

CARDINAL HEALTH INC  
Form PRE 14A  
September 12, 2008  
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**UNITED STATES**  
**SECURITIES AND EXCHANGE COMMISSION**

**Washington, D.C. 20549**

**SCHEDULE 14A**

**Proxy Statement Pursuant to Section 14(a) of the**

**Securities Exchange Act of 1934**

**(Amendment No. \_\_ )**

Filed by the Registrant ☒ Filed by a Party other than the Registrant ☐

Check the appropriate box:

☒ Preliminary Proxy Statement

☐ **Confidential, for Use of the Commission Only (as permitted by Rule 14a-6(e)(2))**

☐ Definitive Proxy Statement

☐ Definitive Additional Materials

☐ Soliciting Material Pursuant to §240.14a-12

**Cardinal Health, Inc.**

(Name of Registrant as Specified In Its Charter)

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**NOTICE OF ANNUAL MEETING OF SHAREHOLDERS**

**TO BE HELD NOVEMBER 5, 2008**

DATE AND TIME: Wednesday, November 5, 2008 at 2:00 p.m. Local Time

LOCATION: Cardinal Health, Inc., 7000 Cardinal Place, Dublin, OH 43017

PURPOSE:

- (1) To elect each of the thirteen nominees named in the accompanying proxy statement (or, if necessary, any substitute nominees selected by the Board of Directors) as a director, each to serve until the 2009 annual meeting and until his or her successor is duly elected and qualified;
- (2) To ratify the selection of Ernst & Young LLP as Cardinal Health's independent registered public accounting firm for the fiscal year ending June 30, 2009;
- (3) To approve amendments to Cardinal Health's Amended and Restated Articles of Incorporation and Restated Code of Regulations to implement a majority voting standard for uncontested elections of directors;
- (4) To approve amendments to Cardinal Health's Amended and Restated Articles of Incorporation and Restated Code of Regulations to eliminate cumulative voting;
- (5) To approve amendments to Cardinal Health's Restated Code of Regulations to establish procedures for advance notice of director nominations and other proposals and related administrative matters at shareholder meetings;
- (6) To approve an amendment to Cardinal Health's Amended and Restated Articles of Incorporation to eliminate the reference to the minimum amount of stated capital with which it may begin business and to state expressly that its common shares have no stated capital;
- (7) To approve an amended and restated 2005 Long-Term Incentive Plan;
- (8) To approve an amended and restated Employee Stock Purchase Plan;
- (9) To vote on a proposal submitted by a shareholder, if properly presented at the meeting; and
- (10) To transact such other business as may properly come before the meeting or any adjournment or postponement thereof.

WHO MAY VOTE: Shareholders of record at the close of business on September 8, 2008 are entitled to vote at the meeting or any adjournment or postponement thereof.

By Order of the Board of Directors.

IVAN K. FONG, *Secretary*

September [ ], 2008

**Important Notice Regarding the Availability of Proxy Materials for the Annual Meeting of Shareholders to be Held on November 5, 2008: This proxy statement and Cardinal Health's 2008 annual report to shareholders are also available on Cardinal Health's website at [www.cardinalhealth.com](http://www.cardinalhealth.com).**

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**PROXY STATEMENT**

**GENERAL INFORMATION**

This proxy statement is being furnished to solicit proxies on behalf of the Board of Directors (the **Board**) of Cardinal Health, Inc., an Ohio corporation ( **Cardinal Health**, **we** or **us** ), for use at the Cardinal Health Annual Meeting of Shareholders to be held on Wednesday, November 5, 2008, at our corporate offices located at 7000 Cardinal Place, Dublin, Ohio 43017, at 2:00 p.m., local time (the **Annual Meeting** ), and at any adjournment or postponement thereof. **This proxy statement and the accompanying proxy, together with our Annual Report to Shareholders for the fiscal year ended June 30, 2008, except for any exhibits to the Annual Report on Form 10-K for fiscal 2008 contained therein, and additional information are first being sent to Cardinal Health shareholders on or about September [ ], 2008. Exhibits will be provided to any shareholder upon request to our Investor Relations department.**

References to our fiscal years in this proxy statement mean the fiscal year ended or ending on June 30 of such year. For example, **fiscal 2008** refers to the fiscal year ended June 30, 2008.

**Principal Executive Office**

The address of our principal executive office is 7000 Cardinal Place, Dublin, Ohio 43017.

**Voting Information**

**Record Date.** The close of business on September 8, 2008 has been fixed as the record date for the determination of Cardinal Health shareholders entitled to notice of and to vote at the Annual Meeting. On that date, we had outstanding 359,247,825 common shares, without par value. Except as set forth below, holders of common shares at the record date are entitled to one vote per share for the election of directors and upon all matters on which shareholders are entitled to vote.

**Quorum.** We will have a quorum and will be able to conduct the business of the Annual Meeting if the holders of a majority of the votes that shareholders are entitled to cast are present at the Annual Meeting, either in person or by proxy.

**How to Vote.** We encourage you to vote promptly. Telephone and Internet voting are available through 2:00 a.m. Eastern Time on Wednesday, November 5, 2008. If your shares are registered in your name, then you are a **registered holder** and you may vote in person at the Annual Meeting or by proxy. If you decide to vote by proxy, you may do so in any one of the following three ways:

***By Telephone.*** You may vote your shares by calling the toll free number 1-800-652-VOTE (8683) within the United States, Puerto Rico or Canada and following instructions provided by the recorded message. You may vote by telephone 24 hours a day. The telephone voting system allows you to confirm that the system has properly recorded your votes.

***By Internet.*** You may vote your shares over the Internet by logging onto [www.investorvote.com](http://www.investorvote.com) and following the steps outlined on the secure website. As with the telephone voting system, you will be able to confirm that the system has properly recorded your votes.

***By Mail.*** You may mark, sign and date your proxy card and return it by mail in the enclosed postage-paid envelope.

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If you are a beneficial holder of shares held in street name through a broker, trustee, bank or other nominee that holds shares on your behalf, you may vote in person at the Annual Meeting by obtaining a legal proxy from the nominee that holds your shares. Alternatively, you may vote by proxy by completing and signing the voting instruction card provided to you by the nominee that holds your shares, or by using telephone or Internet voting arrangements described on the voting instruction form or other materials provided you by the nominee that holds your shares.

**Changing or Revoking your Proxy.** Your presence at the Annual Meeting will not automatically revoke your proxy. You may revoke your proxy at any time before a vote is taken at the meeting by giving notice to us in writing or in open meeting or by executing and forwarding a later-dated proxy to us or voting a later proxy by telephone or the Internet. If you are a beneficial shareholder only, you should check with the broker, trustee, bank or other nominee who holds your shares to determine how to change or revoke your vote.

**Shares Held Under Plans.** If you hold shares through our retirement and savings plans, you will receive voting instructions from that plan's administrator, which may have a different deadline for determining the manner in which such shares will be voted. If you hold shares under our equity award and employee stock purchase plans, your proxy includes the number of shares held through such plans.

**How Shares Will Be Voted.** The common shares represented by your proxy will be voted in accordance with specifications provided on your proxy or voting instruction card or with specifications you provided by telephone or Internet. Proxies returned without any such specifications will be voted to elect thirteen directors as set forth under Proposal 1 Election of Directors below, in favor of Proposals 2, 3, 4, 5, 6, 7 and 8 and against Proposal 9. If any other matters shall properly come before the Annual Meeting, the persons named in your proxy, or their substitutes, will determine how to vote thereon in accordance with their judgment. The Board of Directors does not know of any other matters that will be presented for action at the Annual Meeting.

The Board recommends that you vote FOR the election of the thirteen directors listed in Proposal 1, FOR Proposals 2 through 8 and AGAINST Proposal 9.

## **Attending the Annual Meeting**

Only persons with an admission ticket or proof of share ownership will be admitted to the Annual Meeting. If you are a registered shareholder, your admission ticket is attached to your proxy card. Please bring it with you to the Annual Meeting together with photo identification. If your shares are not registered in your name, you must bring proof of share ownership (such as a recent bank or brokerage firm account statement, together with photo identification) to be admitted to the Annual Meeting.

**Whether or not you expect to attend the Annual Meeting in person, we urge you to complete, date and sign the enclosed proxy and return it in the enclosed postage-paid envelope, or to vote by telephone or the Internet using the instructions provided with the proxy.**



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**PROPOSAL 1 ELECTION OF DIRECTORS**

Our Board of Directors currently consists of fourteen members, who were previously divided into three classes. At the 2005 annual meeting, the shareholders voted to amend our Code of Regulations to eliminate the classification of the Board, effective with the election of directors at the 2006 annual meeting. Upon conclusion of the Annual Meeting, the declassification of the Board will be complete. Directors elected at the Annual Meeting and at subsequent meetings will be elected to serve until the next annual meeting and until their successors are duly elected and qualified.

At the Annual Meeting, Cardinal Health shareholders will be asked to vote for the election of the thirteen nominees named below, each to serve until the next annual meeting and until his or her successor is duly elected and qualified. As we have previously announced, George H. Conrades, a director of Cardinal Health since 1999 whose director term expires at the Annual Meeting, does not intend to stand for election at the Annual Meeting, and no person is being nominated at the Annual Meeting to fill the vacancy on the Board of Directors created by his departure. Instead, the directors expect to reduce the size of the Board to thirteen, effective when Mr. Conrades ceases to be a director.

Common shares represented by proxies, unless otherwise specified, will be voted for the election of the thirteen nominees. If, by reason of death or other unexpected occurrence, any one or more of the nominees should not be available for election, the proxies will be voted for the election of any substitute nominee(s) as the Board may nominate. Proxies may not be voted at the Annual Meeting for more than thirteen nominees.

Under Ohio law, if notice in writing is given by any shareholder entitled to vote at the Annual Meeting to our President, any Vice President or Secretary, not less than 48 hours before the scheduled time of the meeting, that the shareholder desires the voting for election of directors to be cumulative, and if an announcement of the request for cumulative voting is made at the beginning of the meeting by the Chairperson or Secretary, or by or on behalf of the shareholder giving such notice, each shareholder entitled to vote at the Annual Meeting will have the right to cumulate such voting power as he or she possesses at such election and to give one nominee a number of votes equal to the number of directors to be elected multiplied by the number of shares he or she holds, or to distribute votes on the same basis among two or more nominees, as he or she sees fit. If voting for the election of directors is cumulative, the persons named in the enclosed proxy intend to vote the shares represented thereby and by other proxies held by them so as to elect as many of the thirteen nominees named below as possible.

Votes will be tabulated by or under the direction of inspectors of election, who will certify the results of the voting at the Annual Meeting. The thirteen nominees receiving the greatest number of votes will be elected directors. Abstentions and broker non-votes will not affect the results of the election. Votes that have been withheld from any nominee will not have any effect on the election of such nominee, but could trigger the policy set forth in our Corporate Governance Guidelines requiring any director who receives a greater number of votes withheld than for his or her election to tender his or her resignation. See Corporate Governance Resignation for Majority Withhold Vote below.

As described under Proposal 3 Approval of Amendments to Articles of Incorporation and Code of Regulations to Implement a Majority Voting Standard for Uncontested Elections and Proposal 4 Approval of Amendments to Articles of Incorporation and Code of Regulations to Eliminate Cumulative Voting, the Board is recommending that shareholders approve amendments to Cardinal Health's Amended and Restated Articles of Incorporation (the Articles) and Restated Code of Regulations (the Regulations) that implement a majority voting standard for the election of directors in uncontested elections and eliminate the ability of a shareholder to select cumulative voting in any election of directors. If these amendments are approved by shareholders, a majority voting standard will apply to all future uncontested director elections, a plurality voting standard will continue to apply in all future contested director elections, and cumulative voting will not be available in any future director elections.

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Set forth below is the following information regarding those persons nominated for election as directors of Cardinal Health (each is currently a director of Cardinal Health): their names, ages, the year in which he or she first became a director of Cardinal Health, principal occupations and positions held during the past five years (unless otherwise stated, the positions listed have been held during the entire past five years); and certain other board memberships.

**Colleen F. Arnold**, 51, Director since August 2007

General Manager of GBS Strategy, Global Consulting Services and SOA Solutions, Global Industries and Global Application Services of International Business Machines Corporation ( IBM ), a globally integrated innovation company that provides systems and financing, software and services to enterprises and institutions worldwide since January 2007  
General Manager of IBM Northern and Eastern Europe, Russia, the Middle East and South Africa of IBM from 2005 to January 2007  
General Manager of Global Communications Sector, Sales and Distribution Group of IBM, from 2002 to 2005

**R. Kerry Clark**, 56, Director since 2006

Chairman and Chief Executive Officer of Cardinal Health since November 2007  
President and Chief Executive Officer of Cardinal Health from April 2006 to November 2007  
Vice Chairman of the Board, P&G Family Health and a director of The Procter & Gamble Company, a marketer of consumer products ( Procter & Gamble ), from July 2004 to April 2006  
Vice Chairman of the Board and President of Global Market Development and Business Operations of Procter & Gamble from 2002 to July 2004  
Member of the Board of Textron Inc., an aircraft, automotive and industrial products manufacturer and financial services company

**Calvin Darden**, 58, Director since 2005

Retired Senior Vice President of U.S. Operations of United Parcel Service, Inc., a package delivery company and provider of specialized transportation and logistics services, from January 2000 to April 2005

Member of the Board of:

Target Corporation, an operator of large-format general merchandise discount stores  
Coca-Cola Enterprises, Inc., a marketer, seller, manufacturer and distributor of nonalcoholic beverages

**John F. Finn**, 60, Director since 1994

President and Chief Executive Officer of Gardner, Inc., a supply chain management company serving industrial and consumer markets, since 1985

Member of the Board of:

J.P. Morgan Funds, a registered investment company  
Greif, Inc., an industrial package products and services company

**Philip L. Francis**, 61, Director since 2006

Chairman and Chief Executive Officer of PetSmart, Inc., a specialty pet retailer, since 1999

Member of the Board of SUPERVALU INC., a grocery retail and supply chain company

**Gregory B. Kenny**, 55, Director since August 2007

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President and Chief Executive Officer of General Cable Corporation, a manufacturer of aluminum, copper and fiber-optic wire and cable products, since August 2001

Member of the Board of Corn Products International, Inc., a corn refining and ingredient company

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**J. Michael Losh**, 62, Director since 1996

Former Chief Financial Officer of Cardinal Health (on an interim basis) from July 2004 to May 2005  
Chairman of Metaldyne Corporation, an automotive parts manufacturer, from October 2000 to April 2002  
Chief Financial Officer of General Motors Corporation, an automobile manufacturer, from 1994 to August 2000  
Member of the Board of:

AMB Property Corporation, an industrial real estate owner and operator  
Aon Corporation, an insurance brokerage, consulting and underwriting company ( Aon )  
H.B. Fuller Company, a specialty chemicals and industrial adhesives manufacturer  
Masco Corp., a manufacturer of home improvement and building products  
TRW Automotive Holdings Corp., a supplier of automotive systems, modules and components

**John B. McCoy**, 65, Director since 1987

Retired Non-Executive Chairman of Corillian Corporation, an online banking and software services company, from June 2000 to January 2004  
Chief Executive Officer of Bank One Corporation, a bank holding company, from 1984 to December 1999  
Member of the Board of:

AT&T, Inc., a telecommunications systems company  
ChoicePoint Inc., a provider of data management products and services

**Richard C. Notebaert**, 61, Director since 1999

Retired Chairman and Chief Executive Officer of Qwest Communications International Inc., a telecommunications systems company, from July 2002 to August 2007  
Member of the Board of Aon

**Michael D. O Halleran**, 58, Director since 1999

Senior Executive Vice President of Aon since September 2004  
President and Chief Operating Officer of Aon from April 1999 to September 2004

**David W. Raisbeck**, 59, Director since 2002

Vice Chairman of Cargill, Incorporated, a marketer, processor and distributor of agricultural, food, financial and industrial products and services, since November 1999 (Mr. Raisbeck has indicated that he plans to retire from this position in October 2008)  
Member of the Board of Eastman Chemical Company, a plastics, chemicals and fibers manufacturer

**Jean G. Spaulding, M.D.**, 61, Director since 2002

Private medical practice in psychiatry since 1977  
Consultant, Duke University Health System, a non-profit academic health care system, since January 2003  
Associate Clinical Professorships at Duke University Medical Center, a non-profit academic hospital, since 1998  
Vice Chancellor for Health Affairs, Duke University Health System, from 1998 to 2002  
Trustee, The Duke Endowment, a charitable trust, since January 2002



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**Robert D. Walter**, 63, Director since 1971

Executive Director of Cardinal Health from November 2007 to June 2008

Executive Chairman of the Board of Cardinal Health from April 2006 to November 2007

Chairman and Chief Executive Officer of Cardinal Health, from 1971 to April 2006

Mr. Robert D. Walter is the father of Matthew Walter, who served as one of our directors during the first seven months of fiscal 2008

Member of the Board of:

American Express Company, a travel, financial and network services company

Yum! Brands, Inc., a global restaurant company

**The Board recommends that you vote FOR the election of these nominees.**

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**PROPOSAL 2 RATIFICATION OF THE SELECTION OF OUR INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM**

The Audit Committee of the Board of Directors has appointed Ernst & Young as our independent registered public accounting firm for fiscal 2009, and we are asking our shareholders to ratify this selection at the Annual Meeting. Although ratification is not required by the Regulations, Ohio law or otherwise, the Board has determined to annually submit the selection of our independent registered public accounting firm to our shareholders for ratification as a matter of good corporate governance practices. If the selection is not ratified, the Audit Committee will consider whether it is appropriate to select another registered public accounting firm. Even if the selection is ratified, the Audit Committee in its discretion may select a different registered public accounting firm at any time during the fiscal year if it determines that such a change would be in our best interest and the best interest of our shareholders.

Representatives of Ernst & Young, which served as our independent public accountants for fiscal 2008, are expected to be present at the Annual Meeting. At the Annual Meeting representatives of Ernst & Young will have the opportunity to make a statement, if they desire to do so, and to respond to appropriate questions from shareholders.

**Vote Required and Recommendation of the Board of Directors**

Approval of the proposal to ratify the selection of Ernst & Young as our independent registered public accounting firm requires the affirmative vote of a majority of the common shares present in person or by proxy and entitled to be voted on the proposal at the Annual Meeting. Abstentions will have the same effect as votes against the proposal. Broker non-votes will not be considered common shares present and entitled to vote on the proposal and will not have a positive or negative effect on the outcome of this proposal.

**The Board recommends that you vote FOR the proposal to ratify the selection of Ernst & Young as our independent registered public accounting firm for our fiscal year ending June 30, 2009.**

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**INFORMATION ABOUT PROPOSALS 3, 4 AND 5 CONCERNING PROPOSED AMENDMENTS TO OUR ARTICLES OF INCORPORATION AND CODE OF REGULATIONS**

We are asking our shareholders to approve amendments to our Articles and Regulations to implement a majority voting standard for the election of directors in uncontested elections, to eliminate cumulative voting, and to establish advance notice procedures for nominations or other business to be introduced at shareholder meetings (together with related administrative changes). The Board of Directors has determined that these three proposals represent a carefully balanced and integrated approach to empowering shareholders. Together, these proposed amendments provide an orderly process for shareholders to put forth nominations and proposals for which they seek majority support, while providing other shareholders the opportunity to adequately consider the matters they are asked to vote upon. Accordingly, implementation of each of the proposals is conditioned upon shareholder approval of all three proposals.

Proposal 3 would implement a majority voting standard for the election of directors in uncontested elections. Under the proposed majority voting standard, each director nominee must receive more FOR votes than AGAINST votes to be elected or re-elected in an uncontested election. Conversely, a nominee who does not receive more FOR votes than AGAINST votes would not be elected. The Board is proposing this majority voting standard to reinforce the Board's accountability to the interests of a majority of our shareholders.

Proposal 4 would eliminate provisions that allow holders of a minority of our shares to cumulate votes so as to elect a director. The Board is proposing to eliminate this provision because it views cumulative voting as incompatible with the objectives of a majority voting standard.

Proposal 5 would establish procedures for shareholders to provide advance notice of director nominations and other proposals to be brought before a shareholder meeting and to implement related administrative provisions. The Board has concluded that the adoption of these provisions will facilitate an orderly process for the conduct of shareholder meetings, including for shareholders to make nominations and propose other business. The advance notice provision for director nominations also complements the majority voting standard proposed in Proposal 3 by providing a mechanism for determining whether an election will be an uncontested election in which the majority voting standard applies.

Approval of each of the three proposals requires the affirmative vote of the holders of a majority of the issued and outstanding common shares. Abstentions and broker non-votes will have the same effect as votes against a proposal. Implementation of each proposal is conditioned upon shareholder approval of all three proposals. For more information, see the descriptions of Proposals 3, 4 and 5 on pages 9 to 14.



