

Distribution

Franchising

Automation

Packaging

Management

Information



Creative Solutions In Pharmacy Evolution



Cardinal Health is one of the leading pharmaceutical service providers in the United States. The company has pursued a pharmacy-focused growth strategy that has resulted in the establishment of innovative service offerings in pharmaceutical distribution, retail pharmacy franchising, automated pharmaceutical and supply dispensing system manufacturing, hospital pharmacy management, and pharmaceutical packaging and repackaging. The company is uniquely positioned to offer healthcare providers and pharmaceutical manufacturers creative pharmacy solutions in today's complex healthcare environment.

Founded in 1971 as a food wholesaler, Cardinal Health first entered the pharmaceutical distribution business in 1979 with the acquisition of a small drug distributor in Central Ohio. In 1988, the company divested its food operations in order to focus exclusively on pharmaceutical distribution. From that time, the company's revenues have grown more than twentyfold from just over \$500 million to \$11 billion today. Since its initial public offering in 1983, Cardinal has completed 17 acquisitions which have enabled the company to expand its operations nationwide and augment its portfolio of complementary pharmaceutical services.

Cardinal Health employs approximately 11,000 associates worldwide. The company actively promotes an ownership mentality among its employees and directors to maximize their focus on creating long-term value for shareholders. Cardinal's ten-year average annual total return to investors of 31.5% as of December 31, 1996 was the 16th best of all Fortune 500 companies.

	1997	1996	1995
Summary of Operations			
Net Revenues	\$10,968,042	\$9,246,420	\$8,342,517
Merger-Related Costs	(56,963)	(67,250)	—
Operating Earnings (1)	334,378	226,544	255,843
Net Earnings (1)	181,119	117,634	142,515
Balance Sheet			
Working Capital	1,094,974	924,414	802,719
Total Assets	3,108,546	2,825,175	2,264,726
Long-Term Obligations	277,766	265,146	240,469
Shareholders' Equity	1,332,200	1,035,838	817,038
Performance Ratios			
Operating Earnings (1)	3.05%	2.45%	3.07%
Return on Average Equity (1)	15.20%	12.80%	19.60%
Per Share Results			
Fully Diluted Net Earnings (1)	\$1.66	\$1.14	\$1.40
Dividends Declared	\$0.095	\$0.08	\$0.08
Weighted Average Shares Outstanding (Number)			
Fully Diluted	109,172	103,832	101,756

In thousands, except percentages and per share amounts.

See Note 1 of "Notes to Consolidated Financial Statements" regarding "Basis of Presentation."

(1) Merger-related costs have been recorded in connection with various business combinations, the impact of which is included in the amounts summarized above. See "Management's Discussion and Analysis of Financial Condition and Results of Operations" and Note 2 of "Notes to Consolidated Financial Statements" for further analysis of merger-related costs.

Some of the information in this Report includes "forward-looking statements" which are subject to uncertainties that could cause actual results to differ materially from those projected or implied. The most significant of such uncertainties are described in Cardinal's Forms 10-K and 10-Q and exhibits to those Forms filed with the Securities and Exchange Commission.

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Robert D. Walter
Chairman and Chief Executive Officer

By any measure, Cardinal Health enjoyed one of the most successful years in its history during 1997.

Your company achieved record revenues and earnings, and

*continued its pattern of generating improved returns on sales and capital employed. **Nearly all of the company's operating divisions experienced growth in operating earnings in excess of 20% for the year, which is our minimum goal.** In addition, Cardinal completed two mergers that further broadened our base of pharmaceutical-related service offerings for customers, resulting in additional differentiation from our distribution-only competitors.*

I am very pleased with the company's financial results during fiscal 1997. Net income rose 54% to \$181.1 million, and earnings per share were up 46% to \$1.66. Contributing to this strong earnings performance was solid revenue growth complemented by relatively stable gross margins and significant gains in productivity. The company increased revenues 19% during 1997, with a gross margin of 8.25% of revenues in fiscal 1997 versus 8.36% in the prior year. The company's principal operating units achieved lower selling, general, and administrative expenses as a percent of revenues during the year while continuing to invest significantly in new programs and initiatives. These factors combined to drive operating earnings as a percent of revenues up 48% to 3.05% in fiscal 1997 from 2.45% last year. Return on average shareholders' equity rose to 15.2% for the twelve months ended June 30, 1997 from 12.8% reported in 1996.

Many of our key financial measures are impacted by the recording of merger-related costs associated with business combinations. We believe it is important to look not only at reported results, but also to recognize the impact of these merger-related costs for a complete understanding of the company's financial results. Exclusive of these charges in fiscal 1996 and 1997, our net income increased 34%, and fully diluted earnings per share rose 27% for the fiscal year. Operating earnings

increased 33% to 3.57% of revenues in 1997 from 3.18% in the prior year. Return on average shareholders' equity improved to 18.4% in fiscal 1997 from 17.8% in the prior year.

Cardinal Health's strategic focus continues to emphasize pharmaceuticals. *We are executing a long-term strategy of providing a broad portfolio of innovative, value-added pharmaceutical services.* These offerings all relate to simplifying the process of pharmaceutical distribution for all participants along the supply channel, better organizing data and disseminating relevant information to supply-chain partners, improving the capacity for pharmacist intervention, and developing important marketing programs with our customers. In addition to the benefits our broad service offerings bring to customers, they also provide real value to our manufacturer partners.

During the past two years, Cardinal Health has merged with a variety of businesses which are complementary to its core drug distribution business, but offer greater earnings growth rates and higher operating returns. Today, Cardinal has established a leadership



position in drug distribution through Cardinal Distribution and National Specialty Services, Inc.; retail pharmacy franchising through Medicine Shoppe International, Inc.; pharmacy dispensing automation through Pyxis Corporation; hospital pharmacy management through Owen Healthcare, Inc.; and pharmaceutical packaging and repackaging through PCI Services, Inc. and National PharmPak Services, Inc.

Separating these businesses into two general categories, pharmaceutical distribution and services, provides insight to the financial formula for the company going forward. Due to the high-volume nature of the wholesaling business, drug distribution accounted for a dominant 89% of the company's total revenues in 1997. However, the service businesses, while only 11% of total revenues, contributed an impressive 36% of operating earnings due to the fact that their combined

operating margin is more than four times that of the distribution businesses. The service businesses are capable of providing revenue and earnings growth well in excess of 20% going forward. Revenues are expected to grow 15-20% in the distribution business, however, our goal for distribution earnings growth continues to exceed 20% annually. Due to their small size relative to distribution, the service businesses' higher revenue growth rate will have minimal impact on the corporate revenue growth rate, but they should continue to have an increasingly significant impact on the company's growth in earnings.

To help manage the company's dramatic growth and successfully bring to fruition the significant cross-selling opportunities these businesses provide, we added some prominent members of the healthcare community to our staff during the past year. The most senior of these include: Robert Zollars, formerly president of U.S. distribution for Allegiance Corporation, as group president of pharmacy automation and management; Connie Woodburn, formerly executive vice president for Premier Inc., as executive vice president of corporate sales; Dwight Winstead, formerly executive vice president of VHA, Inc., as president of Owen Healthcare, Inc.; and Bruce McWhinney, formerly director of pharmacy for the Cleveland Clinic Foundation, as senior vice president of pharmacy practice and quality assurance.

At this time, Cardinal Health has two additional transactions pending regulatory and shareholder approval. The first, announced in May, is the acquisition of MediQual Systems, Inc., a leading supplier of clinical information management systems and services in the healthcare industry with annual revenues of approximately \$11 million. MediQual's software and services combine proprietary clinical knowledge with patient encounter data to create valuable information that providers, payors, pharmaceutical manufacturers and other suppliers use to monitor and enhance the effectiveness, efficiency, and appropriateness of care. In addition to its existing information offering, an important aspect of this transaction is the expertise MediQual's staff brings to Cardinal in analyzing and effectively utilizing raw data for the creation of new information products that are critically needed by our customers and suppliers to enhance the quality of patient care and control healthcare costs.

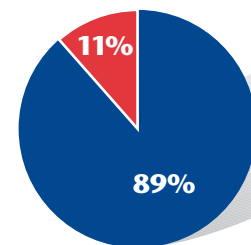
On August 24th, we announced that we had entered into a strategic merger agreement with Bergen Brunswig Corporation, a leading U.S. distributor of pharmaceuticals and medical-surgical supplies. *This combination would create a \$22 billion pharmaceutical services company with the broadest product and service offerings in the industry.* The combined company, to be headquartered in Dublin, will be

called Cardinal Bergen Health, Inc. Robert E. Martini, currently chairman of Bergen, will serve as chairman of the combined company; I will continue to be chief executive officer; and John C. Kane, currently Cardinal's president and chief operating officer, and Donald R. Roden, currently Bergen's president and chief executive officer, will serve as co-presidents and chief operating officers of the combined company. Upon completion of the merger, Cardinal's board of directors will be expanded to 14 members, which will include four Bergen directors including Messrs. Martini and Roden.

