions)	Gross Intangible	Accumulated Amortization	Net Intangible
Indefinite-life intangibles:			
Trademarks and other	$14	$—	$14
Total indefinite-life intangibles	14	—	14
Definite-life intangibles:			
Customer relationships	1,043	388	655
Trademarks, trade names and patents	213	69	144
Developed technology and other	258	79	179
Total definite-life intangibles	1,514	536	978
Total other intangible assets	$1,528	$536	$992

Total amortization of intangible assets was $48 million and $46 million for the three months ended March 31, 2015 and 2014, respectively, and $140 million and $138 million for the nine months ended March 31, 2015 and 2014, respectively. For acquisitions that have closed on or before March 31, 2015, estimated annual amortization of intangible assets for the remainder of fiscal 2015 through 2019 is as follows: $50 million, $187 million, $178 million, $133 million and $86 million.

5. Available-for-Sale Securities

We invest in marketable securities, which are classified as available-for-sale and are carried at fair value in the condensed consolidated balance sheets. We held the following investments in marketable securities at fair value at:

(in millions)	March 31, 2015	June 30, 2014
Current available-for-sale securities:		
Commercial paper	$9	$4
Treasury bills	—	85
International bonds	1	1
Corporate bonds	4	3
U.S. agency bonds	10	—
U.S. agency mortgage-backed securities	11	—
Total current available-for-sale securities	35	93
Long-term available-for-sale securities:		
Corporate bonds	7	5
U.S. agency bonds	26	2
U.S. agency mortgage-backed securities	16	—
Total long-term available-for-sale securities	49	7
Total available-for-sale securities	$84	$100

Gross unrealized gains and losses were immaterial at March 31, 2015. During the three and nine months ended March 31, 2015, gross realized gains and losses were immaterial and we did not recognize any other-than-temporary impairments. At March 31, 2015, the weighted-average effective maturity of our current and long-term investments was approximately 6 months and 15 months, respectively.

6. Long-Term Obligations and Other Short-Term Borrowings

Long-Term Debt

In a registered debt offering 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 (collectively, the "Notes"). The Notes are unsecured obligations and rank equally in right of payment with all of our existing and future unsecured and unsubordinated indebtedness.

The Notes require us to offer to purchase the Notes at 101% of the principal amount plus accrued and unpaid interest if we undergo a change of control, as defined in the Notes, and if the Notes receive specified ratings below investment grade by each of Standard & Poor's Ratings Services, Moody's Investors Service, Inc. and Fitch Ratings.

In December 2014, we used the net proceeds from the offering, together with cash on hand, to redeem all of the 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 any accrued but unpaid interest, plus the make-whole premium applicable to each series of notes. As a result of the redemption, we incurred a loss on the extinguishment of debt of $60 million ($37 million, net of tax), which included a make-whole premium of $80 million, write-off of $2 million of unamortized debt issuance costs and an offsetting $22 million fair value adjustment to the respective debt related to previously terminated interest rate swaps.

The following table summarizes long-term obligations and other short-term borrowings:

(in millions)	March 31, 2015	June 30, 2014
1.7% Notes due 2018	$403	$401
1.9% Notes due 2017	252	251
2.4% Notes due 2019	454	—
3.2% Notes due 2022	250	248
3.2% Notes due 2023	549	549
3.5% Notes due 2024	398	—
4.0% Notes due 2015	—	513
4.5% Notes due 2044	345	—
4.6% Notes due 2043	349	349
4.625% Notes due 2020	528	525
5.8% Notes due 2016	—	301
5.85% Notes due 2017	—	158
6.0% Notes due 2017	—	197
7.0% Debentures due 2026	124	124
7.8% Debentures due 2016	37	37
Other obligations	314	319
Total	$4,003	$3,972
Less: current portion of long-term obligations and other short-term borrowings	283	801
Long-term obligations, less current portion	$3,720	$3,171

Maturities of existing long-term obligations and other short-term borrowings for the remainder of fiscal 2015 through 2019 and thereafter are as follows: $283 million, $22 million, $290 million, $405 million, $2 million, and $3,001 million.

Other Financing Arrangements

In connection with the binding offer to purchase the Cordis business discussed in Note 2, we entered into a $1.0 billion 364-

day senior unsecured bridge term loan in March 2015. Borrowings under the senior unsecured bridge term loan bear interest based on the London Interbank Offered Rate. We expect to finance the acquisition with $1.0 billion in new long-term debt and terminate the bridge loan. Fees incurred from the senior unsecured bridge term loan are included in interest expense, net within the condensed consolidated statements of earnings.

On November 3, 2014, we renewed our committed receivables sales facility program through Cardinal Health Funding, LLC ("CHF") until November 3, 2017 and increased the size of the facility from $700 million to $950 million. CHF was organized for the sole purpose of buying receivables and selling undivided interests in those receivables to third-party purchasers. Although consolidated in accordance with GAAP, CHF is a separate legal entity

from Cardinal Health and from our subsidiary that sells receivables to CHF. CHF is designed to be a special purpose, bankruptcy-remote entity whose assets are available solely to satisfy the claims of its creditors. We had no outstanding balance under the committed receivable sales facility program at March 31, 2015 and June 30, 2014, except for standby letters of credit of $41 million at both March 31, 2015 and June 30, 2014.

7. Income Taxes

Fluctuations in our provision for income taxes as a percentage of pretax earnings ("effective tax rate") are due to changes in international and U.S. state effective tax rates resulting from our business mix and discrete items.

During the three months ended March 31, 2015 and 2014, the effective tax rate was 34.6 percent and 38.0 percent, respectively.

During the nine months ended March 31, 2015 and 2014, the effective tax rate was 36.3 percent and 35.5 percent, respectively. The effective tax rate during the nine months ended March 31, 2014 was impacted by net favorable discrete items of $18 million. The discrete items include the favorable impact of the settlement of federal and state tax controversies ($67 million) and the unfavorable impact of remeasurement of unrecognized tax benefits ($61 million).