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**PROPOSAL 3 APPROVAL OF AMENDMENTS TO ARTICLES OF INCORPORATION AND CODE OF REGULATIONS TO IMPLEMENT A MAJORITY VOTING STANDARD FOR UNCONTESTED ELECTIONS**

Under this Proposal 3, we are asking our shareholders to approve amendments to our Articles and Regulations to implement a majority voting standard for the election of directors in uncontested elections. Prior to 2008, Ohio corporations were required under Ohio law to use a plurality voting standard for director elections. Under the plurality voting standard, nominees receiving the greatest number of votes are elected directors. In 2006, to reinforce the Board's accountability to the interests of the majority of shareholders, the Board of Directors adopted a policy (set forth in our Corporate Governance Guidelines) that requires any director who receives a greater number of votes **WITHHELD** than **FOR** his or her election to tender his or her resignation. Our current policy is described under **Corporate Governance Resignation for Majority Withheld Vote** below. After the Board's adoption of this director resignation policy, Ohio corporation law was amended to permit Ohio corporations to adopt alternative voting standards for director elections by amending their articles of incorporation. For the reasons described below, in September 2008, on the recommendation of the Nominating and Governance Committee, the Board unanimously adopted resolutions approving and recommending to shareholders the approval of amendments to our Articles and Regulations to adopt a majority voting standard in uncontested elections of directors.

Under the proposed majority voting standard, for a nominee to be elected to the Board in an uncontested election, the number of votes cast **FOR** the nominee's election must exceed the number of votes cast **AGAINST** his or her election. Abstentions would not be considered votes cast **FOR** or **AGAINST** a nominee. An uncontested election is generally any meeting of shareholders at which the number of nominees does not exceed the number of directors to be elected and for which no shareholder has submitted notice of an intent to nominate a candidate for election at such meeting in accordance with our Regulations (as proposed to be amended under Proposal 5), or, if such a notice has been submitted, on or before the 10th day prior to the date that we file our definitive proxy statement relating to such meeting with the United States Securities and Exchange Commission (SEC), each such notice has been (a) withdrawn, (b) determined by the Board or a final court order not to be a valid and effective notice of nomination, or (c) determined by the Board not to create a *bona fide* election contest. Proposal 5, below, proposes a procedure that a shareholder would use to provide notice of the shareholder's intention to nominate a candidate for election at a meeting of shareholders. In all director elections other than uncontested elections, which we refer to as contested elections, the plurality voting standard would still apply.

The Board has concluded that the adoption of the proposed majority voting standard in uncontested elections will give shareholders a greater voice in determining the composition of the Board by giving effect to shareholder votes against a nominee for director, and by requiring more shareholder votes for a nominee to obtain or retain a seat on the Board. The adoption of this standard in uncontested elections is intended to reinforce the Board's accountability to the interests of a majority of our shareholders. The Board believes, however, that the plurality voting standard should still apply in contested elections. If a majority voting standard is used in a contested election, fewer candidates or more candidates could be elected to the Board than the number of Board seats. Because the proposed majority voting standard simply compares the number of **FOR** votes with the number of **AGAINST** votes for each director nominee without regard to voting for other candidates, it is not effective in ensuring that all Board seats are filled when there are more candidates than available Board seats. Accordingly, the proposed majority voting standard retains plurality voting in a contested election to avoid such results.

If this proposal is approved by our shareholders and implemented, we also will implement conforming amendments to the current majority voting policy set forth in our Corporate Governance Guidelines to eliminate provisions that will be superseded by this proposal and to conform the provisions that address the treatment of holdover terms for any incumbent directors who fail to be re-elected under majority voting. Under Ohio law, an incumbent director who is not re-elected remains in office until his or her successor is elected and qualified,

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continuing as a holdover director. Similar to the current policy, the amended policy will require an incumbent director who does not receive more votes cast FOR than AGAINST his or her election in an uncontested election to tender his or her resignation to the Nominating and Corporate Governance Committee, which will make a recommendation to the Board as to whether or not it should be accepted. The Board will consider the recommendation and decide whether to accept the resignation as discussed in more detail below under Corporate Governance Resignation for Majority Withheld Vote.

Our Articles currently do not address the voting standard that applies to director elections, which means under Ohio law that the plurality voting standard applies unless the Articles are amended. Under this Proposal 3, the Articles and Regulations would be changed as follows to implement a majority voting standard:

a majority vote standard would be added to our Articles as Article ELEVENTH;

Section 2.4 of our Regulations, regarding the election of directors, would be amended to delete the requirement for plurality voting and add a reference to the applicable voting standard set forth in our Articles; and

Section 2.8 of our Regulations, regarding vacancies in the Board, would be amended to reference the new majority voting standard in our Articles, to clarify that director nominations must be made in accordance with our Regulations with respect to vacancies filled by shareholders, and to simplify the provision regarding the term served by directors filling vacancies.

The actual text of the new Article ELEVENTH of our Articles and revised Sections 2.4 and 2.8 of our Regulations, marked with deletions indicated by strike-outs and additions indicated by underlining to indicate the proposed amendments, is attached to this proxy statement as *Appendix A*. The description of the proposed amendments to our Articles and Regulations is only a summary of the material terms of those provisions and is qualified by reference to the actual text as set forth in *Appendix A*. The amendments to the Articles will become effective upon filing with the Secretary of State of Ohio (which is expected to occur promptly following the shareholder vote) and the amendments to the Regulations will become effective at the time of the shareholder vote, subject to shareholder approval of Proposals 3, 4 and 5.

### **Vote Required and Recommendation of the Board of Directors**

Approval of this proposal to amend the Articles and Regulations to implement a majority voting standard for uncontested elections requires the affirmative vote of the holders of a majority of the issued and outstanding common shares. Abstentions and broker non-votes will have the same effect as votes against the proposal. As noted above, if Proposal 3 is approved by our shareholders at the Annual Meeting, it will be implemented only if Proposals 4 and 5 are each approved.

**The Board recommends that you vote FOR the proposal to amend our Articles and Regulations to implement a majority voting standard for uncontested elections.**

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**PROPOSAL 4 APPROVAL OF AMENDMENTS TO ARTICLES OF INCORPORATION AND CODE OF REGULATIONS TO ELIMINATE CUMULATIVE VOTING**

Under this Proposal 4, we are asking our shareholders to approve amendments to our Articles and Regulations to eliminate cumulative voting in elections of directors. Under Ohio corporation law, because our Articles currently do not address cumulative voting, our shareholders have the right to select cumulative voting in any election of directors, whether or not the election is contested. See Proposal 1 Election of Directors above. Cumulative voting enables a shareholder to cumulate his or her voting power to give one nominee a number of votes equal to the number of directors to be elected multiplied by the number of shares he or she holds, or to distribute the votes among two or more nominees, as he or she sees fit. Thus, with cumulative voting, shareholders could cast all of their votes FOR one nominee, instead of voting each share FOR or AGAINST each candidate, and thereby could elect a nominee that has not been supported by the holders of a majority of the shares voting on the election of directors.

As described under Proposal 3, we are asking shareholders to implement a majority voting standard for the election of directors in uncontested elections. The Board of Directors believes that cumulative voting is incompatible with the objectives of a majority voting standard, because cumulative voting empowers shareholders with less than a majority of the shares to determine the directors on the Board, while majority voting seeks to hold directors accountable to those with a majority of shares voting on the election of directors. The Board therefore has determined that it is appropriate to eliminate cumulative voting in connection with the adoption of the majority voting standard. Accordingly, in September 2008, on the recommendation of the Nominating and Governance Committee, the Board unanimously adopted resolutions approving and recommending to shareholders the approval of amendments to our Articles and Regulations to eliminate cumulative voting in elections of directors. The proposal to eliminate cumulative voting is not in response to any shareholder effort of which we are aware to remove any director or otherwise gain representation on the Board or to accumulate our common shares or to obtain control of Cardinal Health or our Board by means of a solicitation in opposition to management or otherwise.

The Board believes that each director should only be elected if such director receives a majority of the votes cast and that each director should represent the interests of all shareholders, rather than the interests of a minority shareholder or special constituency. The elimination of cumulative voting for directors in connection with adoption of a majority vote standard is consistent with our desire to reinforce the Board's accountability to the interests of a majority of our shareholders. Proposal 5 below addresses the adoption of procedures relating to the nomination of directors, which will provide a fair and orderly process for all shareholders to nominate a candidate for election as a director and will give a minority shareholder a forum to present a candidate who represents his or her views.

Under this Proposal 4, the Articles and Regulations would be changed as follows to eliminate cumulative voting:

a provision expressly eliminating a shareholder's right to cumulate his or her voting power in the election of directors would be added to our Articles as Article TWELFTH;

Section 2.4 of our Regulations, regarding the election of directors, would be amended to delete language permitting a shareholder to cumulate his or her votes in accordance with Ohio corporation law; and

Section 2.7 of our Regulations, regarding removal of directors, would be amended to eliminate the supermajority standard required under a cumulative voting system and to clarify the manner in which replacement directors may be nominated and elected.

The actual text of the new Article TWELFTH of our Articles and revised Sections 2.4 and 2.7 of our Regulations, marked with deletions indicated by strike-outs and additions indicated by underlining to indicate the proposed amendments, is attached to this proxy statement as *Appendix B*. The description of the proposed

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amendments to our Articles and Regulations is only a summary of the material terms of those provisions and is qualified by reference to the actual text as set forth in *Appendix B*. The amendments to the Articles will become effective upon filing with the Secretary of State of Ohio (which is expected to occur promptly following the shareholder vote) and the amendments to the Regulations will become effective at the time of the shareholder vote, subject to shareholder approval of Proposals 3, 4 and 5.

### **Vote Required and Recommendation of the Board of Directors**

Approval of this proposal to amend the Articles and Regulations to eliminate cumulative voting requires the affirmative vote of the holders of a majority of the issued and outstanding common shares. Abstentions and broker non-votes will have the same effect as votes against the proposal. As noted above, if Proposal 4 is approved by our shareholders at the Annual Meeting, it will be implemented only if Proposals 3 and 5 are each approved.

**The Board recommends that you vote FOR the proposal to amend our Articles and Regulations to eliminate cumulative voting.**

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### **PROPOSAL 5 APPROVAL OF AMENDMENTS TO CODE OF REGULATIONS TO ESTABLISH PROCEDURES FOR ADVANCE NOTICE OF DIRECTOR NOMINATIONS AND OTHER PROPOSALS AND RELATED ADMINISTRATIVE MATTERS AT SHAREHOLDER MEETINGS**

Under this Proposal 5, we are asking our shareholders to approve amendments to our Regulations to establish procedures for advance notice of director nominations and other proposals and related administrative matters at shareholder meetings. Our Regulations currently do not expressly provide procedural requirements regarding a shareholder's ability to nominate a candidate for election to the Board of Directors or to propose other business at shareholder meetings. The proposed amendments set forth the time period in which a shareholder must provide notice to Cardinal Health and the procedure to be followed in order to nominate a candidate for election to the Board or to propose other business at shareholder meetings. The proposed amendments will not affect any rights of shareholders to request inclusion of proposals in our proxy statement pursuant to Rule 14a-8 under the U.S. Securities Exchange Act of 1934, as amended (the "Exchange Act"), by satisfying the notice and other requirements of Rule 14a-8 in lieu of satisfying the requirements in the proposed amendments.

For the reasons discussed below, in September 2008, on the recommendation of the Nominating and Governance Committee, the Board unanimously adopted resolutions approving and recommending to shareholders the approval of the amendments to our Regulations.

Under the proposed amendments, a shareholder may nominate a candidate for director or propose other business at an annual meeting by delivering a notice of a nomination or a proposal for other business to our principal executive offices not later than the 70th day nor earlier than the 130th day prior to the first anniversary of previous year's annual meeting. If, however, the date of the annual meeting is more than 30 days before or more than 60 days after the first anniversary of the previous year's annual meeting, shareholders would instead be required to deliver such notice not earlier than the 130th day prior to the annual meeting and not later than the day that is the later of the 70th day prior to the annual meeting or the 10th day following the day on which we first publicly announce the date of the annual meeting. In the event we call a special meeting for the purpose of electing one or more directors, a shareholder would be permitted to nominate a candidate for election to any director positions specified in our notice of meeting, by delivering notice of such nomination to our principal executive offices not earlier than the 130th day prior to such special meeting and not later than the date that is the later of the 70th day prior to such special meeting or the 10th day following the day on which we first publicly announce the date of the special meeting and of the nominees proposed by the Board to be elected at such meeting. The proposed amendments also specify information regarding stock ownership, economic and voting interests in our stock and relationships or interests that a shareholder has with the nominees or business proposed to be introduced, that will be required in any notice of a nomination for director or other business to be brought before a shareholder meeting. Finally, the proposed amendments would give the Board or chairman of the meeting the ability to regulate the order of business at and conduct of the meeting in order to ensure compliance with the Regulations provisions.

The Board has concluded that the adoption of these procedures will facilitate an orderly process for shareholder proposals and nominations and the conduct of shareholder meetings by providing shareholders and Cardinal Health a reasonable opportunity to consider nominations and other business proposed to be brought before a meeting of shareholders and allowing sufficient time for full information to be distributed to shareholders. The Board has determined that the 70-day notice period provides an appropriate time period during which the Board, in the exercise of its fiduciary duties, can evaluate the business and nominees proposed to be presented by a shareholder and, if a resolution is not reached with the shareholder, can prepare and disseminate proxy materials to all shareholders that clearly articulate the Board's position on the matters. We would expect to disclose to all shareholders the information furnished by the shareholder who intends to nominate a candidate for director or propose other business, unless such information is unlikely to be relevant to other shareholders' voting decisions. This process also will allow shareholders who wish to nominate a candidate or propose business to be represented at a meeting while ensuring that all other shareholders have sufficient time to consider the matters to be presented prior to casting their vote. In addition, the advance notice provision for director

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nominations complements the majority voting standard proposed in Proposal 3 by providing a deadline for determining whether an election will be an uncontested election for purposes of applying the majority voting standard. Together, these provisions promote an orderly meeting and clearer communications with shareholders since our proxy statement and proxy card would differ if majority voting were not applicable at a shareholder meeting due to the existence of a contested election.

Under this Proposal 5, our Regulations would be changed as follows to establish advance notice procedures:

Section 1.5, which currently reads *Reserved*, would be replaced with advance notice provisions; and

Section 1.9, regarding order of business at shareholder meetings, would be amended to give the Board or chairman of the meeting the ability to regulate the order of business at and conduct of the meeting in order to ensure compliance with the Regulations.

The actual text of the revised Section 1.5 and 1.9 of our Regulations, marked with deletions indicated by strike-outs and additions indicated by underlining to indicate the proposed amendments, is attached to this proxy statement as *Appendix C*. The description of the proposed amendments to our Regulations is only a summary of the material terms of those provisions and is qualified by reference to the actual text as set forth in *Appendix C*. The amendments to the Regulations will become effective at the time of the shareholder vote, subject to shareholder approval of Proposals 3, 4 and 5.

## **Vote Required and Recommendation of the Board of Directors**

Approval of this proposal to amend the Regulations to establish procedures for advance notice of director nominations and other proposals and related administrative matters at shareholder meetings requires the affirmative vote of the holders of a majority of the issued and outstanding common shares. Abstentions and broker non-votes will have the same effect as votes against the proposal. As noted above, if Proposal 5 is approved by our shareholders at the Annual Meeting, it will be implemented only if Proposals 3 and 4 are each approved.

**The Board recommends that you vote FOR the proposal to amend our Regulations to establish procedures for advance notice of director nominations and other proposals and related administrative matters at shareholder meetings.**

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**PROPOSAL 6 APPROVAL OF AN AMENDMENT TO OUR ARTICLES OF INCORPORATION TO ELIMINATE THE REFERENCE TO THE MINIMUM AMOUNT OF STATED CAPITAL WITH WHICH WE MAY BEGIN BUSINESS AND TO STATE EXPRESSLY THAT OUR COMMON SHARES HAVE NO STATED CAPITAL**

We are asking our shareholders to approve an amendment to our Articles to state expressly that our common shares do not have stated capital. This proposal will remove a potential limit to our ability to pay dividends, and make distributions and share repurchases under Ohio law. The Board believes it is important to clarify this issue, especially in light of the ongoing previously-announced exploration of a potential separation of our primary operating and reporting segments, which could involve a tax-free pro rata distribution of our clinical and medical products businesses that would create a separate, publicly traded company. This change could also give the company greater flexibility in repurchasing common shares.

Under this Proposal 6, Article FIFTH of our current Articles, stating that we begin business with a minimum amount of stated capital, would be deleted and replaced in its entirety with an express provision stating that our common shares have no stated capital.

Stated capital is a factor in determining the ability of an Ohio corporation to pay dividends and make other distributions to shareholders and to repurchase its common shares. The amount of permissible dividends and share repurchases is based on the amount of a corporation's surplus, which Ohio law defines as the excess of a corporation's assets over its liabilities plus stated capital.

Under prior Ohio law, Ohio corporations were required to have a minimum stated capital of five hundred dollars, as reflected in Article FIFTH of our current Articles. Although we believe that our common shares do not have stated capital, the conclusion is not free from doubt as a result of the minimum stated capital provision in our Articles. If it were determined that our common shares had stated capital, then our stated capital would have to be determined under Ohio law and could limit our ability to make dividends, distributions and share repurchases.

To remove uncertainty over whether the stated capital provision would operate as a potential limitation, we propose eliminating the reference to the minimum amount of stated capital with which we may begin business, since it is no longer required under Ohio law. In addition, we propose replacing the eliminated language in Article FIFTH with an express provision stating that our common shares have no stated capital. To the extent that our common shares were deemed to have stated capital, this proposal would eliminate it. The Board believes that adding this specific language is desirable to avoid any doubt as to whether we are limited by stated capital in paying dividends or making distributions and share repurchases.

The actual text of the revised Article FIFTH of our Articles, marked with deletions indicated by strike-outs and additions indicated by underlining to indicate the proposed amendment, is attached to this proxy statement as *Appendix D*. The amendment to the Articles will become effective upon filing with the Secretary of State of Ohio (which is expected to occur promptly following the shareholder vote).

**Vote Required and Recommendation of the Board of Directors**

Approval of this proposal to amend the Articles to eliminate the reference to the minimum amount of stated capital with which we may begin business and to state expressly that our common shares have no stated capital requires the affirmative vote of the holders of a majority of the issued and outstanding common shares. Abstentions and broker non-votes will have the same effect as votes against the proposal.

**The Board recommends that you vote FOR the proposal to amend our Articles to eliminate the reference to the minimum amount of stated capital with which we may begin business and state expressly that our common shares have no stated capital.**

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**PROPOSAL 7 APPROVAL OF AN AMENDED AND RESTATED 2005 LONG-TERM INCENTIVE PLAN**

**General**

We are asking our shareholders to approve the Cardinal Health, Inc. Long-Term Incentive Plan, as Amended and Restated as of November 5, 2008 (the Amended LTIP ), which the Board of Directors approved in September 2008, on the recommendation of the Human Resources and Compensation Committee (the Compensation Committee ). Approval of the Amended LTIP will allow us to continue to provide a competitive compensation program that attracts and retains exceptional employees and motivates those key employees responsible for our growth and success.

The Amended LTIP increases the number of common shares currently reserved for issuance under the Cardinal Health, Inc. 2005 Long-Term Incentive Plan, as amended (the LTIP or Current LTIP ) from 18,000,000 to 29,000,000 common shares, or approximately 8% of the outstanding shares as of the record date. When we asked our shareholders to approve the Current LTIP in 2005, we indicated that we expected the 18,000,000 authorized shares to last about three years, after which time, we expected to seek shareholder approval of an amendment to the plan to authorize additional shares. Similarly, we expect the additional 11,000,000 shares to enable us to make equity award grants for another three years before seeking shareholder approval of a further increase. The Amended LTIP will remain the only plan for providing equity award grants to employees of Cardinal Health and its affiliates.

The Amended LTIP is an omnibus plan that provides for several different kinds of awards. The Amended LTIP authorizes the grant of stock options, stock appreciation rights, stock awards (including restricted stock and restricted stock units), other stock-based awards and cash awards.

As discussed below, shareholder approval of the Amended LTIP is intended to constitute approval of the plan for purposes of the approval requirements of Section 162(m) of the Internal Revenue Code of 1986, as amended (the Code ) so that awards can continue to satisfy the requirements for performance-based compensation, thereby avoiding the potential loss by Cardinal Health of tax deductions under Section 162(m) of the Code.

Our principal reason for amending the Current LTIP is to increase the number of common shares available for issuance. The Amended LTIP includes various other changes. The most important ones are described in the summary of the proposed changes below. The actual text of the Amended LTIP, marked with deletions indicated by strike-outs and additions indicated by underlining to indicate the proposed amendments, is attached to this proxy statement as *Appendix E*. The description of the Amended LTIP is only a summary of the material terms of those provisions and is qualified by reference to the actual text as set forth in *Appendix E*.

**Summary of Proposed Changes**

*Increase in the Number of Available Shares.* The Current LTIP authorizes the issuance of an aggregate of 18,000,000 common shares. The Amended LTIP increases the number of shares to an aggregate of 29,000,000 common shares. As of September 8, 2008, the number of shares utilized to date under the Current LTIP (exclusive of outstanding awards) was 1,061,770, shares subject to outstanding awards were 11,745,220 and shares available for future awards were 5,193,010. The number and kind of shares available is subject to adjustment for stock dividends, stock splits and in certain other situations.