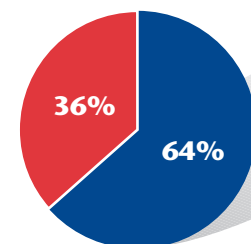
1997 Business Mix

 Services  Distribution

% REVENUES



% OPERATING EARNINGS



The strategic and financial rationale for this merger are very compelling. *The combination would result in a company that is extremely well-positioned to meet the challenges of the rapidly changing healthcare environment.* Bergen's broad product offering of both pharmaceuticals and medical-surgical supplies, combined with Cardinal's array of pharmaceutical service offerings, will significantly enhance the combined company's ability to create efficiencies and opportunities for its customers. While each company could continue to be successful on its own, joining together will provide substantial operating efficiencies and a reduction of operating costs that neither company could achieve independently. At this time, we expect to realize annual synergies substantially in excess of \$100 million, pre-tax, by the third year after completion of this merger. In addition to these synergies, we would benefit from the avoidance of certain redundant costs that each company had planned to incur in the future and the opportunities that we expect to realize from cross-selling these broad service and product offerings to each others' customer bases. We believe these additional synergies should themselves be significant. As a result of these synergy opportunities, Cardinal would have the potential to deliver a somewhat higher rate of earnings growth going forward than the 20% target the company has maintained in recent years.

Upon consummation of this merger, Cardinal Health will issue approximately 40 million shares of common stock to Bergen shareholders and assume approximately \$386 million in long-term debt for a total transaction value approaching \$3 billion. The combined entity would be very well-positioned financially with total assets of approximately \$6 billion, long-term debt of less than \$700 million, shareholders' equity approaching \$2 billion, and a net debt to total capital ratio of about 22%. We currently expect the transaction to be completed later this calendar year, or in early 1998, subject to approval by shareholders of both companies and receipt of certain regulatory approvals.

Cardinal Health continues to receive very positive appraisals and support from the business/financial community. *In May, the common stock of Cardinal Health, Inc. was added to the Standard and Poor's 500 Index.* The company was ranked as the most admired wholesaler and the 25th most admired company of all those listed in *Fortune* magazine's Directory of Most Admired Companies published in Spring 1997. Additionally, in its most recent listing of the 500 largest industrial and service companies, *Fortune* magazine ranked Cardinal as having provided the 16th best 10-year total return to investors with an average compound return over that period of 31.5% annually.

As we begin the new fiscal year, I believe Cardinal Health is very well-positioned to continue its long record of growth and superior returns to shareholders. For more information about Cardinal's operations and role in pharmaceutical delivery, I encourage you to read "Creative Solutions in Pharmacy Evolution" beginning on page eight. I greatly appreciate the interest in and support of Cardinal Health from all of our associates, customers, suppliers, and shareholders that resulted in another outstanding year for our company.

Sincerely,



Robert D. Walter
Chairman and Chief Executive Officer



Corporate Office

Cardinal Health, Inc.
5555 Glendon Court
Dublin, Ohio 43016-3249
(614) 717-5000



Common Stock

Cardinal Health's common stock is listed on the New York Stock Exchange under the ticker symbol "CAH." The company's common stock is also a component of the Standard & Poor's 500 Index. As of September 12, 1997, Cardinal had approximately 2,800 shareholders of record.

Transfer Agent & Registrar

Shareholders with inquiries regarding address corrections, dividend payments, lost certificates or changes in registered ownership should contact Cardinal Health's stock transfer agent:

ChaseMellon Shareholder Services
Overpeck Centre
85 Challenger Road
Ridgefield Park, New Jersey 07660
(888) 213-0965

Financial Information

Cardinal Health's annual report, Forms 10-K and 10-Q, and other published corporate literature are available upon written request to the Investor Relations department at the corporate office, or by calling the Investor Relations Line at (614) 717-5222. Copies of the company's most recent press releases can be obtained, at no charge, via facsimile by calling "Company News On-Call" at (800) 758-5804 and requesting extension 128363. Information about Cardinal can also be obtained electronically via InvestQuest™ at: <http://www.investquest.com>

Investor Inquiries

Securities analysts, portfolio managers and reporters with inquiries about the company should contact Debra Dendahl Hadley, Director of Investor Relations at (614) 717-7481.

Individual shareholders, registered representatives and retail investors seeking further information about the company should contact Kay Doyle, Manager of Shareholder Relations at (614) 717-7848.

Annual Meeting

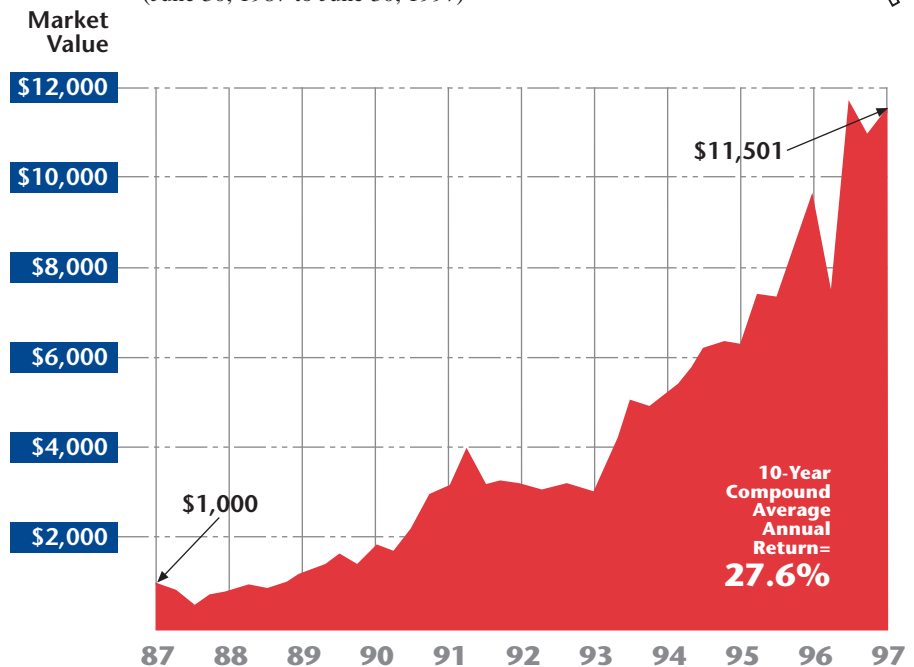
The 1997 Annual Meeting of Shareholders will be held at 8:00 a.m. (EST) on Wednesday, November 5, 1997 at Cardinal Health's corporate office in Dublin, Ohio. Shareholders are cordially invited to attend.

Research Coverage

A.G. Edwards & Sons, Inc.
Bear, Stearns & Co. Inc.
BT Alex. Brown
Donaldson, Lufkin & Jenrette Securities Corporation
Goldman, Sachs & Co.
Merrill Lynch, Pierce, Fenner & Smith Incorporated
Montgomery Securities
Morgan Stanley, Dean Witter, Discover & Co.
The Ohio Company
Oppenheimer & Co., Inc.
Salomon Brothers Inc
Sanford C. Bernstein & Co., Inc.
Smith Barney Inc.
Standard & Poor's Securities, Inc.
Value Line Securities, Inc.
Wheat First Butcher Singer, Inc.
William Blair & Company, L.L.C.

10-Year Total Return To Investors

(June 30, 1987 to June 30, 1997)



(Assumes initial investment of \$1,000 and reinvestment of all dividends)

Fiscal 1997 Cash Dividend Data

Fiscal Quarter	Record Date	Payment Date	Per Common Share Amount
I	October 1, 1996	October 15, 1996	\$0.020
II	January 1, 1997	January 15, 1997	\$0.025
III	April 1, 1997	April 15, 1997	\$0.025
IV	July 1, 1997	July 15, 1997	\$0.025

As adjusted for stock dividends and stock splits.

Common Stock Price History

(Twelve Months Ended June 30)

	1997	1996	1995	1994	1993
High	\$64.125	\$50.172	\$33.922	\$27.203	\$17.203
Low	44.672	29.172	24.422	14.531	13.063
Close	57.250	48.078	31.500	26.141	15.203

As adjusted for stock dividends and stock splits.

Dividend History

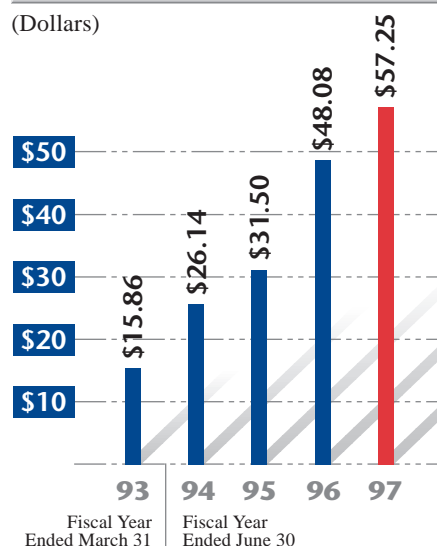
(Twelve Months Ended June 30)

Year	Cash Dividends Declared	Stock Dividends/Split	Distribution Date of Dividend/Split
1987	\$0.018		
1988	\$0.020	10% Stock Dividend	September 30, 1987
1989	\$0.022	10% Stock Dividend	September 30, 1988
1990	\$0.027	5/4 Stock Split	September 30, 1989
1991	\$0.034	5/4 Stock Split	September 30, 1990
1992	\$0.043	5/4 Stock Split	September 30, 1991
1993	\$0.051		
1994	\$0.065	5/4 Stock Split	June 30, 1994
1995	\$0.080		
1996	\$0.080		
1997	\$0.095	3/2 Stock Split	December 16, 1996

As adjusted for stock dividends and stock splits.