At March 31, 2015 and June 30, 2014, we had $526 million and $510 million of unrecognized tax benefits, respectively. The March 31, 2015 and June 30, 2014 balances include $333 million and $322 million of unrecognized tax benefits, respectively, that if recognized, would have an impact on the effective tax rate.

At March 31, 2015 and June 30, 2014, we had $154 million and $143 million, respectively, accrued for the payment of interest and penalties related to unrecognized tax benefits, which we recognize in the provision for income taxes. These balances are gross amounts before any tax benefits and are included in deferred income taxes and other liabilities in the condensed consolidated balance sheets.

It is reasonably possible that there could be a change in the amount of unrecognized tax benefits within the next 12 months due to activities of the U.S. Internal Revenue Service ("IRS") or other taxing authorities, possible settlement of audit issues, reassessment of existing unrecognized tax benefits or the expiration of statutes of limitations. We estimate that the range of the possible change in unrecognized tax benefits within the next 12 months is a net decrease of zero to $175 million, exclusive of penalties and interest.

We file income tax returns in the U.S. federal jurisdiction, various U.S. state jurisdictions and various foreign jurisdictions. The IRS is currently conducting audits of fiscal years 2006 through 2010, and our transfer pricing arrangements continue to be under review as part of these audits.

We are a party to a tax matters agreement with CareFusion Corporation ("CareFusion"), which has been acquired by Becton, Dickinson and Company. Under the tax matters agreement, CareFusion is obligated to indemnify us for certain tax exposures and transaction taxes prior to our fiscal 2010 spin-off of CareFusion. The indemnification receivable was $217 million and $210 million at March 31, 2015 and June 30, 2014, respectively, and is included in other assets in the condensed consolidated balance sheets.

8. Commitments, Contingent Liabilities and Litigation

Commitments

Generic Sourcing Venture With CVS Health Corporation

In July 2014, we established Red Oak Sourcing, LLC ("Red Oak Sourcing"), a U.S.-based generic pharmaceutical sourcing entity with CVS Health Corporation (“CVS”) with an initial term of 10 years. Both companies have contributed sourcing and supply chain expertise to the 50/50 generic sourcing venture and have committed to source generic pharmaceuticals through arrangements negotiated by it. Red Oak Sourcing negotiates generic pharmaceutical supply contracts on behalf of both companies, but does not own products or hold inventory on behalf of either company. We are required to pay 39 quarterly payments of $25.6 million to CVS which commenced in October 2014. In addition, if certain milestones are achieved, we are required to pay additional predetermined amounts to CVS beginning in fiscal 2016.

Cordis

As described in Note 2, 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. The transaction is subject to regulatory approval and customary closing conditions.

Legal Proceedings

We become involved from time to time in disputes, litigation and regulatory matters incidental to our business.

We may be named from time to time in qui tam actions, which are initiated by private third parties purporting to act on behalf of federal or state governments, that allege that false claims have been submitted or have been caused to be submitted for payment by the government. After a private party has filed a qui tam action, the government must investigate the private party's claim and determine whether to intervene in and take control over the litigation. These actions may remain under seal while the government makes this determination. If the government declines to intervene, the private party may nonetheless continue to pursue the litigation on his or her own on behalf of the government.

From time to time, we receive subpoenas or requests for information from various government agencies relating to our business or to the business of a customer, supplier or other industry participant. The responses to these subpoenas and requests for information sometimes require considerable time and effort, and can result in us incurring considerable costs. Such subpoenas and requests also can lead to the assertion of claims or the commencement of legal proceedings against us, which can result in substantial settlements.

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

We accrue for contingencies related to 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.

With respect to the unresolved matters described below, we are unable to estimate a range of reasonably possible loss for matters for which there is no accrual, or additional loss for matters for which we have recorded an accrual, since damages or fines have not been specified or the proceedings are at stages where significant uncertainty exists as to legal or factual issues and as to whether such matters will proceed to trial. We do not believe, based on currently available information, that the outcomes of these matters will have a material adverse effect on our financial position, results of operations or cash flows, though the outcome of one or more of these matters could be material to our results of operations for a particular period.

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

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

DEA Investigation and Related Matters

In February 2012, the U.S. Drug Enforcement Administration (the "DEA") issued an order to show cause and immediate suspension of our Lakeland, Florida distribution center's registration to distribute controlled substances, asserting that we failed to maintain required controls against the diversion of controlled substances. In May 2012, we entered into a settlement agreement with the DEA that resolved the administrative aspects of the DEA's action but did not resolve potential liability for civil fines in Florida or elsewhere for the conduct covered by the settlement agreement. In that regard, we are continuing to engage in discussions with several offices of the U.S. Department of Justice (the "DOJ"), including discussions regarding a possible settlement. We incurred litigation charges of zero and $34 million for this matter during the three and nine months ended March 31, 2015, respectively. Our total accrual for this matter at March 31, 2015 is $34 million, which is included in other accrued liabilities in the condensed consolidated balance sheet.

State of West Virginia vs. Cardinal Health, Inc.

In June 2012, the West Virginia Attorney General filed complaints, which have been amended, against 13 pharmaceutical wholesale distributors, including us, in the Circuit Court of Boone County, West Virginia alleging, among other things, that the distributors failed to maintain effective controls to guard against diversion of controlled substances in West Virginia, failed to report suspicious orders of controlled substances in accordance with the West Virginia Uniform Controlled Substances Act and were negligent in distributing controlled substances to pharmacies that serve individuals who abuse controlled substances. In addition to injunctive and other equitable relief, the complaints seek monetary damages and the creation of a court-supervised fund, to be financed by the defendants in these actions, for a medical monitoring program focused on prescription drug abuse. We are vigorously defending ourselves in this matter.