*Changes to Other Limits.* The Amended LTIP increases the aggregate number of common shares that may be granted subject to stock awards and other stock-based awards from 6,000,000 to 11,000,000 common shares. The Amended LTIP also includes several changes in the minimum vesting requirements. The Current LTIP requires a minimum one-year vesting period for stock options, stock appreciation rights and performance-vested stock awards and other stock-based awards and a minimum



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three-year ratable vesting period for time-vested stock awards and other stock-based awards, but allows for an aggregate of 600,000 common shares that may be used for stock awards and other stock-based awards without a minimum vesting period. Under the Current LTIP, the minimum vesting requirements do not apply in the event of the participant's death, disability or retirement or upon a change of control. The Amended LTIP would include the following changes:

an increase in the aggregate number of shares that may be used for stock awards and other stock-based awards with no minimum vesting period from 600,000 to 1,100,000 common shares;

a new allowance of 1,000,000 common shares that may be used for stock options and stock appreciation rights with no minimum vesting period; and

an additional exception to the minimum vesting requirements in connection with a disaffiliation of a subsidiary or affiliate of ours.

These new provisions allow us additional flexibility to grant new awards and adjust or amend outstanding awards.

The Amended LTIP still includes the \$7,500,000 annual limit on cash awards, but the limit will be based on the aggregate maximum value of the cash awards on the date of grant. The limit on the aggregate number of common shares subject to awards granted under the Amended LTIP during any fiscal year to any one participant remains at 1,000,000 common shares.

**Enhanced Prohibition on Repricing of Stock Options and Stock Appreciation Rights.** Consistent with our past practices, the Amended LTIP strengthens the provision of the Current LTIP that prohibits us from repricing outstanding stock options or stock appreciation rights. The Amended LTIP provides that, except in connection with a corporate transaction or event described in Section 16(a) of the Amended LTIP, the terms of outstanding awards may not be amended to reduce the exercise price of outstanding options or the base price of stock appreciation rights, or cancel outstanding options or stock appreciation rights in exchange for cash, other awards or options or stock appreciation rights with an exercise price or base price, as applicable, that is less than the exercise price of the original options or base price of the original stock appreciation rights, as applicable, without shareholder approval.

**Recoupment in the Event of Financial Restatement.** The Amended LTIP includes a new provision that expressly authorizes the administrator to require a participant to repay the value received from such awards, or a portion thereof, upon the participant's misconduct that causes or contributes to a restatement of the financial statements of Cardinal Health, if the amount payable in respect of the award would have been lower than that received had the financial results been properly reported.

**Section 409A Compliance.** The Amended LTIP contains a set of new provisions that require the plan and any awards granted under the plan to comply with Section 409A of the Code.

### **Summary of the Amended LTIP**

**Amended Plan Limits.** The maximum aggregate number of common shares that may be subject to awards granted under the Amended LTIP is 29,000,000 common shares. The 29,000,000 maximum number of common shares consists of 18,000,000 common shares that were approved by shareholders in 2005 and 11,000,000 common shares that have been added in the Amended LTIP. The aggregate number of common shares subject to awards granted under the Amended LTIP will not be reduced by common shares subject to awards granted upon the assumption of, or in substitution for, awards granted by a business or entity that is acquired by, or whose assets are acquired by, Cardinal Health. The common shares issued pursuant to the Amended LTIP may be either common shares that had been reacquired by Cardinal Health, including through purchases in the open market, or common shares that are authorized but unissued.

The aggregate number of common shares subject to awards granted under the Amended LTIP at any time is not reduced by common shares subject to awards that have been canceled, expired, forfeited or settled in cash.



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Under the Amended LTIP, common shares shall not become available again for subsequent awards, if they are subject to awards that have been retained by us in payment or satisfaction of the purchase price of an award or the tax withholding obligation of a participant, they have been delivered (either actually or constructively by attestation) to us in payment or satisfaction of the purchase price of an award or the tax withholding obligation of a participant, or they are subject to stock appreciation rights that are exercised and settled in common shares (to the extent the number of reserved common shares exceeds the number of common shares actually issued upon the exercise of the stock appreciation rights).

No more than 4,500,000 shares may be issued under the Amended LTIP pursuant to incentive stock options. No more than 11,000,000 shares may be granted under the Amended LTIP as stock awards or other stock-based awards. In any one fiscal year, no participant may receive cash awards that have an aggregate maximum value in excess of \$7,500,000. The aggregate number of common shares subject to any awards granted under the Amended LTIP during any fiscal year to a participant is limited to 1,000,000 common shares.

*Selected Related Data, as of September 8, 2008:*

	<b>Exercisable</b>	<b>Non-exercisable</b>	<b>Total</b>
Stock options outstanding, all plans	26,931,183	6,412,088	33,343,271(1)
Full-value awards outstanding, all plans (2)		3,312,974	3,312,974
Shares available for awards, all plans (3)			17,129,196
Common shares issued and outstanding:			
Undiluted			359,247,825
Diluted (4)			413,033,266

- (1) Weighted-average exercise price of options outstanding as of September 8, 2008 was \$58.68. Weighted-average remaining contractual life of options outstanding as of September 8, 2008 was 4.5 years.
- (2) Currently consists of unvested restricted share units ( RSUs ) and unvested restricted shares.
- (3) Includes 2,778,562 shares available for full value awards.
- (4) Includes all stock option and full-value awards outstanding (plan and non-plan) and shares available for all awards under all plans.

**Option Rights.** Option rights provide the recipient the right to purchase common shares at a price not less than its fair market value on the date of the grant. The option price is payable: in cash; check or wire transfer; other common shares that (A) in the case of common shares acquired from us (whether upon the exercise of an option or otherwise), have been owned by the participant for more than six months on the date of surrender and (B) have a fair market value on the date of surrender equal to or greater than the aggregate exercise price of the common shares as to which said option is exercised (with the excess of the fair market value over the aggregate exercise price being refunded to the participant in cash); our withholding of common shares that are otherwise issuable upon exercise of an option; to the extent allowed by law, consideration received by a broker-assisted sale; or any other legal consideration that our administrator deems appropriate. As of September [ ], 2008, the fair market value of the common shares underlying Cardinal Health's option rights was \$[ ] per share.

Option rights granted under the Amended LTIP may be option rights that are intended to qualify as incentive stock options ( ISOs ) within the meaning of Section 422 of the Code or option rights that are not intended to so qualify or combinations thereof. ISOs may be granted only to employees of Cardinal Health or any of its subsidiaries, who, as of the grant date, own no more than 10% of the total combined voting power of Cardinal Health.

Options granted under the Amended LTIP shall vest or be exercisable at such time and in such installments as determined by the administrator. No option shall first become exercisable within one year of its grant date, other than upon a change of control, or upon the death, disability or retirement of the participant, except that up to 1,000,000 common shares may be subject to options that have no minimum vesting period. The Amended LTIP includes an additional exception to the one-year minimum vesting requirement, in which stock options or

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stock appreciation rights may become exercisable in connection with a disaffiliation of a subsidiary or affiliate of Cardinal Health. At any time after the grant of an option, the administrator may reduce or eliminate any restrictions surrounding any participant's right to exercise all or part of the option, subject to restrictions set forth in the Amended LTIP.

Except in connection with a corporate transaction or event that leads to an adjustment of the number or kind of shares underlying the awards granted under the plan, the terms of outstanding awards may not be amended to reduce the exercise price of outstanding options. The administrator also may not cancel outstanding options in exchange for cash, other awards or options with an exercise price that is less than the exercise price of the original options, without shareholder approval.

No option rights may be exercised more than ten years from the date of grant. Each option agreement must contain provisions regarding the number of common shares that may be issued upon exercise of the option, the type of option, the exercise price of the option and the means of payment of such exercise price, the term of the option, such terms and conditions on the vesting and/or exercisability of an option as may be determined from time to time by the administrator, restrictions on the transfer of the option and forfeiture provisions, and such further terms and conditions as may be determined from time to time by the administrator.

**Stock Appreciation Rights.** Stock appreciation rights provide the recipient with the right to receive from us an amount, determined by the administrator, equal to the excess of the fair market value of the common shares on the date the rights are exercised over the aggregate exercise price of the appreciation rights, as established by the administrator on the date of grant. Appreciation rights can be tandem (i.e., granted with option rights to provide an alternative to the exercise of the option rights) or free-standing. Free-standing appreciation rights must have a base price per right that is not less than the fair market value of the common shares on the date of grant, must specify the period of continuous employment that is necessary before such appreciation rights become exercisable (except that they may provide for the earlier exercise of the appreciation rights in the event of retirement, death or disability of the recipient or a change in control of Cardinal Health and, as noted above, in connection with a disaffiliation of a subsidiary or affiliate of Cardinal Health) and may not be exercisable more than ten years from the date of grant. Tandem appreciation rights granted in connection with previously granted options shall have the same terms and conditions of such options. Any grant of appreciation rights may specify that the amount payable by us on exercise of an appreciation right may be paid in cash, in common shares or in a combination of the two. Any grant of appreciation rights may specify performance criteria that must be achieved as a condition to exercise such rights.

Without shareholder approval and except in connection with a corporate transaction or event that leads to an adjustment of the number or kind of shares underlying the awards granted under the plan, the terms of outstanding awards may not be amended to reduce the exercise price or the base price of stock appreciation rights. The administrator also may not cancel outstanding stock appreciation rights in exchange for cash, other awards or stock appreciation rights with a base price that is less than the base price of the original stock appreciation rights.

**Stock Awards.** A stock award means an award or issuance of shares or stock units, the grant, issuance, retention, vesting and/or transferability of which is subject during specified periods of time to conditions (including without limitation continued employment or performance conditions) and terms as are expressed in the agreement or other documents evidencing the award. Stock awards include awards such as restricted stock and restricted stock units.

No stock award condition that is based upon performance criteria and level of achievement versus such criteria may be based on performance over a period of less than one year, and no condition that is based upon continued employment or the passage of time may provide for vesting in full of a stock award in less than pro rata installments over three years from the date of grant, other than with respect to such stock awards that are issued upon the exercise or settlement of options or stock appreciation rights, upon a change of control, upon the

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death, disability or retirement of the participant (as specified in the award agreement), or for up to 1,100,000 common shares subject to stock awards and other stock-based awards in the aggregate that have no minimum vesting period. The Amended LTIP includes an additional exception to the minimum vesting requirements, in which stock awards may become vested in connection with a disaffiliation of a subsidiary or affiliate of Cardinal Health.

The grant, issuance, retention and/or vesting of any stock award may be subject to such performance criteria and level of achievement of such performance criteria as the administrator determines. The performance criteria may be based on financial performance, personal performance evaluations and/or completion of service by the participant.

**Other Stock-Based Awards.** An other stock-based award means any other type of equity-based or equity-related award not otherwise described by the terms of the Amended LTIP (including the grant or offer for sale of unrestricted common shares) in such amount and subject to such terms and conditions as the administrator determines. Other stock-based awards may involve the transfer of actual common shares to the participant or payment in cash or other property in amounts based on the value of the common shares.

Each other stock-based award is evidenced by an Award Agreement containing such terms and conditions as may be determined by the Administrator. No other stock-based award condition that is based upon performance criteria and level of achievement versus such criteria may be based on performance over a period of less than one year and no condition that is based upon continued employment or the passage of time may provide for vesting in full of a stock award in less than pro rata installments over three years from the date of grant, other than with respect to such other stock-based awards that are issued upon the exercise or settlement of options or stock appreciation rights, upon a change of control, upon the death, disability or retirement of the participant (as specified in the award agreement), or for up to 1,100,000 common shares subject to stock awards and other stock-based awards in the aggregate that have no minimum vesting period. The Amended LTIP includes an additional exception to the one-year minimum vesting requirement, in which other stock-based awards may become vested in connection with a disaffiliation of a subsidiary or affiliate of Cardinal Health.

Each other stock-based award shall be expressed in terms of common shares or units based on common shares, as determined by the administrator. The administrator may establish performance goals in its discretion. If the administrator exercises its discretion to establish performance goals, the number and/or value of other stock-based awards that will be paid out to the participant will depend on the extent to which the performance goals are met.

**Cash Awards.** Cash awards confer upon the participant the opportunity to earn a future payment tied to the level of achievement with respect to one or more performance criteria established for a performance period. The administrator establishes the performance criteria and level of achievement of such criteria that determine the amounts payable under a cash award. The performance criteria may be based on financial performance and/or personal performance evaluations. The administrator may specify the percentage of the target cash award that is intended to satisfy the requirements for performance-based compensation under Section 162(m) of the Code.

We use the provision for cash awards in our operation of the long-term incentive cash program under the Current LTIP, as described below under Executive Compensation Compensation Plans, and expect to continue to do so under the Amended LTIP.

The administrator determines the timing of payment of any cash award. The administrator may provide for the payment of any cash award to be deferred to a specified date or event, subject to such terms and conditions as the administrator may specify. Payments for cash awards may be in either cash or other property, as determined by the administrator. Under the Current LTIP, the maximum amount payable pursuant to portions of cash awards earned with respect to any fiscal year to any participant may not exceed \$7,500,000. The Amended LTIP, however, provides that in any one fiscal year, no participant may receive cash awards having an aggregate maximum value as of their respective dates of grant in excess of \$7,500,000.

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**Dividend Equivalents.** To the extent permitted by Section 409A of the Code, any award other than options or stock appreciation rights may provide the participant with the right to receive dividend payments or dividend equivalent payments on the common shares subject the award, whether or not such award has been exercised or is vested. Dividend equivalents may be made in cash or may be credited as cash or stock units to a participant's account and later settled in cash or common shares or a combination of the two, as determined by the administrator. Such payments and credits may be subject to conditions and contingencies established by the administrator.

**Performance Criteria.** When so determined by the administrator, option rights, appreciation rights, stock awards, other stock-based awards and cash awards may specify performance criteria. Performance criteria may be described in terms of company-wide objectives or objectives that are related to the performance of the individual participant or the participant's division, department or function within Cardinal Health or subsidiary of Cardinal Health. With respect to any award that is intended to satisfy the requirements for performance-based compensation under Section 162(m) of the Code, performance criteria must be limited to specified levels of, growth in or peer company performance in: cash flow, earnings (including gross margin, earnings before interest and taxes, earnings before taxes, and net earnings), earnings per share, growth in earnings or earnings per share, stock price, return on equity or average shareholders' equity, total shareholder return, return on capital, return on assets or net assets, return on investment, revenue, income or net income, operating income or net operating income, operating profit or net operating profit (whether before or after taxes), economic profit or profit margin, operating margin, return on operating revenue, return on tangible capital, market share, contract awards or backlog, overhead or other expense reduction, growth in shareholder value relative to the moving average of the S&P 500 Index or a peer group index, credit rating, strategic plan development and implementation, improvement in workforce diversity, customer satisfaction, employee satisfaction, management succession plan development and implementation and/or employee retention. Notwithstanding satisfaction of any completion of any performance criteria, to the extent specified as of the date of grant, the number of shares, options or other benefits granted, issued, retainable and/or vested under an award on account of satisfaction of such performance criteria may be reduced by the plan administrator on the basis of such further considerations as it determines appropriate in its sole discretion.

The Current LTIP is designed so that awards granted to our executive officers under it prior to the date of our 2010 shareholders meeting can qualify for deductibility for purposes of our federal income taxes as performance-based compensation within the meaning of Section 162(m) of the Code. The Amended LTIP also is designed so that awards can satisfy the requirements for performance-based compensation for purposes of Section 162(m) of the Code. In general, under Section 162(m), for us to be able to deduct compensation in excess of \$1 million paid in any one year to our chief executive officer or any of our other three most highly paid executive officers (not including the chief financial officer), the compensation must qualify as performance-based. One of the requirements of performance-based compensation under Section 162(m) is that the material terms of the performance goals be re-approved by our shareholders every five years. Material terms include (i) the employees eligible to receive compensation, (ii) a description of the business criteria on which the performance goal may be based and (iii) the maximum amount of compensation that can be paid to an employee under the performance goal. Shareholder approval of the Amended LTIP is intended to constitute approval of each of these aspects of the plan, as discussed in this summary, for purposes of the approval requirements of Section 162(m) of the Code.

**Administration.** The Amended LTIP will be administered by the administrator, which may be the Board, the Compensation Committee or its delegate. The administrator, in its discretion, selects the employees to whom awards may be granted, the time or times at which such awards are granted, and the terms of such awards. The administrator has sole authority in its discretion to construe and interpret the Amended LTIP and awards granted thereunder.

The administrator may, except to the extent prohibited by applicable law, allocate all or any portion of its responsibilities and powers to any one or more of its members or to any other person or persons selected by it,

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except with respect to the grant of awards to employees who are executive officers of Cardinal Health. To the extent that the administrator decides to qualify awards as performance-based compensation within the meaning of Section 162(m) of the Code, awards to covered employees within the meaning of Section 162(m) of the Code or to employees that the committee determines may be covered employees in the future are made by a committee of two or more outside directors within the meaning of Section 162(m) of the Code. To the extent desirable to qualify transactions as exempt under Rule 16b-3 of the Exchange Act ( Rule 16b-3 ), awards to officers and directors are made by the entire Board or a committee of two or more non-employee directors within the meaning of Rule 16b-3.

**Eligibility.** Employees of Cardinal Health and its affiliates are eligible to receive awards under the Amended LTIP, including all of Cardinal Health's executive officers and approximately 2,000 other employees. Non-employee directors and consultants are not eligible for awards under the plan. Incentive stock options may only be granted to employees of Cardinal Health and corporations connected to it by chains of ownership of voting power representing 50% or more of the total outstanding voting power of all classes of stock of the lower-tier entity.

**Transferability.** The administrator may provide for transferability of particular awards under the Amended LTIP, so long as awards are not transferred in exchange for consideration. Otherwise, option rights and other derivative securities awarded under the Amended LTIP will not be transferable by a recipient other than by will or the laws of descent and distribution. The administrator may impose any restrictions, conditions or limitations as it determines appropriate as to the timing and manner of any resales by a participant or of other subsequent transfers by the participant of any common shares issued as a result of or under an award or upon the exercise of an award, including without limitation, restrictions under an insider trading policy, restrictions as to the use of a specified brokerage firm for such resales or other transfers, and institution of blackout periods on exercises of awards.

**Adjustments.** The number and kind of shares covered by outstanding option rights, appreciation rights, stock awards and other stock-based awards and the prices per share applicable thereto, are subject to adjustment in certain situations as provided in Section 16 of the Amended LTIP.

**Recoupment.** The administrator may also require repayment to us of all or any portion of an award if the amount of the award was calculated based upon the achievement of financial results that were subsequently the subject of a restatement of our financial statements, the participant engaged in misconduct that caused or contributed to the need for the restatement of the financial statements, and the amount payable to the participant would have been lower than the amount actually paid to the participant had the financial results been properly reported.

**Termination.** The Amended LTIP shall become effective upon its approval by our shareholders. It will remain in effect for a term of ten years from the date the Amended LTIP is approved by our shareholders unless terminated earlier pursuant to its terms.

**Miscellaneous.** The administrator may amend, alter or discontinue the Amended LTIP or any award agreement, but any such amendment shall be subject to approval of our shareholders in the manner and to the extent required by U.S. federal and state laws, any stock exchange or quotation system on which we have listed or submitted for quotation the common shares and, with respect to awards subject to the laws of any foreign jurisdiction where awards are, or will be, granted under the Amended LTIP, the laws of such jurisdiction.

The Amended LTIP and all determinations made and actions taken pursuant to the Amended LTIP are governed by the substantive laws, but not the choice of law rules, of the state of Ohio, except as to matters governed by U.S. federal law.

**Specific Long-Term Incentive Plan Benefits.** Because benefits under the Amended LTIP will depend on the administrator's actions and the fair market value of common shares at various future dates, it is not possible

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to determine the benefits that will be received by executive officers and other employees if the Amended LTIP is approved by the shareholders. If the shareholders had adopted and approved the Amended LTIP in fiscal 2008, we expect that our awards under the Amended LTIP would not have been substantially different from those actually made in that year, as described on page 68.

### **U.S. Federal Income Tax Consequences**

The following is a brief summary of certain of the U.S. federal income tax consequences of certain transactions under the Amended LTIP based on federal income tax laws in effect on January 1, 2008. This summary is not intended to be exhaustive and does not describe foreign, state or local tax consequences, nor does it describe consequences based on particular circumstances. Each participant should refer to the actual text of the Amended LTIP set forth in *Appendix E* and should consult with a tax advisor as to specific questions relating to tax consequences of participation in the Amended LTIP.

#### **Federal Income Tax Consequences to Participants**

*Nonqualified Option Rights.* In general, (a) no income will be recognized by an optionee at the time a nonqualified option right is granted; (b) at the time of exercise of a nonqualified option right, ordinary income will be recognized by the optionee in an amount equal to the difference between the option price paid for the shares and the fair market value of the shares, if unrestricted, on the date of exercise; and (c) at the time of sale of shares acquired pursuant to the exercise of a nonqualified option right, appreciation (or depreciation) in value of the shares after the date of exercise will be treated as either short-term or long-term capital gain (or loss) depending on how long the shares have been held.

*Incentive Option Rights.* No income generally will be recognized by an optionee upon the grant or exercise of an ISO. The exercise of an ISO, however, may result in alternative minimum tax liability. If common shares are issued to the optionee pursuant to the exercise of an ISO, and if no disqualifying disposition of such shares is made by such optionee within two years after the date of grant or within one year after the transfer of such shares to the optionee, then upon sale of such shares, any amount realized in excess of the option price will be taxed to the optionee as a long-term capital gain and any loss sustained will be a long-term capital loss.

