CARDINAL HEALTH INC
Form PRE 14A
September 14, 2005

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SCHEDULE 14A
(RULE 14A-101)
INFORMATION REQUIRED IN PROXY STATEMENT
SCHEDULE 14A INFORMATION
PROXY STATEMENT PURSUANT TO SECTION 14(a) OF THE SECURITIES EXCHANGE ACT OF 1934
(AMENDMENT NO.)

Filed by the Registrant þ

Filed by a Party other than the Registrant o

Check the appropriate box:

þ	Preliminary Proxy Statement	o	CONFIDENTIAL, FOR USE OF THE COMMISSION ONLY (AS PERMITTED BY RULE 14a-6(e)(2))
o	Definitive Proxy Statement		
o	Definitive Additional Materials		
o	Soliciting Material Pursuant to Rule 14a-11(c) or Rule 14a-12.		

CARDINAL HEALTH, INC.
(NAME OF REGISTRANT AS SPECIFIED IN ITS CHARTER)

N/A
(NAME OF PERSON(S) FILING PROXY STATEMENT, IF OTHER THAN THE REGISTRANT)

Payment of Filing Fee (Check the appropriate box):
þ No fee required.
o Fee computed on table below per Exchange Act Rules 14a-6(i)(1) and 0-11.

(1) Title of each class of securities to which transaction applies:

(2) Aggregate number of securities to which transaction applies:

(3) Per unit price or other underlying value of transaction computed pursuant to Exchange Act Rule 0-11 (Set forth the amount on which the filing fee is calculated and state how it was determined):

(4) Proposed maximum aggregate value of transaction:

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(1) Amount Previously Paid:

(2) Form, Schedule or Registration Statement No.:

(3) Filing Party:

(4) Date Filed:

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NOTICE OF ANNUAL MEETING OF SHAREHOLDERS
TO BE HELD NOVEMBER 2, 2005

Notice is hereby given that the Annual Meeting of Shareholders of Cardinal Health, Inc., an Ohio corporation (the Company), will be held at the Company s corporate offices at 7000 Cardinal Place, Dublin, Ohio, on November 2, 2005 at 2:00 p.m., local time, for the following purposes:

1. To elect five Directors, each to serve for a term of three years and until his or her successor is duly elected and qualified;

2. To vote on a proposal to adopt the Cardinal Health, Inc. 2005 Long-Term Incentive Plan;

3. To vote on a proposal to adopt amendments to the Company s Restated Code of Regulations to provide for the annual election of Directors; and

4. To transact such other business as may properly come before the meeting or any adjournment or postponement thereof.

The Board of Directors recommends that you vote FOR the election of the five Directors listed in Proposal 1 and FOR Proposals 2 and 3.

Only shareholders of record at the close of business on September 9, 2005 are entitled to notice of and to vote at the meeting or any adjournment or postponement thereof.

Only persons with an admission ticket or proof of share ownership will be admitted to the Annual Meeting. If you are a shareholder of record, your admission ticket is attached to your proxy card. You will need to bring it with you to the Annual Meeting, together with proper 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 proper identification) in order to be admitted to the Annual Meeting.

By Order of the Board of Directors.

BRENDAN A. FORD, *Secretary*

September , 2005

Whether or not you expect to attend the Annual Meeting in person, you are urged 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 pursuant to instructions provided with the proxy.

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PROXY STATEMENT

This Proxy Statement is being furnished in connection with the solicitation of proxies on behalf of the Board of Directors of Cardinal Health, Inc., an Ohio corporation (Cardinal Health or the Company), for use at the Annual Meeting of Shareholders of the Company (the Annual Meeting) to be held on Wednesday, November 2, 2005, at the Company s corporate offices located at 7000 Cardinal Place, Dublin, Ohio 43017, at 2:00 p.m., local time, and at any adjournment or postponement thereof. This Proxy Statement and the accompanying proxy, together with the Company s Annual Report to Shareholders, which includes its Annual Report on Form 10-K for the fiscal year ended June 30, 2005, except for any exhibits thereto, are first being sent to shareholders of the Company on or about September , 2005. Exhibits will be provided to any shareholder upon request to the Company s Investor Relations department.

The close of business on September 9, 2005 has been fixed as the record date for the determination of shareholders of the Company entitled to notice of and to vote at the Annual Meeting. On that date, the Company had outstanding 426,835,457 common shares, without par value (Common Shares). 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.

The address of the Company s principal executive office is 7000 Cardinal Place, Dublin, Ohio 43017.

ELECTION OF DIRECTORS

The Company s Board of Directors currently consists of thirteen members, divided into three classes (two classes of five members each and one class of three members).

At the Annual Meeting, the Company s shareholders will be asked to vote for the election of the five nominees named below, each to serve for a term of three years and until his or her successor is duly elected and qualified. (See Proposal 1 below.) At the Annual Meeting, the Company s shareholders will be asked to vote on amendments to the Company s Restated Code of Regulations (the Code of Regulations), to provide for the annual election of Directors beginning with the 2006 Annual Meeting of Shareholders (see Proposal 3 below).

Common Shares represented by proxies, unless otherwise specified, will be voted for the election of the five 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 of Directors may propose. Proxies may not be voted at the Annual Meeting for more than five nominees.

Under Ohio law, if notice in writing is given by any shareholder entitled to vote at the Annual Meeting to the President, a Vice President or the Secretary of the Company, 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 five 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 five nominees receiving the greatest number of votes will be elected Directors. Abstentions and broker non-votes will not affect the results of the election.

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Set forth below is the following information regarding those persons nominated for election as Directors of the Company (each is currently a Director of the Company) and of those persons serving as Directors of the Company whose terms of office will continue after the Annual Meeting: their names, ages, 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); certain other board memberships (which are shown parenthetically); the year in which they first became a Director of the Company; and the year in which their term as a Director is scheduled to expire (information provided as of September 9, 2005). The Company has previously announced that Mr. Bing intends to resign from the Company s Board of Directors at the time of the Company s 2005 Annual Meeting of Shareholders.

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Nominees for Election at the Annual Meeting

Name	Age	Principal Occupation/Past Experience	Director Since	Term Expires
J. Michael Losh	59	Former Chief Financial Officer of the Company (on an interim basis), July 2004 to May 2005; Chairman of Metaldyne Corporation, an automotive parts manufacturer, October 2000 to April 2002; Chief Financial Officer of General Motors Corporation, an automobile manufacturer, 1994 to August 2000 (director of AMB Property Corporation, an industrial real estate owner and operator; Aon Corporation, an insurance brokerage, consulting and underwriting company; H.B. Fuller Company, a specialty chemicals and industrial adhesives manufacturer; Masco Corp., a manufacturer of home improvement and building products; Metaldyne Corporation; and TRW Automotive Holdings Corp., a supplier of automotive systems, modules and components).	1996	2005
John B. McCoy	62	Retired Chairman of Corillian Corporation, an online banking and software services company, June 2000 to January 2004; Chief Executive Officer of Bank One Corporation, a bank holding company, 1984 to December 1999 (director of SBC Communications, Inc., a telecommunications systems company; and ChoicePoint Inc., a provider of data management products and services.)	1987	2005
Michael D. O Halleran	55	Senior Executive Vice President of Aon Corporation, September 2004 to present; President and Chief Operating Officer of Aon Corporation, April 1999 to September 2004.	1999	2005
Jean G. Spaulding, M.D	58	Consultant, Duke University Health System, a non-profit academic health care system, January 2003 to present; Trustee, The Duke Endowment, a charitable trust, January 2002 to present; private medical practice in psychiatry, 1977 to present; Associate Clinical Professorships at Duke University Medical Center, a non-profit academic hospital, 1998 to present; Vice Chancellor for	2002	2005

		Health Affairs, Duke University Health System, 1998 to 2002.		
Matthew D. Walter	36	Chief Executive Officer of BoundTree Medical Products, Inc., a provider of medical equipment to the emergency medical market, November 2000 to present; Managing Partner of Talisman Capital, a private investment company, June 2000 to present; Vice President and General Manager of National PharmPak, Inc., a subsidiary of Cardinal Health, Inc., July 1996 to September 2000 (director of Bancinsurance Corporation, an insurance holding company). Mr. M. Walter is the son of Robert D. Walter, Chairman and Chief Executive Officer of the Company.	2002	2005

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Directors Whose Terms Will Continue after the Annual Meeting

Name	Age	Principal Occupation/Past Experience	Director Since	Term Expires
John F. Finn	57	Chairman and Chief Executive Officer of Gardner, Inc., an outdoor power equipment distributor (director of J.P. Morgan Funds, a registered investment company).	1994	2006
John F. Havens	78	Director Emeritus and retired Chairman of Bank One Corporation.	1979	2006
David W. Raisbeck	55	Vice Chairman of Cargill, Incorporated, a marketer, processor and distributor of agricultural, food, financial and industrial products and services, November 1999 to present (director of Eastman Chemical Company, a plastics, chemicals and fibers manufacturer).	2002	2006
Robert D. Walter	60	Chairman and Chief Executive Officer of the Company (director of American Express Company, a travel, financial and network services company; and Viacom Inc., a media company). Mr. R. Walter is the father of Matthew D. Walter, a Director of the Company.	1971	2006
George H. Conrades	66	Executive Chairman, Akamai Technologies, Inc., an e-business infrastructure provider, April 2005 to present; Chairman and Chief Executive Officer of Akamai Technologies, Inc. (April 1999 to April 2005); Venture partner in Polaris Venture Partners, an early stage investment company, August 1998 to present (director of Akamai Technologies, Inc.; and Harley-Davidson, Inc., a motorcycle manufacturer).	1999	2007
Robert L. Gerbig	60	Retired Chairman and Chief Executive Officer of Gerbig, Snell/Weisheimer & Associates, Inc., an advertising agency.	1975	2007
Richard C. Notebaert	58	Chairman and Chief Executive Officer of Qwest Communications International Inc., a telecommunications systems company, July 2002 to present; President and Chief Executive Officer of Tellabs, Inc., a communications equipment and services	1999	2007

provider, September 2000 to July 2002 (director of Qwest Communications International Inc.; and Aon Corporation).

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Board of Directors and Committees of the Board

The Company s Board of Directors held four regular meetings and six special meetings during the fiscal year ended June 30, 2005 (fiscal 2005). Each Director attended 75% or more of the regular quarterly meetings of the Board and Board Committees on which he or she served. In addition, each Director attended 75% or more of the total of the regular and special meetings of the Board and Board committees on which he or she served, except for Mr. Bing, who attended 20 out of 27 of such meetings during fiscal 2005. Twelve of the Company s thirteen Directors attended the Company s 2004 Annual Meeting of Shareholders. Absent unusual circumstances, each Director is expected to attend the Annual Meeting of Shareholders.

The Audit Committee. Messrs. Finn (Chairman), Bing, Conrades, Gerbig, O Halleran and Raisbeck are the current members of the Board s Audit Committee, which represents and assists the Board with the oversight of the integrity of the Company s financial statements, compliance with legal and regulatory requirements, the qualifications, independence and performance of the Company s independent auditors, and the qualifications and performance of the Company s internal audit function. The Audit Committee met 17 times during fiscal 2005.