FTC Investigation

As previously disclosed, the Federal Trade Commission (“FTC”) has been investigating supplier arrangements involving our Nuclear Pharmacy Services division primarily focused on the period between 2003 and 2008. In April 2015, we settled this matter, without admitting liability, with the FTC by agreeing to a court order and injunction under federal antitrust laws in which we agreed, among other things, to pay $27 million to the FTC. We incurred a litigation charge in the settlement amount during the nine months ended March 31, 2015, the accrual for which is included in other accrued liabilities in the condensed consolidated balance sheet. On April 23, 2015, the United States District Court for the Southern District of New York approved the settlement and entered the order and injunction.

Qui Tam Action

Our Cardinal Health at Home division was named as a defendant by a private third-party plaintiff in an amended qui tam complaint that was filed in November 2014 in the U.S. District Court for the District of Massachusetts against several manufacturers and distributors of ostomy and continence care products. The complaint seeks damages and penalties on behalf of the United States for alleged violations of the federal healthcare fraud and abuse laws, Medicare regulations and the federal False Claims Act in connection with the marketing and sale of these products. The DOJ has not yet determined whether to intervene in this qui tam action and is currently conducting an investigation of this matter. We are providing information to the DOJ in connection with its investigation.

Antitrust Litigation Proceeds

We recognized income resulting from settlements of class action antitrust claims in which we were a class member of $14 million and $9 million during the three months ended March 31, 2015 and 2014, respectively, and $14 million and $24 million during the nine months ended March 31, 2015 and 2014, respectively.

9. Fair Value Measurements

The following tables present the fair values for assets measured on a recurring basis at:

	March 31, 2015			
(in millions)	Level 1	Level 2	Level 3	Total
Cash equivalents (1)	$598	$—	$—	$598
Forward contracts (2)	—	17	—	17
Available-for-sale securities (3)	—	84	—	84
Other investments (4)	110	—	—	110
Total	$708	$101	$—	$809

	June 30, 2014			
(in millions)	Level 1	Level 2	Level 3	Total
Cash equivalents (1)	$740	$—	$—	$740
Forward contracts (2)	—	10	—	10
Available-for-sale securities (3)	—	100	—	100
Other investments (4)	106	—	—	106
Total	$846	$110	$—	$956

(1) Cash equivalents are comprised of highly liquid investments purchased with a maturity of three months or less. The carrying value of these cash equivalents approximates fair value due to their short-term maturities.

(2) The fair value of interest rate swaps, foreign currency contracts and commodity contracts is determined based on the present value of expected future cash flows considering the risks involved, including non-performance risk, and using discount rates appropriate for the respective maturities. Observable Level 2 inputs are used to determine the present value of expected future cash flows. The fair value of these derivative contracts, which are subject to master netting arrangements under certain

circumstances, is presented on a gross basis in the condensed consolidated balance sheets.

(3) We invest in marketable securities, which are classified as available-for-sale and are carried at fair value in the condensed consolidated balance sheets. Observable Level 2 inputs such as quoted prices for similar securities, interest rate spreads, yield curves and credit risk are used to determine the fair value. See Note 5 for additional information regarding available-for-sale securities.

(4) The other investments balance includes investments in mutual funds, which are used to offset fluctuations in deferred compensation liabilities. These mutual funds primarily invest in the equity securities of companies with large market capitalization and high quality fixed income debt securities. The fair value of these investments is determined using quoted market prices.

10. Financial Instruments

We utilize derivative financial instruments to manage exposure to certain risks related to our ongoing operations. The primary risks managed through the use of derivative instruments include interest rate risk, currency exchange risk and commodity price risk. We do not use derivative instruments for trading or speculative purposes. While the majority of our derivative instruments are designated as hedging instruments, we also enter into derivative instruments that are designed to hedge a risk, but are not designated as hedging instruments. These derivative instruments are adjusted to current fair value through earnings at the end of each period. Our derivative and hedging programs are consistent with those described in the 2014 Form 10-K.

During the nine months ended March 31, 2015, we entered into forward interest rate swaps with a total notional amount of $50 million to hedge probable, but not firmly committed, future transactions associated with our debt.

Also, during the nine months ended March 31, 2015, we entered into pay-floating interest rate swaps with total notional amounts of $700 million, of which $450 million was in connection with the registered debt offering in November 2014 described in Note 6. These swaps have been designated fair value hedges of our fixed rate debt and are included in other assets in the condensed consolidated balance sheet.

Also, during the nine months ended March 31, 2015, we terminated notional amounts of $875 million of pay-floating interest rate swaps in connection with the debt redemption in December 2014 described in Note 6. These swaps were previously designated as fair value hedges. Additionally, we terminated $350 million in forward interest rate swaps that were previously designated as cash-flow hedges.

During the nine months ended March 31, 2014, we entered into pay-floating interest rate swaps with total notional amounts of $300 million. These swaps have been designated as fair value hedges of our fixed rate debt and are included in other assets in the condensed consolidated balance sheets.

Fair Value of Financial Instruments

The carrying amounts of cash and equivalents, trade receivables, net, accounts payable and other accrued liabilities

at March 31, 2015 and June 30, 2014 approximate fair value due to their short-term maturities.

The following table summarizes the estimated fair value of our long-term obligations and other short-term borrowings compared to the respective carrying amounts at:

(in millions)	March 31, 2015	June 30, 2014
Estimated fair value	$4,148	$4,115
Carrying amount	4,003	3,972

The estimated fair value of our long-term obligations and other short-term borrowings is estimated based on either the quoted market prices for the same or similar issues or other inputs derived from available market information, which represents a Level 2 measurement.

11. Shareholders' Equity

Share Repurchases

During the nine months ended March 31, 2015, we repurchased 9.1 million common shares having an aggregate cost of $684 million. The average price paid per common share was $75.00.