If common shares acquired upon the exercise of an ISO are disposed of prior to the expiration of either holding period described above, the optionee generally will recognize ordinary income in the year of disposition in an amount equal to the excess (if any) of the fair market value of such shares at the time of exercise (or, if less, the amount realized on the disposition of such shares if a sale or exchange) over the option price paid for such shares. Any further gain (or loss) realized by the participant generally will be taxed as short-term or long-term capital gain (or loss) depending on the holding period.

*Stock Appreciation Rights.* No income will be recognized by a participant in connection with the grant of a tandem appreciation right or a free-standing appreciation right. When the appreciation right is exercised, the participant normally will be required to include as taxable ordinary income in the year of exercise an amount equal to the amount of cash received and the fair market value of any unrestricted common shares received on the exercise.

*Stock Awards.* The recipient of stock awards generally will be subject to tax at ordinary income rates on the fair market value of the underlying shares (reduced by any amount paid by the participant for such shares) at such time as the shares are no longer subject to forfeiture or restrictions on transfer for purposes of Section 83 of the Code ( Restrictions ). However, a participant who so elects under Section 83(b) of the Code within 30 days of the date of transfer of the shares will have taxable ordinary income on the date of transfer of the shares equal to the excess of the fair market value of such shares (determined without regard to the Restrictions) over the purchase price, if any, of such stock awards. If a Section 83(b) election has not been made, any dividends received with respect to shares that are subject to the Restrictions generally will be treated as compensation that is taxable as ordinary income to the participant.



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*Cash Awards.* No income generally will be recognized upon the grant of cash awards. Upon payment in respect of the earn-out of cash awards, the recipient generally will be required to include as taxable ordinary income in the year of receipt an amount equal to the amount of cash or other property received and the fair market value of any nonrestricted common shares received.

### **Federal Income Tax Consequences to Cardinal Health or its Subsidiary**

To the extent that a recipient recognizes ordinary income in the circumstances described above, Cardinal Health or the subsidiary for which the participant performs services will be entitled to a corresponding deduction provided that, among other things, the income meets the test of reasonableness, is an ordinary and necessary business expense, is not an excess parachute payment within the meaning of Section 280G of the Code and is not disallowed by the \$1 million limitation on certain executive compensation under Section 162(m) of the Code.

### **Compliance with Section 409A of the Code**

The American Jobs Creation Act of 2004, enacted on October 22, 2004, revised the federal income tax law applicable to certain types of awards that may be granted under the Amended LTIP. To the extent applicable, it is intended that the Amended LTIP and any grants made under the Amended LTIP comply with the provisions of Section 409A of the Code.

## **Vote Required and Recommendation of the Board of Directors**

Approval of the Amended LTIP requires the affirmative vote of a majority of the common shares present in person or represented by proxy and entitled to be voted on the proposal at the Annual Meeting. Approval of the Amended LTIP also requires that the holders of a majority of the common shares entitled to vote (as determined in accordance with the rules of the New York Stock Exchange (the "NYSE")) cast a vote, whether in favor, against, or in abstention. Abstentions will have the same effect as votes against the proposal. Broker non-votes will not be considered votes cast on the proposal and will not have a positive or negative effect on the outcome of this proposal.

**The Board unanimously recommends that you vote FOR the proposal to approve the Amended LTIP.**

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**PROPOSAL 8 APPROVAL OF AN AMENDED AND RESTATED  
EMPLOYEE STOCK PURCHASE PLAN**

**General**

The Cardinal Health, Inc. Employee Stock Purchase Plan, which initially was approved by our shareholders at the 1999 annual meeting and subsequently amended at various times (the ESPP or Current ESPP ), provides our employees with a convenient means of purchasing equity in Cardinal Health through payroll deductions. To continue to attract and retain employees, our Board of Directors approved amendments to the Current ESPP by adopting the Cardinal Health, Inc. Employee Stock Purchase Plan, as Amended and Restated as of November 5, 2008 (the Amended ESPP ), and has recommended that the Amended ESPP be submitted to our shareholders for approval at the Annual Meeting.

The Current ESPP is being amended to increase the number of common shares available for issuance and make several technical changes. The Current ESPP authorizes the issuance of an aggregate of 7,500,000 common shares available for purchase, as adjusted to give effect to our 3-for-2 stock split that occurred on April 20, 2001. The Amended ESPP increases the number of common shares to an aggregate of 12,500,000 common shares available for purchase. As of September 8, 2008, Cardinal Health had issued and employees had purchased 6,454,314 shares of the 7,500,000 common shares previously authorized under the Current ESPP.

A description of the entire Amended ESPP is set forth below. The actual text of the Amended ESPP, marked with deletions indicated by strike-outs and additions indicated by underlining to indicate the proposed amendments, is attached to this proxy statement as *Appendix F*. The description of the Amended ESPP is only a summary of the material terms of those provisions and is qualified by reference to the actual text as set forth in *Appendix F*.

**Summary of the Amended ESPP**

**Available Shares.** Under the Amended ESPP, the number of aggregate common shares available for purchase is 12,500,000 common shares. The number and kind of common shares available is subject to adjustment for stock dividends, stock splits and in certain other situations.

**Administration.** The Amended ESPP is administered by the administrator, which is our Board, a designated committee thereof, or the persons or entity delegated the responsibility of administering the Amended ESPP. Subject to the terms of the Amended ESPP, the administrator has full and exclusive discretionary authority to construe, interpret and apply the terms of the Amended ESPP, to determine eligibility, to adjudicate all disputed claims filed under the Amended ESPP and to adopt rules and regulations for carrying out the terms of the Amended ESPP.

**Purchase of Common Shares.** The administrator may designate one or more offering periods during each fiscal year of Cardinal Health. On the first day of each offering period, each participant is granted an option to purchase common shares under the Amended ESPP. Each option granted expires at the end of the offering period in which it was granted. Common shares purchased under the Amended ESPP are held in separate accounts for each participant.

**Eligibility.** All employees of Cardinal Health and its designated subsidiaries may become eligible to participate in the Amended ESPP. An employee becomes eligible once he or she has worked as an employee of Cardinal Health or its designated subsidiaries for at least 30 days and is customarily employed at least five months of each calendar year or is classified as a PRN or an on-call employee. The approximate number of eligible employees as of September 8, 2008 was 30,000, which is expected to change over time. However, an employee may not purchase shares under the Amended ESPP if such purchase would cause the employee to own common shares representing 5% or more of the total combined voting power or value of each class of stock of the company or any subsidiary. In addition, an employee may not purchase shares under the Amended ESPP if

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such purchase would cause the employee to have options to purchase more than \$25,000 of common shares under the Amended ESPP for any calendar year. The maximum number of common shares that may be purchased by a participant during any one offering period is 2,500 common shares.

**Employee Stock Purchase Plan Benefits.** Participation in the Amended ESPP is voluntary. Each eligible employee elects whether to participate in the Amended ESPP and the extent to which he or she will participate. It is, therefore, not possible to determine the benefit or amounts that will be received in the future by individual employees or groups of employees under the Amended ESPP. A participant may authorize payroll withholdings between 1% and 15% of his or her base compensation. The aggregate fair market value of common shares that an eligible employee may purchase during any calendar year may not exceed \$21,250. The purchase price for each common share purchased under the Amended ESPP will be the lesser of 85% of the closing value of a common share on the first trading day of the applicable offering period (or the earliest date thereafter that is administratively feasible) or 85% of the closing value of a common share on the last trading day of the applicable offering period (or the earliest date thereafter that is administratively feasible).

**Cessation of Active Participation.** A participant may revoke his or her authorization for payroll deduction for the offering period in which such revocation is made by giving notice to the administrator or the participant's respective employer. A participant who revokes authorization for payroll deduction may not again participate in the Amended ESPP until the next offering period immediately following the offering period in which the participant made his or her revocation. In addition, if a participant receives a hardship distribution of elective deferral contributions from the Cardinal Health 401(k) Savings Plan, or any other plan sponsored by the participant's employer and intending to qualify as a Code Section 401(k) plan, the participant's payroll deduction under the Amended ESPP will automatically be revoked effective for the offering period in which the participant receives the hardship distribution, or as soon as administratively feasible. If a participant's payroll deduction is automatically revoked due to the participant's receipt of a hardship distribution, the participant may not again participate for at least six months from the date on which he or she was suspended from the Amended ESPP. Separation from employment from Cardinal Health or its designated subsidiaries, for any reason, is treated as an automatic withdrawal from the Amended ESPP.

**Termination and Amendment.** The Board has the right to amend, modify or terminate the Amended ESPP without notice, provided, however, that no participant's existing options will be adversely affected by any such amendment, modification or termination, except to comply with applicable law, stock exchange rules or accounting rules. In any event, the Board has the right to terminate the Amended ESPP with respect to all future payroll deductions and related purchases at any time. Such termination will also terminate any then-current offering period.

## **U.S. Federal Income Tax Consequences**

The following is a brief summary of the general U.S. federal income tax consequences to participants and Cardinal Health of participation in the Amended ESPP. This summary is not intended to be exhaustive and does not describe foreign, state or local tax consequences, nor does it describe consequences based on particular circumstances. Each participant should refer to the actual text of the Amended ESPP set forth in *Appendix F* and should consult with a tax advisor as to specific questions relating to tax consequences of participation in the Amended ESPP.

### **Federal Income Tax Consequences to Participants**

Under the Amended ESPP, the option to purchase common shares granted under the Amended ESPP will constitute an option issued pursuant to an employee stock purchase plan within the meaning of Section 423 of the Code. If common shares are purchased under the Amended ESPP, and no disposition of these common shares is made within two years of the first day of the offering period for the option, nor within one year after the last day of the offering period for that option, then no income will be realized by the participant at the time of the

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transfer of the common shares to such participant's plan account. In the event of the death of a participant while owning the common shares, no income will be realized at the time of the transfer of the common shares to such participant's plan account. When a participant sells or otherwise disposes of the common shares, there will be included in such participant's income, as compensation, an amount equal to the lesser of (a) an amount equal to 15% of the fair market value of the common shares on the first day of the applicable offering period, or (b) the amount by which the fair market value of the common shares at the time of disposition or death exceeds the purchase price for the common shares. Any additional gain would be treated for tax purposes as long-term capital gain, provided that the participant holds the common shares for the applicable long-term capital gain holding period after the last day of the offering period applicable to such common shares.

If a participant disposes of the common shares within either the one- or two- year period described above, such participant would realize ordinary income in the year of disposition in an amount equal to the difference between the purchase price and the fair market value of the common shares on the last day of the applicable offering period. Any difference between the amount received upon such a disposition and the fair market value of the common shares on the last day of the applicable offering period would be treated as a capital gain or loss, as the case may be.

### **Federal Income Tax Consequences to Cardinal Health or its Subsidiary**

We are not allowed a deduction for federal income tax purposes in connection with the grant or exercise of the option to purchase common shares under the Amended ESPP, provided there is no disposition of common shares by a participant within either the one- or two- year period described above. If such a disposition occurs within either of these two periods, we will be entitled to a deduction in the same amount and at the same time that the participant realizes ordinary income.

### **Vote Required and Recommendation of the Board of Directors**

Approval of the Amended ESPP requires the affirmative vote of a majority of the common shares present in person or represented by proxy and entitled to be voted on the proposal at the Annual Meeting. Approval of the Amended ESPP also requires that the holders of a majority of the common shares entitled to vote (as determined in accordance with the rules of the NYSE) cast a vote, whether in favor, against, or in abstention. Abstentions will have the same effect as votes against the proposal. Broker non-votes will not be considered votes cast on the proposal and will not have a positive or negative effect on the outcome of this proposal.

**The Board unanimously recommends that you vote FOR the proposal to approve the Amended ESPP.**

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### **PROPOSAL 9 SHAREHOLDER PROPOSAL REGARDING PERFORMANCE-BASED STOCK OPTIONS**

We received notice that a shareholder intends to present the following proposal at the Annual Meeting. The proposed resolution and its supporting statement, for which neither we nor the Board of Directors accepts responsibility, are set forth below. The proposal was submitted by William C Thompson, Jr. Comptroller, City of New York, on behalf the Boards of Trustees of the New York City Pension Funds, 1 Centre Street, Room 736, New York, New York 10007-2341 (the Pension Funds owned an aggregate of 1,121,587 common shares on April 7, 2008).

The shareholder proposal and the supporting statement read as follows:

**RESOLVED:** That the shareholders of Cardinal Health, Inc. (the Company) request the Board of Directors to adopt a policy requiring that stock options, which are granted to senior executives, as part of their compensation package, are performance-based. For the purposes of this proposal, performance-based stock options are defined as either of the following:

- (1) Performance Vesting Stock Options grants which do not vest or become exercisable unless specific stock price or business performance goals are met.
- (2) Index Options grants with a variable option exercise price geared to a relative external measure such as a comparable peer group or S&P industry index.
- (3) Performance Accelerated Stock Options grants whose vesting is accelerated upon achievement of specific stock price or business performance goals.

#### **Supporting Statement**

Institutional investors increasingly are urging that, in order to align the interests of executives with the interests of stockholders, stock options which are granted as part of executive compensation packages are linked to goals of long-term growth and superior performance.

Cardinal Health's executive compensation received an F grade for three consecutive years: 2006, 2005, and 2004, and a D in 2007 from Glass Lewis & Co, a proxy service provider. According to Glass Lewis, Cardinal Health paid more compensation to its top officers (as disclosed by the Company) than the median compensation for 48 similarly sized companies with an average enterprise value of \$32 billion; more than a sector group of 9 large health care companies with enterprise values ranging from \$29.1 billion to \$56.5 billion; and more than a sub-industry group of 11 health care distributors companies. The CEO was paid about the same as the median CEO in these peer groups. Overall, the Company paid about the same as its peers, but performed worse than its peers.

For these reasons, we urge shareholders to vote **FOR** this proposal.

#### **The Board of Directors Statement in Opposition to Proposal 9**

Your Board recommends a vote against Proposal 9, because we believe that our current long-term incentives are performance-based and effectively align participants' interests with those of our shareholders. The Compensation Committee has adopted a pay-for-performance philosophy under which a significant portion of our executive compensation is performance-based and long-term. The Compensation Committee has implemented a variety of long-term incentive arrangements to motivate our executives, including stock options and a long-term incentive performance cash program. See the Compensation Discussion and Analysis beginning on page 45 of this proxy statement for more information.

The Compensation Committee views stock options as an element of performance-based compensation because a stock option provides no realizable value to a recipient until the vesting requirements have been met and will increase in value only as the trading price of our common shares increases. Stock option awards also are

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granted with an exercise price equal to the market price for our common shares on the date of grant, and provide no cash benefit if the price of the stock does not exceed the grant price during the option's term. As a result, the Compensation Committee believes that fixed-price stock options provide an objective performance measure that is directly aligned with the interests of shareholders and is an appropriate performance measure for Cardinal Health.

The Compensation Committee of independent directors is the governing body best suited to formulate executive compensation principles and practices that reflect the interests of shareholders, while retaining the ability to address the needs of our business. Executive compensation practices are influenced by a wide range of complex factors, including changes in strategic goals, competitive compensation practices of other companies, changing economic and industry conditions, evolving governance trends and accounting requirements and tax laws. The Board believes that the Compensation Committee should continue to have the flexibility to structure our executive compensation programs using a variety of incentives and performance-based arrangements that balance these influences so that Cardinal Health can attract and retain executives of outstanding ability and motivate them to achieve superior performance.

For the reasons cited above, the Board believes adoption of this proposal is unnecessary, as our current approach to long-term incentives already effectively aligns the interests of participating executives with those of our shareholders and maintains the flexibility needed to continue to attract and retain qualified executives.

### **Vote Required and Recommendation of the Board of Directors**

If properly presented at the Annual Meeting, approval of the shareholder proposal requires the affirmative vote of a majority of the common shares present in person or by proxy and entitled to be voted on the proposal at the Annual Meeting. Abstentions will have the same effect as votes against the proposal. Broker non-votes will not be considered common shares present and entitled to vote on the proposal and will not have a positive or negative effect on the outcome of this proposal.

**The Board recommends a vote AGAINST the adoption of this shareholder proposal. Proxies solicited by the Board will be so voted unless shareholders otherwise specify in their proxies.**

**Table of Contents****BOARD OF DIRECTORS AND COMMITTEES OF THE BOARD****Board of Directors**

Our Board of Directors held four regular meetings and four special meetings during fiscal 2008. Each director attended 75% or more of the meetings of the Board and Board committees on which he or she served. All of our directors attended our 2007 annual meeting of shareholders. Absent unusual circumstances, each director is expected to attend the Annual Meeting.

**Committees of the Board of Directors**

The Board has established the Audit Committee, the Nominating and Governance Committee, the Executive Committee and the Human Resource and Compensation Committee. The charters for each of these committees are available on our website, at [www.cardinalhealth.com](http://www.cardinalhealth.com), under Investors Corporate Governance: Board Committees/charters. This information also is available in print (free of charge) to any shareholder who requests it from our Investor Relations department at (614) 757-5222. The following table identifies the committee members during fiscal 2008. Each member of the Audit Committee, Nominating and Governance Committee and Compensation Committee has been determined by the Board to be independent as defined by the rules of the NYSE in accordance with our Corporate Governance Guidelines discussed in more detail below, and with respect to the members of the Compensation Committee, in accordance with Section 16 of the Exchange Act and Rule 162(m) of the Code.

Name	Audit	Nominating and Governance	Executive	Compensation (2)
Colleen F. Arnold				X
R. Kerry Clark			Chair	
George H. Conrades	X	X	X(1)	
Calvin Darden				X
John F. Finn	X	X	X(1)	
Philip L. Francis	X			
Gregory B. Kenny	X(1)			X
J. Michael Losh	Chair	X	X	
John B. McCoy		Chair	X	X
Richard C. Notebaert		X	X	Chair
Michael D. O'Halleran	X			
David W. Raisbeck	X			
Jean G. Spaulding, M.D.				X
Robert D. Walter			X	

(1) Until November 2007.

(2) Robert L. Gerbig served on the Compensation Committee during fiscal 2008 until November 2007 when his term as a director expired. The Audit Committee. The Board has determined that each of Messrs. Conrades, Finn, Francis, Losh, O'Halleran and Raisbeck is, and that during his service on the committee Mr. Kenny was, an audit committee financial expert for purposes of the rules of the SEC. The Board also determined that Mr. Losh's simultaneous service on the audit committees of more than two other public companies would not impair his ability to effectively serve on the Audit Committee of our Board. In reaching this determination, the Board considered Mr. Losh's ability to devote sufficient and substantial time to service on our Audit Committee. During fiscal 2008, the Audit Committee met eight times and acted twice by written action without a meeting.

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The Audit Committee's duties and responsibilities are stated in a written charter, which was adopted by our Board and was most recently amended on November 7, 2007. The Audit Committee's primary responsibilities are to represent and assist the Board with the oversight of:

the integrity of Cardinal Health's financial statements;

legal and *Standards of Business Conduct* compliance;

regulatory compliance;

the qualifications, independence and performance of our independent auditors; and

the qualifications and performance of our internal audit function.

In performing its oversight role with respect to our financial statement and disclosure matters, the Audit Committee reviews quarterly and annual financial statements prior to filing or announcement and considers matters such as the judgment by the independent auditors as to the quality and appropriateness of the application of accounting principles, certain changes or alternatives in financial or accounting practices, proposed or pending changes in accounting or regulatory requirements and the adequacy and effectiveness of our internal control over financial reporting and disclosure controls and procedures.

With respect to our independent auditor, the Audit Committee pre-approves all services provided by the independent auditor and is responsible for its appointment, compensation and retention and the oversight of its work, including any disagreements with management, its independence from Cardinal Health and any regulatory or peer review matters. The Audit Committee also reviews our internal audit plan and the functions and structure of our internal audit department and reviews our compliance with and oversight and enforcement of our *Standards of Business Conduct*, including our insider trading policy and Business Conduct Line, and other legal and regulatory matters.

*The Nominating and Governance Committee.* During fiscal 2008, the Nominating and Governance Committee met four times and acted once by written action.

The Nominating and Governance Committee's duties and responsibilities are stated in a written charter adopted by the Board and most recently amended on August 6, 2008. The Nominating and Governance Committee's primary responsibilities are to:

identify individuals qualified to become Board members (consistent with criteria approved by the Board);

recommend director candidates for the Board;

develop and review our Corporate Governance Guidelines; and

perform a leadership role in shaping our corporate governance practices.

In fulfilling this role, the Nominating and Governance Committee considers and recommends criteria to the Board for identifying and evaluating potential Board candidates, identifies and reviews the qualifications of such candidates, establishes procedures for the consideration of Board candidates recommended by our shareholders, assesses the contributions and independence of individual incumbent directors, recommends to the Board changes in the structure, composition and function of the Board's committees, oversees the evaluation of the Board's effectiveness and performance and considers and makes recommendations to the Board regarding director resignations. The Nominating and Governance



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Committee will consider director nominees recommended by shareholders as described under Corporate Governance Shareholder Recommendations for Director Nominees below.

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**The Executive Committee.** The Executive Committee must have at least three members, a majority of whom must be independent in accordance with the definition of independent director in our Corporate Governance Guidelines. In addition, the members of the Executive Committee must include the Chairman of the Board, Chief Executive Officer, the chairpersons of each of the Audit, Nominating and Governance and Compensation Committee and the Presiding Director. During fiscal 2008, the Executive Committee met three times.