Closing Price Per Share

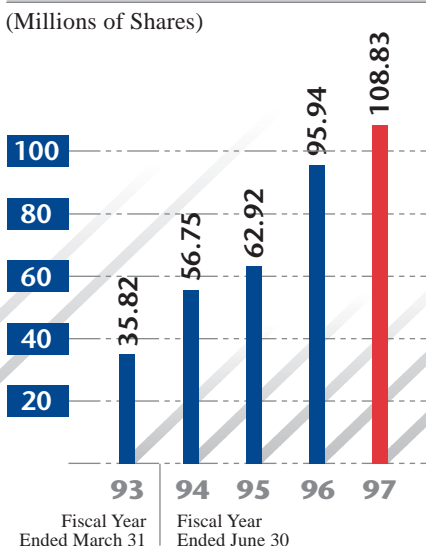
(Dollars)



As adjusted for stock dividends and stock splits.

Number of Common Shares Outstanding

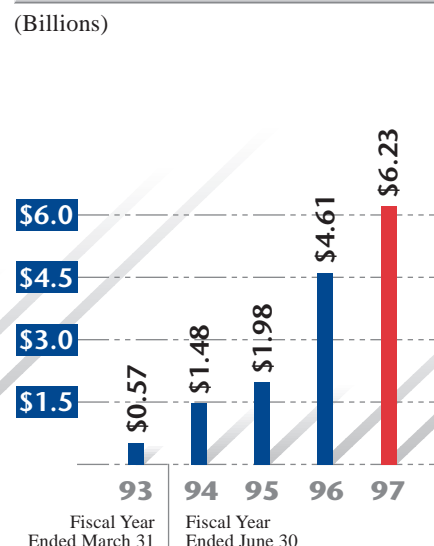
(Millions of Shares)



As originally reported, adjusted for stock dividends and stock splits.

Market Valuation

(Billions)





<u>D</u> istribution	Cardinal Distribution
<u>F</u> ranchising	National Specialty Services, Inc.
<u>A</u> utomation	CORD Logistics, Inc.
<u>P</u> ackaging	
<u>M</u> anagement	
<u>I</u> nformation	

In recent years, pharmacy evolution has been driven in large part by the growing influence of managed care. This has introduced significant changes and complexities to pharmaceutical care for suppliers, healthcare providers and patients alike. As a result, healthcare participants have been increasingly focused on further improving the overall quality of care and containing healthcare costs. In concert with this rapidly changing environment, Cardinal Health has evolved from a wholesale drug distributor to a much broader pharmaceutical services company. Today, Cardinal is ideally suited to assist its partners in healthcare to redefine pharmaceutical care by providing them with creative pharmacy solutions.

THE EVOLUTION OF DISTRIBUTION

According to the National Wholesale Druggists' Association, nearly 80% of all pharmaceutical products in the United States are distributed through drug wholesalers, up from 72% five years ago. Pharmaceutical companies have increasingly recognized that wholesalers provide an efficient and cost effective means of moving product through the distribution channel, enabling these suppliers to focus more fully on the research, development and manufacture of pharmaceuticals. At the same time, there has been significant customer consolidation creating large, regional and national players. These factors have fueled the evolution of the wholesale drug industry from that of a highly fragmented market of local distributors, to one that is characterized by larger, regional and national networks, such as **Cardinal Distribution.**

Cardinal Distribution first entered the pharmaceutical distribution business with the acquisition of a small drug distributor in 1979. Over the next 15 years, the company carefully established a nationwide distribution infrastructure through 11 successful business combinations of reputable, well-managed drug wholesalers. Today, Cardinal is one of the leading distributors of pharmaceuticals and health products in the United States, serving a customer base comprised of approximately 50% retail independent and chain pharmacies, and 50% hospital and other healthcare provider pharmacies.

Cardinal Distribution's nationwide network of 27 facilities enables the company to offer economical and streamlined distribution to its retail, hospital and other healthcare provider pharmacy customers throughout the United States. Customers benefit from Cardinal Distribution's coast to coast distribution network, competitive pricing, superior order fill rates, next day delivery, diversified product lines, product consistency and information systems. Throughout the distribution channel, the company is developing strategic and influential partnerships to improve the quality of pharmaceutical care and help contain healthcare costs. These factors, as well as the company's ability to consistently provide creative solutions in pharmacy evolution, help to differentiate Cardinal.

CREATIVE SOLUTIONS IN RETAIL PHARMACY

Consolidation among retail pharmacies has occurred concurrent with consolidation in the pharmaceutical wholesale industry. The growing presence of large, regional and national chain drug stores has created intense competition for retail independent and small chain customers. To better serve its smaller retail customers, Cardinal Health developed the **Leader® Drug Stores**

Jim Jeckel
 Project Manager,
 Hi-School Pharmacy
 Vancouver, Washington

Hi-School Pharmacy, a 37-store retail chain, processed ScriptLINE's first transaction as one of the service's pilot customers in December 1996. The retailer has since realized significant savings in its pharmacy operations as a result of ScriptLINESM and other Cardinal initiatives. In a joint effort to improve order efficiency, Cardinal and Hi-School Pharmacy developed a customized ordering system for the retailer. This seamless, one-pass system enables pharmacists to order product from their warehouse; when the product is not in stock, the system automatically transfers the order to Cardinal Distribution, greatly simplifying the inventory management process.



"Cardinal Health carefully listened to us talk about the challenges we face in the retail setting instead of simply telling us what they could do. By doing so, Cardinal has been able to provide us with solutions that have exactly matched our needs."

 **Cardinal Health, Inc.**

program which provides this customer segment with many of the same economic benefits of large chain stores, while enabling its members to maintain their own identities. This multifaceted, voluntary cooperative program draws from Cardinal's pharmaceutical and retail marketing expertise to provide programs and services to its more than 2,000 member stores nationwide. Service offerings such as Cardinal's **Healthtouch**® kiosks and Leader's private label products afford its members enhanced store features and brand name recognition.

Healthtouch is an example of an innovative information solution that the company offers to its customers for the benefit of consumers, pharmacists and manufacturers alike. **Healthtouch** is a premier, interactive health information tool that enhances a pharmacist's ability to counsel patients on pharmaceutical products, health, wellness, disease states, illness and lifestyle issues. The user-friendly, touch-screen format encourages consumers to gain immediate access to pertinent health information at the pharmacy and obtain manufacturer coupons. Suppliers benefit from increased same store sales on **Healthtouch**-featured products.

The Leader Drug Stores program also administers third-party access and marketing programs for its members, which enable these collective independent pharmacies to realize significant economies of scale and increased exposure to third-party plans. The LeaderNETSM program was developed to help independent retailers compete for managed care contracts and the large numbers of patients that they represent. Through this program, Cardinal Health assists member stores in contract and enrollment procedures with managed care providers. LeaderNET has successfully gained access to more than 95 million plan participants for its member network since the program was introduced in February 1996.

The company has also provided its retail chain customers with creative solutions to improve profitability and maximize capital resources. For example, Cardinal Distribution's strategic alliance with Kmart Corporation is a



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PCI Services, Inc.

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solution that utilizes the company's purchasing and inventory management expertise to help the retailer achieve improved profitability. Kmart, with approximately 1,600 pharmacies nationwide, is the largest non-warehousing pharmacy chain in the country. As Kmart's exclusive supplier of pharmaceuticals, Cardinal actually owns and helps to manage Kmart's inventory. This alliance has further enhanced both companies' ability to attain the most competitive pricing from suppliers. As an additional feature of the agreement, Cardinal's **National PharmPak Services, Inc.** subsidiary supplies Kmart with repackaged products, providing the retailer with smaller, faster-turning sizes of pharmaceuticals at very competitive prices.

To further enhance the company's service offerings to its retail customer segment, Cardinal Health developed the **ScriptLINESM** program, a centralized prescription transaction management and data warehouse application, designed to improve the prescription claims process and increase profitability for pharmaceutical retailers. ScriptLINE maintains current information for every third-party plan in which pharmacists participate, enabling its adjudication functions to correctly price and edit third-party prescription claims. This heightened level of accuracy significantly increases pharmacists' returns by ensuring that the appropriate medication is dispensed according to the patient's plan and the corresponding claim is submitted accurately to the payor. ScriptLINE has demonstrated improvements in customer profitability of \$0.40 - \$0.50 per prescription in pharmacies where it has been tested. More than 350 retail pharmacy customers have already signed up for ScriptLINE since its release in July 1997.

Pharmaceutical manufacturers, healthcare providers, and third-party payors have increasingly recognized the important role that retail pharmacists can play in improving pharmaceutical care. One area in which their role is increasingly acknowledged is pharmaceutical compliance – an overwhelmingly common problem with costly consequences. Many patients discontinue drug therapy prematurely or simply never refill their prescriptions. Others, often those taking multiple medications or the elderly, fail to properly maintain their complex drug regimens. Non-compliance with prescribed drug regimens produces lower quality and inconsistent patient outcomes that often result in repeat physician visits, additional tests, or even hospitalization – all of which significantly increase healthcare spending. It is estimated that more than half of the 1.8 billion prescriptions that are dispensed each year are taken incorrectly, resulting in approximately 10% of all hospital admissions in the United States.