During the nine months ended March 31, 2014, we repurchased 5.7 million common shares having an aggregate cost of $389 million. The average price paid per common share was $67.66.

We funded the repurchases with available cash. The common shares repurchased are held in treasury to be used for general corporate purposes.

Accumulated Other Comprehensive Income/(Loss)

The following table summarizes the changes in the balance of accumulated other comprehensive income/(loss) by component and in total:

(in millions)	Foreign Currency Translation Adjustments	Unrealized Gain/(Loss) on Derivatives, net of tax	Accumulated Other Comprehensive Income/(Loss)
Balance at June 30, 2014	$63	$7	$70
Other comprehensive loss, net of tax before reclassifications	(117)	(4)	(121)
Amounts reclassified to earnings	—	(2)	(2)
Total other comprehensive loss, net of tax of $4 million	(117)	(6)	(123)
Balance at March 31, 2015	$(54)	$1	$(53)

Activity related to realized and unrealized gains and losses on available-for-sale securities as described in Note 5, was immaterial during the three and nine months ended March 31, 2015.

12. Earnings Per Share

The following tables reconcile the number of common shares used to compute basic and diluted earnings per share:

	Three Months Ended March 31	
(in millions)	2015	2014
Weighted-average common shares–basic	330	342
Effect of dilutive securities:		
Employee stock options, restricted share units and performance share units	4	5
Weighted-average common shares–diluted	334	347

	Nine Months Ended March 31	
(in millions)	2015	2014
Weighted-average common shares–basic	332	341
Effect of dilutive securities:		
Employee stock options, restricted share units and performance share units	4	5
Weighted-average common shares–diluted	336	346

The potentially dilutive employee stock options, restricted share units and performance share units that were antidilutive were 1 million and zero for the three months ended March 31, 2015 and 2014, respectively and 1 million and zero for the nine months ended March 31, 2015 and 2014, respectively.

13. Segment Information

Our operations are principally managed on a products and services basis and are comprised of two operating segments, which are the same as our reportable segments: Pharmaceutical and Medical. The factors for determining the reportable segments include the manner in which management evaluates our performance for purposes of allocating resources and assessing performance combined with the nature of the individual business activities.

The following tables present revenue for each reportable segment and Corporate:

	Three Months Ended March 31	
(in millions)	2015	2014
Pharmaceutical	$22,605	$18,762
Medical	2,774	2,657
Total segment revenue	25,379	21,419
Corporate (1)	(4)	8
Total revenue	$25,375	$21,427

	Nine Months Ended March 31	
(in millions)	2015	2014
Pharmaceutical (2)	$66,440	$60,018
Medical	8,540	8,168
Total segment revenue	74,980	68,186
Corporate (1)	3	4
Total revenue	$74,983	$68,190

(1) Corporate revenue consists of the elimination of inter-segment revenue and other revenue not allocated to the segments.

(2) Our pharmaceutical distribution contract with Walgreen Co. expired on August 31, 2013.

We evaluate segment performance based upon segment profit, among other measures. Segment profit is segment revenue, less segment cost of products sold, less segment SG&A expenses. Segment SG&A expenses include share-based compensation expense as well as allocated corporate expenses for shared functions, including corporate management, corporate finance, financial and customer care shared services, human resources, information

technology and legal. Corporate expenses are allocated to the segments based upon headcount, level of benefit provided and other ratable allocation methodologies.

We do not allocate the following items to our segments: restructuring and employee severance; amortization and other acquisition-related costs; impairments and (gain)/loss on disposal of assets; litigation (recoveries)/charges; other income, net; interest expense, net; loss on extinguishment of debt; and, provision for income taxes. In addition, certain investment and other spending are not allocated to the segments. Investment spending generally includes the first-year spend for certain projects that require incremental investments in the form of additional operating expenses. We encourage our segments and corporate functions to identify investment projects that will promote innovation and provide future returns. As approval decisions for such projects are dependent upon executive management, the expenses for such projects are often retained at Corporate. Investment spending within Corporate was $6 million and $7 million for the three months ended March 31, 2015 and 2014, respectively, and $12 million and $17 million for the nine months ended March 31, 2015 and 2014, respectively.

The following tables present segment profit by reportable segment and Corporate:

	Three Months Ended March 31	
(in millions)	2015	2014
Pharmaceutical	$567	$452
Medical	102	111
Total segment profit	669	563
Corporate	(78)	(55)
Total operating earnings	$591	$508

	Nine Months Ended March 31	
(in millions)	2015	2014
Pharmaceutical	$1,559	$1,368
Medical	330	348
Total segment profit	1,889	1,716
Corporate	(286)	(218)
Total operating earnings	$1,603	$1,498

The following table presents total assets for each reportable segment and Corporate at:

(in millions)	March 31, 2015	June 30, 2014
Pharmaceutical	$16,655	$15,361
Medical	7,183	6,768
Corporate	4,050	3,904
Total assets	$27,888	$26,033

14. Share-Based Compensation

Share-Based Compensation Plans

We maintain stock incentive plans (collectively, the “Plans”) for the benefit of certain of our officers, directors and employees.

The following tables provide total share-based compensation expense by type of award:

	Three Months Ended March 31	
(in millions)	2015	2014
Restricted share unit expense	$18	$15
Employee stock option expense	6	6
Performance share unit expense	3	3
Total share-based compensation	$27	$24

	Nine Months Ended March 31	
(in millions)	2015	2014
Restricted share unit expense	$52	$46
Employee stock option expense	16	16
Performance share unit expense	12	10
Total share-based compensation	$80	$72

The total tax benefit related to share-based compensation was $10 million and $8 million for the three months ended March 31, 2015 and 2014, respectively, and $28 million and $25 million for the nine months ended March 31, 2015 and 2014, respectively.