The Board of Directors has determined that each of Messrs. Conrades, Finn, O Halleran and Raisbeck is an audit committee financial expert for purposes of the rules of the Securities and Exchange Commission (the SEC). In addition, the Board of Directors has determined that each of the members of the Audit Committee is independent, as defined by the rules of the New York Stock Exchange.

The Human Resources and Compensation Committee. Messrs. McCoy (Chairman), Havens and Notebaert and Dr. Spaulding are the current members of the Board s Human Resources and Compensation Committee (the Compensation Committee), which was established to discharge the Board of Directors responsibilities with respect to compensation of the Company s executives, sales to employees of stock in the Company and grants of stock-based incentives to employees, including stock options, restricted shares and restricted share units. The Compensation Committee also reviews and approves the Company goals and objectives relevant to the Chief Executive Officer s compensation and evaluates the Chief Executive Officer s performance in light of those goals and objectives. During fiscal 2005, the Compensation Committee met seven times and acted four times by written action without a meeting. The Board of Directors has determined that each of the members of the Compensation Committee is independent, as defined by the rules of the New York Stock Exchange.

The Nominating and Governance Committee. Messrs. Conrades (Chairman), Finn, Havens and McCoy are the current members of the Board s Nominating and Governance Committee, which was established for the purpose of identifying individuals qualified to become Board members (consistent with criteria approved by the Board), recommending director candidates for the Board, developing and reviewing the Company s Corporate Governance Guidelines, and performing a leadership role in shaping the Company s corporate governance practices. The Nominating and Governance Committee will consider director nominees recommended by shareholders as described under Corporate Governance Shareholder Recommendations for Director Nominees below. During fiscal 2005, the Nominating and Governance Committee met four times. The Board of Directors has determined that each of the members of the Nominating and Governance Committee is independent, as defined by the rules of the New York Stock Exchange.

The Executive Committee. Messrs. Conrades, Finn, McCoy and R. Walter are the current members of the Board s Executive Committee, which is empowered to exercise substantially all powers and perform all duties of the Board of Directors when the Board is not in session, other than the authority to fill vacancies on the Board or on any committee of the Board. During fiscal 2005, the Executive Committee did not meet and acted four times by written action without a meeting.

The Audit Committee Charter, approved in its current form by the Audit Committee in November 2004 and subsequently ratified by the Board of Directors, is attached as Appendix A to this Proxy Statement. The charters for each of the Audit, Compensation and Nominating and Governance Committees are available on the Company s website, at *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 the Company s Investor Relations department.

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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 2006 Annual Meeting of Shareholders should be received no later than , 2006, and must contain the following information: (i) the name and address of the shareholder; (ii) the name and address of the person to be nominated; (iii) a representation that the shareholder is a holder of the Company s Common Shares entitled to vote at the meeting; (iv) a statement in support of the shareholder s recommendation, including a description of the candidate s qualifications; (v) information regarding the candidate as would be required to be included in a proxy statement filed in accordance with SEC rules; and (vi) the candidate s written, signed consent to serve if elected.

Director Qualification Standards

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 the Company s Corporate Governance Guidelines, include an individual s business experience and skills, independence, judgment, integrity and ability to commit sufficient time and attention to the activities of the Board, as well as the absence of any potential conflicts with the Company s interests. Director candidates should also possess a skill set regarding current issues and priorities important to the Company and its operations. 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 the Company, the Board and its governance practices. The final selection of the Board s nominees is within the discretion of the Board of Directors.

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 or the independent or non-management Directors as a group. Such parties can send communications by e-mail to bod@cardinal.com or by mail to the Board of Directors in care of the Corporate Secretary, Cardinal Health, Inc., 7000 Cardinal Place, Dublin, Ohio 43017. This centralized process will assist the Board in reviewing and responding to communications. The name of any specific intended Board recipient should be noted in the communication. All communications are summarized for the Directors, and the actual communications are made available to the Directors upon request.

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Corporate Governance Guidelines

The Company has adopted Corporate Governance Guidelines, the full text of which is available on the Company s website, at *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 the Company s Investor Relations department.

Director Independence

The Board has established categorical standards to assist it in making its determination of director independence. As embodied in the Company s 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:

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, the Company (provided, however, that, in accordance with New York Stock Exchange 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);

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 the Company, 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 New York Stock Exchange 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 the Company s internal or external auditor; (b) is not a current employee of the Company s internal or external auditor; (c) does not have an immediate family member who is a current employee of the Company s 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 the Company s internal or external auditor who personally worked on the Company s 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 the Company s present executive officers serve on that other company s compensation committee;

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, the Company for property or services in an amount which, in any of the last three fiscal years, exceeds the greater of $1 million, or 2% 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 the Company or the Company foundation has made contributions during the past three years that, in any single fiscal year, exceeded the greater of $1 million or 2% of the non-profit organization s consolidated gross revenues (amounts that the Company contributes under matching gifts programs are not included in the contributions calculated for purposes of this standard); and

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

The Board of Directors has determined that each of Messrs. Bing, Conrades, Finn, Gerbig, Havens, Losh, McCoy, Notebaert, O Halleran and Raisbeck and Dr. Spaulding is independent under these categorical standards. Mr. Losh was determined to be independent under these categorical standards until late July 2004. From July 2004 until May 2005, Mr. Losh served as Chief Financial Officer of the Company on an interim basis and the Board of

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Directors determined that he was not independent during that time. Mr. Losh was again determined by the Board of Directors to be independent after his role as interim Chief Financial Officer ended in May 2005.

Presiding Director

The chairperson of the Nominating and Governance Committee or another Director selected by the non-management Directors will preside at the executive sessions of the non-management Directors, which will occur without management present at least four times each year, and at the executive sessions of the independent Directors, which will occur at least once per year. Mr. McCoy has been selected by the non-management Directors to preside over these executive sessions.

Policies on Business Ethics; Chief Ethics and Compliance Officer

All of Cardinal Health s employees, including its senior executives, and Directors are required to comply with the Company s Standards of Business Ethics to ensure that the Company s 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. The Company s procedures for these matters are set forth in the Standards of Business Ethics.

The full text of the Cardinal Health Ethics Guide, which includes the Standards of Business Ethics, is posted on the Company s website, at *www.cardinalhealth.com*, under Investors Corporate Governance: Ethics policy. This information also is available in print (free of charge) to any shareholder who requests it from the Company s Investor Relations department. Cardinal Health will disclose future amendments to, or waivers from, its Standards of Business Ethics for its principal executive officer, principal financial officer, principal accounting officer or controller, or persons performing similar functions on its website within four business days following the date of the amendment or waiver. In addition, the Company will disclose any waiver from its Standards of Business Ethics for its executive officers and its Directors on its website.

In May 2005, the Company named a Chief Ethics and Compliance Officer who reports to both the Chief Executive Officer and the Audit Committee of the Board of Directors. The Chief Ethics and Compliance Officer is responsible for supporting the Board in its responsibility to evaluate, review and enhance the Company s corporate compliance program and ensuring senior leadership responsibility and accountability for compliance and ethical business conduct.

CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

In April 2005, the Company and a limited partnership, the limited partners of which include four adult children of Mr. Havens, one individually and the other three through separate trusts (representing an aggregate interest in the partnership of approximately 23%), jointly sold a property owned by the partnership and an adjoining property owned by the Company for an aggregate price, before closing expenses, of $1,675,000. The net proceeds from the sale were allocated 67% to the partnership and 33% to the Company, which percentages represent the parties interest in the square footage of the respective parcels. The property sold by the partnership was formerly leased by the Company from the partnership, which lease expired in fiscal 2004.

inChord Communications, Inc. (inChord) and its subsidiaries perform health care marketing and recruiting services on behalf of the Company and its subsidiaries from time to time in the ordinary course of business. Mr. M. Walter is a director and minority shareholder of inChord, and his two brothers serve as the other directors and own substantially all of the remaining equity interest in inChord. During fiscal 2005, the Company paid inChord approximately $51,345 for services rendered on the Company s behalf, and has incurred approximately $51,000 in additional amounts payable for services rendered on the Company s behalf in fiscal 2005.

In October 2003, the Company and inChord entered into a joint marketing program (RxPedite) designed to promote a comprehensive package of product commercialization services to pharmaceutical manufacturers. This program provides a mechanism for the parties to share the joint costs of the RxPedite marketing effort, and is terminable by either party at any time. During fiscal 2005, the Company s share of co-marketing expenses incurred in connection with the RxPedite program was approximately $245,048.

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Mr. M. Walter and his two brothers own a majority of BoundTree Medical Products, Inc. (BMP), a company engaged in the pre-hospital emergency medical supply business. Mr. M. Walter is also an officer and director of BMP. During fiscal 2005, BMP and its affiliates (i) purchased approximately $3,197,946 (which amount represents less than 5% of BMP s consolidated gross revenues during such period) of product from the Company and its subsidiaries in the ordinary course of business, and (ii) sold products to the Company and its affiliates in the ordinary course of business totaling $59,772.

The sister-in-law of Carole S. Watkins, Executive Vice President Human Resources of the Company, is employed as a senior vice president of the Company.

In April 2005, Medicine Shoppe International, Inc., a wholly-owned subsidiary of the Company (Medicine Shoppe), entered into a Membership Agreement with SureScripts, LLC, a provider of electronic prescription information communications services (SureScripts), pursuant to which Medicine Shoppe would become a member of a SureScripts program offering the electronic exchange of prescription information for the purpose of reducing medical errors, enhancing patient safety and increasing the efficiency of the prescribing process and other health care transactions and processes. Upon execution of the Membership Agreement, Medicine Shoppe paid SureScripts membership dues in the amount of $969,300, which dues are based on a five-year membership period. The son-in-law of Mr. Conrades, a Director of the Company, is the Chief Executive Officer of SureScripts.

Pursuant to the Company s Code of Regulations and certain indemnification agreements, the Company is obligated to advance legal fees under certain circumstances to current and former employees, including executive officers and Directors, subject to limitations of the Ohio Revised Code. As part of that obligation, the Company has advanced legal fees relating to the representation of its Directors by counsel in connection with various derivative actions against the Company and its Directors, and relating to the representation of certain of its Directors and officers by counsel in connection with the SEC investigation and related investigations described under Item 3: Legal Proceedings of the Company s Form 10-K for the fiscal year ended June 30, 2005, under the headings Derivative Actions and SEC Investigation and U.S. Attorney Inquiry, respectively. The Company has advanced a total of approximately $2.8 million relating to these matters since July 1, 2004.

See also Executive Compensation Compensation of Directors for a description of the Company s compensation arrangements with Mr. Losh while he was serving as the Company s Chief Financial Officer on an interim basis.