The Executive Committee operates under a written charter adopted by the Board on May 2, 2007. The Executive Committee is empowered to exercise substantially all powers and perform all duties of the Board when the Board is not in session, other than the authority to fill vacancies on the Board or on any committee of the Board, to declare dividends, to elect our Chief Executive Officer, to submit matters for shareholder approval and to act on matters specifically reserved for full Board authority. The Executive Committee acts only when specific authority is delegated to it by the Board or when, in the intervals between meetings of the Board, it is necessary to consider or act promptly.

**Human Resources and Compensation Committee.** During fiscal 2008, the Compensation Committee met nine times and acted three times by written action without a meeting.

**Role of the Compensation Committee.** The Compensation Committee's duties and responsibilities are stated in a written charter adopted by the Board and most recently amended on January 31, 2008. The Compensation Committee's primary duties and responsibilities are to:

develop an executive compensation policy to support overall business strategies and objectives, attract and retain key executives, link compensation with business objectives and organizational performance, and provide competitive compensation;

approve compensation for the Chief Executive Officer, including relevant performance goals and objectives, and Cardinal Health's other executive officers, and oversee their evaluations;

make recommendations to the Board with respect to the adoption of equity-based compensation plans and incentive compensation plans;

review the outside directors' compensation program for competitiveness and plan design, and recommend changes to the Board as appropriate;

oversee the management succession process for the Chief Executive Officer and selected senior executives;

oversee workplace diversity initiatives and progress; and

consult with management on major policies affecting employee relations.

Compensation decisions for the executive officers of Cardinal Health are made by the Compensation Committee. The details of the processes and considerations involved in making these compensation decisions, including the role of management, are described under Compensation Discussion and Analysis beginning on page 45. The Compensation Committee also acts as the administrator with respect to our equity and non-equity incentive plans covering executive officers and other senior management. The Compensation Committee may delegate authority for administration of the plans, including selection of participants, determination of award levels within plan parameters, and approval of award documents, to officers and other key employees of Cardinal Health. However, the Compensation Committee may not delegate any authority under those plans for selection of participants, determination of award amounts or amendments or modifications of awards with respect to our executive officers.

**The Compensation Committee's Compensation Consultant.** During fiscal 2008, the Compensation Committee retained and was advised by Towers Perrin with respect to executive compensation matters. Towers Perrin is one of the three largest diversified human resources consulting firms in the world. In addition to



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consulting with the Compensation Committee on executive compensation, Towers Perrin, directly or through an affiliate, has the following working relationships with us: (a) Towers Perrin provides executive compensation and other consulting services to management; and (b) Towers Perrin is a 15% partner in a joint venture to which we have outsourced our human resources administrative processes.

Towers Perrin confirmed to us that it has implemented policies and processes to mitigate potential issues of independence when providing consulting services to the Compensation Committee and providing services to us in other areas. These include the following:

the individual providing consulting services to the Compensation Committee is not personally involved in doing work in any of the other areas in which Towers Perrin provides services to us;

the individual providing consulting services to the Compensation Committee does not share information about the specific work he does on behalf of the Compensation Committee with other Towers Perrin staff providing assistance to us on other engagements; and

the individual providing consulting services to the Compensation Committee is not directly compensated for increasing the total revenues that Towers Perrin generates from us or expanding the range of services that Towers Perrin provides to us.

The Compensation Committee considered these relationships, the level of fees paid to Towers Perrin and its affiliates, and the Towers Perrin policies described above. The Compensation Committee also considered the quality of the services Towers Perrin provided to the Compensation Committee in the past, and the anticipated ability of Towers Perrin personnel to provide objective and independent assistance and advice to the Compensation Committee.

During fiscal 2008, the Towers Perrin consultant attended eight of the Compensation Committee's meetings. The nature and scope of Towers Perrin's engagement and the material elements of their instructions consisted primarily of the following:

participating in meetings of the Compensation Committee;

providing compensation data on companies included in the comparator group; and

ongoing review, comment, consulting support, advice and recommendations related to:

draft and final materials provided to the members of the Compensation Committee in connection with Compensation Committee meetings during fiscal 2008;

compensation for the Chairman and Chief Executive Officer and the other executive officers, including comparative information for similarly-situated executives in our comparator group of companies;

composition of the companies included in our comparator group, including recommendations to change the composition of our comparator group;

plan design for the annual and long-term incentives, including performance measures, performance standards and the individual pay and performance relationship;

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plan design and benchmarking data with respect to the long-term performance cash program under our 2005 Long-Term Incentive Plan, or LTIP, performance measures and standards under the performance cash programs and the weighting of the elements of our long-term incentive compensation plan;

director compensation levels and practices;

policies and data related to governance and disclosure of executive compensation;

evaluating shareholder proposals and inquiries related to executive compensation; and

emerging trends in executive compensation.

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### **CORPORATE GOVERNANCE**

#### **Shareholder Recommendations for Director Nominees**

In nominating candidates for election as director, the Nominating and Governance Committee will consider candidates recommended by shareholders. Shareholders who wish to recommend a candidate may do so by writing to the Nominating and Governance Committee in care of the Corporate Secretary, Cardinal Health, Inc., 7000 Cardinal Place, Dublin, Ohio 43017. Recommendations submitted for consideration by the committee in preparation for the 2009 annual meeting of shareholders should be received no later than [ ], 2009, and must contain the following information:

the name and address of the shareholder;

the name and address of the person recommended for nomination;

a representation that the shareholder is a holder of our common shares entitled to vote at the meeting;

a statement in support of the shareholder's recommendation, including a description of the candidate's qualifications;

information regarding the candidate as would be required to be included in a proxy statement filed in accordance with SEC rules; and

the candidate's written, signed consent to serve if elected.

#### **Communicating with the Board**

The Board of Directors has established procedures by which shareholders and other interested parties may communicate with the Board, any committee of the Board, any individual director (including the Presiding Director) or the independent or non-management directors as a group. Such parties can send communications by mail to the Board in care of the Corporate Secretary, Cardinal Health, Inc., 7000 Cardinal Place, Dublin, Ohio 43017 or by e-mail to [bod@cardinalhealth.com](mailto:bod@cardinalhealth.com), as posted at [www.cardinalhealth.com](http://www.cardinalhealth.com), under Investors' Corporate Governance: Board of Directors. The name or title of any specific Board recipient should be noted in the communication. Communications from shareholders are distributed to the Board or to the committee or director(s) to whom the communication is addressed. In that regard, the Board has requested that the Corporate Secretary not distribute communications that are determined not to be relevant to Cardinal Health or the Board, such as spam, mass mailings, business solicitations or advertisements, or communications that are inappropriate, such as those promoting illegal activities or containing offensive content.

#### **Corporate Governance Guidelines**

We have adopted Corporate Governance Guidelines, the full text of which is available on our website, at [www.cardinalhealth.com](http://www.cardinalhealth.com), under Investors' Corporate Governance: Corporate governance guidelines. This information also is available in print (free of charge) to any shareholder who requests it from our Investor Relations department.

#### **Director Independence**

The Board has established categorical standards to assist it in making its determination of director independence. As embodied in our Corporate Governance Guidelines, under standards that the Board has adopted to assist it in assessing independence, the Board defines an independent director to be a director who:

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is not and has not been during the last three years an employee of, and whose immediate family member is not and has not been during the last three years an executive officer of, Cardinal Health (provided, however, that, in accordance with NYSE listing standards, service as an interim executive officer, by itself, does not disqualify a director from being considered independent under this test following the conclusion of that service);

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has not received, and whose immediate family member has not received other than for service as an employee (who is not an executive officer), more than \$100,000 in direct compensation from Cardinal Health, other than director and committee fees and pension or other forms of deferred compensation for prior service (provided such compensation is not contingent in any way on continued service), in any 12-month period during the last three years (provided however, that, in accordance with NYSE listing standards, compensation received by a director for former service as an interim executive officer need not be considered in determining independence under this test);

(a) is not, and whose immediate family member is not, a current partner of our internal or external auditor; (b) is not a current employee of our internal or external auditor; (c) does not have an immediate family member who is a current employee of our internal or external auditor participating in the firm's audit, assurance or tax compliance (but not tax planning) practice; and (d) was not during the last three years, and whose immediate family member was not during the last three years, a partner or employee of our internal or external auditor who personally worked on our audit within that time;

is not and has not been during the last three years employed, and whose immediate family member is not and has not been during the last three years employed, as an executive officer of another company during a time when any of our present executive officers serve on that other company's compensation committee;

is not, and whose immediate family member is not, serving as a paid consultant or advisor to Cardinal Health or to any executive officer of Cardinal Health, or a party to a personal services contract with us or with any executive officer of Cardinal Health;

is not a current employee of, and whose immediate family member is not a current executive officer of, a company that has made payments to, or received payments from, us for property or services in an amount which, in any of the last three fiscal years, exceeds the greater of \$1 million, or 1% of such other company's consolidated gross revenues;

is not, and whose spouse is not, an executive officer of a non-profit organization to which we or the Cardinal Health foundation has made contributions during the past three years that, in any single fiscal year, exceeded the greater of \$1 million or 1% of the non-profit organization's consolidated gross revenues (amounts that we contribute under matching gifts programs are not included in the contributions calculated for purposes of this standard); and

has no other material relationship with us (either directly or as a partner, shareholder or officer of an organization that has a relationship with us).

The Board assesses on a regular basis and at least annually the independence of directors and, based on the recommendation of the Nominating and Governance Committee, makes a determination as to which members are independent. References to us, we or Cardinal Health above would include any subsidiary in a consolidated group with Cardinal Health. The terms immediate family member and executive officer above have the same meaning specified for such terms in the NYSE listing standards.

In addition to the independence standards applicable to directors generally, Audit Committee members may not accept, directly or indirectly, any consulting, advisory or other compensatory fee from us, other than director fees and any regular benefits that other directors receive for services on the Board or Board committees. In addition, no Audit Committee member can be an affiliated person of Cardinal Health.

The Board has determined that each of Messrs. Conrades, Darden, Finn, Francis, Kenny, Losh, McCoy, Notebaert, O'Halleran and Raisbeck, Ms. Arnold and Dr. Spaulding is independent under the listing standards of the NYSE and our Corporate Governance Guidelines.

In determining that the directors listed above are independent, the Nominating and Governance Committee and Board considered the transactions, relationships or arrangements described below. The Board determined that none of these transactions, relationships or arrangements conflicts with the interests of Cardinal Health or





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would impair the relevant director's independence or judgment. These transactions were also reviewed by the Audit Committee and/or our Chief Legal Officer, as applicable, pursuant to our Related Party Transaction Policy and Procedures, as discussed in more detail below under "Certain Relationships and Related Transactions" Policies and Procedures. Under this policy, these transactions were not determined to constitute related party transactions.

All of the transactions, relationships or arrangements of the types listed below were entered into, and payments were made or received, by us in the ordinary course of business and on competitive terms. Aggregate payments to each of the relevant organizations did not exceed the greater of \$1 million or 1% of that organization's consolidated gross revenues for 2006, 2007 or 2008 or neither the relevant director nor any of his or her family members held an executive officer position or significant ownership interest in such entity.

### **Business Relationships between Cardinal Health and Entities Related to a Director:**

We purchase equipment and information technology services from IBM, with which Ms. Arnold holds a non-executive officer position.

We pay fees for legal services to a law firm in which a family member of Mr. Conrades has an ownership interest, but who does not personally provide such services to us.

We receive payments relating to the supply of pharmaceutical and consumer goods from an entity for which Mr. Francis serves as a director.

We make payments related to insurance brokerage services to Aon Corporation, of which Mr. O'Halleran is an executive officer.

We made payments to Cargill, Inc., of which Mr. Raisbeck is Vice Chairman, related to the purchase of raw materials.

**Compensation for Services Previously Provided to Cardinal Health.** We issued an option to purchase Cardinal Health common shares to Mr. Losh in connection with his services as our interim Chief Financial Officer during the fiscal year ended June 30, 2005. The option is currently exercisable and expires on July 27, 2014.

### **Director Qualification Standards and Performance Assessment**

The Nominating and Governance Committee reviews with the Board from time to time the appropriate skills and characteristics required of Board members in the context of the make up of the Board and in developing criteria for identifying and evaluating qualified candidates for the Board. Candidates recommended by shareholders are evaluated based on the same criteria as candidates from other sources. These criteria, as described in our Corporate Governance Guidelines, include an individual's business experience and skills (including skills in core areas such as operations, management, technology, healthcare industry knowledge, accounting and finance, leadership, strategic planning and international markets), independence, judgment, integrity and ability to commit sufficient time and attention to the activities of the Board, as well as the absence of potential conflicts with Cardinal Health's interests. The Nominating and Governance Committee considers these criteria in the context of an assessment of the perceived needs of the Board as a whole and seeks to achieve diversity of occupational and personal backgrounds on the Board. If the Nominating and Governance Committee believes that a potential candidate may be appropriate for recommendation to the Board, there is generally a mutual exploration process, during which the committee seeks to learn more about the candidate's qualifications, background and interest in serving on the Board, and the candidate has the opportunity to learn more about Cardinal Health, the Board and its governance practices. The Board is responsible for selecting candidates for election as directors based on the recommendation of the Nominating and Governance Committee.

Under our Corporate Governance Guidelines, when a non-employee director's principal occupation or business association changes substantially during his or her tenure as a director, that director is required to tender his or her resignation for consideration by the Board. The Nominating and Governance Committee considers the



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tendered resignation and recommends to the Board the action, if any, to be taken with respect to the resignation. In August 2007, Mr. Notebaert retired as Chairman and Chief Executive Officer of Qwest Communications International, Inc. In accordance with our Corporate Governance Guidelines, he offered his resignation for consideration by the Board, which was not accepted.

The Nominating and Governance Committee assesses Board performance by overseeing an annual evaluation of the Board and its committees, the results of which are discussed with the full Board and each respective committee. In addition, the Nominating and Governance Committee conducts an individual evaluation of each director, not less frequently than once every three years, the results of which are shared with such individual director.

### **Presiding Director**

An independent director selected annually by the remaining independent directors presides at meetings of the non-management directors and independent directors, and serves as the Presiding Director in performing such other functions as the Board may direct, including advising on the selection of committee chairs and advising management on the agenda for Board meetings. Mr. McCoy served as Presiding Director until November 2007, and Mr. Notebaert is currently the Presiding Director. During fiscal 2008, the independent directors held five meetings in executive session.

### **Policies on Business Ethics; Chief Compliance Officer**

All of Cardinal Health's employees, including our senior executives and directors, are required to comply with our *Standards of Business Conduct* to ensure that our business is conducted in a consistently legal and ethical manner. The Sarbanes-Oxley Act of 2002 requires companies to have procedures for the receipt, retention and treatment of complaints regarding accounting, internal accounting controls or auditing matters and to allow for the confidential, anonymous submission by employees of concerns regarding questionable accounting or auditing matters. Our procedures for these matters are set forth in the *Standards of Business Conduct*.

The full text of the *Standards of Business Conduct* is posted on our website, at [www.cardinalhealth.com](http://www.cardinalhealth.com), under Investors Corporate Governance: Ethics and Compliance Program. This information also is available in print (free of charge) to any shareholder who requests it from our Investor Relations department. Any waiver of the *Standards of Business Conduct* for directors or executive officers must be approved by the Audit Committee of the Board. We will disclose future amendments to our *Standards of Business Conduct*, or waivers from our *Standards of Business Conduct* for our principal executive officer, principal financial officer, principal accounting officer or controller, or persons performing similar functions, on our website within four business days following the date of the amendment or waiver. In addition, we will disclose any waiver from our *Standards of Business Conduct* for our other executive officers and our directors on our website.

We have a Chief Compliance Officer who reports to both the Chief Executive Officer and the Audit Committee of the Board. The Chief Compliance Officer is responsible for supporting the Board in its responsibility to evaluate, review and enhance our corporate ethics and compliance program and ensuring senior leadership responsibility and accountability for compliance and ethical business conduct.

### **Resignation for Majority Withheld Vote**

As provided in our Corporate Governance Guidelines, as long as cumulative voting is not in effect, in an uncontested election of directors (i.e., an election where the only nominees are those recommended by the Board), any nominee for director who receives a greater number of votes withheld from his or her election than votes for his or her election (a Majority Withheld Vote) must promptly tender his or her resignation. The Nominating and Governance Committee will promptly consider the tendered resignation and will recommend to the Board whether to accept or reject the tendered resignation no later than 60 days following the date of the

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shareholders' meeting at which the election occurred. In considering whether to accept or reject the tendered resignation, the Nominating and Governance Committee will consider factors deemed relevant by the committee members including, without limitation, the director's length of service, the director's particular qualifications and contributions to us, the reasons underlying the Majority Withheld Vote (if known) and whether these reasons can be cured, and compliance with the NYSE listing standards and our Corporate Governance Guidelines. The Board will act on the Nominating and Governance Committee's recommendation no later than 90 days following the date of the shareholders' meeting. In considering the Nominating and Governance Committee's recommendation, the Board will consider the factors considered by the committee and such additional information and factors the Board believes to be relevant. Following the Board's decision on the Nominating and Governance Committee's recommendation, we will promptly publicly disclose the Board's decision whether to accept the resignation as tendered (providing a full explanation of the process by which the decision was reached and, if applicable, the reasons for rejecting the tendered resignation).

If one or more directors' resignations are accepted by the Board, the Nominating and Governance Committee will recommend to the Board whether to fill such vacancy or vacancies or to reduce the size of the Board. The Board will make the final determination whether to fill any vacancy or reduce the size of the Board. Any director who tenders his or her resignation pursuant to this policy will not participate in the Nominating and Governance Committee recommendation or Board consideration regarding whether to accept or reject the tendered resignation. If a majority of the members of the Nominating and Governance Committee received a Majority Withheld Vote at the same election, then the independent directors who are on the Board who did not receive a Majority Withheld Vote will automatically be appointed to a special Board committee solely for the purpose of considering the tendered resignations and will recommend to the Board whether to accept or reject them.

As described above under Proposal 3 Approval of Amendments to Articles of Incorporation and Code of Regulations to Implement a Majority Voting Standard for Uncontested Elections, the Board is recommending that shareholders approve amendments to our Articles and Regulations that implement a majority voting standard for the election of directors in uncontested elections. If these amendments are approved by shareholders, this policy will be amended so that it will only apply to holdover terms for any incumbent directors who fail to be re-elected.

## **CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS**

### **Policies and Procedures**

In May 2007, the Board of Directors adopted a written *Related Party Transaction Policy and Procedures*. This policy requires the approval or ratification by the Audit Committee of any transaction or series of transactions exceeding \$120,000 in any calendar year, in which Cardinal Health is a participant and any related person has a direct or indirect material interest. Related persons include our directors, nominees for election as a director, persons controlling over 5% of our common shares and executive officers and the immediate family members of each of these individuals.

Once a transaction has been identified as requiring such approval, the Audit Committee will review all of the relevant facts and circumstances and approve or disapprove of the transaction. The Audit Committee will take into account such factors as it considers appropriate, including whether the transaction is on terms no less favorable than terms generally available to an unaffiliated third-party under the same or similar circumstances and the extent of the related person's interest in the transaction.

If advance Audit Committee approval of a transaction is not feasible, the transaction will be considered for ratification at the Audit Committee's next regularly scheduled meeting. If a transaction relates to a director, that director will not participate in the Audit Committee's deliberations. In addition, the Audit Committee Chairman may pre-approve or ratify any related party transactions in which the aggregate amount is expected to be less than \$1 million.

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The following types of transactions have been deemed by the Audit Committee to be pre-approved or ratified, even if the aggregate amount involved will exceed \$120,000:

compensation paid by us for service as a director of Cardinal Health reported in our annual proxy statement;

employment arrangements, compensation or benefits paid by us for service as an executive officer of Cardinal Health approved by the Compensation Committee or otherwise generally available to employees and reported in our annual proxy statement; and

transactions where the related person's only interest is as a holder of Cardinal Health common shares and all holders receive proportional benefits, such as the payment of regular quarterly dividends.

## **Related Party Transactions**

Since July 1, 2007, there have been no transactions, or currently proposed transactions, in which Cardinal Health was or is to be a participant and the amount involved exceeds \$120,000, and in which any related person had or will have a direct or indirect material interest, except for the one described below. This transaction was approved by our Audit Committee in compliance with the *Related Party Transaction Policy and Procedures* described above.

*BoundTree Medical Products, Inc. and Sarnova, Inc.* Mr. Matthew Walter, who served as one of our directors during the first seven months of fiscal 2008, and his two brothers owned a majority of BoundTree Medical Products, Inc. ( *BMP* ), a company engaged in the emergency medical supply business. Mr. M. Walter was Chairman and Chief Executive Officer and a director of BMP. Mr. M. Walter and his brothers are sons of Mr. Robert Walter, one of our directors. During fiscal 2008, BMP and its affiliates (a) purchased approximately \$1,940,000 of product from Cardinal Health and our subsidiaries, and (b) sold products to Cardinal Health and our subsidiaries totaling approximately \$2,110,000. In June 2008, BMP combined with Tri-Anim Health Services, Inc. to form Sarnova, Inc. ( *Sarnova* ). Mr. M. Walter and his brothers own approximately 40% of Sarnova and Mr. M. Walter is a director of and consultant to Sarnova. Since the combination, Sarnova sold products to Cardinal Health and its subsidiaries totaling approximately \$270,000 in addition to those sold by BMP. All transactions between Cardinal Health and our subsidiaries, on the one hand, and BMP and after the combination, Sarnova, on the other hand, were in the ordinary course of business and represented less than 5% of BMP's consolidated gross revenues during the fiscal year. We expect that we will continue to do business, in the ordinary course of business, with Sarnova and its subsidiaries in the future.