Stock Options

Employee stock options granted under the Plans generally vest in equal annual installments over three years and are exercisable for periods ranging from seven to ten years from the grant date. All stock options are exercisable at a price equal to the market value of the common shares underlying the option

on the grant date.

The following table summarizes all stock option transactions under the Plans:

(in millions, except per share amounts)	Stock Options	Weighted-Average Exercise Price per Common Share
Outstanding at June 30, 2014	10	$39.16
Granted	1	71.57
Exercised	(3)	36.92

Canceled and forfeited	—	—
Outstanding at March 31, 2015	8	$45.46
Exercisable at March 31, 2015	5	$36.63

At March 31, 2015, the total pre-tax compensation cost, net of estimated forfeitures, related to nonvested stock options not yet recognized was $27 million, which is expected to be recognized over a weighted-average period of two years.

The following table provides additional data related to stock option activity:

(in millions, except contractual lives)	March 31, 2015	June 30, 2014
Aggregate intrinsic value of outstanding options at period end	$357	$282
Aggregate intrinsic value of exercisable options at period end	$245	$185
Weighted-average remaining contractual life of outstanding options (in years)	6	6
Weighted-average remaining contractual life of exercisable options (in years)	5	4

Restricted Share Units

Restricted share units granted under the Plans generally vest in equal annual installments over three years. Restricted share units accrue cash dividend equivalents that are payable upon vesting of the awards.

The following table summarizes all transactions related to restricted share units under the Plans:

(in millions, except per share amounts)	Restricted Share Units	Weighted-Average Grant Date Fair Value per Share
Nonvested at June 30, 2014	3	$45.65
Granted	1	71.97
Vested	(1)	44.77
Canceled and forfeited	—	—
Nonvested at March 31, 2015	3	$59.14

At March 31, 2015, the total pre-tax compensation cost, net of estimated forfeitures, related to nonvested restricted share units not yet recognized was $93 million, which is expected to be recognized over a weighted-average period of two years.

Performance Share Units

Performance share units vest over a three-year performance period based on achievement of specific performance goals. Based on the extent to which the targets are achieved, vested shares may range from zero to 200 percent of the target award

amount. Performance share units accrue cash dividend equivalents that are payable upon vesting of the awards.
The following table summarizes all transactions related to performance share units under the Plans (based on target award amounts):

(in millions, except per share amounts)	Performance Share Units	Weighted-Average Grant Date Fair Value per Share
Nonvested at June 30, 2014	0.9	$44.41
Granted	0.2	71.63
Vested (1)	(0.2)	41.47
Canceled and forfeited	—	—
Nonvested at March 31, 2015	0.9	$50.13

(1) Vested based on achievement of 120 percent of the target performance goal.

At March 31, 2015, the total pre-tax compensation cost, net of estimated forfeitures, related to nonvested performance share units not yet recognized was $17 million, which is expected to be recognized over a weighted-average period of two years.

Item 2: Management’s Discussion and Analysis of Financial Condition and Results of Operations

The discussion and analysis presented below is concerned with material changes in financial condition and results of operations for our condensed consolidated balance sheets at March 31, 2015 and June 30, 2014, and for our condensed consolidated statements of earnings for the three and nine months ended March 31, 2015 and 2014. This discussion and analysis should be read in conjunction with "Management's Discussion and Analysis of Financial Condition and Results of Operations" included in our 2014 Form 10-K.

Portions of this Form 10-Q (including any information incorporated by reference) include "forward-looking statements." The words "expect," "anticipate," "intend," "plan," "believe," "will," "should," "could," "would," "project," "continue," "likely," and similar expressions, among others, generally identify "forward-looking statements," which speak only as of the date the statements were made. The matters discussed in these forward-looking statements are subject to risks, uncertainties and other factors that could cause actual results to differ materially from those made, projected or implied in the forward-looking statements. The most significant of these risks, uncertainties and other factors are described in Exhibit 99.1 to this Form 10-Q and in "Item 1A: Risk Factors" of our 2014 Form 10-K. Except to the extent required by applicable law, we undertake no obligation to update or revise any forward-looking statements, whether as a result of new information, future events, or otherwise.

Overview

We are a healthcare services company providing pharmaceutical and medical products and services that 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 report our financial results in two segments: Pharmaceutical and Medical.

Revenue for the three and nine months ended March 31, 2015 was $25.4 billion and $75.0 billion, an 18 percent and 10 percent increase, respectively, from the prior-year periods due primarily to sales growth from existing and new pharmaceutical distribution customers. Revenue growth was negatively impacted for the nine months ended March 31, 2015 due to the previously disclosed expiration of our pharmaceutical distribution contract with Walgreen Co. ("Walgreens") on August 31, 2013.

Gross margin increased 12 percent to $1.5 billion and 9 percent to $4.3 billion for the three and nine months ended March 31, 2015, respectively, reflecting sales growth from existing and new customers and strong performance from our Pharmaceutical

segment generic programs, offset in part by customer pricing changes. The increase for the nine months ended March 31, 2015 was partially offset by the Walgreens contract expiration in the prior-year period.

Operating earnings increased 16 percent to $591 million and 7 percent to $1.6 billion for the three and nine months ended March 31, 2015, respectively, primarily due to the gross margin increase.

Earnings from continuing operations increased 16 percent to $365 million for the three months ended March 31, 2015, and decreased 1 percent to $920 million for the nine months ended March 31, 2015. Both periods were impacted by the factors discussed above. The decrease for the nine months ended March 31, 2015 also reflected a $60 million loss on extinguishment of debt in the current year.

Our cash and equivalents balance was $3.2 billion at March 31, 2015 and $2.9 billion at June 30, 2014. For the nine months ended March 31, 2015, net cash provided by operating activities of $1.7 billion was partially offset by share repurchases of $684 million and cash dividends of $346 million. In addition, we refinanced $1.2 billion of long-term debt at lower interest rates and longer maturities.