Pharmacists have long recognized that they have an ongoing opportunity to interact with patients after they have left the physician's office, and have offered simple healthcare screenings for many years. Today, these services are evolving into more sophisticated disease management and compliance programs. For example, the pharmacists/franchisees of Cardinal's **Medicine Shoppe International, Inc.** subsidiary, the largest franchisor of apothecary-style pharmacies in the country, receive specialized training in multiple disease states, such as cardiovascular diseases, osteoporosis, anti-coagulation and asthma, so that they are equipped with the skills necessary to interact, monitor and counsel affected patients. This patient-focused and consultative relationship provides vital support to providers and suppliers that are eager to manage specific disease states in order to improve pharmaceutical care and lower healthcare expenditures.

CIGNA Healthcare of Kansas/Missouri, for example, joined together with The Medicine Shoppe® franchisees in a landmark effort to study patients with congestive heart failure and peptic ulcer disease in June 1997. The goal of this benchmark study is to demonstrate the benefits of disease management and compliance in pharmaceutical care through patient education and ongoing interaction between the patient and The Medicine Shoppe pharmacist. In a separate program that was conducted earlier in the year, several Medicine Shoppe franchisees were selected

Patti Engel

Vice President of
Marketing and Sales,
Orphan Medical, Inc.
Minnetonka, Minnesota

Orphan Medical acquires, develops and markets products of high medical value to patients with inadequately treated or uncommon diseases. To meet the needs of Orphan Medical, Cardinal Health created an integrated package of services from three of its businesses: **CORD Logistics, Inc.**, for warehousing, distribution, inventory management, information systems, customer support and financial services; **National Specialty Services, Inc.**, for marketing and distribution to physicians; and **Nexus Healthcare, Inc.**, for reimbursement management, patient assistance, and patient compliance programs.



"Cardinal Health has taken the time to learn about our business – for the first time, we didn't have to fit someone's model. It is of critical importance that our unique and diverse product offerings be economically warehoused, managed and distributed directly to patients, physician practices or hospitals. Cardinal has a thorough understanding of the market and how its separate but complementary companies can be combined to provide us with a streamlined and coordinated program."



to be the exclusive Medicaid providers of Crixivan, an HIV protease inhibitor, in 25 states due to the pharmacists' ability to actively manage drug compliance. Pharmacists proactively monitored more than 6,500 HIV-positive patients to ensure drug compliance, which is particularly crucial to Crixivan's effectiveness.

With the plethora of complex pharmaceutical products and regimens that exist today, manufacturers and providers alike are looking for new ways to increase compliance and improve pharmaceutical effectiveness. **PCI Services, Inc.**, a leading international provider of healthcare packaging solutions acquired by Cardinal in November 1996, offers a variety of compliance-style packaging to its manufacturer clients. Studies have shown that this type of packaging significantly improves pharmaceutical compliance by making it easier for patients to monitor and verify what they took and when.

CREATIVE SOLUTIONS FOR HOSPITALS AND OTHER HEALTHCARE PROVIDERS

For hospitals and other healthcare providers, the advent of prospective payments in the mid-1980's and limited reimbursement by managed care entities and third-party payors have continued to put rising pressure on



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Pyxis Corporation

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these providers to control costs and minimize financial risks. Budget reductions and staffing cuts in hospitals have escalated the search for innovative productivity solutions in all areas of their operations.

Pharmaceutical therapy complications are the most common adverse events in hospitalized patients and significantly impact healthcare expenditures. The hospital pharmacy evolution began when pioneering institutions recognized the potential to reduce medication errors by reengineering the distribution process. Traditionally, drugs had been dispensed by the nursing staff from floor stock that was kept in a supply room or cabinet. The hospital pharmacist was responsible for maintaining this stock, but was too often completely removed from clinical decisions regarding pharmaceutical care. In the 1960's, the unit dose system was introduced, requiring that a patient's medication be reviewed, validated and prepared by a pharmacist before it could be dispensed. This system repositioned the pharmacist from that of a procurement specialist to that of a clinician.

The unit dose system substantially reduced the number of medication errors in hospitals. Pharmacy staffing requirements, however, rose dramatically as a result of the labor intensity of this system. The time required to deliver medications also increased, due to the extra steps necessary for pharmacists to review every medication to be dispensed to each patient. Patient's medications are prepared by the pharmacy on a 24-hour cycle, and are normally kept in drawer-like, patient-specific cassettes at each nursing station which are replaced at the beginning of each new cycle. A large percentage of medications placed in the cassettes are returned unused to the pharmacy because doctors changed prescriptions, patients moved to another room or were discharged, or drugs prescribed for use on an "as needed" basis were not administered. The unused medications create an additional administrative burden for pharmacists because they must be accounted for, deleted from the patient's account if it was pre-billed, and placed back into general inventory.

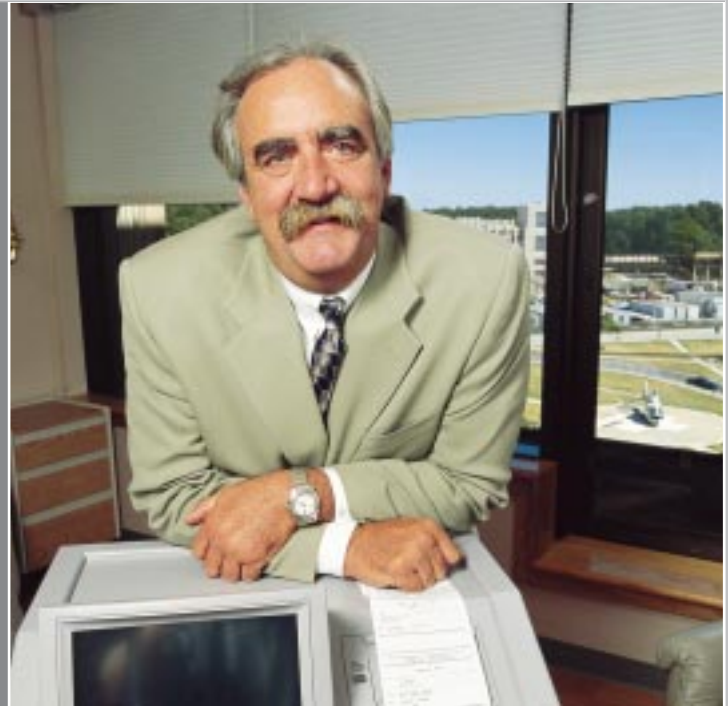
Pyxis Corporation, acquired by Cardinal Health in May 1996, commercialized automated pharmaceutical dispensing systems to simplify the pharmaceutical distribution process in hospitals, nursing homes and other healthcare provider facilities by eliminating many of the manual steps associated with the floor stock and unit dose systems. The company's newly introduced MEDSTATION®-Rx System 2000 gives pharmacists greater control by enabling them to electronically validate medication orders from the central pharmacy or a remote location. Nurses are able to gain immediate access to the approved drugs for patients from the ATM-style units located throughout the hospital or health system. MEDSTATION-Rx also provides meaningful reporting and interface capabilities to improve pharmacy operations. With less time spent on tracking inventory, medication delivery, and the rework generated by the unused medications in the unit dose system, pharmacists have much more time to focus on providing clinical input, thus contributing to better outcomes for patients.

In fiscal 1997, Pyxis proudly introduced five major new products including: SUPPLYSTATION® System 15, PYXISSTATION™, MEDSTATION System 2000, MEDSTATION-Rx System 2000, and C^{II}Safe™-NV. Customer response to the new products has been very enthusiastic. SUPPLYSTATION is a combined software and storage cabinet that provides controlled access to medical-surgical supplies for hospitals and other providers. PYXISSTATION, an integrated medication and supply system, is a product offering designed for long-term care facilities and physician offices, as well as veterinary practices. C^{II}Safe, the only controlled substance tracking system that includes both hardware to control access to medications and

Jim McAllister

Associate Chief
Operating Officer and
Director of Pharmacy,
Duke University Medical Center
Durham, North Carolina

Duke University Medical Center has been a pharmaceutical distribution and repackaging customer of Cardinal Health for a number of years. A new agreement between the two entities expands the existing relationship to help Duke further reduce healthcare costs throughout its network. This agreement encompasses the implementation of several new information systems and programs, including a new system designed to automate low unit of measure inventory and order management; systemwide installation of Pyxis MEDSTATION System 2000 units to provide enhanced reporting capabilities and control of product usage; and certain patient compliance programs to improve pharmaceutical care.



"Cardinal's meaning of service has, from the beginning, exceeded our expectations, and the company's commitment to Duke could never be surpassed. Over the years as our needs have evolved, Cardinal has been there creating innovative ways to improve our processes."



software to track and report on narcotics transactions, was launched following Pyxis' March 1997 acquisition of RxS Corporation.