SECTION 16(a) BENEFICIAL OWNERSHIP REPORTING COMPLIANCE

Based solely upon a review of Forms 3, 4 and 5 and amendments thereto furnished to the Company during fiscal 2005 and written representations regarding the same, except as set forth below, all officers and Directors of the Company timely filed all reports required under Section 16(a) of the Securities Exchange Act of 1934, as amended (the Exchange Act), during fiscal 2005, except for the following: (a) Robert L. Gerbig, a Director, who provided an executed Form 4 to the Company on a timely basis, but due to an administrative oversight by the Company, such Form 4 was filed late after the oversight was discovered; (b) Brendan A. Ford, the Company s Executive Vice President Corporate Development and Interim General Counsel and Secretary, who was late in reporting one acquisition of 40 Common Shares; and (c) Anthony J. Rucci, the Company s Executive Vice President and President of Strategic Corporate Resources, who was late in reporting the gift of an option to purchase shares.

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SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

The following table sets forth certain information regarding the beneficial ownership of the Company s Common Shares as of September 9, 2005 (unless otherwise indicated below) by: (a) the Company s Directors; (b) each other person who is known by the Company to own beneficially more than 5% of the outstanding Common Shares; (c) the Company s Chief Executive Officer and the other executive officers named in the Summary Compensation Table; and (d) the Company s 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	Number of Common Shares Beneficially Owned	Percent of Class
FMR Corp. (1)	49,579,927	11.6%
Dodge & Cox (2)	34,991,899	8.2%
Robert D. Walter (3)(4)(5)(6)	5,267,321	1.2%
Matthew D. Walter (7)(8)	1,419,240	*
George L. Fotiades (4)(5)(6)	334,312	*
Anthony J. Rucci (4)(5)(6)	222,022	*
Ronald K. Labrum (4)(5)(6)	207,642	*
John B. McCoy (7)(9)(10)	126,421	*
David L. Schlotterbeck (4)(5)(6)	99,164	*
Robert L. Gerbig (7)	95,065	*
John F. Finn (7)(10)(11)	62,242	*
John F. Havens (7)(10)	61,109	*
Richard C. Notebaert (7)(10)	39,419	*
Michael D. O Halleran (7)	31,630	*
J. Michael Losh (7)(10)(12)	31,363	*
Dave Bing (7)(10)	27,752	*
George H. Conrades (7)(10)	26,819	*
David W. Raisbeck (7)(10)	20,755	*
Jean G. Spaulding, M.D. (7)(10)	17,896	*
All Executive Officers and Directors as a Group (25 Persons) (13)	8,631,523	2.0%

* Indicates beneficial ownership of less than 1% of the outstanding Common Shares.

(1) Based on information obtained from a Schedule 13G/A jointly filed with the SEC on February 14, 2005 by FMR Corp. (FMR), Edward C. Johnson, III and Abigail P. Johnson. The address of FMR is 82 Devonshire Street, Boston, Massachusetts 02109. FMR reported that, as of December 31, 2004, it had sole voting power with respect to 1,422,329 Common Shares and sole dispositive power with respect to all Common Shares shown in the table. The number of shares held by FMR 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 10, 2005 by Dodge & Cox. The address of Dodge & Cox is 555 California Street, San Francisco, California 94104. Dodge & Cox reported that, as of December 31, 2004, it had sole voting power with respect to 32,764,899 Common Shares, shared voting power with respect to 528,400 Common Shares and sole dispositive power with respect to all Common Shares shown in the table. The number of shares held by Dodge & Cox may have changed since the filing of the 13G.

(3) Includes a total of 1,710,913 Common Shares held in three grantor retained annuity trusts of which Mr. R. Walter is the trustee, and 800,000 Common Shares beneficially owned by Mr. R. Walter through two limited liability companies in which Mr. R. Walter holds the controlling interest and is the sole manager.

(4) Common Shares and the percent of class listed as being beneficially owned by the Company s named executive officers include outstanding options to purchase Common Shares that are exercisable within 60 days of September 9, 2005, as follows: Mr. R. Walter 1,488,402 shares; Mr. Fotiades 279,773 shares; Mr. Schlotterbeck 0 shares; Mr. Labrum 199,068 shares; and Mr. Rucci 184,207 shares (which options are held in a trust of which Mr. Rucci is trustee and the sole beneficiary during his life).

(5) Common Shares and the percent of class listed as being beneficially owned by the Company s named executive officers do not include restricted share units as of September 9, 2005, as follows: Mr. R. Walter 318,895 shares; Mr. Fotiades 26,362 shares; Mr. Schlotterbeck 0 shares; Mr. Labrum 24,041 shares; Mr. Rucci 43,187 shares. Such restricted share units are not deemed to be beneficially owned under SEC rules.

(6) Common Shares and the percent of class listed as being beneficially owned by the Company s named executive officers include Common Shares in the Company s Employee Stock Purchase Plan as of September 9, 2005, as follows: Mr. R. Walter 2,826 shares; Mr. Fotiades 0 shares; Mr. Schlotterbeck 437 shares; Mr. Labrum 2,816 shares; and Mr. Rucci 0 shares.

(7) Common Shares and the percent of class listed as being beneficially owned by the listed Company Directors (except for Mr. R. Walter) include outstanding options to purchase Common Shares that are exercisable within 60 days of September 9, 2005, as follows: Mr. Bing 27,752 shares; Mr. Conrades 25,819 shares; Mr. Finn 31,943 shares; Mr. Gerbig 31,943 shares; Mr. Havens 35,075 shares; Mr. Losh 26,488 shares; Mr. McCoy 31,943 shares; Mr. Notebaert 25,819 shares; Mr. O Halleran 24,130 shares; Mr. Raisbeck 17,755 shares; Dr. Spaulding 17,746 shares; and Mr. M. Walter 17,746 shares.

(8) Includes 31,097 Common Shares held in trust for the benefit of Mr. M. Walter, 1,112,663 Common Shares beneficially owned by Mr. M. Walter through a limited liability company he controls, 84,889 Common Shares held in a grantor retained annuity trust of which Mr. M. Walter is the trustee, 34,502 Common Shares held in a trust in which Mr. M. Walter holds a one-third economic interest and of which he is a co-trustee, 6,840 Common Shares held in trusts for the benefit of Mr. M. Walter s children, and 1,090 Common Shares held by Mr. M. Walter s spouse.

(9) Includes 34,137 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 50,773 Common Shares held in two grantor retained annuity trusts of which Mr. McCoy is the trustee.

(10) Common Shares and the percent of class listed as being beneficially owned by the Company s non-management Directors do not include Common Share units held under the Company s Directors Deferred Compensation Plan as of September 9, 2005, as follows: Mr. Bing 3,669 share units; Mr. Conrades

1,635 share units; Mr. Finn 4,659 share units; Mr. Havens 3,739 share units; Mr. Losh 3,293 share units; Mr. McCoy 4,515 share units; Mr. Notebaert 3,739 share units; Mr. Raisbeck 2,418 share units; and Dr. Spaulding 1,779 share units. Such Common Share units are not deemed to be beneficially owned under SEC rules.

(11) Includes 1,032 Common Shares held by Mr. Finn s spouse.

(12) Includes 1,500 Common Shares held in trust for the benefit of Mr. Losh s daughters.

(13) Common Shares and percent of class listed as being beneficially owned by all executive officers and Directors as a group include outstanding options to purchase an aggregate of 2,924,370 Common Shares that are exercisable within 60 days of September 9, 2005.

EXECUTIVE COMPENSATION

Human Resources and Compensation Committee Report

The Company s executive compensation program is administered by the Human Resources and Compensation Committee (the Compensation Committee) of the Company s Board of Directors, which is responsible for reviewing all aspects of compensation for the Company s executive officers. The Compensation Committee is currently comprised of Messrs. Havens, McCoy and Notebaert and Dr. Spaulding, with Mr. McCoy serving as Chairman.[1] The Compensation Committee s primary objective with respect to the Company s executive compensation practices is to establish and maintain programs that attract, motivate and retain key executives and align their compensation with the Company s overall business strategies, core values adopted by the Company as part of its performance culture (the EPIC Core Values)[2] and the Company s performance. To this end, the Compensation Committee has established, and the Board of Directors has endorsed, an executive compensation philosophy which includes the following considerations:

A pay-for-performance orientation that differentiates compensation results based upon corporate, business unit and individual performance;

An appropriate mix of short-term and long-term compensation that facilitates retention of talented executives and encourages Company stock ownership;

An emphasis on long-term incentives as a significant component of total compensation in order to more closely align the interests of Company executives with the economic interests of the Company s shareholders;

An emphasis on total compensation versus cash compensation, rewarding Company executives with total compensation (including cash and stock incentive programs) at or above competitive levels to the extent individual performance and business results are superior and demonstrate commitment to the Company s EPIC Core Values; and

Recognition that as an executive s level of responsibility increases, a greater portion of that executive s total compensation opportunity should be at risk and based upon stock and other performance-based incentives.

The primary components of the Company s executive compensation program for fiscal 2005 were (a) base salaries, (b) annual cash incentive opportunities and (c) long-term incentive opportunities in the form of stock options and restricted share units. This three-part approach was intended to enable the Company to meet the requirements of the highly competitive environment in which the Company operates while ensuring that executive officers are compensated in a way that advances both the short- and long-term economic interests of shareholders.

1 Mr. Losh was Chairman of the Compensation Committee until

July 24, 2004, when he was appointed the Company s Chief Financial Officer on an interim basis. Mr. Losh served in such position until May 15, 2005.

2 EPIC Core Values are Ethical, Performance-Driven, Innovative and Collaborative.

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The executive officers and CEO s base salary, annual bonus target and award, and long-term incentives are reviewed by the Compensation Committee at least annually to ensure market competitiveness and to assure satisfaction of the Company s objective of providing total executive pay that achieves an appropriate balance of variable pay-for-performance and at-risk equity compensation. The Compensation Committee has retained and is advised directly by an executive compensation consulting firm in its review of Mr. R. Walter s and the other executive officers compensation. In making its recommendations, the consultant considered a comparator group of companies for the Company that includes some, but not all, of the companies included in the Value Line Health Care Index utilized for the Shareholder Performance Graph set forth below. The companies considered by the consultant represent a broad spectrum of approximately 40 wholesale, retail and manufacturing companies that the consultant and the Compensation Committee believe to be a more representative measure of the size, scope, performance and complexity of the competitive market for executive talent than the Value Line Health Care Index.

In reviewing compensation of the Company s executive officers for fiscal 2005 (including that of Mr. R. Walter), the Compensation Committee considered multiple factors, including the Company s performance in a year of significant change and difficult business conditions, as well as the Company s size and complexity, overall quality of earnings performance, balance sheet and cash flow performance, foreign operations, individual business results and total shareholder return. The Compensation Committee also considered each executive officer s individual performance (including demonstration of core leadership competencies and promotion of the Company s EPIC Core Values), retention and contribution toward positioning the Company for future success.

Base Salaries. Base salaries for Company executives are generally subject to annual review and adjustment on the basis of the following: individual and Company performance; level of responsibility; market data; and competitive, inflationary and internal equity considerations. Salary increases for fiscal 2005 for executive officers who were employed by the Company in fiscal 2004 (other than Mr. R. Walter) ranged from approximately 3.5% to 12% over such officers fiscal 2004 salaries.