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**AUDIT COMMITTEE REPORT**

The Audit Committee currently consists of six members of our Board of Directors, each of whom the Board has determined is independent, as defined by the rules of the NYSE. The Audit Committee's activities are governed by a written charter, approved in its current form by the Board in November 2007, which specifies the scope of the Audit Committee's responsibilities and how it carries out those responsibilities.

The Audit Committee has reviewed and discussed the audited financial statements for fiscal 2008 (the Fiscal 2008 Audited Financial Statements) with our management and with Ernst & Young LLP (Ernst & Young), our independent accountants. The Audit Committee also has discussed with Ernst & Young the matters required to be discussed by Statement on Auditing Standards No. 61 (Communication with Audit Committees), as amended by Statement on Auditing Standards No. 90 (Audit Committee Communications). The Audit Committee also received from Ernst & Young the written disclosures and the letter required by Independence Standards Board Standard No. 1 (Independence Discussions with Audit Committees) and has discussed with Ernst & Young its independence from Cardinal Health. The Audit Committee also has considered whether the provision of non-audit services to Cardinal Health is compatible with the independence of Ernst & Young.

Based on the review and discussions referred to above, and relying thereon, the Audit Committee recommended to the Board that the Fiscal 2008 Audited Financial Statements be included in our Annual Report on Form 10-K for the fiscal year ended June 30, 2008 filed with the SEC.

Submitted by the Audit Committee of the Board of Directors.

J. Michael Losh, Chairman

George H. Conrades

John F. Finn

Philip L. Francis

Michael D. O'Halleran

David W. Raisbeck

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### **INDEPENDENT ACCOUNTANTS**

#### **Fees paid to Independent Accountants**

Our Audit Committee approved, and our shareholders ratified, the selection of Ernst & Young as our independent registered public accounting firm for fiscal 2008.

**Audit Fees.** Audit fees include fees paid by us to Ernst & Young related to the annual audit of our consolidated financial statements, the audit of the effectiveness of our internal control over financial reporting for fiscal 2008, the review of financial statements included in our Quarterly Reports on Form 10-Q and statutory audits of various international subsidiaries. Audit fees also include fees for services performed by Ernst & Young that are closely related to the audit and in many cases could only be provided by our independent accountant, such as comfort letters and consents related to SEC registration statements. The aggregate fees billed to us by Ernst & Young for audit services rendered to us and our subsidiaries for fiscal 2007 and fiscal 2008 totaled \$12,929,391 and \$11,129,680, respectively.

**Audit-Related Fees.** Audit-related services include due diligence services related to mergers and acquisitions, divestitures of substantially all of our Pharmaceutical Technologies and Services segment and of other businesses, audit-related research and assistance, and employee benefit plan audits. The aggregate fees billed to us by Ernst & Young for audit-related services rendered to us and our subsidiaries for fiscal 2007 and fiscal 2008 totaled \$4,774,334 and \$2,707,383 respectively.

**Tax Fees.** Tax fees include tax compliance and other tax-related services. The total fees billed to us by Ernst & Young for tax services provided to us and our subsidiaries for fiscal 2007 and fiscal 2008 totaled \$1,927,959 and \$2,487,175, respectively. The tax compliance fees and other tax-related fees billed to us by Ernst & Young for such services provided to us and our subsidiaries for fiscal 2007 totaled \$987,062 and \$940,897, respectively and for fiscal 2008 totaled \$1,210,432 and \$1,276,744, respectively.

**All Other Fees.** The aggregate fees billed to us by Ernst & Young for all other services rendered to us and our subsidiaries, including fees relating to licensing and international and subsidiary matters, for fiscal 2007 and fiscal 2008 totaled \$113,031 and \$235,868, respectively.

#### **Audit Committee Audit and Non-Audit Services Pre-Approval Policy**

The Audit Committee is responsible for the appointment, compensation and oversight of the work of the independent accountants. As part of this responsibility, the Audit Committee is required to pre-approve the audit and permissible non-audit services performed by the independent accountants in order to monitor the accountants' independence from Cardinal Health. To implement these provisions of the Sarbanes-Oxley Act of 2002, the SEC has issued rules specifying the types of services that independent accountants may not provide to an audit client, as well as the Audit Committee's administration of the engagement of the independent accountants. Accordingly, the Audit Committee has adopted an *Audit and Non-Audit Services Pre-Approval Policy* (the "Pre-Approval Policy") which sets forth the procedures and conditions under which services proposed to be performed by the independent accountants must be pre-approved by the Audit Committee.

Pursuant to the Pre-Approval Policy, certain proposed services may be pre-approved on a periodic basis so long as the services do not exceed certain pre-established cost levels. If not covered or encompassed by a periodic pre-approval, proposed services must be separately pre-approved. In addition, any engagement of the independent auditor to provide internal control-related services must be separately pre-approved by the Audit Committee at the time it is proposed. Any proposed services that were pre-approved on a periodic basis but later exceed the pre-determined cost level would require separate pre-approval of the incremental amounts by the Audit Committee.



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In adopting the Pre-Approval Policy, the Audit Committee has delegated pre-approval authority to the Chairman of the Audit Committee for proposed services to be performed by the independent accountants for up to \$500,000. If the Chairman pre-approves services, the Chairman is required to report decisions to the full Audit Committee at its next scheduled meeting. Proposed services to be performed by the independent accountants equal to or exceeding \$500,000 require full Audit Committee approval. The Pre-Approval Policy in addition requires that our Chief Accounting Officer evaluate, among other things, the independence requirements applicable to the accountants and specifically approve any engagement of the independent auditor to perform any of the pre-approved services.

**SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT**

The following table sets forth certain information regarding the beneficial ownership of our common shares as of September 8, 2008 (unless otherwise indicated below), and the percentage of our common shares outstanding on September 8, 2008 represented by such ownership, by:

our directors;

each person who is known by us to own beneficially more than 5% of our outstanding common shares;

our Chairman and Chief Executive Officer and the other executive officers named in the Summary Compensation Table; and

our current executive officers and directors as a group.

Except as otherwise described in the notes below, the listed beneficial owners have sole voting and investment power with respect to all common shares set forth opposite their names:

Name of Beneficial Owner	Common Shares		Additional Restricted Share Units/SARs(18)
	Number Beneficially Owned	Percent of Class	
Dodge & Cox (1)	41,392,623	11.5%	
Capital Research Global Investors (2)	26,898,000	7.5	
FMR Corp. (3)	24,100,077	6.7	
Colleen F. Arnold (4)	6,905	*	1,129
George Barrett (5)	0	*	105,703
R. Kerry Clark (5)	415,362	*	204,388
George H. Conrades (4)(7)	43,251	*	1,168
Calvin Darden (4)(7)	17,639	*	1,168
John F. Finn (4)(7)(8)	80,501	*	1,168
Philip L. Francis (4)(7)(9)	20,100	*	1,716
Jeffrey W. Henderson (5)(6)	164,438	*	47,641
Gregory B. Kenny (4)(7)	8,482	*	1,144
J. Michael Losh (4)(7)(10)	254,518	*	1,168
John B. McCoy (4)(8)(11)	124,394	*	1,168
Richard C. Notebaert (4)(7)	58,414	*	1,168
Michael D. O'Halleran (4)	43,857	*	0
Mark W. Parrish (5)(6)(13)	385,929	*	0
David W. Raisbeck (4)(7)	37,699	*	1,168
David L. Schlotterbeck (5)(6)(15)	318,702	*	33,255
Jean G. Spaulding, M.D. (4)(7)(14)	33,551	*	1,168
Robert D. Walter (4)(6)(15)	7,495,579	2.1	374,884
All Executive Officers and Directors as a Group (22 Persons) (16)	9,832,090	2.7	848,472

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\* Indicates beneficial ownership of less than 1% of the outstanding common shares.

- (1) Based on information obtained from a Schedule 13G/A filed with the SEC on February 13, 2008 by Dodge & Cox. The address of Dodge & Cox is 555 California Street, 40th Floor, San Francisco, California

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94104. Dodge & Cox reported that, as of December 31, 2007, it had sole voting power with respect to 39,180,223 common shares, shared voting power with respect to 88,600 common shares and sole dispositive power with respect to all common shares shown in the table and that the shares are beneficially owned by clients of Dodge & Cox, which clients may include registered investment companies and/or employee benefit plans, pension funds, endowment funds or other institutional clients. The number of common shares held by Dodge & Cox may have changed since the filing of the Schedule 13G/A.

- (2) Based on information obtained from a Schedule 13G filed with the SEC on February 11, 2008 by Capital Research Global Investors, a division of Capital Research and Management Company. The address of Capital Research Global Investors is 333 South Hope Street, Los Angeles, California 90071. Capital Research Global Investors reported that, as of December 31, 2007, it had sole voting power with respect to 8,548,000 common shares and sole dispositive power with respect to all common shares shown in the table. The number of common shares held by Capital Research Global Investors may have changed since the filing of the Schedule 13G.
- (3) Based on information obtained from a Schedule 13G/A jointly filed with the SEC on February 14, 2008 by FMR Corp. ( FMR ) and Edward C. Johnson, III. The address of FMR is 82 Devonshire Street, Boston, Massachusetts 02109. FMR reported that, as of December 31, 2007, it had sole voting power with respect to 528,802 common shares and sole dispositive power with respect to all common shares shown in the table. Mr. Johnson reported that, as of December 31, 2007, he had sole voting power with respect to none of the common shares shown in the table and sole dispositive power with respect to all common shares shown in the table. The number of common shares held by FMR and Mr. Johnson may have changed since the filing of the Schedule 13G/A.
- (4) Common shares and the percent of class listed as being beneficially owned by the listed Cardinal Health directors (except for Mr. Clark, whose options are set forth in footnote (6) below) include (a) outstanding options to purchase common shares that are currently exercisable or will be exercisable within 60 days of September 8, 2008, as follows: Ms. Arnold 6,905 shares; Mr. Conrades 36,393 shares; Mr. Darden 13,972 shares; Mr. Finn 37,374 shares; Mr. Francis 10,484 shares; Mr. Kenny 7,011 shares; Mr. Losh 241,839 shares; Mr. McCoy 37,374 shares; Mr. Notebaert 36,393 shares; Mr. O Halleran 34,704 shares; Mr. Raisbeck 28,329 shares; Dr. Spaulding 28,320 shares; and Mr. Walter 3,532,378 shares; and (b) outstanding RSUs that will be settled in common shares within 60 days of September 8, 2008 as follows: 695 shares for Mr. O Halleran.
- (5) Common shares and the percent of class listed as being beneficially owned by our named executive officers include outstanding options to purchase common shares that are currently exercisable or will be exercisable within 60 days of September 8, 2008, as follows: Mr. Barrett 0 shares; Mr. Clark 395,362 shares; Mr. Henderson 149,265 shares; Mr. Parrish 379,071 shares; and Mr. Schlotterbeck 270,737 shares.
- (6) Common shares and the percent of class listed as being beneficially owned by our named executive officers include common shares in our Employee Stock Purchase Plan as of September 8, 2008, as follows: Mr. Henderson 1,619 shares; Mr. Parrish 756 shares; Mr. Schlotterbeck 1,613 shares; and Mr. Walter 4,016 shares.
- (7) Common shares and the percent of class listed as being beneficially owned by the listed Cardinal Health non-employee directors includes phantom stock held under our Deferred Compensation Plan (or DCP ) as of September 8, 2008, as follows: Mr. Conrades 5,373 shares; Mr. Darden 2,532 shares; Mr. Finn 8,731 shares; Mr. Francis 666 shares; Mr. Kenny 1,471 shares; Mr. Losh 3,575 shares; Mr. McCoy 4,889 shares; Mr. Notebaert 7,936 shares; Mr. Raisbeck 5,885 shares; and Dr. Spaulding 5,081 shares.
- (8) Includes 1,032 common shares held by Mr. Finn s spouse.
- (9) Includes 1,950 common shares held by Mr. Francis spouse for their daughter, and 7,000 shares held by a trust.

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- (10) Includes 1,500 common shares held in trust for the benefit of Mr. Losh's daughters.
- (11) Includes 19,407 common shares held in trust for the benefit of Mr. McCoy, 6,436 common shares held in trust for the benefit of Mr. McCoy's son, and a total of 55,803 common shares held in grantor retained annuity trusts of which Mr. McCoy is the trustee.

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- (12) Includes 1,805 common shares held in the Cardinal Health 401(k) Savings Plan, and 85 shares of phantom stock held in the DCP by Mr. Parrish. Mr. Parrish ceased to be Chief Executive Officer Healthcare Supply Chain Services and an employee of Cardinal Health in November 2007.
  
- (13) Includes 375 common shares held by Mr. Schlotterbeck's spouse.
  
- (14) Includes 150 common shares held in Dr. Spaulding's 401(k) plan sponsored by her employer.
  
- (15) Includes a total of 2,066,502 common shares held in five grantor retained annuity trusts of which Mr. Walter is the trustee, and 706,100 common shares beneficially owned by Mr. Walter through three limited liability companies in which Mr. Walter holds the controlling interest and is the sole manager.
  
- (16) Common shares and percent of class listed as being beneficially owned by all executive officers and directors as a group include (a) outstanding options to purchase an aggregate of 5,551,032 common shares that are currently exercisable or will be exercisable within 60 days of September 8, 2008; and (b) outstanding RSUs for 695 shares that will be settled in common shares within 60 days of September 8, 2008.
  
- (17) Additional Restricted Share Units/SARs include (a) unvested RSUs that will not vest within 60 days of September 8, 2008, vested RSUs that will not be settled in common shares within 60 days of September 8, 2008 and unvested RSUs that will vest within 60 days of September 8, 2008, but will not be settled in common shares within 60 days of September 8, 2008 as follows: Ms. Arnold 1,129 shares; Mr. Barrett 105,703 shares; Mr. Clark 204,388 shares; Mr. Conrades 1,168 shares; Mr. Darden 1,168 shares; Mr. Finn 1,168 shares; Mr. Francis 1,716 shares; Mr. Henderson 47,641 shares; Mr. Kenny 1,144 shares; Mr. Losh 1,168 shares; Mr. McCoy 1,168 shares; Mr. Notebaert 1,168 shares; Mr. Raisbeck 1,168 shares; Mr. Schlotterbeck 33,255 shares; Dr. Spaulding 1,168 shares; and Mr. Walter 232,401 shares; and (b) deferred payment stock appreciation rights for 142,483 shares held by Mr. Walter that are currently exercisable, but would be settled in cash.

### **SECTION 16(a) BENEFICIAL OWNERSHIP REPORTING COMPLIANCE**

Based solely upon a review of Forms 3, 4 and 5 and amendments thereto furnished to us during fiscal 2008 and written representations regarding the same, we believe that all officers and directors of Cardinal Health and all beneficial owners of 10% or more of any class of our registered equity securities timely filed all reports required under Section 16(a) of the Exchange Act during fiscal 2008.

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**COMPENSATION DISCUSSION AND ANALYSIS**

**Introduction**

Compensation for our named executives during fiscal 2008 reflected the performance of our four business segments and of the overall consolidated company. Our Clinical Technologies and Services and Medical Products and Technologies segments performed very well, and our Healthcare Supply Chain Services Medical segment continued on its path to turn-around, with a return to positive growth in the second half of fiscal 2008. Our largest segment, Healthcare Supply Chain Services Pharmaceutical had a challenging year, leading to consolidated financial performance below our established targets, which were aligned with the guidance we published before the beginning of the fiscal year.

Since our executive compensation program emphasizes pay-for-performance, our consolidated fiscal 2008 performance led to below-target annual incentive compensation for our named executives. At the beginning of fiscal 2008, we established minimum goals for company financial performance under our Management Incentive Plan, or MIP. Because we did not achieve these minimum performance goals, but three of our business segments performed in line with or exceeded our expectations, the Compensation Committee used discretion to award cash bonuses to our named executives. The Chief Executive Officer received a bonus equal to 30% of his target MIP, and the other named executives received bonuses equal to 30% to 75% of their targets.

Our executive compensation program also emphasizes stock-based awards, including stock options. Since our share price declined approximately 26% to \$51.58 during fiscal 2008, options granted to our named executives since 2004 have an exercise price that exceeds our year-end share price. These options will continue to have no value to our named executives until our share price exceeds the exercise price (\$60.31 to \$67.26 for options issued in fiscal 2008).

Finally, because we did not meet the minimum performance goals for our long-term incentive cash program for fiscal 2006-2008, no payouts were made under the program. In addition, we have not increased base salary or target incentive compensation of any of our named executives from fiscal 2008 levels.

**Objectives of Our Compensation Program**

The primary objective of our executive compensation program is to deliver a competitive package to attract, motivate and retain key executives and align their compensation with our overall business goals, core values and shareholder interests. To this end, the Human Resources and Compensation Committee, or Compensation Committee, of our Board of Directors has established an executive compensation philosophy that includes the following considerations:

- a pay-for-performance orientation that delivers pay based on overall company, segment and individual performance;

- an emphasis on pay-for-performance in long-term incentives, including stock-based awards, to more closely align our executives interests with our shareholders interests; and

- individual wealth accumulation through long-term incentives and deferred compensation, rather than through pensions.

**The Design of Our Compensation Program**

Our compensation for the executive officers who are named in the tables beginning on page 61 and whom we refer to as our named executives, includes the following elements:

- base salary;

- annual cash incentives;

long-term incentives:

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stock options;

restricted share units, or RSUs; and

performance cash;

deferred compensation; and

other benefits and perquisites.

With minor variations, we rely on these same compensation elements for our other executive officers.

When making compensation-related decisions, we believe it is important to be informed about the current practices of similarly-situated public companies. The Compensation Committee uses a Comparator Group, as discussed at Compensation Discussion and Analysis Our Policies, Guidelines and Practices Related to Executive Compensation Our Comparator Group and Benchmarking on page 57. We define total direct compensation as base salary, plus target annual cash incentives and long-term incentives. Our goal for our named executives is to provide total direct compensation that is competitive with the 60-65th percentile of the Comparator Group. When the Compensation Committee established this compensation target, it considered that we do not provide pensions or supplemental executive retirement plans, referred to as SERPs. Instead, we rely on long-term incentives and our 401(k) Savings Plan and Deferred Compensation Plan to provide a competitive package for wealth accumulation and retirement, and also to motivate and retain our named executives. Actual total direct compensation for each of our named executives during fiscal 2008 was competitive with (i.e., within 20% of) our targeted range. Mr. Barrett's total direct compensation was at the high end of the competitive range to recruit him from his previous employer.

A significant majority of a named executive's total direct compensation is in the form of performance-based compensation. We consider our annual cash incentive, long-term incentive cash and stock options to be performance-based compensation. The charts below show the fiscal 2008 base salary, target annual cash incentive and target long-term incentive, and performance-based and non-performance-based compensation as a percentage of total direct compensation:



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### **Our Compensation Decisions**

The Compensation Committee makes compensation decisions after reviewing comparative compensation data from the Comparator Group for similarly-situated executives provided by the Compensation Committee's compensation consultant. Certain compensation decisions are more formula-driven, while others require more judgment and discretion. For instance, the Compensation Committee considers market data and performance in determining a named executive's base salary. Target annual and long-term incentives are calculated as a multiple of base salary. The Compensation Committee uses quantitative and qualitative metrics and exercises some judgment in determining achievement of the overall company, segment and function performance goals and assessing the named executive's individual performance for a fiscal year. The Compensation Committee uses an evaluation of individual performance in determining increases to base salary and awarding annual incentive compensation and equity grants. The Compensation Committee also considers internal pay equity within the executive's pay level and employment agreement terms. The employment arrangements with Messrs. Clark, Schlotterbeck, Barrett and Walter impact the Compensation Committee's discretion with respect to some compensation decisions, as discussed in more detail on page 54.

Differences in the compensation paid to comparable officers at companies in our Comparator Group result in higher target amounts for officers depending on their position. In general, Mr. Clark's compensation is significantly higher than the compensation we pay to any of the other named executives, because his responsibilities and obligations at Cardinal Health are significantly greater than those of any of the other named executives and because the comparative compensation data reflect significantly higher compensation for chief executive officers.

**Base Salary.** Base salary is an important element of compensation because it provides the named executive with a base level of income. In determining base salaries for our named executives, the Compensation Committee considers:

market and competitive data for the executive's level of responsibility, targeting the 50th percentile of the Comparator Group, and

individual performance, experience and skills.

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The following table and notes reflect the annualized base salaries of the named executives at the end of fiscal 2008 and the annualized base salaries of the named executives for fiscal 2009 as of the date of this proxy statement. Management decided not to increase base salaries in fiscal 2009 for our named executives, because their base salaries are competitive with the targeted base salary ranges of the Comparator Group and because of the Company's actual/anticipated performance in fiscal 2008 and 2009. The Compensation Committee concurred with this decision.