With more than 3,000 hospital and other healthcare provider customers, Pyxis is a leading manufacturer of automated dispensing units worldwide. Pyxis differentiates itself from its competitors through its broad product line, custom interfaces for its products with every major hospital system, and demonstrably superior customer service. The company employs more than 350 field engineers and application specialists based in local markets, who are routinely available to respond to customers within four hours of a request, to ensure unsurpassed levels of service.

Over the past decade, several changes have placed additional strains on the hospital pharmacy. Length of stay by patients has shortened due to improvements in medical procedures and limitations set by payors. As a result, hospitals on average have fewer, but sicker, patients. Additionally, the complexity of the environment continues to increase as there are many more pharmaceutical products today than ever before. Smaller rural hospitals were among the first to search for pharmacy operation solutions because they were frequently unable to hire qualified resources to keep pace with patient needs or make necessary investments in increasingly complex and expensive pharmacy operating systems.



Distribution

Franchising

Automation

Packaging

Management ▶

Owen Healthcare, Inc.

Information

Owen Healthcare, Inc., which was acquired by Cardinal Health in March 1997, is a world-leading provider of fully integrated, contract hospital pharmacy management services. Trained to control costs and provide improved service levels to patients, physicians and nurses, Owen pharmacists manage all aspects of the hospital pharmacy, which include staffing, purchasing, medication dispensing, and providing clinical services and information technology.

Owen has successfully deployed its clinical expertise to develop the most sophisticated pharmacy management tools available today. Econotherapeutics®, for example, a proprietary medical information program developed by Owen, enables pharmacists to assist physicians in the selection of the most appropriate medication based upon effectiveness, safety and cost. Owen pharmacists actively participate with the medical staff to improve patient care while controlling pharmaceutical costs. The use of therapeutic alternatives is encouraged, allowing Owen to create contracting leverage between competing pharmaceutical manufacturers of branded products and reduce prices accordingly. In addition, Owen's contract compliance rate for purchasing multi-source generic pharmaceuticals exceeds 95%. Econotherapeutics, coupled with a broad-based pharmaceutical contracting program with manufacturers, enables Owen to offer extremely competitive prices to its customers.

Owen's ability to provide creative solutions to its clients in hospital pharmacy management has significantly accelerated the company's growth – with nearly 400 hospital pharmacies under management today, up from approximately 230 pharmacies five years ago. The company employs more than 1,800 registered pharmacists and has retained 93% of its client hospitals' pharmacists as Owen employees. Owen's current list of clients includes some of the largest and most prestigious hospital systems in the country, such as Columbia/HCA Healthcare of Nashville, Swedish Medical Center of Seattle, and Scripps Health of San Diego, demonstrating the company's increasing ability to significantly impact the quality of care and financial performance of sophisticated hospital clients.

Physician practices are a rapidly growing customer segment with unique distribution requirements. Another of Cardinal's subsidiaries, **National Specialty Services, Inc. (NSS)**, which was founded by the company in 1992, specializes in the distribution of pharmaceuticals and medical supplies to physician practices, and therapeutic plasma products to hospitals, outpatient clinics and surgery centers in the United States. NSS recently formed an important business relationship with American Oncology Resources (AOR) to provide this premier physician practice management company with a forward-thinking solution in inventory management. As part of the five-year pharmaceutical distribution agreement with AOR, NSS is developing a custom interface between ChoiceMD™, one of Cardinal's proprietary inventory management and order-entry systems, and AOR's clinical management software to initiate orders based upon predictive demand. This innovative approach to inventory management will combine forecasting techniques with AOR's clinical and practice management data. As a result, AOR will benefit from reduced inventory levels and administrative costs.

THE IMPORTANCE OF INFORMATION

The role of information will be instrumental in the evolution of pharmacy and healthcare. While it is widely recognized that data links in the pharmaceutical distribution channel are essential to maximize the effectiveness, efficiency and appropriateness of care, fragmentation of today's healthcare system often prevents effective data collection and information dissemination.

Elaine Levy

Director of Pharmacy,
Sharp HealthCare
San Diego, California

For Sharp HealthCare, a six-hospital integrated healthcare delivery system, Cardinal Health combined the service offerings of Cardinal Distribution, Pyxis' automated MEDSTATION and MEDSTATION-Rx dispensing units, and pharmacy consulting services of Owen Healthcare to create a unique program specifically tailored to meet the system's needs. Sharp also will benefit from Pyxis Auto-Replenishment™ to gain efficiencies in the replenishment process and from CardinalCHOICE-HQ™, Cardinal's proprietary drug information management system, to assist with implementation of systemwide therapeutic standardization initiatives.



"The people at Cardinal Health were very flexible – they allowed us to be creative and worked with us to formulate a solution that would enable us to realize significant savings. We feel a true sense of partnership with Cardinal that goes beyond our selection of the various services that Cardinal is able to provide."



Cardinal Health is intent on providing information solutions to further enhance the quality of healthcare in the future. Tremendous amounts of data from every point along the distribution channel are routinely collected on a daily basis. Pyxis units, for example, have access to more than 1.5 million dispensing transactions daily. Owen-managed pharmacies record approximately 250 million such transactions each year. Effectively utilizing such data will be an important step to support Cardinal's customers as they seek to improve pharmaceutical care.

To help achieve this strategic goal, Cardinal Health announced in May 1997 that it had signed a definitive merger agreement with **MediQual Systems, Inc.**, a leading supplier of clinical information management systems and services in the healthcare industry. Over the past 17 years, MediQual has refined a technology that combines clinical knowledge with patient encounter data to create valuable information for hospitals, pharmaceutical manufacturers and other healthcare participants.

Cardinal Health has responded to the complexities of pharmacy evolution in the United States by continually redefining its role in the delivery of pharmaceuticals. The company has successfully assembled a variety of complementary pharmaceutical services from which it can offer tailored solutions to its customers and suppliers as they seek to improve patient care and achieve greater efficiency in pharmaceutical care. Cardinal is already developing numerous integrated service offerings from its comprehensive portfolio of pharmaceutical services, which should enable healthcare providers to capitalize on the substantial synergies that exist between these services. At the same time, the company is pursuing opportunities to collect data and disseminate critically needed information to help its customers drive further improvements in patient care, and ultimately to lower costs across the healthcare continuum.



	Percentage of Net Revenues			Percentage Change From Prior Period	
	1997	1996	1995	1997 vs. 1996	1996 vs. 1995
Net revenues	100.00%	100.00%	100.00%	19%	11%
Gross margin	8.25%	8.36%	8.02%	17%	15%
Selling, general and administrative expense	4.68%	5.19%	4.95%	7%	16%
Merger-related costs	(0.52%)	(0.72%)	—	N.M.	N.M.
Operating earnings	3.05%	2.45%	3.07%	48%	(11%)
Interest expense	(0.25%)	(0.29%)	(0.26%)	4%	22%
Other income	(0.05%)	0.13%	0.09%	(53%)	48%
Income taxes	1.20%	1.02%	1.19%	39%	(5%)
Net earnings	1.65%	1.27%	1.71%	54%	(17%)
Effect of merger-related costs on net earnings	(0.37%)	(0.52%)	—	N.M.	N.M.

N.M. - Not Meaningful

Net Revenues. Net revenues for fiscal 1997 increased 19%, as compared to the prior year, primarily due to growth in Cardinal Health's ("the Company's") pharmaceutical distribution and pharmacy management service businesses. The increase resulted mostly from internal growth generated primarily by the addition of new customers, and, to a lesser extent, increased volume from existing customers and price increases. Expansion of the Company's relationship with Kmart Corporation ("Kmart") and opportunities created by the deterioration of the financial condition of a major pharmaceutical distribution competitor also contributed to the increases during fiscal 1997.

Net revenues in fiscal 1996 increased 11% compared with fiscal 1995 primarily due to internal growth from pharmaceutical wholesaling activities, mostly due to the addition of new customers, and, to a lesser extent, increased sales to existing customers and price increases.

Gross Margin. For fiscal 1997 and 1996, gross margin as a percentage of net revenues was 8.25% and 8.36%, respectively. The change in gross margin for the year is primarily due to the shift in net revenue mix caused by significant increases in the relatively lower margin pharmaceutical distribution activities. The impact of this shift was partially offset by increased merchandising and marketing programs with customers and suppliers. The Company's gross margin continues to be affected by the combination of a highly competitive environment and a greater mix of high volume customers, where a lower cost of service and better asset management enable the Company to offer lower selling margins and still achieve higher operating margins relative to other customer business.

The gross margin ratio increased to 8.36% for fiscal 1996 from 8.02% in fiscal 1995. This increase was primarily due to the gross margin generated from the acquisition of a pharmacy management operation in fiscal 1996 (see Note 2 of "Notes to Consolidated Financial Statements"). Pharmacy management operations generally provide a higher gross margin than pharmaceutical wholesaling activities.

Selling, General and Administrative Expenses.

Selling, general and administrative expenses as a percentage of net revenues improved to 4.68% in fiscal 1997 compared to 5.19% in fiscal 1996. The improvements in fiscal 1997 reflect the economies associated with the Company's revenue growth, as well as significant productivity gains resulting from continued cost control efforts and the consolidation and selective automation of operating facilities.