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. The acquisition of Cordis, a manufacturer and distributor of interventional cardiology devices and endovascular solutions, will expand the Medical segment's portfolio of self-manufactured products. We expect to finance the acquisition with $1.0 billion in new long-term debt with the remaining amount funded by cash on hand. In March

2015, we also entered into a $1.0 billion senior unsecured bridge term loan that may be used to complete this acquisition. Cordis is a global company, with operations in more than 50 countries. The acquisition is expected to close in approximately 20 principal countries towards the end of calendar year 2015 and in the remaining countries afterward, subject to regulatory approval and customary closing conditions.

Generic Sourcing Venture With CVS Health Corporation

In July 2014, we established Red Oak Sourcing, LLC ("Red Oak Sourcing"), a U.S.-based generic pharmaceutical sourcing entity with CVS Health Corporation (“CVS”) with an initial term of 10 years. Both companies have contributed sourcing and supply chain expertise to the 50/50 generic sourcing venture and have committed to source generic pharmaceuticals through arrangements negotiated by it. Red Oak Sourcing negotiates generic pharmaceutical supply contracts on behalf of both companies, but does not own products or hold inventory on behalf of either company. We are required to pay 39 quarterly

payments of $25.6 million to CVS which commenced in October 2014. In addition, if certain milestones are achieved, we are required to pay additional predetermined amounts to CVS beginning in fiscal 2016.

Results of Operations

Revenue

	Three Months Ended March 31			
(in millions)	2015	2014	Change	
Pharmaceutical	$22,605	$18,762	20	%
Medical	2,774	2,657	4	%
Total segment revenue	25,379	21,419	18	%
Corporate	(4)	8	N.M.	
Total revenue	$25,375	$21,427	18	%

	Nine Months Ended March 31			
(in millions)	2015	2014	Change	
Pharmaceutical	$66,440	$60,018	11	%
Medical	8,540	8,168	5	%
Total segment revenue	74,980	68,186	10	%
Corporate	3	4	N.M.	
Total revenue	$74,983	$68,190	10	%

Pharmaceutical Segment

Compared to the prior-year periods, sales growth from existing and new pharmaceutical distribution customers positively impacted revenue by $3.6 billion and $9.4 billion during the three and nine months ended March 31, 2015, respectively. The growth was primarily driven by increased sales to existing customers, which were impacted by continued branded pharmaceutical price inflation and newly launched hepatitis C pharmaceutical products. The increase for the nine months ended March 31, 2015 was partially offset by the Walgreens contract expiration in the prior-year period ($3.3 billion).

Medical Segment

Revenue growth for the three and nine months ended March 31, 2015 compared to the prior-year periods was due to acquisitions ($93 million and $285 million, respectively).

Cost of Products Sold

As a result of the same factors affecting the change in revenue, cost of products sold increased $3.8 billion (19 percent) and $6.4 billion (10 percent) compared to the prior-year periods. See the gross margin discussion below for additional drivers impacting cost of products sold.

Gross Margin

	Three Months Ended March 31			
(in millions)	2015	2014	Change	
Gross margin	$1,459	$1,297	12	%

	Nine Months Ended March 31			
(in millions)	2015	2014	Change	
Gross margin	$4,254	$3,905	9	%

Consolidated gross margin increased during the three and nine months ended March 31, 2015 compared to the prior-year periods by $162 million and $349 million, respectively.

Consolidated gross margin growth during the three and nine months ended March 31, 2015 was positively impacted by sales growth from existing and new pharmaceutical distribution customers, and for the nine months ending March 31, 2015 was negatively impacted by the Walgreens contract expiration in the prior-year period. The net impact of these factors increased consolidated gross margin for the three and nine months ended March 31, 2015 by $166 million and $357 million, respectively.

Consolidated gross margin rate contracted during the three months ended March 31, 2015, which had an adverse impact on consolidated gross margin of $32 million. Apart from the Walgreens contract expiration in the prior-year period, consolidated gross margin rate also contracted during the nine months ended March 31, 2015, which had an adverse impact on consolidated gross margin of $87 million. Consolidated gross margin rate was adversely impacted by customer pricing changes, newly launched hepatitis C pharmaceutical products, and new customer mix. These were partially offset by strong performance from generic programs, which included benefits from Red Oak Sourcing. Consolidated gross margin during the three and nine months ended March 31, 2015 was positively impacted by acquisitions ($28 million and $79 million, respectively).

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

	Three Months Ended March 31			
(in millions)	2015	2014	Change	
SG&A expenses	$803	$736	9	%
	Nine Months Ended March 31			
(in millions)	2015	2014	Change	
SG&A expenses	$2,393	$2,233	7	%

The increase in SG&A expenses during the three and nine months ended March 31, 2015 compared to the prior-year period reflected acquisitions ($23 million and $75 million,

respectively), overall increase in new customer and product volume, and investments in information technology infrastructure.

Segment Profit and Consolidated Operating Earnings

	Three Months Ended March 31			
(in millions)	2015	2014	Change	
Pharmaceutical	$567	$452	25	%
Medical	102	111	(8	)%
Total segment profit	669	563	19	%
Corporate	(78)	(55)	N.M.	
Total operating earnings	$591	$508	16	%

	Nine Months Ended March 31			
(in millions)	2015	2014	Change	
Pharmaceutical	$1,559	$1,368	14	%
Medical	330	348	(5	)%
Total segment profit	1,889	1,716	10	%
Corporate	(286)	(218)	N.M.	
Total operating earnings	$1,603	$1,498	7	%

Pharmaceutical Segment Profit

The increase in Pharmaceutical segment profit during the three and nine months ended March 31, 2015 compared to the prior-year periods was positively impacted by sales growth from existing and new pharmaceutical distribution customers and strong performance from generic programs, including benefits from Red Oak Sourcing, partially offset by the adverse impact of customer pricing changes. Pharmaceutical segment profit growth for the nine months ended March 31, 2015 was negatively impacted by the Walgreens contract expiration in the prior-year period.