Name	Title	Fiscal 2007 Annualized Base Salary at End of Fiscal Year	Fiscal 2008 Annualized Base Salary at End of Fiscal Year	Fiscal 2009 Annualized Base Salary
R. Kerry Clark (1)	Chairman of the Board and Chief Executive Officer	\$ 1,400,000	\$ 1,450,000	\$ 1,450,000
Jeffrey W. Henderson	Chief Financial Officer	\$ 675,000	\$ 700,000	\$ 700,000
David L. Schlotterbeck	Vice Chairman and Chief Executive Officer Clinical and Medical Products	\$ 725,000	\$ 745,000	\$ 745,000
George S. Barrett (2)	Vice Chairman and Chief Executive Officer Healthcare Supply Chain Services	N/A	\$ 975,000	\$ 975,000
Robert D. Walter (3)	Executive Director and Former Executive Chairman of the Board	\$ 900,000	\$ 932,000	\$ 0
Mark W. Parrish (4)	Former Chief Executive Officer Healthcare Supply Chain Services	\$ 700,000	N/A	\$ 0

- (1) Under the terms of our employment agreement with Mr. Clark, we have agreed to pay Mr. Clark an annual base salary of not less than \$1,400,000.
- (2) Mr. Barrett was hired as Vice Chairman and Chief Executive Officer Healthcare Supply Chain Services in January 2008 and his base salary was set at an amount necessary to recruit him from his previous employer.
- (3) Under the terms of our employment agreement with Mr. Walter, we agreed to pay Mr. Walter an annual base salary of not less than \$900,000. Effective June 30, 2008, Mr. Walter retired as an employee and officer of Cardinal Health, but will continue to serve as a director and consultant. Mr. Walter will receive payment for consulting services under his employment agreement in 2009, but will not receive a base salary. See Executive Compensation Employment Agreements and Other Employment Arrangements.
- (4) Mr. Parrish ceased to be Chief Executive Officer Healthcare Supply Chain Services in November 2007. The annualized base salary for Mr. Parrish as of the date of Mr. Parrish's termination of employment was \$720,000.

**Annual Cash Incentive Compensation.** The Compensation Committee grants our named executives annual cash incentive awards under our MIP based on corporate, segment, function and individual performance. The target amounts are based upon competitive market data for similar positions, targeting the 75th percentile of the Comparator Group, because we believe the performance goals we establish are challenging, and as noted above, a large portion of our executive compensation is performance-based.

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In August 2007, the Compensation Committee established the fiscal 2008 annual incentive targets for our named executives set forth below. In August 2008, the Compensation Committee approved the fiscal 2008 annual incentive cash awards for our named executives (based upon the factors discussed below):

Name	Title	Fiscal 2008 Target Incentive Percentage of Base Salary	Fiscal 2008 Annual Incentive Target	Fiscal 2008 Annual Incentive Compensation
R. Kerry Clark (1)	Chairman of the Board and Chief Executive Officer	160%	\$ 2,320,000	\$ 691,804
Jeffrey W. Henderson	Chief Financial Officer	100%	\$ 700,000	\$ 208,689
David L. Schlotterbeck	Vice Chairman and Chief Executive Officer Clinical and Medical Products	100%	\$ 745,000	\$ 556,127
George S. Barrett (2)	Vice Chairman and Chief Executive Officer Healthcare Supply Chain Services	100%	\$ 412,910	\$ 206,455
Robert D. Walter (3)	Executive Director	150%	\$ 1,398,000	\$ 416,883
Mark W. Parrish (4)	Chief Executive Officer Healthcare Supply Chain Services	100%	\$ 720,000	\$ 0

- (1) Under the terms of our employment agreement with Mr. Clark, we agreed to set Mr. Clark's target annual incentive at 160% of his annual base salary for fiscal 2008. We amended the employment agreement in September 2007 to eliminate the specified target annual incentive as a percentage of base salary.
- (2) Under the terms of our offer letter with Mr. Barrett, we agreed to set Mr. Barrett's target annual incentive at 100% of his base salary for fiscal 2008. We set his target annual incentive at an amount necessary to recruit him from his previous employer. We also guaranteed a minimum annual incentive cash award of \$206,455 for fiscal 2008, reflecting 50% of his target award, pro rated for the portion of the year he was employed with Cardinal Health.
- (3) Under the terms of our employment agreement with Mr. Walter, we set Mr. Walter's target annual incentive at 150% of his annual base salary for fiscal 2008.
- (4) Mr. Parrish ceased to be an employee in November 2007. As such, he was not awarded fiscal 2008 annual incentive compensation under the MIP.

At the beginning of each fiscal year, the Compensation Committee reviews and approves overall company performance goals. In addition, the Compensation Committee establishes individual performance objectives for our Chief Executive Officer. Our Chief Executive Officer also establishes individual performance goals and business sector and segment goals for our Chief Financial Officer and the Chief Executive Officers of our two business sectors.

In August 2007, the Compensation Committee established performance goals under the MIP for fiscal 2008, based upon the achievement of a specified level of growth in NOPAT and return on tangible capital, as defined at Executive Compensation Compensation Plans Management Incentive Plan on page 67. The objective of the performance goals is to drive annual and sustainable year-over-year growth, with 100% achievement of the targets supporting our Company performance objectives. NOPAT was selected as a measure of profitable enterprise growth. Return on tangible capital was selected by the Compensation Committee in fiscal 2007 as an additional performance metric because it measures and drives value creation. The Compensation Committee retains discretion to approve adjustments to NOPAT and return on tangible capital for purposes of determining whether we achieved our performance goals, as discussed in more detail at Executive Compensation Compensation Plans Management Incentive Plan beginning on page 67.



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A named executive can receive a cash award of 0-200% of the executive's annual incentive target, with a threshold cash award level of 60% if a minimum level of both NOPAT and return on tangible capital is obtained. For fiscal 2008, the weighting of the two performance factors in determining the annual bonus payment was derived from a pay and performance matrix. If Cardinal Health achieves 100% of its performance objective for NOPAT and return on tangible capital, the two measures will be weighted equally. If we do not achieve the minimum performance goals with respect to either NOPAT or return on tangible capital, but we do satisfy the Section 162(m) overall company performance criterion described on page 59, then any cash awards are in the discretion of the Compensation Committee. The table below shows our performance goals at minimum, target and maximum performance levels and our actual overall company performance for fiscal 2008:

Performance Metric	FISCAL 2008			
	Minimum 60% Performance	Target 100% Performance	Maximum 200% Performance	Actual Performance
NOPAT (in millions)	\$ 1,586	\$ 1,661	\$ 1,852	\$ 1,508
Return on Tangible Capital	36.0%	38.0%	42.0%	35.6%

For fiscal 2008, we did not achieve the minimum performance goals with respect to either NOPAT or return on tangible capital, but satisfied the overall company performance criterion of a specified level of return on equity. The Compensation Committee exercised discretion to fund the MIP and to determine the actual amount of the named executive's annual incentive compensation. The Compensation Committee extrapolated the fiscal 2008 pay and performance matrix below the 60% threshold, and based upon our actual performance for fiscal 2008, the MIP payout would be in the range of 40% to 45% of target. The Compensation Committee considered our overall consolidated performance, and, as applicable, the performance of the businesses with which the named executive was most closely associated, in determining annual incentive compensation awards for named executives for fiscal 2008 performance.

With respect to Messrs. Clark, Henderson and Walter, the Compensation Committee considered that our consolidated financial performance was below target, but three of our four business segments performed in line with or exceeded our expectations including returning Healthcare Supply Chain Services' Medical to positive growth in the second half of the fiscal year. In addition, the management team led a detailed review and implemented improvements in the entire Healthcare Supply Chain Services sector to strengthen the organization and businesses during fiscal 2008 and was successful in recruiting key executives during the year. Based on these considerations, the Compensation Committee awarded each of Messrs. Clark, Henderson and Walter an annual cash incentive equal to 30% of his target. Balancing the strong performance of the segments Mr. Schlotterbeck leads with our below-target consolidated financial performance, the Compensation Committee awarded Mr. Schlotterbeck an annual cash incentive equal to 75% of his target. Based primarily on the terms of Mr. Barrett's offer letter, the Compensation Committee awarded Mr. Barrett an annual cash incentive equal to 50% of his target.

**Long-Term Incentive Compensation.** Our long-term incentive compensation program in fiscal 2008 provided grants of stock options, RSUs and performance cash under our 2005 Long-Term Incentive Plan, or LTIP. Proposed amendments to the LTIP are discussed under Proposal 7 above. The option and RSU grants are designed to provide our executives with multiple equity awards over a number of years. For fiscal 2008, we added a three-year performance cash program as an element of our long-term incentive compensation program. Based on comparative market data provided by the compensation consultant and management's recommendation, the Compensation Committee determined that the long-term incentive program for fiscal 2008 should be composed of 70% in performance-based awards (45% in stock options and 25% in a three-year performance cash award) and 30% in RSUs. The awards to Mr. Walter for fiscal 2008 remained at 70% stock options and 30% RSUs, as provided for under his employment agreement.

The Compensation Committee determined the total long-term incentive target multiplier of base salary for each named executive, targeting the 65th percentile of the Comparator Group, aligning with our philosophy of driving wealth accumulation through long-term incentives rather than pensions. As a result, the target long-term

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incentive multiplier is approximately seven times base salary for our Chief Executive Officer and then Executive Chairman of the Board and three to four times base salary for the other named executives. The Compensation Committee may adjust the size of equity grants based upon the individual's past and expected future performance; however, grants under the three-year performance cash program are not adjusted based upon individual performance. The size of equity awards made to an individual in previous years and the amount of stock then owned by a named executive did not affect the Compensation Committee's determinations in making new equity grants.

The following table sets forth the long-term incentive target compensation and grant values of grants for fiscal 2008 for our named executives. For purposes of the table, we have included the grant date value of the stock options and RSUs (as determined for financial reporting purposes) and target award of performance cash. For additional information, see Executive Compensation Grants of Plan-Based Awards for Fiscal Year 2008.

Name	Target Long-Term Incentive	Fiscal 2008 Long-Term Incentive Grants			
	Compensation (1)	Stock Options (2)	RSUs	Performance Cash	
R. Kerry Clark (3)	\$ 9,800,000	\$ 4,412,700	\$ 2,941,800	\$ 2,451,500	
Jeffrey W. Henderson (4)	\$ 2,700,000	\$ 1,336,500	\$ 891,000	\$ 675,000	
David L. Schlotterbeck (4)	\$ 2,900,000	\$ 1,435,500	\$ 957,000	\$ 725,000	
George S. Barrett (5)	\$ 3,250,000	\$ 0	\$ 0	\$ 655,072	
Robert D. Walter (6)	\$ 6,300,000	\$ 4,410,000	\$ 1,890,000	\$ 0	
Mark W. Parrish	\$ 2,800,000	\$ 1,260,000	\$ 840,000	\$ 700,000	

- (1) The target multiple of base salary is applied against the named executive's base salary in effect in August 2007 other than Mr. Barrett, which is applied against his base salary in effect in January 2008.
- (2) When valuing options for compensation purposes, we assume the option will be held to term, and this is the valuation considered by the Compensation Committee. This assumption may be different from the assumption relating to expected life of the option used in the Summary Compensation Table and Grant of Plan-Based Awards for Fiscal 2008 Table below.
- (3) Under the terms of our employment agreement with Mr. Clark before its amendment, we agreed to grant Mr. Clark annual long-term incentive grants with an expected value of 600% of his annual base salary in fiscal 2008. In August 2007, the Compensation Committee granted long-term incentives to Mr. Clark with an expected value in the following amounts: \$2,276,500 in performance cash, \$4,097,700 in stock options and \$2,731,800 in RSUs. In September 2007, we elected Mr. Clark to serve as our Chairman of the Board, effective November 8, 2007, and we amended the terms of his employment agreement. As a result, we granted Mr. Clark additional long-term incentive grants with an aggregate expected value of \$700,000, including \$175,000 in performance cash, \$315,000 in stock options and \$210,000 in RSUs. Mr. Clark's amended employment agreement sets his target annual long-term incentive grants in any fiscal year at an expected value that, when combined with the then-current annual base salary and the target annual cash incentive award granted in respect of such fiscal year, is in the range of the 65th percentile of total direct compensation for individuals serving as both chairman and chief executive officer of companies in the Comparator Group.
- (4) Messrs. Henderson and Schlotterbeck received fiscal 2008 long-term incentive grants above their targets due to their individual performances during fiscal 2007.
- (5) During fiscal 2008, we awarded a total of 215,000 stock options and 88,333 RSUs in connection with Mr. Barrett's employment as Vice Chairman and Chief Executive Officer Healthcare Supply Chain Services. These equity awards, together with a \$500,000 cash sign-on bonus, approximated and replaced the unvested equity awards and cash bonuses that Mr. Barrett forfeited when he left his previous employer. Therefore, the table above includes no compensation value for fiscal 2008 grants of stock options and RSUs. For fiscal 2009, Mr. Barrett participated in the long-term incentive compensation arrangements on the same terms as named executives generally, and received \$1,462,485 in stock options, \$974,990 in RSUs and \$812,492 in target performance cash.

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- (6) Under the terms of our employment agreement with Mr. Walter, we granted him an annual stock incentive award with an expected value of 700% of his annual base salary.

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**Stock Options.** Stock options are intended to motivate our named executives by providing upside potential, but have more risk to the executive than RSUs. We view stock options as an element of performance-based compensation because a stock option provides no realizable value to a recipient until the vesting requirements have been met and will increase in value only as the trading price of our common shares increases. Vesting periods are intended to require long-term focus on our overall company performance for the named executive to realize any value from the exercise of stock options. Stock option awards also are granted with an exercise price equal to the market price for our common shares on the date of grant and provide no cash benefit if the option is not exercised when the price of the stock exceeds the grant price during the option's term.

**RSUs.** Although stock options motivate executives by providing larger potential value, RSUs assist us in retaining executives because RSUs have value even if the share price declines or remains flat. RSUs are also used for wealth accumulation because we do not provide pensions. Our RSU awards vest 33 1/3% annually over three years. While there is a performance element to RSUs since the value of the award will increase as the trading price of our common shares increases, we do not consider RSUs to be performance-based compensation when making our compensation decisions.

**Performance Cash.** In August 2007, after reviewing and considering comparative market data, the Compensation Committee approved the long-term incentive cash program as a component of our long-term incentive compensation. All of our named executives (other than Mr. Walter) participate in this program, which is designed to reward performance over a three-year period. In establishing this program, the Compensation Committee determined that the introduction of a performance cash component would strengthen the performance component of our long-term incentive program, providing a clear link between non-stock based pay and overall company performance. A new three-year performance cycle with new performance goals will begin each fiscal year. At the end of the three-year cycle, an executive can receive a cash award of 0-200% of his or her target grant, with a threshold cash award level of 60% if a minimum level of the performance goals and criteria described below is obtained. To facilitate transition to the new plan, the Compensation Committee designed the proposed award structure under the fiscal 2008-2010 cycle to include a two-year and a three-year goal, so that a potential award of 40% could be made at the end of fiscal 2009, and a potential award of 60% could be made at the end of fiscal 2010.

For the fiscal 2008-2010 performance period, performance goals will reward management for attaining specified adjusted cumulative economic profit. For this period, the Compensation Committee established the performance goal for target awards (a) for the two-year period of cumulative economic profit equal to \$31 million, and (b) for the three-year period of cumulative economic profit equal to \$322 million.

**Deferred Compensation and Savings Plans.** We maintain a 401(k) Savings Plan and a Deferred Compensation Plan, or DCP, to allow executives to accumulate wealth on a tax-deferred basis and to be competitive in recruiting and maintaining executive talent. We do not provide for wealth accumulation for retirement through defined benefit pensions or SERPs. The DCP permits certain management employees to defer payment and taxation of a limited portion of salary and bonus into any of several investment alternatives. In addition, we typically make additional matching or fixed contributions to the deferred balances of employees, including the named executives, subject to limits discussed at Executive Compensation Nonqualified Deferred Compensation in Fiscal Year 2008. Contributions made with respect to our named executives are set forth in the All Other Compensation table on page 63. We also permit our named executives to defer the settlement of RSUs.

**Other Benefits and Perquisites.** Named executives are eligible to participate in employee benefit programs generally offered to our other employees. In addition, we provide certain other perquisites to our named executives that are not generally available to our employees. These perquisites are described below and reported in the Summary Compensation Table.



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For some of our named executives, perquisites include the personal use of Cardinal Health-owned aircraft and in some cases, reimbursement for income taxes on taxable benefits. The Compensation Committee has authorized Mr. Clark to use our aircraft for personal travel. The Compensation Committee believes that the personal use of our aircraft provides enhanced safety and security and provides Mr. Clark with flexibility and increases travel efficiencies, allowing more productive use of his time and greater focus on Cardinal Health-related activities. We also provide a tax reimbursement with respect to income attributed to him for his personal travel. When Mr. Clark is using Cardinal Health-owned aircraft, his spouse and/or dependent children are also permitted to accompany him, but we do not provide a tax reimbursement with respect to the personal travel of the spouse and dependent children. In May 2007, we entered into aircraft timesharing agreements with Messrs. Clark and Walter, pursuant to which each will reimburse us for some of the costs of guests other than spouses and dependent children who accompany them on our aircraft. By mutual agreement, and consistent with the Board's succession plan and Mr. Walter's transition from Executive Chairman of the Board to Executive Director, Mr. Walter no longer used our aircraft for personal travel effective November 8, 2007. As a part of Mr. Barrett's relocation package, Mr. Barrett and his family members were authorized to use our corporate aircraft to travel from his home in Philadelphia to our corporate headquarters until the earlier of his relocation to Dublin or August 2009.

Other than the personal use of our aircraft, the perquisites we provide are minimal. When an executive officer is relocated for business reasons, we provide an executive relocation program, commuting and temporary housing. In addition, we pay monitoring expenses for home security systems for certain named executives, for spousal attendance at a few of our activities and legal fees for negotiation of employment arrangements for our Chief Executive Officer and former Chief Executive Officer. For more detailed information regarding benefits and perquisites provided to our executive officers, see the section of this proxy statement entitled "Executive Compensation" Summary Compensation Table.

We maintain a tax-qualified employee stock purchase plan, or ESPP, generally available to all employees including our named executives, that allows participants to acquire Cardinal Health shares at a discounted price. For a discussion of our ESPP, see "Executive Compensation" Compensation Plans and for proposed amendments to our ESPP, see Proposal 8 "Approval of an Amended and Restated Employee Stock Purchase Plan."

**Pay-for-Performance Evaluation.** Our compensation decisions reflect the Compensation Committee's implementation of the primary objectives for our executive compensation program, including our pay-for-performance orientation. The Summary Compensation Table on page 61 provides specific compensation information for our named executives as required by SEC regulations. However, the Summary Compensation Table does not focus on compensation awarded with respect to a particular year but instead, among other things, reflects the expense recognized in fiscal 2008 for current and prior years' equity awards.

In order to provide additional perspective on our Chief Executive Officer's compensation, and to supplement the information presented in the Summary Compensation Table, the following table reports compensation paid or awarded to Mr. Clark for each of fiscal years 2007 and 2008, focusing on the Compensation Committee's compensation decisions for the year. Specifically, this table differs from the Summary Compensation Table by (i) reporting grant date fair value of equity award grants attributable to the fiscal year (including awards made in fiscal 2006 but granted as part of Mr. Clark's 2007 compensation, as reported on page 24 of our 2007 proxy statement), and (ii) including the target value of the long-term performance cash award granted to Mr. Clark in fiscal 2008, since this award was added as a third component of our long-term incentive program, along with grants of options and RSUs. As shown in the table below, Mr. Clark's salary and the value of long-term compensation awards increased year-over-year, primarily as a result of actions taken early in fiscal 2008 as part of the Board's succession plans, under which Mr. Clark assumed the position of Chairman and Chief Executive Officer. However, Mr. Clark's total compensation granted or paid with respect to the fiscal year declined on a year-over-year basis, primarily as a result of lower annual bonus and annual incentive compensation payments that were based on the performance considerations discussed above.

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Name and Principal Position	Fiscal Year	Salary (\$)	Bonus (\$)	Non-Equity Incentive Plan Compensation (\$)	Change in Pension Value and Non-qualified Deferred Compensation Earnings (\$)	All Other Compensation (\$)	Target Long-Term Incentives (\$)	Total (\$)
R. Kerry Clark	2008	\$ 1,441,257	\$ 691,801	\$ 0	\$ 0	\$ 246,801	\$ 9,806,174	\$ 12,186,033
Chairman of the Board and Chief Executive Officer	2007	\$ 1,400,000	\$ 1,120,000	\$ 1,456,000	\$ 0	\$ 300,438	\$ 8,400,000	\$ 12,676,438

**Employment Agreements and Offer Letters.** In connection with the Board's succession plan, in September 2007, we amended our employment agreement with Mr. Clark. The amended employment agreement sets forth the terms of Mr. Clark's service and compensation through February 2013, but allows the Board to terminate his employment without cause at any time with a cash severance payment to him in the amount of two times the sum of his of annual base salary and target annual cash incentive, full vesting of some unvested equity awards and continued vesting of some others and pro rata payments of other cash awards. The Compensation Committee and Board structured terms of the agreement to provide a significant financial incentive if, in the Board's discretion, Mr. Clark remains with Cardinal Health through at least February 2013. The Committee and Board determined that this structure was desirable to provide continuity and stability in leadership for the organization and to provide the opportunity to identify successors for Mr. Clark. The Compensation Committee and Board determined that the combination of benefits under the amended employment agreement provided appropriate incentive to retain Mr. Clark while maintaining appropriate flexibility to the Board as it plans for Chairman and Chief Executive Officer succession. The terms of Mr. Clark's employment agreement are discussed at Executive Compensation Employment Agreements and Other Employment Arrangements and Potential Payments on Termination or Change of Control of Cardinal Health.