Selling, general and administrative expenses as a percentage of net revenues increased to 5.19% in fiscal

1996 compared to 4.96% in fiscal 1995 due to the inclusion of pharmacy management services in fiscal 1996 operations (see "Gross Margin" above). This increase was partially offset by economies associated with the Company's revenue growth from pharmaceutical wholesaling activities, as well as productivity gains resulting in part from warehouse consolidations and management information system enhancements.

Merger-Related Costs. The Company recorded charges to reflect the estimated PCI and Owen merger-related costs during fiscal 1997. During fiscal 1996, the Company recorded charges to reflect the estimated Medicine Shoppe and Pyxis merger-related costs (see Note 2 of "Notes to Consolidated Financial Statements").

The Company classifies incremental costs associated with a merger transaction as "merger-related costs" as these costs would not have been incurred in the absence of the business combination. It should be noted that the amounts presented may not be comparable to similarly titled amounts reported by other companies.

The following is a summary of the merger-related costs:

	Fiscal Year Ended June 30,	
(In thousands, except per share amounts)	1997	1996
Transaction and Employee-Related Costs:		
Transaction Costs	\$(15,700)	\$(23,400)
PCI Vested Retirement Benefits and Incentive Fees	(7,600)	—
Pyxis Stay Bonuses	—	(7,600)
Employee Severance/Termination	(4,900)	(5,400)
Other	(3,000)	(300)
Total Transaction and Employee-Related Costs	(31,200)	(36,700)
Other Merger-Related Costs:		
Asset Impairments	(13,200)	(1,500)
Exit and Restructuring Costs	(3,100)	(17,600)
Duplicate Facilities Elimination	(1,700)	—
Integration and Efficiency Implementation	(7,763)	(11,450)
Total Other	(25,763)	(30,550)
Total Merger-Related Costs	(56,963)	(67,250)
Tax Effect	16,786	19,417
Effect on Net Earnings	\$(40,177)	\$(47,833)
Effect on Fully Diluted Earnings Per Share	\$(0.37)	\$(0.46)

The effects of the merger-related costs are included in the reported net earnings of \$181.1 million in fiscal 1997 and \$117.6 million in fiscal 1996 and in the reported fully diluted earnings per common share of \$1.66 in fiscal 1997 and \$1.14 in fiscal 1996.



Asset impairments in fiscal 1997 include the write-off of a patent (\$7.4 million) and the write-down of certain operating assets (\$3.2 million) related to MediTROL (a wholly owned subsidiary of Owen) as a result of management's decision to merge the operations of MediTROL into Pyxis and phase out production of the separate MediTROL product line.

Exit and restructuring costs in fiscal 1996 include \$17.2 million related to management's commitment to exit a long-term contract with a financing company at the time of the Pyxis Merger (see Note 3 of "Notes to Consolidated Financial Statements"). Additionally, in fiscal 1996, \$7.4 million of unconditional commitments made by the Company to Medicine Shoppe franchisees as a result of the Medicine Shoppe Merger is included in the integration and efficiency implementation category.

The Company's trend with regard to acquisitions has been to expand its role as a provider of services to the healthcare industry. This trend has resulted in both expansion of its pharmaceutical distribution business and diversification into related service areas which (a) complement the Company's core pharmaceutical distribution business; (b) provide opportunities for the Company to develop synergies with, and thus strengthen the acquired business; and (c) generally generate higher margins as a percentage of net revenues than pharmaceutical distribution. As the healthcare industry continues to change, the Company is constantly evaluating acquisition candidates in pharmaceutical distribution, as well as related sectors of the healthcare industry that would expand its role as a service provider; however, there can be no assurance that it will be able to successfully pursue any such opportunity or consummate any such transaction. If a transaction was consummated, additional merger-related costs would be incurred by the Company.

Interest Expense. Growth in the Company's business and the resultant need for additional working capital led to the Company's issuance of \$150 million 6% Notes due 2006, in a public offering in January 1996. This caused the increase in interest expense of \$1.1 million in fiscal 1997, as compared to fiscal 1996, and the increase in interest expense of \$4.8 million in fiscal 1996 compared to fiscal 1995 (see "Liquidity and Capital Resources"). Partially offsetting this increase in fiscal 1997 is the impact of the extinguishment of the Company's \$100 million 8% Notes on March 1, 1997.

Provision for Income Taxes. The Company's provision for income taxes relative to pretax earnings was 42%, 44.5%, and 41.1% for fiscal years 1997, 1996, and 1995, respectively. The fluctuation in the tax rate is primarily due to certain nondeductible costs associated with the business combinations in fiscal 1997 and 1996 (see Note 7 of "Notes to Consolidated Financial Statements").

Liquidity and Capital Resources. Working capital increased to \$1,095 million at June 30, 1997 from \$924 million at June 30, 1996. This increase included additional investments in merchandise inventories and trade receivables of \$180.1 million and \$59.9 million, respectively, and a decrease in accounts payable of \$2.4 million. Offsetting the increases in working capital were decreases in cash and equivalents, and marketable securities available-for-sale of \$61.2 million and \$54.3 million, respectively. Increases in merchandise inventories reflect the higher level of business volume in pharmaceutical distribution activities, including higher inventories required by the Company's new pharmaceutical services agreement with Kmart. The increase in trade receivables is consistent with the Company's revenue growth (see "Net Revenues" above). The change in cash and equivalents, marketable securities available-for-sale and accounts payable is due to the timing of inventory purchases and related payments.

The Company fully redeemed \$100 million of long-term debt during fiscal 1997 and currently has the capacity to issue \$400 million of additional long-term debt pursuant to shelf debt registration statements filed with the Securities and Exchange Commission (see Note 5 of "Notes to Consolidated Financial Statements"). The Company does not currently have any specific plans to issue additional debt under these facilities.

Property and equipment, at cost, increased by \$176.2 million in fiscal 1997. Of this amount, \$111.5 million was attributable to the merger with PCI. The remaining increase in property and equipment included additional investments in management information systems and customer support systems, as well as upgrades to distribution facilities. The Company has several operating lease agreements for the construction of new facilities (see Note 9 of "Notes to Consolidated Financial Statements").

Shareholders' equity increased to \$1,332.2 million at June 30, 1997 from \$1,035.8 million at June 30, 1996, primarily due to net earnings of \$181.1 million and the investment of \$61.4 million by employees of the Company through various stock ownership plans.

The Company has line-of-credit agreements with various bank sources aggregating \$374 million, of which \$95 million is represented by committed line-of-credit agreements and the balance is uncommitted. The Company had \$22.2 million outstanding under these lines at June 30, 1997.

The Company believes that it has adequate capital resources at its disposal to fund currently anticipated capital expenditures, business growth and expansion, and current and projected debt service requirements.

Pending Business Combinations. On May 27, 1997, the Company announced that it had entered into a definitive merger agreement with MediQual Systems, Inc. (“MediQual”), pursuant to which MediQual will become a wholly owned subsidiary of the Company in a stock-for-stock merger expected to be accounted for as a pooling-of-interests for financial reporting purposes. In connection with the merger, the Company estimates that it will issue approximately 0.6 million Common Shares. The merger is expected to be completed in the first half of fiscal 1998, subject to satisfaction of certain conditions, including approval by shareholders of MediQual.

On August 23, 1997, the Company signed a definitive merger agreement with Bergen Brunswick Corporation (“Bergen”), a distributor of pharmaceuticals and medical-surgical supplies. Under the terms of the transaction, shareholders of Bergen will receive a fixed exchange ratio of .775 of the Company’s Common Shares in exchange for each common share of Bergen. The Company will issue approximately 40 million Common Shares in the transaction and will also assume approximately \$386 million in long-term debt. The merger is expected to be completed by the end of the third quarter of fiscal 1998, subject to certain conditions, including approval by shareholders and receipt of certain regulatory approvals. The transaction is expected to be accounted for as a pooling-of-interests.

Recently Issued Financial Accounting Standards. In February 1997, the Financial Accounting Standards Board (“FASB”) issued Statement of Financial Accounting Standards No. 128 (“SFAS 128”), “Earnings per Share,” which will require retroactive adoption in the Company’s fiscal quarter ending December 31, 1997. The new standard simplifies the computation of earnings per share and requires the presentation of basic and diluted earnings per share. In light of the present capital structure, the impact of adopting SFAS 128 will not be significant.

In June 1997, FASB issued Statement of Financial Accounting Standards No. 130 (“SFAS 130”), “Reporting Comprehensive Income,” which will require adoption no later than the Company’s fiscal quarter ending September 30, 1998. This new statement defines comprehensive income as “all changes in equity during a period, with the exception of stock

issuances and dividends.” The new pronouncement establishes standards for the reporting and display of comprehensive income and its components in the financial statements.

In June 1997, FASB also issued Statement of Financial Accounting Standards No. 131 (“SFAS 131”), “Disclosures about Segments of an Enterprise and Related Information,” which will require adoption no later than fiscal 1999. SFAS 131 requires companies to define and report financial and descriptive information about its operating segments. It also establishes standards for related disclosures about products and services, geographic areas, and major customers.

The Company is presently evaluating the applicability of SFAS 130 and 131 to its operations.