Annual Cash Incentives. As part of the Company s executive compensation program, Company executives are eligible to receive annual cash incentive awards pursuant to the Company s annual cash incentive program. Targeted cash incentive amounts, which range from 65% to 140% of annual base salary for executive officers (other than Mr. R. Walter), are designed to provide competitive incentive pay and reflect the Company s pay-for-performance philosophy. These targets are reviewed periodically, but are generally not modified annually. Targeted cash incentive amounts generally represent a greater portion of an executive s overall potential cash compensation as levels of responsibility and function increase. Performance objectives intended to focus attention on achieving key goals are established for the Company, for each segment and for each business unit within each segment at the beginning of each fiscal year. In addition, individual performance objectives are established for each executive, which include both specific performance goals and other, more qualitative and developmental criteria.

Certain of the executive officers bonuses are paid under the Company s Management Incentive Plan (the MIP). Section 162(m) of the Internal Revenue Code of 1986, as amended (the Code), prohibits a deduction to any publicly held corporation for non-performance-based compensation paid to a covered employee in excess of $1 million per year (the Dollar Limitation). A covered employee is an employee who, on the last day of a company s taxable year, is the chief executive officer of the company or an employee who appears in the Summary Compensation Table by reason of being one of the four most highly compensated executive officers for the taxable year (other than the chief executive officer). In anticipation that the deductibility of compensation paid to Mr. R. Walter and other executive officers could be affected by Section 162(m), in August 1996, the Company s Board of Directors adopted the MIP, the material terms of the performance goals of which have been approved by the Company s shareholders. In August 2004, the Board of Directors approved amendments to the MIP, and such amendments were approved by the Company s shareholders in December 2004. Compensation paid in accordance with the MIP generally will not be applied toward the Dollar Limitation.

Messrs. R. Walter, Fotiades, Schlotterbeck, Labrum and Rucci were the Company s covered employees for fiscal 2005. Under the terms of the MIP, and in accordance with Section 162(m), a maximum bonus potential level was set for each covered employee if the performance goals established by the Compensation Committee were fully satisfied. The performance goals established by the Compensation Committee under the MIP for covered employees for fiscal

2005 were the achievement by the Company of a specified level of earnings per share growth and a specified level of return on average shareholder s equity. These performance goals were not fully satisfied for fiscal 2005. As a result, that portion of an incentive compensation award paid to an

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executive officer for fiscal 2005, which together with such executive officer s base salary and any other non-performance based compensation for fiscal 2005 exceeds $1 million, will not be deductible to the extent provided by Section 162(m).

In addition to the MIP performance goals, the Compensation Committee considered corporate, business segment and individual performance in determining annual cash incentive awards to executive officers for fiscal 2005. For many of the performance objectives established for the Company s executives, the Company and its business segments did not achieve results that would entitle the executives to their full bonus target amount. However, the Committee also considered that fiscal 2005 was a year of significant change and difficult challenges for the Company, with significant events that required extraordinary management efforts in a complex environment. Major efforts were made during fiscal 2005 to develop a new organizational structure and implement a strategic agenda that focuses on the long-term. With respect to executive officer incentive awards, the Compensation Committee also considered that executive officers of the Company did not receive a bonus for fiscal 2004. As a result of these factors, the Compensation Committee approved annual cash incentive award allocations to the Company s business segments for fiscal 2005 ranging from 49% to 77% of the target award amount for non-executive officers, and payments of 60% of the target award for executive officers whose incentive compensation was not fixed by contract. In addition, following preliminary discussions by the Compensation Committee of anticipated cash incentive awards to executive officers for fiscal 2005, Mr. R. Walter discussed with the Compensation Committee his desire that his ultimate bonus to be awarded by the Compensation Committee be reduced by the Compensation Committee, and that such reduced amount be used to provide an increased pool for the fiscal 2005 cash incentive awards of executive officers other than Mr. Fotiades and those executive officers who had fiscal 2005 bonus guarantees as part of their compensation arrangements with the Company. As a result of those discussions, the Compensation Committee awarded each such executive officer an additional 20% of his or her respective actual fiscal 2005 award.

Long-Term Stock Incentives. The Company has granted equity-based awards to its executives under the Company s Amended and Restated Equity Incentive Plan, as amended (the Equity Incentive Plan). The Equity Incentive Plan was approved by the Company s shareholders in November 1995, and amendments were approved by the Company s shareholders in November 1998. The Equity Incentive Plan has been designed to align a significant portion of the executive compensation package with the long-term economic interests of the Company s shareholders by providing an incentive that focuses attention on managing the Company from the perspective of a longer-term owner with an equity stake in the business. The Equity Incentive Plan provides for the grant of several types of equity-based awards, including stock options and restricted shares and share units.

The Company has historically made annual grants of stock options to its management personnel, including its executive officers. This annual grant program has been designed to provide Company managers, over a number of years, with multiple stock option awards, each granted with an exercise price equal to the market price for Common Shares on the date of the grant. Individual option grants historically have been determined by the Compensation Committee based on a manager s current performance, potential for future responsibility, market competitiveness (based on data provided by the Company s outside compensation consultant) and salary multiples designed to increase the portion of the total compensation opportunity represented by stock incentives as a manager s level of responsibility increases. Because a primary purpose of granting stock options has been to encourage positive future performance, when granting options in fiscal 2005, the Compensation Committee did not consider the number of options granted to an individual in previous years or the amount of stock owned by the executive. The Company s current standard stock option agreement contains provisions providing for forfeiture of the option or option value received in the event the option holder engages in certain behavior in competition with or contrary to the interests of the Company. The Compensation Committee has historically placed a relatively heavy emphasis on equity incentives, consistent with its philosophy that stock incentives more closely align the interests of Company managers with the long-term interests of shareholders.

In August 2004, the Committee awarded stock option grants to approximately 5,270 employees below the executive officer level for fiscal 2005 under the Company s Equity Incentive Plan and Broadly-based Equity Incentive Plan, as amended (the Broadly-based Equity Incentive Plan). This program has historically been an important element of the Company s efforts to identify, develop and motivate key employees who will be influential in the achievement of the Company s long-term goals.

Grants of restricted shares and restricted share units are intended to reward exceptional performance with a long-term benefit in lieu of cash, to facilitate stock ownership and to promote retention of key Company managers.

Unlike the Company s stock option program, restricted share and restricted share unit grants have not historically been made on an annual or other regularly established basis. Recipients of restricted share and restricted share unit grants are subject to restrictions on the disposition of the stock during a period determined by the Compensation Committee at the time of grant. Generally, restricted share and restricted share unit awards are forfeited by their terms if the recipient terminates employment with the Company prior to the expiration of the restriction or vesting period. Restricted share and restricted share unit awards are, in most instances, also forfeited by their terms if the recipient engages in certain behavior in competition with or contrary to the interests of the Company.

As discussed in more detail beginning on page 32 of this Proxy Statement, the Compensation Committee has approved significant changes to the Company s approach to long-term stock incentives for fiscal 2006. In light of the expected impact of the Financial Accounting Standards Board Statement No. 123 (revised 2004), Share-Based Payment, on the Company s compensation program and consistent with market trends and investor expectations regarding shareholder dilution, the Company is significantly reducing participation in its equity compensation program at the lower levels of the organization in fiscal 2006 and beyond. In addition, the annual equity grant will be made with a mix of stock options and restricted shares or restricted share units instead of relying exclusively on stock options. Although stock options will continue to be an important component of long-term compensation for employees, the effect of these changes is expected to significantly reduce the aggregate number of stock options granted each year.

Because the terms of the Equity Incentive Plan and Broadly-based Equity Incentive Plan expire in November 2005, in August 2005, the Board of Directors approved the 2005 Long-Term Incentive Plan, which is being submitted to the Company s shareholders for approval at this year s Annual Meeting. The terms of the new plan are described in Proposal 2 in this Proxy Statement. Because the long-term equity component of compensation is an important element of the Company s total compensation approach, the Compensation Committee believes that shareholder approval of the 2005 Long-Term Incentive Plan is critically important to the Company s ability to offer equity incentives that align the interests of Cardinal Health employees with shareowners for the long-term success of the Company.

CEO Compensation. The compensation of Mr. R. Walter is governed in part by an Amended and Restated Employment Agreement between the Company and Mr. R. Walter, dated as of February 1, 2004 (the Walter Employment Agreement) (see Employment Agreements and Other Arrangements below). The Walter Employment Agreement provides for an annual base salary of not less than $1,000,000. Mr. R. Walter s annual base salary is reviewed at the same time that the salaries of other executive officers of the Company are reviewed. The Compensation Committee awarded a 3.5% merit increase to Mr. R. Walter for fiscal 2005, which is the same percentage as that budgeted in the aggregate for all other employees of the Company during fiscal 2005.

The Walter Employment Agreement provides for a target cash incentive award amount of at least 250% of Mr. R. Walter s annual base salary. For fiscal 2005, Mr. R. Walter s target incentive award was 300%, and the Compensation Committee awarded Mr. R. Walter an annual cash incentive of 60% of the target award amount (or $1,922,287) for fiscal 2005. In determining Mr. R. Walter s actual cash incentive award for fiscal 2005, the Compensation Committee reviewed the overall Company financial results for fiscal 2005 against the primary corporate metrics in the annual cash incentive award program. The Compensation Committee also considered the facts and circumstances of fiscal 2005 regarding how various business issues were addressed to help position the Company for improved results in the future, and ultimately concluded that the average bonus as a percent of target that was recommended for the other executive officers for fiscal 2005 would also be the appropriate percent of target designated for Mr. R. Walter to receive for fiscal 2005. However, as discussed above, Mr. R. Walter indicated that it was his desire that his ultimate bonus to be awarded by the Compensation Committee be reduced by the Compensation Committee, with such reduced amount being used to provide an increased pool for the fiscal 2005 cash incentive awards of executive officers other than Mr. Fotiades and those executive officers who had fiscal 2005 bonus guarantees as part of their compensation arrangements with the Company. Therefore, the Compensation Committee approved a re-allocation of an aggregate of $336,436 from Mr. R. Walter s fiscal 2005 annual incentive award to eight other executive officers of the Company, which resulted in Mr. R. Walter receiving an annual cash incentive of 49.6% of his target award amount (or $1,585,851) for fiscal 2005. The amounts reflected in the Summary Compensation Table give effect to this re-allocation.