George S. Barrett was hired as our Vice Chairman and Chief Executive Officer Healthcare Supply Chain Services in January 2008. We entered into an offer letter with him (the Barrett Offer Letter), providing for an annual base salary of \$975,000 and a target annual bonus of 100% of his base salary. For fiscal 2008, we guaranteed that his MIP award would be no less than 50% of target, with such amount prorated from his start date through the end of the fiscal year. In February 2008, we awarded a total of 215,000 stock options and 83,333 RSUs to Mr. Barrett. These equity awards, together with a \$500,000 cash sign-on bonus, approximated and replaced the unvested equity awards and cash bonuses that Mr. Barrett forfeited when he left his previous employer. The Compensation Committee approved this compensation arrangement in consideration of Mr. Barrett's experience and skills, including his prior responsibilities as an officer of Teva North America since 1999, his then-current compensation at Teva and incentive as well as other compensation he forfeited by joining us, and competitive market compensation data.

In connection with the Board's succession plan, we appointed Mr. Walter, who until April 2006 had served as our Chief Executive Officer, as our Executive Chairman of the Board in April 2006 and as our Executive Director in November 2007. His employment agreement also requires him to provide certain consulting services to us for five years after he ceased to be Executive Director on June 30, 2008 to permit us to retain continuity and access to his judgment, industry knowledge and experience.

You can find additional information regarding terms of the employment agreements and offer letters at Executive Compensation Employment Agreements and Other Employment Arrangements.

**Severance Agreements.** In August 2006, in response to a shareholder proposal and after consulting with several of our large investors and reviewing comparative market data, our Board adopted a policy requiring us to obtain shareholder approval before entering into severance agreements with executives that provide certain cash

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severance benefits that exceed 2.99 times base salary and bonus. If the Board determines that it is not practical to obtain shareholder approval in advance, the Board may seek shareholder approval after entering into a severance agreement covered by this policy. The policy covers severance agreements entered into after the effective date of the policy and existing severance agreements if severance benefits are materially modified after the effective date.

The employment agreements and offer letter discussed above provide for benefits payable upon termination events or a change of control, which are detailed in this proxy statement under Potential Payments on Termination or Change in Control on page 76. With respect to the severance benefits provided to our named executives, we believe that these severance benefits allow us to attract and retain these individuals. We also believe that the change of control severance benefits provided to these named executives align executive and shareholder interests by enabling the named executive to consider corporate transactions that are in the best interests of our shareholders and other constituents without undue concern over whether the transactions may jeopardize the named executive's own employment. In establishing these arrangements, we considered that we do not provide pension or SERP benefits. Our employment arrangements are double-triggered and require cash severance payments on a change of control only if the named executive's employment terminates in connection with or following the change of control.

Our equity awards under our incentive compensation plans and the grants under our long-term incentive cash program are single trigger awards and vest upon a change of control. This is generally the only benefit obtained automatically upon a change of control. We adopted the single trigger treatment for our long-term compensation plan for the following reasons:

- to be consistent with current market practice;

- single trigger vesting ensures that ongoing employees are treated the same as terminated employees with respect to outstanding equity grants; and

- to retain key employees in the face of a potential change of control by providing a benefit if they remain with the company through the date of the change of control.

In September 2007, we amended Mr. Clark's employment agreement and the severance payments and benefits to be provided to Mr. Clark. As noted above, under the amended employment agreement the Board may terminate Mr. Clark's employment without cause at any time with a cash severance payment to him in the amount of two times the sum of his of annual base salary and target annual cash incentive, full vesting of some unvested equity awards and continued vesting of some others and pro rata payments of other cash awards. Based on advice from its compensation consultant regarding severance payments and benefits, the Compensation Committee believed that the amended severance payments and benefits are consistent with those generally made available in the market. In addition, the Compensation Committee's executive compensation consultant determined that the revised severance arrangements would not require shareholder approval under the policy described above. The Compensation Committee believed that the amended severance payments and benefits were important to obtain a multi-year commitment from Mr. Clark to serve as our Chairman of the Board and Chief Executive Officer.

In January 2008, we entered into an employment offer letter with Mr. Barrett which includes severance payments and benefits to be provided to Mr. Barrett. If we terminate Mr. Barrett's employment without cause or Mr. Barrett terminates his employment for good reason, then Mr. Barrett will receive: (a) severance equal to (i) two times his annual base salary and target annual bonus if the termination is on or before January 2011, or (ii) one times his annual base salary and target annual bonus if the termination is after January 2011; (b) immediate vesting of the initial special RSU grant (13,333 RSUs); and (c) medical and dental benefits for him and his dependents for a period of two years. Based on advice from its compensation consultant regarding severance payments and benefits, the Compensation Committee believes that the severance payments and benefits to Mr. Barrett are consistent with those generally made available in the market. In addition, the

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Compensation Committee determined that the severance arrangements would not require shareholder approval under the policy described above. The Compensation Committee believed that the severance payments and benefits were important to attract Mr. Barrett to join us.

If any severance payments or benefits provided to either Mr. Clark or Mr. Barrett would be subject to the excise tax imposed on parachute payments by the Code, we will gross-up his compensation for all such excise taxes and any federal, state and local taxes applicable to such gross-up payment (including any penalties and interest). The Compensation Committee agreed to provide this benefit for the following reasons:

the excise tax imposes discriminatory results between executives with varying compensation and stock option exercise histories, especially recently hired executives;

the gross-up provisions assure that the financial incentives provided by the employment agreements will have the desired effect upon the executive officers without discriminatory results; and

given the size of our business and assets, the cost of the severance benefits, including the gross-up payments, is unlikely to impede an acquisition offer from an acquirer.

We provided Mr. Parrish with the severance benefits required under the offer letter we had entered into in November 2006 when he was appointed as CEO, Healthcare Supply Chain Services. The severance benefits we provided to Mr. Parrish are discussed in detail at Potential Payments on Termination or Change in Control on page 86.

## **Our Policies, Guidelines and Practices Related to Executive Compensation**

**Role of Our Named Executives.** Our Chief Executive Officer, Chief Human Resources Officer, Chief Legal Officer and Executive Director participate in Compensation Committee meetings, during which the Compensation Committee discusses and makes executive compensation decisions. One or more of these executive officers may be asked to leave for a portion of the meetings. At various meetings of the Compensation Committee, the Compensation Committee and the Executive Director reviewed and discussed, in executive session, the performance of and compensation for the Chief Executive Officer, including base salary, annual incentive compensation and long-term incentive compensation. In addition, the Compensation Committee reviewed and discussed, in executive session, the performance of and compensation for the Executive Director, including the compensation recommendations made by the Compensation Committee's compensation consultant.

During fiscal 2008, the Chief Executive Officer presented compensation recommendations to the Compensation Committee for each of the named executives, other than Mr. Walter. In preparing these compensation recommendations, the Chief Executive Officer received and reviewed market data from the Compensation Committee's compensation consultant, self-assessments from each of the named executives and financial data on performance. The Chief Human Resources Officer met separately with the Chairman of the Compensation Committee to discuss these compensation recommendations prior to the Compensation Committee meeting.

With respect to establishing the fiscal 2008 performance targets under the MIP and the 2008-2010 performance cash plan, the Chief Executive Officer, the Chief Financial Officer and the Chief Human Resources Officer prepared and recommended NOPAT and return on tangible capital performance goals with respect to the MIP and economic profit performance goals with respect to the 2008-2010 performance cash plan to the Compensation Committee in June and August 2007. The Executive Director, Chief Executive Officer, Chief Human Resources Officer, and Chief Legal Officer also participated in discussions with the Compensation Committee regarding the performance goals.

With respect to determining the overall company performance against MIP performance goals and segment and function performance, and overall company performance against the performance goals established under the 2006-2008 long-term incentive cash program, the Chief Executive Officer, Chief Human Resources Officer and

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Chief Financial Officer met with the Compensation Committee to review quantitative and qualitative information regarding overall company and segment and function performance to provide a recommendation to the Compensation Committee with respect to the funding of the MIP for the fiscal year and funding of the 2006-2008 long-term incentive cash program. Prior to these meetings, the Chief Executive Officer and the Chief Human Resources Officer met with the Chairman of the Compensation Committee to discuss these recommendations.

The Compensation Committee's compensation consultant attended all but one of the meetings of the Compensation Committee during fiscal 2008 to advise the Compensation Committee on compensation for the named executives, plan design for the annual and long-term incentives and benchmarking data. See the discussion on page 32 for additional information regarding the compensation consultant.

***Our Comparator Group and Benchmarking.*** In February 2005, the Compensation Committee and its compensation consultant developed a compensation Comparator Group, composed of companies, representing seven different industry sectors. Because of the relatively small number of direct competitors that had a business mix and scope comparable to ours, the Comparator Group was selected based on a number of criteria, including market capitalization, industry and business competitors and competitors for executive talent. To provide for ready access to compensation data, the Comparator Group consisted of those companies that participated in Towers Perrin's executive compensation database. At the time we made decisions regarding fiscal 2008 base salary and target MIP and long-term incentive compensation, the Comparator Group consisted of the following 36 companies:

Abbott Laboratories	The Dow Chemical Company	Kraft Foods Inc.	Schering-Plough Corporation
Alcoa Inc.	E. I. du Pont de Nemours and Company	Lockheed Martin Corporation	Texas Instruments Incorporated
AstraZeneca PLC	Electronic Data Systems Corporation	McKesson Corporation	United Technologies Corporation
Baxter International Inc.	Eli Lilly and Company	Medco Health Solutions, Inc.	UnitedHealth Group Incorporated
Becton Dickinson and Company	FedEx Corporation	Medtronic, Inc.	Wellpoint, Inc.
The Boeing Company	General Mills, Inc.	Merck & Co., Inc.	Weyerhaeuser Company
Bristol-Myers Squibb Company	Honeywell International Inc.	Motorola, Inc.	The Williams Companies, Inc.
Caterpillar Inc.	International Paper Company	Sara Lee Corporation	Wyeth
Colgate-Palmolive Company	Johnson Controls, Inc.		
ConAgra Foods, Inc.	Kellogg Company		

In January 2008, the Compensation Committee and its compensation consultant developed a new compensation Comparator Group. The compensation consultant tested potential peers based on size and industry. Companies were selected from health care, pharmaceutical and air/freight and logistics companies. The resulting peer group was then further refined to: (a) eliminate non-U.S. based companies; (b) eliminate two large pharmaceuticals and one large consumer products company; (c) add two companies that are major customers; (d) add one multi-industry company that is a medical products competitor; (e) add one large company because it is a current source for recruiting executive talent; and (f) eliminate one other company that did not appear to be a good overall fit. Based in part on the recommendation from the compensation consultant, the Compensation Committee found that the resulting Comparator Group reflects an appropriate balance between industry-focused and other factors that influences peer group selection. The new Comparator Group is composed of 33 companies, which companies are listed below with those included in the previous Comparator Group shown in *italics*:

<i>Abbott Laboratories</i>	CIGNA Corporation	Humana Inc.	Stryker Corporation
Aetna Inc.	The Clorox Company	Johnson & Johnson	3M Company
Alcon, Inc.	<i>Colgate-Palmolive Company</i>	Kimberly-Clark Corporation	United Parcel Service, Inc.
Allergan, Inc.	Covidien Ltd.	<i>McKesson Corporation</i>	<i>UnitedHealth Group Incorporated</i>
AmerisourceBergen Corporation	CVS Caremark Corporation	<i>Medco Health Solutions, Inc.</i>	Walgreen Co.
<i>Baxter International Inc.</i>	<i>Eli Lilly and Company</i>	<i>Medtronic, Inc.</i>	<i>WellPoint, Inc.</i>
<i>Becton, Dickinson and Company</i>	Express Scripts, Inc.	Quest Diagnostics Incorporated	Wyeth
Boston Scientific Corporation	<i>FedEx Corporation</i>	<i>Schering-Plough Corporation</i>	
<i>Bristol-Myers Squibb Company</i>	Forest Laboratories, Inc.		

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The table below sets forth the fiscal 2008 annualized targeted compensation elements paid to each of our named executives (other than Mr. Walter) and the amount of each element at the target level based on our Comparator Group. The Comparator Group did not have sufficient Executive Chairman of the Board positions for a market comparison for Mr. Walter.

Name	Annualized Base Salary	Annual MIP Target	Long-Term Incentive Compensation Target	Annualized Total Direct Compensation Target
R. Kerry Clark Compensation Amount	\$ 1,450,000	\$ 2,320,000	\$ 9,800,000	\$ 13,570,000
Comparator Group Targeted Amount	\$ 1,450,000	\$ 2,175,000	\$ 9,800,000	\$ 13,425,000
Jeffrey W. Henderson Compensation Amount	\$ 700,000	\$ 700,000	\$ 2,700,000	\$ 4,100,000
Comparator Group Targeted Amount	\$ 685,000	\$ 623,000	\$ 2,755,000	\$ 4,063,000
David L. Schlottbeck Compensation Amount	\$ 745,000	\$ 745,000	\$ 2,900,000	\$ 4,390,000
Comparator Group Targeted Amount	\$ 715,000	\$ 779,000	\$ 2,895,000	\$ 4,389,000
George S. Barrett Compensation Amount	\$ 975,000	\$ 975,000	\$ 3,250,000	\$ 5,200,000
Comparator Group Targeted Amount	\$ 715,000	\$ 779,000	\$ 2,895,000	\$ 4,389,000

The market data in the table above is based upon the previous Comparator Group, which we used for compensation decisions in August 2007 and with respect to Mr. Barrett in January 2008. The Compensation Committee compared the elements of compensation paid to our named executives against data for the new Comparator Group. The Compensation Committee found that the percentile levels for total compensation for the new Comparator Group are comparable to those in the table above, with some marginal differences on the individual compensation elements. The compensation consultant recommended that the Compensation Committee review at least two years of data prior to considering any changes.

**Guidelines for Share Ownership and Holding Periods for Equity Awards.** In an effort to directly link executive officers and directors' financial interests with those of shareholders, we have implemented Guidelines for Share Ownership for executive officers and non-employee directors. The Guidelines specify a dollar value of shares that executive officers and non-employee directors must accumulate and hold by the later of three years after joining Cardinal Health or the Board. We have determined that, as of June 30, 2008, all named executives and non-employee directors were in compliance with these Guidelines. The specific share ownership requirements are:

Chairman and Chief Executive Officer five times base salary

Segment Chief Executive Officers and Chief Financial Officer four times base salary

Other Executive Officers three times base salary

Non-employee Directors four times annual cash retainer

In addition to the share ownership guidelines, beginning with equity awards granted in August 2006, all of our executive officers on the grant date must hold (a) in the case of stock options, his or her after-tax net profit in common shares until the earlier of (i) the first anniversary of the

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option exercise or (ii) termination of employment, and (b) in the case of RSUs, the after-tax common shares received at settlement until the earlier of (i) the first anniversary of vesting or (ii) termination of employment.

*Potential Impact on Compensation from Executive Misconduct.* Under our incentive plans, we have the authority to require repayment, or subject outstanding awards to forfeiture, in certain instances of executive misconduct. These provisions are designed to prevent detrimental behavior, and permit us to recoup certain benefits in the event an executive has engaged in certain misconduct. See Executive Compensation Compensation Plans.

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**Equity Grant Practices.** The Compensation Committee made fiscal 2008 annual grant determinations for options and RSUs at its August 2007 meeting with a grant date of August 15, 2007. In line with its current annual compensation cycle, the Compensation Committee expects to make annual grant determinations for future fiscal years at its meeting in August of each year, and to set the annual grant date for equity awards on August 15, or the first business day to follow August 15. The Compensation Committee expects this annual grant to follow the release of earnings for the fiscal year in early August, without regard to whether we are in possession of material non-public information. In the event of grants related to new hires (including Mr. Barrett), promotions, or other off-cycle grants, the grants are made on the 15th day of the month, or the first business day to follow the 15th day of the month, following the hire date.

**Tax and Accounting Matters.** Section 162(m) of the Code, places a limit of \$1,000,000 on the amount of compensation that we may deduct in any one year with respect to our Chief Executive Officer and each of our three most highly paid executive officers (not including our Chief Financial Officer). There is an exception to the \$1,000,000 limitation for performance-based compensation meeting certain requirements. Annual cash incentives, long-term incentive cash awards, and stock option awards are designed generally to qualify as performance-based compensation meeting those requirements and, as such, to be fully deductible. For our fiscal 2008 annual incentive compensation, the Compensation Committee established the overall company performance criterion of an 8% return on shareholders' equity, referred to as ROE, during fiscal 2008 for Section 162(m) purposes. For fiscal 2008, we achieved an 18.2% ROE. Under our fiscal 2008-2010 long-term incentive cash program, awards to certain executives must satisfy performance criteria for purposes of Section 162(m) related to the achievement over the performance periods of an average annual ROE of 8%.

It is the Compensation Committee's general policy to endeavor to minimize the adverse effect of Section 162(m) on the deductibility of our compensation expense; however, the Compensation Committee maintains flexibility in compensating executive officers in a manner designed to promote varying company goals. In fiscal 2008, since the compensation of each of Messrs. Clark and Walter was above the \$1,000,000 threshold, Cardinal Health cannot deduct a portion of their respective salaries, bonuses and RSUs and the taxable portion of their respective perquisites, to the extent not deferred. In fiscal 2008, Mr. Barrett's annual incentive award was guaranteed, and therefore the award does not qualify as performance-based compensation. Cardinal Health cannot deduct the portions of Mr. Barrett's base salary, cash sign-on bonus, fiscal 2008 annual incentive and taxable portion of his perquisites, that in the aggregate exceeded \$1,000,000, to the extent not deferred. RSUs are also not performance-based and, as such, are not deductible unless settlement is deferred to a period when compensation of the named executive is no longer subject to Section 162(m). During fiscal 2008, the settlement of RSUs were deferred by Messrs. Clark, Schlotterbeck, and Walter, as described in detail at Executive Compensation Option Exercises and Stock Vested for Fiscal Year 2008.

The Compensation Committee also considers the impact of Section 409A of the Code, and the compensation plans, programs and agreements are, in general, designed to comply with the requirements of that section so as to avoid possible adverse tax consequences that may result from noncompliance with Section 409A.

The Code limits our deduction of aircraft expenses for certain non-business flights. The difference between the actual cost of personal use flights and the amount included in the individual's income is disallowed as a deduction by Cardinal Health. The deduction disallowance for our named executive officers was approximately \$650,000 in fiscal 2008.

**Equity Dilution Policy.** We intend to continue to disclose our capital deployment plans and the dilutive effect of our equity compensation program. Our share buyback decisions are based upon our publicly disclosed capital deployment strategy. Our fiscal 2008 annual equity run rate, which is a measure of dilution that shows how rapidly we are depleting the shares reserved for equity compensation plans, was 1.08% of our outstanding shares. We calculate our equity run rate as the total number of shares subject to grants awarded in the fiscal year under our equity compensation plans, less forfeitures, divided by the total number of our common shares outstanding at the end of the fiscal year.



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**EXECUTIVE COMPENSATION**

**Human Resources and Compensation Committee Report**

We have reviewed and discussed the foregoing Compensation Discussion and Analysis with management. Based on our review and discussion with management, we have recommended to the Board of Directors that the Compensation Discussion and Analysis be included in this proxy statement and in Cardinal Health's Annual Report on Form 10-K for the fiscal year ended June 30, 2008.

Submitted by the Human Resources and Compensation Committee of the Board.

Richard C. Notebaert, Chairman

Colleen F. Arnold

Calvin Darden

Gregory B. Kenny

John B. McCoy

Jean G. Spaulding, M.D.

**Table of Contents****Executive Compensation Tables**

We are providing the following information with respect to the persons serving as our Chief Executive Officer and Chief Financial Officer during fiscal 2008, each of our three other most highly compensated executive officers at June 30, 2008, and a person who would have been included in the table as one of our most highly compensated executive officers, but who was not serving as an executive officer at June 30, 2008.

**Summary Compensation Table**

Name and Principal Position		Year	Salary (\$)	Bonus (\$)(1)	Stock Awards (\$)(2)	Option/SAR Awards (\$)(3)	Non-Equity Incentive Plan Compensation (\$)(4)	Change in Pension Value and Non-qualified Deferred Compensation Earnings (\$)	All Other Compensation (\$)(5)	Total (\$)
R. Kerry Clark		2008	\$ 1,441,257	\$ 691,804	\$ 3,424,417	\$ 5,255,897	\$ 0	\$ 0	\$ 246,801	\$ 11,060,176
Chairman of the Board and Chief Executive Officer (6)		2007	\$ 1,400,000	\$ 1,120,000	\$ 2,575,137	\$				