	Fiscal Year Ended June 30,		
	1997	1996	1995
Net revenues	\$10,968,042	\$9,246,420	\$8,342,517
Cost of products sold	10,063,084	8,473,186	7,673,044
Gross margin	904,958	773,234	669,473
Selling, general and administrative expenses	513,617	479,440	413,630
Merger-related costs:			
Transaction and employee-related costs	(31,200)	(36,700)	—
Other	(25,763)	(30,550)	—
Operating earnings	334,378	226,544	255,843
Other income (expense):			
Interest expense	(27,974)	(26,903)	(22,110)
Other, net — primarily interest income	5,876	12,422	8,386
Earnings before income taxes	312,280	212,063	242,119
Provision for income taxes	131,161	94,429	99,604
Net earnings	\$181,119	\$117,634	\$142,515
Earnings per Common Share:			
Primary	\$1.66	\$1.14	\$1.42
Fully diluted	\$1.66	\$1.14	\$1.40
Weighted average number of Common Shares outstanding:			
Primary	109,118	102,922	100,566
Fully diluted	109,172	103,832	101,756

In thousands, except per share amounts.

The accompanying notes are an integral part of these statements.

Consolidated Balance Sheets

	June 30, 1997	June 30, 1996
ASSETS		
Current assets:		
Cash and equivalents	\$243,061	\$304,281
Marketable securities available-for-sale	—	54,335
Trade receivables, net	672,164	612,277
Current portion of net investment in sales-type leases	40,720	37,953
Merchandise inventories	1,453,120	1,272,616
Prepaid expenses and other	94,668	62,826
Total current assets	2,503,733	2,344,288
Property and equipment, at cost:		
Land, buildings and improvements	110,552	62,534
Machinery and equipment	304,946	182,999
Furniture and fixtures	61,046	54,795
Total	476,544	300,328
Accumulated depreciation and amortization	(199,869)	(133,472)
Property and equipment, net	276,675	166,856
Other assets:		
Net investment in sales-type leases, less current portion	119,532	111,604
Goodwill and other intangibles	122,104	114,901
Other	86,502	87,526
Total	\$3,108,546	\$2,825,175
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities:		
Notes payable, banks	\$22,159	\$ —
Current portion of long-term obligations	6,158	106,008
Accounts payable	1,135,951	1,138,368
Other accrued liabilities	244,491	175,498
Total current liabilities	1,408,759	1,419,874
Long-term obligations, less current portion	277,766	265,146
Deferred income taxes and other liabilities	89,821	104,317
Shareholders' equity:		
Common Shares, without par value	645,051	558,598
Retained earnings	699,366	492,762
Common Shares in treasury, at cost	(6,373)	(11,522)
Other	(5,844)	(4,000)
Total shareholders' equity	1,332,200	1,035,838
Total	\$3,108,546	\$2,825,175

In thousands.

The accompanying notes are an integral part of these statements.

	Common Shares		Retained Earnings	Treasury Shares		Adjustment		Total Shareholders' Equity
	Shares Issued	Amount		Shares	Amount	for ESOP	Other	
BALANCE, JUNE 30, 1994	63,391	\$360,052	\$244,812	(1,075)	\$(9,164)	\$(17,736)	\$(5,244)	\$572,720
Net earnings			142,515					142,515
Employee stock plans activity, including tax benefits of \$22,236	1,684	27,605		6	45		839	28,489
Treasury shares acquired and shares retired	(186)	(300)	(4,805)	(47)	(1,185)			(6,290)
Change in unrealized loss on marketable securities available-for-sale, net of tax							825	825
Dividends paid			(9,107)					(9,107)
Adjustment for ESOP						(3,560)		(3,560)
Acquisition of subsidiaries (see Note 2)	1,784	11,650	9,328					20,978
Shares issued in connection with stock offering	1,867	70,468						70,468
BALANCE, JUNE 30, 1995	68,540	469,475	382,743	(1,116)	(10,304)	(21,296)	(3,580)	817,038
Net earnings			117,634					117,634
Employee stock plans activity, including tax benefits of \$11,168	982	28,682		134	922		(1,173)	28,431
Treasury shares acquired and restricted stock forfeitures				(70)	(2,140)		307	(1,833)
Change in unrealized loss on marketable securities available-for-sale, net of tax							446	446
Dividends paid			(7,615)					(7,615)
Adjustment for ESOP						21,296		21,296
Shares issued in connection with stock offering	2,069	50,654						50,654
Conversion of subordinated debt, net	1,071	9,787						9,787
BALANCE, JUNE 30, 1996	72,662	558,598	492,762	(1,052)	(11,522)	—	(4,000)	1,035,838
Net earnings			181,119					181,119
Employee stock plans activity, including tax benefits of \$18,459	1,655	62,483					(1,098)	61,385
Treasury shares acquired and shares retired	(748)	(7,051)		728	5,076			(1,975)
Dividends paid			(9,045)					(9,045)
Foreign currency translation adjustment							(1,373)	(1,373)
3-for-2 stock split effected as a stock dividend and cash paid in lieu of fractional shares	33,411		(30)					(30)
Acquisition of subsidiary (see Note 2)	2,092	30,878	28,854				627	60,359
Adjustment for change in fiscal year of an acquired subsidiary (see Note 1)		143	5,706	84	73			5,922
BALANCE, JUNE 30, 1997	109,072	\$645,051	\$699,366	(240)	\$(6,373)	\$ —	\$(5,844)	\$1,332,200

In thousands.

The accompanying notes are an integral part of these statements.

Consolidated Statements of Cash Flows

	Fiscal Year Ended June 30,		
	1997	1996	1995
CASH FLOWS FROM OPERATING ACTIVITIES:			
Net earnings	\$181,119	\$117,634	\$142,515
Adjustments to reconcile net earnings to net cash from operating activities:			
Depreciation and amortization	51,288	39,501	29,455
Provision for deferred income taxes	15,897	21,502	48,454
Provision for bad debts	8,073	10,111	14,659
Change in operating assets and liabilities, net of effects from acquisitions:			
Increase in trade receivables	(46,971)	(62,646)	(140,336)
Increase in merchandise inventories	(169,408)	(159,616)	(161,558)
Increase in net investment in sales-type leases	(10,695)	(34,125)	(40,584)
Increase (decrease) in accounts payable	(10,778)	162,996	156,687
Increase (decrease) in accrued other	22,488	41,523	(24,185)
Other operating items, net	(1,862)	(22,492)	12,718
Net cash provided by operating activities	39,151	114,388	37,825
CASH FLOWS FROM INVESTING ACTIVITIES:			
Acquisition of subsidiaries, net of cash acquired	—	(36,244)	(19,632)
Proceeds from sale of property and equipment	2,986	1,038	764
Additions to property and equipment	(75,213)	(83,385)	(56,377)
Purchase of marketable securities available-for-sale	(3,400)	(163,719)	(169,599)
Proceeds from sale of marketable securities available-for-sale	57,735	218,019	143,501
Net cash used in investing activities	(17,892)	(64,291)	(101,343)
CASH FLOWS FROM FINANCING ACTIVITIES:			
Net short-term borrowing activity	3,347	(3,000)	(22,500)
Reduction of long-term obligations	(134,479)	(33,075)	(7,393)
Proceeds from long-term obligations, net of issuance costs	—	148,960	76
Proceeds from issuance of Common Shares	41,244	68,919	75,818
Tax benefit of stock options	18,459	11,168	22,236
Dividends on Common Shares and cash paid in lieu of fractional shares	(9,075)	(7,615)	(9,107)
Purchase of treasury shares	(1,975)	(1,833)	(6,290)
Net cash (used in) provided by financing activities	(82,479)	183,524	52,840
NET INCREASE (DECREASE) IN CASH AND EQUIVALENTS	(61,220)	233,621	(10,678)
CASH AND EQUIVALENTS AT BEGINNING OF YEAR	304,281	70,660	81,338
CASH AND EQUIVALENTS AT END OF YEAR	\$243,061	\$304,281	\$ 70,660

In thousands.

The accompanying notes are an integral part of these statements.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Cardinal Health, Inc. and subsidiaries (the “Company”) is a provider of services to the healthcare industry offering an array of value-added pharmaceutical distribution services and pharmaceutical-related products and services to a broad base of customers. The Company distributes a broad line of pharmaceuticals, surgical and hospital supplies; therapeutic plasma and other specialty pharmaceutical products; health and beauty care products; and other items typically sold by hospitals, retail drug stores, and other healthcare providers. The Company also operates a variety of related healthcare service businesses, including Pyxis Corporation (“Pyxis”) (which develops, manufactures, leases, sells and services point-of-use pharmacy systems which automate the distribution and management of medications and supplies in hospitals and other healthcare facilities); Medicine Shoppe International, Inc. (“Medicine Shoppe”) (a franchisor of apothecary-style retail pharmacies); PCI Services, Inc. (“PCI”) (an international provider of integrated packaging services to pharmaceutical manufacturers); and Owen Healthcare, Inc. (“Owen”) (a provider of pharmacy management and information services to hospitals) (see “Basis of Presentation” below). The Company is currently operating in one business segment, primarily in the continental United States.