In August 2004, the Compensation Committee granted Mr. R. Walter an option to purchase 562,500 Common Shares with an exercise price of $44.15 per share (the market price on the date of grant) (the August 2004 Option) as part of the fiscal 2005 annual option grant made to Company executives under the Company s Equity

Incentive Plan, and in partial satisfaction of the Company s contractual obligation to Mr. R. Walter under the Walter Employment Agreement, which provides that Mr. R. Walter shall receive an annual stock option award with a value of no less than 3,000% of his annual base salary in terms of dollars at work. This option vests on the third anniversary of the grant date and has a term of 10 years. The option granted to Mr. R. Walter during the fiscal year also contains provisions for forfeiture of the option or option value received in the event Mr. R. Walter engages in certain behavior in competition with or contrary to the interests of the Company. In addition, in March 2005, the Compensation Committee granted Mr. R. Walter a deferred payment stock appreciation right (the March 2005 SAR) with respect to 142,483 shares in satisfaction of the Company s remaining contractual obligation under the Walter Employment Agreement with respect to fiscal 2005. Under the terms of the March 2005 SAR, upon exercise of the March 2005 SAR, Mr. R. Walter is entitled to receive cash in an amount equal to the aggregate fair market value per underlying Common Share on the date of exercise minus $44.15, subject to applicable tax withholding. The March 2005 SAR is to be paid to Mr. R. Walter upon the SAR grant expiration date, or August 23, 2014. The March 2005 SAR granted to Mr. R. Walter also contains provisions for forfeiture of the SAR or the SAR value received in the event Mr. R. Walter engages in certain behavior in competition with or contrary to the interests of the Company.

In its 2004 Proxy Statement, the Company disclosed that it had discovered in 2004 that a portion of an option to purchase 1,425,000 Common Shares (giving effect to stock splits occurring after the date of grant) that had been granted in November 1999 to Mr. R. Walter was in excess of that permitted to be granted to a single individual during any fiscal year under the Equity Incentive Plan. The maximum number of Common Shares as to which option awards could be granted pursuant to the terms of the Equity Incentive Plan was 562,500 Common Shares (although the Company would have been permitted at the time to make a larger grant outside of the Equity Incentive Plan).

In order to satisfy the original intent and understanding of the Company with respect to the 1999 option award and to remedy this error, after consulting with its outside compensation consultant, on August 2, 2005, the Compensation Committee approved a grant to Mr. R. Walter, in lieu of the portion of the 1999 option award in excess of the share limitation and in full satisfaction of any claims with respect to such portion, of a deferred payment stock appreciation right (the August 2005 SAR) with respect to 862,500 Common Shares. Upon exercise of the August 2005 SAR, Mr. R. Walter will become entitled to receive cash in an amount equal to the fair market value per underlying Common Share on the date of exercise minus $31.167, the original exercise price of the 1999 option award, multiplied by the number of Common Shares as to which the August 2005 SAR is being exercised. Consistent with the fact that the 1999 option award is fully vested, the August 2005 SAR is fully vested and has a term expiring on November 15, 2009, the expiration date of the 1999 option award (or, if earlier, on the six-month anniversary of Mr. R. Walter s termination of employment). In order to comply with Section 409A of the Code and to avoid potential loss to the Company of a tax deduction under Section 162(m) of the Code, any payment due to Mr. R. Walter will be deferred until six months following his termination of employment, and will be credited with interest from the date of exercise until the payment date.

Other Benefits and Perquisites. The Company s executive compensation program also includes other benefits and perquisites. These benefits include annual matching contributions to executive officers deferred compensation and 401(k) plan accounts, company-paid medical benefits and, in some cases, reimbursement for income taxes on taxable benefits. Perquisites for the Company s most senior executives also include an executive relocation program and the personal use of Company-owned aircraft. For security reasons, the Company s Board-approved policy requires the Chairman and Chief Executive Officer to use Company aircraft for personal travel. Executive officers are also covered under the Company s directors and officers liability insurance policy and have entered into indemnification agreements with the Company. For more detailed information regarding benefits and perquisites provided to our executive officers, please see the section of this Proxy Statement entitled Executive Compensation Summary Compensation Table.

Guidelines for Share Ownership. In an effort to directly link executive officers and Directors financial interests with those of shareholders, the Compensation Committee approved in February 2003 Guidelines for Share Ownership for executive officers and non-management Directors. The guidelines specify a dollar value of shares that executive officers and non-management Directors must accumulate and hold within three years of joining the Company or the Board, or by July 2006 for current executive officers and Directors. The specific share requirements for executive officers are based on a multiple of base salary ranging from three to five times base salary, with the higher multiples applicable to the Company s executive officers having the greatest level of responsibility. The specific share requirement for each non-management Director is four times his or her annual cash retainer.

Impact of Internal Revenue Code Section 162(m). As discussed above, Section 162(m) of the Code prohibits a deduction to any publicly held corporation for non-performance-based compensation paid to a covered employee in excess of the Dollar Limitation. It is the Compensation Committee s general policy to endeavor to minimize the effect of Section 162(m) on the Company s compensation expense. The Compensation Committee reserves the authority to award non-deductible compensation in such circumstances as it deems appropriate.

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

John B. McCoy, Chairman
John F. Havens
Richard C. Notebaert
Jean G. Spaulding

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Executive Compensation Tables

The following information is set forth with respect to the Company s Chief Executive Officer and each of the Company s four other most highly compensated executive officers at June 30, 2005.

Summary Compensation Table

		Annual Compensation			Long-Term Compensation Awards		
Name and Principal Position	**Fiscal Year**	**Salary ($)**	**Bonus ($)**	**Other Annual Compen-sation ($)(1)**	**Restricted Stock Awards ($)(2)**	**Securities Underlying Options/ SARs (#)**	**All Other Compensation ($)(3)**
Robert D. Walter	2005	$ 1,066,578	$ 1,585,851	$ 229,337(4)	$ 0	704,983	$ 32,132
Chairman and	2004	$ 1,037,500	$ 0	$ 178,265(4)	$ 0	507,086	$ 12,349
Chief Executive Officer	2003	$ 1,015,230	$ 2,112,135	$ 179,281(4)	$ 0	486,009	$ 36,473
George L. Fotiades	2005	$ 751,149	$ 683,839	$ 211,268(4)	$ 0	0	$ 36,132
President and	2004	$ 627,710	$ 0	$ 76,025(4)	$ 0	225,000	$ 11,278
Chief Operating Officer	2003	$ 532,121	$ 387,412		$ 0	250,000	$ 35,957
David L. Schlotterbeck Chairman and Chief Executive Officer Clinical Technologies and Services (5)	2005	$ 560,000	$ 539,269		$ 0	244,621	$ 22,200
Ronald K. Labrum Chairman and Chief	2005	$ 545,019	$ 392,861		$ 308,070(6)	105,000	$ 30,305
Executive	2004	$ 490,387	$ 0		$ 306,900(6)	85,280	$ 7,321
Officer Integrated Provider Solutions and Cardinal Health International	2003	$ 446,701	$ 247,562		$ 0	53,019	$ 29,512
Anthony J. Rucci	2005	$ 467,581	$ 303,375		$ 440,100(6)	85,000	$ 29,243
Executive Vice President and	2004	$ 445,800	$ 0		$ 0	57,021	$ 8,864
President of Strategic Corporate Resources	2003	$ 433,685	$ 279,068		$ 0	48,822	$ 34,061

(1) indicates that the aggregate amount of perquisites and other personal benefits, securities

or property in the aggregate did not exceed the lesser of $50,000 or 10% of the total of Salary and Bonus, and the executive had no other compensation reportable under this category.

(2) Aggregate restricted share unit holdings and values on June 30, 2005 (based upon the closing price of the Common Shares on the New York Stock Exchange on that date) for the named executive officers are as follows: Mr. R. Walter 264,644 shares, $15,238,202; Mr. Fotiades 26,362 shares, $1,517,924; Mr. Schlotterbeck 0 shares, $0; Mr. Labrum 12,000 shares, $690,960; and Mr. Rucci 35,620 shares, $2,051,000. Dividend equivalents are paid in cash on restricted share units.

(3) Amounts shown represent Company contributions to the executive s

account for fiscal 2005 under each of the Company s 401(k) Savings Plan and Deferred Compensation Plan, respectively, as follows: Mr. R. Walter $23,132 and $9,000; Mr. Fotiades $23,132 and $13,000; Mr. Schlotterbeck $16,200 and $6,000; Mr. Labrum $23,132 and $7,173; and Mr. Rucci $23,084 and $6,159.

(4) Amounts shown for Messrs. R. Walter and Fotiades include incremental cost to the Company relating to personal use by the executive of corporate aircraft for fiscal 2005, 2004 and 2003. The Company owns and operates its own aircraft to facilitate business travel of senior executives in as safe a manner as possible and with the best use of their time. Incremental cost is calculated based on variable operating cost, which for fiscal 2004 and 2005

includes fuel per flight hour, engine reserves per flight hour (engine reserves are an accrued expense for future maintenance on the aircraft engines), average repair and maintenance costs, travel expenses for flight crew and temporary pilot costs, and actual per flight hangar and parking ramp fees, landing

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fees, catering and miscellaneous handling charges. For fiscal 2003, variable operating cost includes the same costs detailed in the preceding sentence, except that average hangar and parking ramp fees, landing fees, catering and miscellaneous handling charges were utilized rather than actual per flight costs. Fixed costs, such as flight crew salaries, wages and other employment costs, employee seminars and training, depreciation, building/hangar rent, aircraft lease expense, utilities, general liability insurance and other insurance costs, are not included in the calculation of incremental cost, since these expenses are incurred by the Company regardless of the personal use of the corporate aircraft by the executives.

Amounts shown in this column for fiscal 2004 and 2003 for personal use of corporate aircraft differ from amounts previously reported due to a change in the manner in which the Company calculated incremental cost. In prior years, the cost of personal use of corporate aircraft had been calculated using the Standard Industrial Fare Level (SIFL) tables found in tax regulations. The Company has recalculated prior year amounts so that all amounts are reported on a consistent basis.

For Mr. R. Walter, the amounts include the incremental cost of personal use of corporate aircraft: $151,069 for fiscal 2005, $124,514 for fiscal 2004 and $127,489 for fiscal 2003. Amounts also include tax reimbursements due to income attributed to Mr. R. Walter arising out of personal use of corporate aircraft: $34,895 for fiscal 2005, $53,751 for fiscal 2004 and $51,792 for fiscal 2003. Mr. R. Walter is required by the Company to use corporate aircraft for all air travel.

For Mr. Fotiades, the amounts include the incremental cost of personal use of corporate aircraft: $139,963 in fiscal 2005 and $43,085 in fiscal 2004. Amounts also include tax reimbursements due to income attributed to Mr. Fotiades arising out of personal use of corporate aircraft: $12,714 in fiscal 2005 and $2,612 in fiscal 2004. Mr. Fotiades personal use of corporate aircraft primarily relates to relocation and commuting from his residence in New Jersey to the Company s corporate offices in Dublin, Ohio after his promotion to President and Chief Operating Officer in February 2004.

The amount in fiscal 2004 also includes $24,752 for an automobile allowance.

(5) Mr. Schlotterbeck became an executive officer of the Company on August 31, 2004.

(6) Includes restricted share units that vest as follows: Mr. Labrum for fiscal 2004: 5,000 shares vesting on November 17, 2006 and for fiscal 2005: 7,000 vesting on August 6, 2007; and Mr. Rucci for fiscal 2005: 10,000 shares vesting on August 6, 2007.