Medical Segment Profit

The principal drivers for the decrease in Medical segment profit during the three and nine months ended March 31, 2015 compared to the prior-year period were decreases in contributions from national brand medical-surgical distribution sales and our Canadian business.

Consolidated Operating Earnings

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

	Three Months Ended March 31	
(in millions)	2015	2014
Restructuring and employee severance	$7	$5
Amortization and other acquisition-related costs	77	56
Impairments and (gain)/loss on disposal of assets, net	(1)	—
Litigation (recoveries)/charges, net	(18)	(8)

	Nine Months Ended March 31	
(in millions)	2015	2014
Restructuring and employee severance	$33	$25
Amortization and other acquisition-related costs	190	160
Impairments and (gain)/loss on disposal of assets, net	(19)	10
Litigation (recoveries)/charges, net	54	(21)

Restructuring and Employee Severance

The majority of restructuring costs incurred during the three and nine months ended March 31, 2015 and 2014 related to restructuring activities within our Medical segment.

Amortization and Other Acquisition-Related Costs

Amortization of acquisition-related intangible assets was $48 million and $46 million for the three months ended March 31, 2015 and 2014, respectively, and $139 million and $138 million for the nine months ended March 31, 2015 and 2014, respectively. Amortization and other acquisition-related costs included transaction and integration costs associated with the acquisition of Cordis of $21 million and $24 million for the three and nine months ended March 31, 2015, respectively. We anticipate future integration costs to be commensurate with the size and complexity of this acquisition.

Litigation (Recoveries)/Charges, Net

During the nine months ended March 31, 2015, we incurred litigation charges of $34 million related to the DEA investigation and related matters and $27 million related to the FTC investigation, which were partially offset by litigation recoveries of $18 million, primarily consisting of settlements of class action antitrust claims in which we were a class member. These matters are discussed further in Note 8 of the "Notes to Condensed Consolidated Financial Statements."

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:

	Three Months Ended March 31			
(in millions)	2015	2014	Change	
Other income, net	$(2)	$(33)	N.M.	
Interest expense, net	35	34	4	%
Loss on extinguishment of debt	—	—	N.M.	

	Nine Months Ended March 31			
(in millions)	2015	2014	Change	
Other income, net	$(6)	$(43)	N.M.	
Interest expense, net	105	100	5	%
Loss on extinguishment of debt	60	—	N.M.	

Other Income, Net

Other income, net for the three and nine months ended March 31, 2014 included a $32 million pre-tax gain related to the sale of our minority interest in two investments.

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 6 of "Notes to Condensed Consolidated Financial Statements" for additional information.

Provision for Income Taxes

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.

During the three months ended March 31, 2015 and 2014, the effective tax rate was 34.6 percent and 38.0 percent, respectively.

During the nine months ended March 31, 2015 and 2014, the effective tax rate was 36.3 percent and 35.5 percent, respectively. The March 31, 2014 effective tax rate was impacted by net favorable discrete items of $18 million. The discrete items included the favorable impact of the settlement of federal and state tax controversies ($67 million) and the unfavorable impact of remeasurement of unrecognized tax benefits ($61 million).

Liquidity and Capital Resources

We currently believe that, based upon available capital resources (cash on hand and access to committed credit facilities) and projected operating cash flow, we have adequate capital resources to fund working capital needs; currently anticipated capital expenditures, business growth and expansion; contractual obligations; 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 in addition to cash on hand and our existing committed credit facilities.

Cash and Equivalents

Our cash and equivalents balance was $3.2 billion at March 31, 2015 and $2.9 billion at June 30, 2014. At March 31, 2015, our cash and equivalents were held in cash depository accounts with major banks or invested in high quality, short-term liquid investments. For the nine months ended March 31, 2015, net cash provided by operating activities of $1.7 billion was partially offset by share repurchases of $684 million and cash dividends of $346 million. In addition, we refinanced $1.2 billion of long-term debt at lower interest rates and longer maturities.

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 changes.

The cash and equivalents balance at March 31, 2015 included $447 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.

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 March 31, 2015, 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 March 31, 2015, we were in compliance with these financial covenants.

Long-Term Obligations

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 a registered offering.

In December 2014, we used the net proceeds from the offering, together with cash on hand, to redeem all of the 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 three months ended December 31, 2014, we recorded a loss on the extinguishment of debt of $60 million ($37 million, net of tax).

Funding of Cordis

In connection with the binding offer to purchase the Cordis business, we entered into a $1.0 billion 364-day senior unsecured bridge term loan in March 2015. Borrowings under the senior unsecured bridge term loan bear interest based on the London Interbank Offered Rate. We expect to finance the acquisition with $1.0 billion in new long-term debt and terminate the bridge loan.

Available-for-Sale Securities

At March 31, 2015, we held $84 million of marketable securities, which are classified as available-for-sale.

Capital Expenditures

Capital expenditures were $139 million and $138 million during the nine months ended March 31, 2015 and 2014, respectively.

Dividends

On February 3, 2015 our Board of Directors approved a quarterly dividend of $0.3425 per share, or $1.37 on an annualized basis, which was paid on April 15, 2015 to shareholders of record on April 1, 2015.

Share Repurchases

During the nine months ended March 31, 2015, we repurchased $684 million of our common shares.

Our Board of Directors has approved a $2.0 billion share repurchase program, which expires on December 31, 2016. At March 31, 2015, we had $1.0 billion remaining under our repurchase authorization.

Off-Balance Sheet Arrangements

We had no significant off-balance sheet arrangements at March 31, 2015.