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Option/SAR Grants in Last Fiscal Year (1)

	Individual Grants					Potential Realizable Value at Assumed Annual Rates of Stock Price Appreciation for Option Term (5)	
Name	Number of Securities Underlying Options/ SARs Granted (#)(1)	Percent of Total Options/ SARs Granted to Employees in Fiscal Year (3)	Exercise Price ($/Sh)(4)	Expiration Date	0% ($)	5% ($)	10% ($)
Robert D. Walter	562,500	4.1%	$ 44.15	8/23/2014	$ 0.00	$ 15,618,205	$ 39,579,598
	142,483(2)	1.0%	$ 44.15	8/23/2014	$ 0.00	$ 3,956,140	$ 10,025,635
George L. Fotiades	0(6)	0%			$ 0.00		
David L. Schlotterbeck	244,621	1.8%	$ 44.15	8/23/2014	$ 0.00	$ 6,792,073	$ 17,212,446
Ronald K. Labrum	105,000	0.8%	$ 44.15	8/23/2014	$ 0.00	$ 2,915,398	$ 7,388,192
Anthony J. Rucci	85,000	0.6%	$ 44.15	8/23/2014	$ 0.00	$ 2,360,084	$ 5,980,917

(1) All options granted during the fiscal year to the named executive officers are nonqualified stock options granted under the Company s Equity Incentive Plan, are exercisable in full on and after the third anniversary from the date of grant, and have a term of 10 years.

(2) The SAR granted to Mr. R. Walter is exercisable in

full on or after August 23, 2007 and expires on August 23, 2014.

(3) Based on the aggregate of (i) the total number of options to purchase 13,623,001 Common Shares granted to all employees during fiscal 2005 under the Company s Equity Incentive Plan and Broadly-based Equity Incentive Plan and (ii) the total number of SARs granted during fiscal 2005 (representing 142,483 SARs granted to Mr R. Walter).

(4) Market price on date of grant, except in the case of Mr. R. Walter s SAR grant, which such exercise price was established to be consistent with that of the August 2004 Option (see Human Resources and Executive Compensation Committee

Report above).

(5) These amounts are based on hypothetical annual appreciation rates of 0%, 5% and 10% over the full term of the applicable option and are not intended to forecast the actual future appreciation of the Company s stock price. No gain to optionees is possible without an actual increase in the price of the Company s Common Shares, which benefits all of the Company s shareholders.

(6) Pursuant to his Employment Agreement, on February 1, 2004, Mr. Fotiades received an option to purchase 225,000 Common Shares and is eligible for future stock option awards beginning in fiscal 2006 (see Employment Agreements and Other Arrangements

below).

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Aggregated Option/SAR Exercises in Last Fiscal Year and FY-End Option/SAR Values

Name	Shares Acquired on Exercise (#)	Value Realized ($)(1)	Number of Securities Underlying Unexercised Options/SARs at FY-End (#)		Value of Unexercised In-the-Money Options/SARs at FY-End ($)(2)	
			Exercisable	Unexercisable	Exercisable	Unexercisable
Robert D. Walter	136,115	$ 5,054,358	1,488,402	2,138,607	$ 28,767,777	$ 9,467,922
George L. Fotiades	222,870	$ 4,998,330	279,773	475,000	$ 2,973,568	$ 0
David L. Schlotterbeck	97,977	$ 4,513,435	-0-	244,621	$ 0	$ 3,285,260
Ronald K. Labrum	94,620	$ 4,435,786	199,068	243,299	$ 4,325,985	$ 1,410,150
Anthony J. Rucci	-0-	$ 0	184,207	190,843	$ 2,398,271	$ 1,141,550

(1) Value calculated as the amount by which the fair market value of the Common Shares on the date of exercise exceeds the option exercise price before payment of any taxes.

(2) Value calculated as the amount by which the market value of the Common Shares, based upon the closing price per Common Share of $57.58 on June 30, 2005, exceeds the option exercise price.

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Shareholder Performance Graph

The following line graph compares the cumulative total return of the Company s Common Shares with the cumulative total return of the Standard & Poor s Composite 500 Stock Index and the Value Line Health Care Sector Index, an independently prepared index which includes more than 100 companies in the health care industry (the Value Line Health Care Index or Peer Group). The graph assumes, in each case, an initial investment of $100 on June 30, 2000 based on the market prices at the end of each fiscal year through and including June 30, 2005, with the Value Line Health Care Index investment weighted on the basis of market capitalization at the beginning of each such fiscal year, and assuming reinvestment of dividends (and taking into account all stock splits during such periods).

June 30,	2000	2001	2002	2003	2004	2005
Cardinal Health, Inc.	100	140.40	125.14	131.26	143.26	114.32
S&P 500	100	84.18	68.05	66.99	78.43	81.16
Value Line Health Care Index	100	95.32	81.85	87.35	94.35	91.21

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Employment Agreements and Other Arrangements

During fiscal 2005, the Company was a party to employment agreements with Mr. R. Walter, Mr. Fotiades (the Fotiades Agreement), and Mr. Labrum (the Labrum Agreement), and the Company s subsidiary, ALARIS Medical Systems, Inc. (Alaris), entered into a retention agreement with Mr. Schlotterbeck (the Schlotterbeck Agreement). Messrs. R. Walter, Fotiades, Labrum and Schlotterbeck agreed in their respective agreements to comply with certain non-compete (except in the case of Mr. Schlotterbeck) and non-solicitation covenants during the term of their employment and generally for a period ranging from one to two years thereafter. In addition, Messrs. R. Walter, Fotiades, Labrum and Schlotterbeck are obligated to keep the Company s proprietary information and trade secrets confidential.

The Company and Mr. R. Walter entered into an amended and restated employment agreement as of February 1, 2004 (the Walter Agreement), replacing the employment agreement dated November 20, 2001 (the Initial Walter Agreement) between the Company and Mr. R. Walter. Under the Walter Agreement, the Company agrees to employ Mr. R. Walter as Chairman and Chief Executive Officer until February 1, 2007. However, commencing on February 1, 2006, the term is extended each day by one day to create a new one year term until, at any time at or after such date, either party provides written notice of termination to be effective one year from the notice date.

The Walter Agreement provides for an annual base salary of not less than $1,000,000, which will be reviewed at the time that the salaries of all the Company s executive officers are reviewed, and eligibility for an annual cash bonus target of at least 250% of his annual base salary. The Walter Agreement further provides for equity and non-equity awards under the Company s long-term incentive compensation plans consistent with past practice and competitive pay practices, including an annual stock option award with a value of no less than 3,000% of annual base salary in terms of dollars at work. The Initial Walter Agreement provided Mr. R. Walter with 150,000 deferrable restricted share units effective November 20, 2001. The Walter Agreement, as revised in fiscal 2004, extended the vesting date of those restricted share units from June 30, 2004 to January 15, 2006 and the vesting date of certain options from November 19, 2004 to January 15, 2006.

Under the Walter Agreement, if the Company terminates Mr. R. Walter s employment other than for cause, death or disability, or if Mr. R. Walter terminates his own employment for good reason, then he is paid: (i) any earned but unpaid salary; (ii) a prorated portion of his recent average bonus (based on the average bonus earned in the three previous fiscal years, but not less than his annual target bonus); and (iii) two times the sum of his annual salary then in effect and recent average bonus (or three times such sum if a change of control has occurred within the last three years). If Mr. R. Walter s employment is terminated by death or disability, then he is paid: (i) any earned but unpaid salary; and (ii) a prorated portion of his recent average bonus. If Mr. R. Walter s employment is terminated for any reason other than for cause, voluntary resignation without good reason, disability or retirement, any stock options, restricted shares and restricted share units held by Mr. R. Walter vest immediately and are exercisable until the end of the applicable term of such award. Mr. R. Walter will be treated as a consulting employee and his outstanding awards will continue to vest in accordance with their terms if Mr. R. Walter s employment is terminated by disability or retirement and the award agreement does not provide for immediate vesting, provided that Mr. R. Walter enters into an agreement with the Company to continue as a consulting employee until the third anniversary of the date on which his employment ceased. If the Company terminates Mr. R. Walter s employment for cause or if Mr. R. Walter terminates his own employment without good reason, then he is paid any earned but unpaid salary but no portion of his bonus. If Mr. R. Walter s employment is terminated for any reason other than for cause or voluntary resignation, to the extent not already provided or paid, he will also receive any other benefits to which he is entitled pursuant to existing Company programs and plans. If any payments made to Mr. R. Walter would be subject to the excise tax imposed on parachute payments by the Code, under the Walter Agreement, the Company will gross-up Mr. R. Walter s 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 Fotiades Agreement was amended and restated in February 2004 to replace the employment agreement previously in place between the Company and Mr. Fotiades and was further amended in February 2005. Under the Fotiades Agreement, the Company agrees to employ Mr. Fotiades as President and Chief Operating Officer for three years commencing on February 1, 2004. The Fotiades Agreement provides for an annual base salary of not less than

$790,000 and an annual bonus target equal to 140% of annual base salary under the terms of the bonus plan for which Mr. Fotiades was eligible. The Fotiades Agreement further provided for an initial stock option grant of

225,000 shares on February 1, 2004 (the 2004 Option), eligibility for annual stock option grants beginning in fiscal year 2006 and relocation benefits.

Under the Fotiades Agreement, if the Company terminates Mr. Fotiades employment without cause before February 1, 2009, if Mr. Fotiades employment is terminated within one year after a change of control (other than because of death, incapacity, retirement or for cause) or if he terminates his employment within one year after a change of control that leads to a qualifying material diminution of his duties, then he receives: (i) two times the sum of his salary in effect on the day immediately prior to termination and his annual bonus target; (ii) any vested benefits required to be paid or provided by law; and (iii) all benefits provided in the 2004 Option agreement and a November 18, 2002 option agreement. If Mr. Fotiades terminates his employment or if his employment is terminated by incapacity, death, retirement or for cause, then he receives: (i) any earned but unpaid salary; (ii) benefits under any long-term disability insurance coverage (in the event of termination due to incapacity); (iii) any vested benefits required to be paid or provided by law; and (iv) any benefits provided for under his then-outstanding equity incentive awards.

The Schlotterbeck Agreement was entered into in August 2004 by Alaris following the Company s acquisition of Alaris in July 2004. The change in control agreement between Mr. Schlotterbeck and Alaris in effect prior to the acquisition was replaced by the Schlotterbeck Agreement. In connection with entering into the Schlotterbeck Agreement, Mr. Schlotterbeck signed a release and waiver of all claims arising in connection with his employment by Alaris prior to the date of the agreement.

Under the Schlotterbeck Agreement, if Mr. Schlotterbeck remains employed by Alaris, the Company or one of the Company s affiliates through June 28, 2006 (the Target Date), he will be paid a retention bonus (the Retention Bonus) in an amount equal to the greater of (a) $2,172,000, or (b) the sum of (i) 200% of his annual base salary effective as of the Target Date, and (ii) 200% of his target bonus for the fiscal year ending June 30, 2006.

If, prior to the Target Date, Alaris terminates Mr. Schlotterbeck s employment without cause or due to disability, or Mr. Schlotterbeck terminates his own employment for good reason or his employment is terminated due to his death, Mr. Schlotterbeck will be paid: (i) the Retention Bonus; (ii) any earned but unpaid salary plus all other amounts to which he is entitled under any compensation plan of Alaris at the time such payments are due; (iii) a lump sum cash bonus equal to his annual base salary then in effect; (iv) outplacement services for up to nine months following termination; (v) medical benefits coverage at the same level that would have been provided to Mr. Schlotterbeck and his family if his employment with Alaris had continued for a period ending on the earlier of 24 months from the date of termination or the date on which Mr. Schlotterbeck becomes eligible to participate in another group health plan; and (vi) to the extent permitted under applicable law, full vesting of any accrued benefits under any pension, profit-sharing, deferred compensation or supplemental plans maintained by Alaris (collectively, the Termination Benefits). If, prior to the Target Date, the Company terminates Mr. Schlotterbeck s employment for cause or if Mr. Schlotterbeck terminates his own employment without good reason, then he will not receive the Termination Benefits, but will be paid any earned but unpaid salary plus all other amounts to which he is entitled under any compensation plan of Alaris at the time such payments are due. In addition, if at any time after the Target Date Mr. Schlotterbeck voluntarily terminates his employment, he will receive a one-time payment equal to his annual base salary in effect on the date prior to termination of his employment (or notice thereof, if applicable).

In the event that any payments made to Mr. Schlotterbeck would be subject to the excise tax imposed on parachute payments by the Code, under the Schlotterbeck Agreement, the amount payable to Mr. Schlotterbeck will be reduced to the extent necessary to prevent any portion of the payments from being subject to the excise tax that would otherwise be imposed under the Code, but only if, by reason of such reduction, the net after tax benefit (after taking into account all federal, state, local and foreign income, employment and excise taxes) to Mr. Schlotterbeck would exceed the net after tax benefit to Mr. Schlotterbeck if no such reduction occurred.

The Labrum Agreement was also amended and restated in February 2004 to replace the employment agreement previously in place between the Company and Mr. Labrum. Under the Labrum Agreement, the Company agrees to employ Mr. Labrum as Executive Vice President and Group President Medical Products and Services for three years commencing on November 5, 2003. The Labrum Agreement provides for an annual base salary of not less than $480,000 and an annual bonus target equal to 90%, which the Compensation Committee subsequently set at 100% of annual base salary payable under the terms of the bonus plan for which Mr. Labrum is eligible. The Labrum Agreement further provided for a stock option grant of 25,000 shares (the FY2004 Option) and a grant of 5,000 restricted share units as of November 17, 2003.

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Under the Labrum Agreement, if the Company terminates Mr. Labrum s employment without cause, if Mr. Labrum s employment is terminated within one year after a change of control (other than because of death, incapacity or for cause) or if he terminates his employment within one year after a change of control that leads to a material diminution of his duties, then he receives: (i) the sum of his salary in effect on the day immediately prior to termination and his annual bonus target; (ii) any vested benefits required to be paid or provided in law; and (iii) all benefits provided for under the FY2004 Option. If Mr. Labrum terminates his employment or if his employment is terminated by incapacity, death or for cause, then he receives: (i) any earned but unpaid salary; (ii) benefits under any long-term disability insurance coverage (in the event of termination due to incapacity); (iii) any vested benefits required to be paid or provided in law; and (iv) any benefits provided for under the FY2004 Option.

The Company s Equity Incentive Plan, under which awards are granted to the Company s executive officers, provides for acceleration of the vesting of stock options, restricted share awards and restricted share unit awards based upon the occurrence of a change of control of the Company. In addition, in the event that the employment of an option holder is terminated within two years after a change of control for any reason other than because of the option holder s death, retirement, disability or by the Company for cause, then all stock options held by such person that are vested immediately before such termination remain exercisable until the earlier of the third anniversary of such termination or the expiration of their original term. Under the Equity Incentive Plan, change of control is defined as (i) the acquisition by any entity of beneficial ownership of 25% or more of either the then outstanding Common Shares or the combined voting power of the then outstanding voting securities of the Company (other than any acquisition directly from or by the Company or any of its affiliates or employee benefit plans and any Non-Control Acquisition (defined below)), (ii) a change in a majority of the members of the Company s Board of Directors, other than Directors approved by a vote of at least a majority of the incumbent directors (other than any director whose initial assumption of office resulted from a threatened election or proxy contest); (iii) a reorganization, merger or consolidation or other sale of all or substantially all of the assets of the Company or the acquisition by the Company of assets or shares of another corporation, unless such transaction is a Non-Control Acquisition; or (iv) approval by the Company s shareholders of a complete liquidation or dissolution. A Non-Control Acquisition means a transaction where: (x) the beneficial owners of the outstanding Common Shares and voting securities immediately prior to such transaction beneficially own more than 50% of the then outstanding common stock and combined voting power of the then outstanding voting securities entitled to vote generally in the election of directors of the resulting corporation in substantially the same proportions as their ownership immediately prior to such transaction, (y) no person beneficially owns 25% or more of the then outstanding common stock or combined voting power of the resulting corporation (unless such ownership existed prior to the transaction) and (z) at least a majority of the Board continues in office following the transaction.

Pension Plan

Mr. Fotiades participates in the R.P. Scherer Corporation Employees Retirement Income Plan, a defined benefit plan, and the Supplemental Benefit Plan for Key Employees of R.P. Scherer Corporation, a supplemental plan (collectively, the Pension Plans), which were assumed by the Company when it acquired R. P. Scherer Corporation in 1998.

Benefits payable under the Pension Plans at retirement are determined primarily by average final compensation and years of service. The compensation covered by the Pension Plans for Mr. Fotiades is substantially the same as that set forth in the Salary and Bonus columns of the Summary Compensation Table set forth on page 20 of this Proxy Statement. The defined benefit plan was frozen as of December 31, 2002, and the supplemental plan was frozen as of December 31, 2001. No additional benefits will be earned and no compensation or credited service will be considered beyond these dates. Mr. Fotiades has 6.5 years of service credited under the defined benefit plan and 5.5 years of service credited under the supplemental plan.

The annual amount payable to Mr. Fotiades upon retirement is $20,645. The benefits are payable as a straight-life annuity beginning at age 65. These benefits are not subject to any deduction for Social Security or any other offset amounts.

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Compensation of Directors

During fiscal 2005, the Company s non-management Directors were compensated as follows:

each non-management Director received an annual retainer of $40,000;

the Audit Committee chairperson received an additional annual retainer of $15,000;

the Human Resources and Compensation Committee chairperson received an additional annual retainer of $8,000;

the Nominating and Governance Committee chairperson received an additional annual retainer of $6,000;

each Director who served on the Audit Committee received an additional annual retainer of $2,000; and

the Company s non-management Presiding Director, currently Mr. McCoy, received an additional annual retainer of $10,000.

In addition, on December 8, 2004, the Company s non-management Directors (Messrs. Bing, Conrades, Finn, Gerbig, Havens, McCoy, Notebaert, O Halleran, Raisbeck and M. Walter and Dr. Spaulding) each were granted an option to purchase 5,535 Common Shares (having an aggregate exercise price of $300,000) in accordance with the provisions of the Equity Incentive Plan and the Outside Directors Equity Incentive Plan. The exercise price per share of these options was the fair market value of a Common Share on the date of grant. The actual value of the options will be the difference between the exercise price market value of the underlying Common Shares on the exercise date and the exercise price. All grants vest immediately and are exercisable for 10 years from the date of grant. Options granted to Directors are nonqualified options under the Code. Mr. R. Walter did not receive any of the compensation described in this paragraph. During fiscal 2005, due to his service as Chief Financial Officer on an interim basis from July 2004 until May 2005, Mr. Losh did not receive any of the compensation described in this paragraph.

Effective November 2, 2005, the Company s non-management Directors will be compensated as follows:

each non-management Director will receive an annual retainer of $70,000;

the Audit Committee chairperson will receive an additional annual retainer of $15,000;

the Human Resources and Compensation Committee chairperson will receive an additional annual retainer of $8,000;

the Nominating and Governance Committee chairperson will receive an additional annual retainer of $6,000;

each Director who serves on the Audit Committee will receive an additional annual retainer of $2,000;

the Company s non-management Presiding Director, currently Mr. McCoy, will receive an additional annual retainer of $15,000;

for each meeting attended in a fiscal year (each, an excess meeting) after the Director has attended a number of meetings equal to the number of regular quarterly board meetings and regular committee meetings associated with regular quarterly board meetings plus two, each Director will receive a special meeting fee of $1,500 for a full day and $750 for a half day or less, up to a maximum of $25,000 in any fiscal year (an excess meeting includes meetings attended by a non-committee member at the request of a committee chair, but excludes written actions); and

when a committee is formed to address a specific issue, the Board will determine an annual retainer to be paid to the committee members based upon the effort required, up to a maximum of $25,000 per project.

Also effective November 2, 2005, each Director will receive an annual equity award grant equal to $120,000 in present value, and delivered 70% (or approximately $84,000 in present value) in an option to purchase the Company s Common Shares and 30% (or up to approximately $36,000 in present value) in restricted share units. Also effective November 2, 2005, upon initially being appointed or elected to the Board, each Director will receive an equity award grant equal to $120,000 in present value, and delivered 70% (or approximately $84,000 in present value) in an option to purchase the Company s Common Shares and 30% (or up to approximately $36,000 in present value) in restricted share units. Both the option and restricted share unit grants to Directors will generally vest in full on the first anniversary of the grant date. Options will be granted with an exercise price equal to the market price of

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a Common Share on the date of grant and are generally exercisable for seven years from the date of grant. Restricted share units will generally be settled in shares. The option and restricted share unit awards described in this paragraph will be made pursuant to the Company s Equity Incentive Plan (until it expires in November 2005) and the Amended and Restated Outside Directors Equity Incentive Plan.

In addition, Directors may receive additional compensation for the performance of duties assigned by the Board or its committees that are considered beyond the scope of the ordinary responsibilities of Directors or committee members. Directors may elect to defer payment of their fees into the Company s Deferred Compensation Plan, one of the investment alternatives for which is a Company Common Shares Fund. The Company also provides transportation or reimburses Directors for out-of-pocket travel expenses incurred in connection with attendance at Board and committee meetings.

During fiscal 2005, the Company was a party to an employment agreement with Mr. Losh (the Losh Agreement), pursuant to which it agreed to employ Mr. Losh as Chief Financial Officer on an interim basis for one year commencing on July 26, 2004. As compensation for the services rendered thereunder, Mr. Losh received an option to purchase 210,000 shares at an exercise price of $44.00 per share, the closing price of the Common Shares on July 27, 2004. The option becomes exercisable in full on July 27, 2007. Mr. Losh was also eligible to receive reimbursement for reasonable expenses incurred by Mr. Losh during his employment (including travel and living expenses) in accordance with policies, practices and procedures of the Company applicable to Mr. Losh. Mr. Losh was also eligible to use the Company s aircraft in accordance with the policies applicable to other officers of the Company, and during his employment, commuted to the Company s offices on the Company s aircraft. Mr. Losh s service as the Company s Chief Financial Officer on an interim basis terminated on May 15, 2005.