Contractual Obligations

Except for the registered debt offering and debt redemption described above under “Liquidity and Capital Resources” and in Note 6 of the “Notes to Condensed Consolidated Financial Statements," as of March 31, 2015 there have been no other material changes, outside of the ordinary course of business, in our outstanding contractual obligations disclosed in our 2014 Form 10-K.

At March 31, 2015, our long-term debt and short-term borrowings and interest on long-term debt for the remainder of fiscal 2015 and fiscal periods thereafter are as follows:

(in millions)	2015	2016 to 2017	2018 to 2019	There-after	Total
Long-term debt and short-term borrowings (1)	$283	$312	$407	$3,001	$4,003
Interest on long-term debt	40	270	229	1,043	1,582
Total long-term and short-term obligations	$323	$582	$636	$4,044	$5,585

(1) Represents maturities of our long-term debt obligations and other short-term borrowings. See Note 6 of the “Notes to Condensed Consolidated Financial Statements” for further information.

Recent Financial Accounting Standards

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

Critical Accounting Policies and Sensitive Accounting Estimates

Refer to the Critical Accounting Policies and Sensitive Accounting Estimates section of "Item 7: Management's Discussion and Analysis of Financial Condition and Results of Operations" in our 2014 Form 10-K. There have been no material changes to our critical accounting policies and sensitive accounting estimates since the end of fiscal 2014

through March 31, 2015.

Item 3: Quantitative and Qualitative Disclosures About Market Risk

There have been no material changes in the quantitative and qualitative market risks since the end of fiscal 2014 through March 31, 2015 from those reported in our 2014 Form 10-K.

Item 4: Controls and Procedures

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 March 31, 2015. Based on this evaluation, our principal executive officer and principal financial officer have concluded that as of March 31, 2015, our disclosure controls and procedures were effective 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.

Changes in Internal Control Over Financial Reporting

There were no changes in our internal control over financial reporting during the quarter ended March 31, 2015 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

Item 1: Legal Proceedings

In addition to the proceedings described below, the legal proceedings described in Note 8 of the "Notes to Condensed Consolidated Financial Statements" are incorporated in this "Item 1: Legal Proceedings" by reference.

On January 23, 2015, Erste-Sparinvest Kapitalanlagegesellschaft m.b.H., a purported shareholder, filed a derivative action in the U.S. District Court for the Southern District of Ohio 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 seeks, among other things, unspecified money damages against the defendants and an award of attorney's fees. This same plaintiff had made demand on our Board of Directors in May 2014 to take action against current and certain former directors based on allegations similar to those made in the derivative complaint. A special committee of independent directors investigated the allegations made in the demand, and after receiving and evaluating the special committee's findings and recommendations with respect to the demand, our Board of Directors determined in November 2014 that pursuing the claims set forth in the demand was not in the best interest of the company. In the derivative complaint, the plaintiff also alleges that the Board of Directors wrongfully rejected the demand. In April 2015, the defendants filed a motion to dismiss the derivative complaint.

Item 1A: Risk Factors

You should carefully consider the information in this Form 10-Q and the risk factors discussed in "Part I, Item 1A: Risk Factors"

and other risks discussed in our 2014 Form 10-K and our filings with the SEC since June 30, 2014. These risks could materially and adversely affect our results of operations, financial condition, liquidity and cash flows. Our business also could be affected by risks that we are not presently aware of or that we currently consider immaterial to our operations.

Item 2: Unregistered Sales of Equity Securities and Use of Proceeds

The following table provides information about purchases we made of our common shares during the three months ended March 31, 2015:

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)
January 1-31, 2015	121	$83.04	—	$1,043
February 1-28, 2015	105	84.89	—	1,043
March 1-31, 2015	176	89.34	—	1,043
Total	402	$86.28	—	$1,043

(1) Reflects 121, 105 and 176 common shares purchased in January, February and March 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, which expires on December 31, 2016. On August 6, 2014, our Board of Directors authorized an additional $1.0 billion under this share repurchase program. During the three months ended March 31, 2015, we did not repurchase any common shares under this program.

23

Item 6: Exhibits

Exhibit Number	Exhibit Description
3.1	Amended and Restated Articles of Incorporation of Cardinal Health, Inc., as amended (incorporated by reference to Exhibit 3.1 to Cardinal Health's Quarterly Report on Form 10-Q for the quarter ended September 30, 2008, File No. 1-11373)
3.2	Cardinal Health, Inc. Restated Code of Regulations (incorporated by reference to Exhibit 3.2 to Cardinal Health's Current Report on Form 8-K filed on August 10, 2012, File No. 1-11373)
10.1	Final Binding Offer dated March 1, 2015 by and between Cardinal Health, Inc. and Ethicon, Inc. (incorporated by reference to Exhibit 10.1 of Cardinal Health's Current Report on Form 8-K filed on March 2, 2015, File No. 1-11373)
12.1	Computation of Ratio of Earnings to Fixed Charges
31.1	Certification of Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
31.2	Certification of Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
32.1	Certification of the Chief Executive Officer and the Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
99.1	Statement Regarding Forward-Looking Information
101.INS	XBRL Instance Document
101.SCH	XBRL Taxonomy Extension Schema Document
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document
101.DEF	XBRL Taxonomy Definition Linkbase Document
101.LAB	XBRL Taxonomy Extension Label Linkbase Document
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document

Cardinal Health Website

We use our website as a channel of distribution for material information about us. Important information, including news releases, earnings and analyst presentations and financial information is routinely posted and accessible on the Investors page at www.cardinalhealth.com. In addition, our website allows investors and other interested persons to sign up to automatically receive email alerts when we post news releases, SEC filings and certain other information on our website.

Table of Contents

Signatures

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

Cardinal Health, Inc.

Date: May 5, 2015

/s/ GEORGE S. BARRETT
George S. Barrett
Chairman and Chief Executive Officer

/s/ MICHAEL C. KAUFMANN
Michael C. Kaufmann
Chief Financial Officer