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EQUITY COMPENSATION PLAN INFORMATION

Certain of the Company s equity compensation plans are subject to shareholder approval and other plans have been authorized solely by the Board of Directors. The following is a description of the Company s plans that have not been approved by shareholders.

Broadly-based Equity Incentive Plan, as amended

The Company s Broadly-based Equity Incentive Plan was adopted by the Board of Directors effective November 15, 1999 and amended pursuant to resolutions of the Board of Directors adopted on August 8, 2001. The plan provides for grants in the form of nonqualified stock options, restricted shares and restricted share units to employees of the Company. The aggregate number of Common Shares authorized for issuance pursuant to the plan is 36 million with no more than 10% of the authorized amount issuable in the form of restricted shares and restricted share units having a restriction period of less than three years. The plan is not intended to qualify under Section 401(a) of the Code and is not subject to any of the provisions of the Employee Retirement Income Security Act (ERISA).

Amended and Restated Outside Directors Equity Incentive Plan

The Company s Amended and Restated Outside Directors Equity Incentive Plan (the Outside Directors Equity Incentive Plan) was adopted by the Board of Directors effective May 10, 2000 and amended and restated pursuant to resolutions of the Board of Directors adopted on August 3, 2005. The plan provides for grants in the form of nonqualified stock options, restricted shares and restricted share units to members of the Board of Directors who are not employees of the Company. The aggregate number of Common Shares authorized for issuance pursuant to the plan is 1.5 million. The plan is not intended to qualify under Section 401(a) of the Code and is not subject to any of the provisions of ERISA.

Deferred Compensation Plan, as amended and restated

The Company s Deferred Compensation Plan, as amended and restated effective January 1, 2005 (the Deferred Compensation Plan), was adopted by the Board of Directors effective April 7, 1994. On December 8, 2004, the Deferred Compensation Plan was amended and restated effective January 1, 2005 to reflect the consolidation of the Company s Directors Deferred Compensation Plan, as amended and restated, with and into the Deferred Compensation Plan for Company executives and to address changes required of nonqualified deferred compensation plans by new Section 409A of the Code, enacted as part of the American Jobs Creation Act of 2004. The plan permits certain management employees of the Company to defer salary and bonus into any of several investment alternatives, including a stock equivalent account. In addition, the Company may, in its discretion, make additional matching or fixed contributions to the deferred balances of participating management employees. The plan also permits Directors of the Company to defer board fees into any of several investment alternatives, including a stock equivalent account. Deferrals into the stock equivalent account are valued as if each deferral were invested in the Company s Common Shares as of the deferral date.

For management employees, deferred balances are paid upon retirement, termination from employment, death or disability. For Directors, deferred balances are paid upon retirement or other termination from board service, death or disability. The maximum aggregate number of Common Shares that can be credited to stock equivalent accounts pursuant to the plan is 2.3 million. Deferred balances are paid in cash, or in Common Shares in kind, with any fractional shares paid in cash. The plan contains a dividend reinvestment feature for the stock equivalent account with dividends generally being reinvested in investment options other than the stock equivalent account for reporting persons under Section 16 of the Exchange Act. The plan is not intended to qualify under Section 401(a) of the Code and is exempt from many of the provisions of ERISA as a top hat plan for a select group of management or highly compensated employees.

Global Employee Stock Purchase Plan, as amended

The Company s Global Employee Stock Purchase Plan, as amended (the Global Employee Stock Purchase Plan), was adopted by the Board of Directors effective August 11, 1999 and amended by action of the Plan Administrator on April 7, 2005. The plan permits certain international employees to purchase Common Shares through payroll deductions. The total number of Common Shares made available for purchase under the plan is 4.5

million. International employees who have been employed by the Company for at least 30 days may be eligible to contribute from 1% to 15% of eligible compensation. The purchase price is determined by the lower of 85% of the closing market price on the first day of the offering period or 85% of the closing market price on the last day of the offering period. During any given calendar year, there are two offering periods: January 1 June 30; and July 1 December 31. The plan is not intended to qualify under Section 401(a) of the Code and is not subject to any of the provisions of ERISA.

The following table summarizes information relating to the Company s equity compensation plans at June 30, 2005:

Plan Category	Number of Common Shares to be Issued Upon Exercise of Outstanding Options (in millions) (a)	Weighted-Average Exercise Price of Outstanding Options (b)	Number of Common Shares Remaining Available for Future Issuance Under Equity Compensation Plans (excluding Common Shares reflected in column (a)) (in millions) (c)
Plans approved by shareholders (1)	14.3 (2)	$51.18 (2)	21.9 (3)
Plans not approved by shareholders	29.9 (4)	$56.61 (4)	11.2 (5)
Plans acquired through acquisition (6)	4.1 (6)	$34.44	
Balance at June 30, 2005	48.3	$53.16	33.1

(1) Under the Equity Incentive Plan, which was approved by the Company s shareholders in November 1995, the total number of Common Shares available for grant of awards under the plan is an amount equal to the sum of (a) 1.5% of the total outstanding Common Shares as of the last day

of the Company s immediately preceding fiscal year, plus (b) the number of Common Shares available for grant under the plan as of November 23, 1998, plus (c) any Common Shares related to awards that expire or are unexercised, forfeited, terminated, cancelled, settled in such a manner that all or some of the Common Shares covered by an award are not issued to a participant, or returned to the Company in payment of the exercise price or tax withholding obligations in connection with outstanding awards, plus (d) any unused portion of the Common Shares available under clause (a) above for the previous two fiscal years as a result of not being used in such previous two fiscal years.

(2) In addition to stock options outstanding under the Equity Incentive Plan, also includes

468,963 restricted share units outstanding under the Equity Incentive Plan that are payable solely in Common Shares. Restricted share units do not have an exercise price, and therefore were not included for purposes of computing the weighted-average exercise price.

(3) Includes approximately 18.5 million Common Shares remaining available for future issuance under the Equity Incentive Plan in the form of option, restricted share, restricted share unit, performance share, performance share unit and incentive compensation restricted share awards. Also includes approximately 3.4 million Common Shares remaining available for future issuance under the Company s Employee Stock Purchase Plan.

(4)

In addition to stock options outstanding under the Broadly-based Equity Incentive Plan and Outside Director Equity Incentive Plan, also includes 24,250 restricted share units outstanding under the Broadly-based Equity Incentive Plan that are payable solely in Common Shares. Also includes 43,740 Common Share units outstanding under the Deferred Compensation Plan that are payable solely in Common Shares. These awards do not have an exercise price, and therefore were not included for purposes of computing the weighted-average exercise price.

(5) Includes: approximately 3.2 million Common Shares remaining available for future issuance under the Broadly-based Equity Incentive Plan in the form of option, restricted share or restricted share unit awards;

approximately
1.4 million
Common Shares
remaining
available for
future issuance
under the Outside
Director Equity
Incentive

Plan in the form of option or restricted share awards; approximately 2.3 million Common Shares remaining available for future issuance under the Deferred Compensation Plan; and approximately 4.3 million Common Shares remaining available for future issuance under the Global Employee Stock Purchase Plan.

(6) Includes options to purchase approximately 1.4 million Common Shares in the aggregate that were assumed by the Company in connection with acquisitions that were approved by the Company s shareholders. The remaining options to purchase approximately 2.7 million Common Shares in the aggregate were assumed by the Company

in connection with acquisitions that were not approved by the Company s shareholders**.**

AUDIT COMMITTEE REPORT

The Audit Committee currently consists of six members of the Company s Board of Directors, each of whom the Board of Directors has determined is independent, as defined by the rules of the New York Stock Exchange. The Audit Committee s activities are governed by a written charter, which specifies the scope of the committee s responsibilities and how it carries out those responsibilities. A copy of the charter, approved in its current form by the Audit Committee in November 2004 and subsequently ratified by the Board, is attached to this Proxy Statement as Appendix A.

The Audit Committee has reviewed and discussed the audited financial statements for fiscal 2005 (the Fiscal 2005 Audited Financial Statements) with Company management and with Ernst & Young LLP (Ernst & Young), the Company s 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 the Company. The Audit Committee also has considered whether the provision of non-audit services to the Company 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 of Directors that the Fiscal 2005 Audited Financial Statements be included in the Company s Annual Report on Form 10-K for the fiscal year ended June 30, 2005 filed with the SEC. In making such recommendation, the Audit Committee took into account those matters considered as part of its internal review commenced in April 2004 that is ongoing, which is described in Notes 1 and 2 to the Consolidated Financial Statements included in the Company s Annual Report on Form 10-K for the fiscal year ended June 30, 2005.

Submitted by the Audit Committee of the Board of Directors.

John F. Finn, Chairman
Dave Bing
George H. Conrades
Robert L. Gerbig
Michael D. O Halleran
David W. Raisbeck

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INDEPENDENT ACCOUNTANTS

Fees

*Audit Fees***.** Audit fees include fees paid by the Company to Ernst & Young related to the annual audit of the Company s consolidated financial statements, the audit effectiveness of the Company s internal control over financial reporting for fiscal 2005, the review of financial statements included in the Company s Quarterly Reports on Form 10-Q, statutory audits of various international subsidiaries, and additional audit procedures primarily for fiscal 2004 as a result of the Audit Committee s internal review commenced in April 2004. 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 the Company s independent accountant, such as comfort letters and consents related to SEC registration statements. The aggregate fees billed to the Company by Ernst & Young for audit services rendered to the Company and its subsidiaries for fiscal 2004 and fiscal 2005 totaled $8,015,584 and $10,603,000, respectively.

Audit-Related Fees. Audit-related services include due diligence services related to mergers and acquisitions, audit-related research and assistance, document production and employee benefit plan audits. The aggregate fees billed to the Company by Ernst & Young for audit-related services rendered to the Company and its subsidiaries for fiscal 2004 and fiscal 2005 totaled $2,927,687 and $544,074, respectively.

Tax Fees. Tax fees include tax compliance and other tax-related services. The aggregate fees billed to the Company by Ernst & Young for tax services rendered to the Company and its subsidiaries for fiscal 2004 and fiscal 2005 totaled $2,053,411 and $1,891,121, respectively.

All Other Fees. The aggregate fees billed to the Company by Ernst & Young for all other services rendered to the Company and its subsidiaries for fiscal 2004 and fiscal 2005 totaled $289,986 and $272,220, 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 the Company. 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 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 Policy, certain proposed services may be pre-approved on a periodic basis so long as the services do not exceed certain pre-determined cost levels. If not pre-approved on a periodic basis, proposed services must be separately pre-approved prior to being performed by the independent accountants. 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.

In adopting the 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