Basis of Presentation

The consolidated financial statements of the Company include the accounts of all majority-owned subsidiaries and all significant intercompany accounts and transactions have been eliminated. In addition, the consolidated financial statements give retroactive effect to the mergers with Medicine Shoppe on November 13, 1995, Pyxis on May 7, 1996 and Owen on March 18, 1997 (see Note 2). Such business combinations were accounted for under the pooling-of-interests method.

On October 11, 1996, the Company completed a merger with PCI (the “PCI Merger”). The PCI Merger was accounted for as a pooling-of-interests. The Company issued approximately 3.1 million Common Shares to PCI shareholders and PCI’s outstanding stock options were converted into options to purchase approximately 0.2 million Common Shares. Because the impact of the PCI Merger, on a historical basis, was not significant, prior period financial statements have not been restated.

On March 18, 1997, the Company completed a merger with Owen (the “Owen Merger”). The Company issued approximately 7.7 million Common Shares to Owen shareholders and Owen’s outstanding stock options were converted into options to purchase

approximately 0.7 million Common Shares. The term “Cardinal” as used in this footnote refers to Cardinal Health, Inc. and subsidiaries prior to the Owen Merger.

Cardinal’s fiscal year end is June 30 and Owen’s fiscal year end was November 30. For fiscal years ended June 30, 1996 and 1995, the consolidated financial statements combine Cardinal’s fiscal year ended June 30, 1996 and 1995 with the financial results for Owen’s fiscal years ended November 30, 1995 and 1994, respectively. For the fiscal year ended June 30, 1997, the consolidated financial statements combine Cardinal’s fiscal year ended June 30, 1997 with Owen’s financial results for the period of June 1, 1996 to June 30, 1997 (excluding Owen’s financial results for December 1996 in order to change Owen’s November 30 fiscal year end to June 30). Due to the change in Owen’s fiscal year from November 30 to conform with Cardinal’s June 30 fiscal year end, Owen’s results of operations for the periods from December 1, 1995 through May 31, 1996 and the month of December 1996 will not be included in the combined results of operations but are reflected as an adjustment in the Consolidated Statements of Shareholders’ Equity. Owen’s net revenues and net earnings for these periods were \$260.1 million and \$5.7 million, respectively. Owen’s cash flows from operating and financing activities for these periods were \$0.9 million and \$0.7 million, respectively, while cash flows used in investing activities were \$5.6 million.

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual amounts may differ from these estimated amounts.

Cash Equivalents

The Company considers all liquid investments purchased with a maturity of three months or less to be cash equivalents. The carrying value of cash equivalents approximates their fair value.

Marketable Securities Available-for-Sale

As of June 30, 1996, the Company has classified its investment in municipal bonds and U.S. Treasury obligations as available-for-sale. The fair value of the marketable securities approximates the adjusted book value determined on a specific identification basis at June 30, 1996. Gross and net realized and unrealized holding gains and losses were not material in any period presented in the accompanying financial statements.

Receivables

Trade receivables are primarily comprised of amounts owed to the Company through its pharmaceutical whole-

salings activities and are presented net of an allowance for doubtful accounts of \$35.0 million and \$36.2 million at June 30, 1997 and 1996, respectively.

The Company provides financing to various customers. Such financing arrangements range from one year to ten years, at interest rates which generally fluctuate with the prime rate. The financings may be collateralized, guaranteed by third parties or unsecured. Finance notes and accrued interest receivable are \$52.5 million and \$59.1 million at June 30, 1997 and 1996, respectively (the current portion was \$12.1 million and \$14.8 million, respectively), and are included in other assets. These amounts are reported net of an allowance for doubtful accounts of \$8.2 million and \$9.1 million at June 30, 1997 and 1996, respectively.

Merchandise Inventories

Substantially all merchandise inventories (86% in 1997 and 81% in 1996) are stated at lower of cost, using the last-in, first-out (LIFO) method, or market. If the Company had used the first-in, first-out (FIFO) method of inventory valuation, which approximates current replacement cost, inventories would have been higher than reported at June 30, 1997, by \$69.6 million and at June 30, 1996, by \$76.3 million.

The Company continues to consolidate locations, automate selected distribution facilities and invest in management information systems which achieve efficiencies in inventory management processes. As a result of the facility and related inventory consolidations, and the operational efficiencies achieved in fiscal 1997 and 1996, the Company had partial inventory liquidations in certain LIFO pools which reduced the LIFO provision by approximately \$2 million and \$7 million, respectively.

Property and Equipment

Property and equipment are stated at cost. Depreciation and amortization for financial reporting purposes are computed using the straight-line method over the estimated useful lives of the assets which range from three to forty years, including capital lease assets which are amortized over the terms of their respective leases. Amortization of capital lease assets is included in depreciation and amortization expense. Certain software costs related to internally developed or purchased software are capitalized and amortized using the straight-line method over the useful lives, not exceeding five years.

Goodwill and Other Intangibles

Goodwill and other intangibles primarily represent intangible assets related to the excess of cost over net assets of subsidiaries acquired. Intangible assets are being amortized using the straight-line method over

lives which range from ten to forty years. Accumulated amortization was \$20.3 million and \$25.6 million at June 30, 1997 and 1996, respectively. At each balance sheet date, a determination is made by management to ascertain whether there is an indication that the intangible assets may have been impaired based on undiscounted operating cash flows.

Revenue Recognition

The Company records distribution revenues when merchandise is shipped to its customers and the Company has no further obligation to provide services related to such merchandise. The Company also arranges for bulk deliveries to be made to customer warehouses which are excluded from net revenues and totaled \$2.5 billion, \$2.2 billion and \$1.8 billion in fiscal 1997, 1996 and 1995, respectively. The service fees related to bulk deliveries are included in net revenues and were not significant in any of the fiscal years presented.

Revenues are recognized from sales-type leases of point-of-use pharmacy systems when the systems are delivered, and the customer accepts the system, and the lease becomes noncancellable. Unearned income on sales-type leases is recognized using the interest method. Sales of point-of-use pharmacy systems are recognized upon delivery and customer acceptance. Revenues for systems installed under operating lease arrangements are recognized over the lease term as it becomes receivable according to the provisions of the lease. The revenue from such operating leases is not significant.

The Company earns franchise and origination fees from its apothecary-style pharmacy franchisees. Franchise fees represent monthly fees based upon franchisees' sales and are recognized as revenues when they are earned. Origination fees from signing new franchise agreements are recognized as revenues when the new franchise store is opened. Master franchise origination fees are recognized as revenues when all significant conditions relating to the master franchise agreement have been satisfied by the Company.

Pharmacy management revenue is recognized as the related services are rendered according to the contracts established. A fee is charged under such contracts through a monthly management fee arrangement, a capitated fee arrangement or a portion of the hospital charges to patients. Under certain contracts, fees for management services are guaranteed by the Company not to exceed stipulated amounts or have other risk-sharing provisions. Revenues include the estimated effects of such contractual guarantees and risk-sharing provisions.

Packaging revenues are recognized from services provided upon the completion of such services.

Earnings per Common Share

Primary and fully diluted earnings per Common Share are computed using the treasury stock method and are based on the weighted average number of Common Shares outstanding during each period and the dilutive effect of stock options from the date of grant. Additionally, fully diluted earnings per share for all periods prior to the conversion include the effect of the shares assumed to be issued upon conversion of the convertible subordinated notes (see Note 5).

Excluding dividends paid by all entities with which the Company has merged, the Company paid cash dividends per Common Share of \$0.09 for the fiscal year ended June 30, 1997 and \$0.08 for each of the fiscal years ended June 30, 1996 and 1995.

Stock Split

On October 29, 1996, the Company declared a three-for-two stock split which was effected as a stock dividend and distributed on December 16, 1996 to shareholders of record on December 2, 1996. All share and per share amounts included in the consolidated financial statements, except the Consolidated Statements of Shareholders' Equity, have been adjusted to retroactively reflect this stock split.

New Accounting Pronouncement

In March 1995, the Financial Accounting Standards Board ("FASB") issued Statement of Financial Accounting Standards No. 121 (SFAS 121), "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to Be Disposed Of," which the Company adopted at the beginning of fiscal 1997. SFAS 121 requires impairment losses to be recorded on long-lived assets used in operations when an indication of impairment is present and the undiscounted cash flows estimated to be generated by those assets are less than the assets' carrying amount. SFAS 121 also addresses accounting for long-lived assets that are expected to be disposed of. The impact of adopting SFAS 121 has had an immaterial effect on the Company's financial condition and results of operations

2. BUSINESS COMBINATIONS

On March 18, 1997, the Company completed the Owen Merger. The Owen Merger was accounted for as a pooling-of-interests business combination and the Company issued approximately 7.7 million Common Shares to Owen shareholders and Owen's outstanding stock options were converted into options to purchase approximately 0.7 million Common Shares. The Company recorded costs of approximately \$39.6 million (\$27.5 million, net of tax) related to the Owen Merger. These costs include \$16.7 million for transaction and employee-related costs associated with the merger,

\$13.2 million for asset impairments (\$10.6 million of which related to MediTROL, as further discussed below), and \$9.7 million related to other integration activities, including the elimination of duplicate facilities and certain exit and restructuring costs. At the time of the Owen Merger, Owen had a wholly owned subsidiary, MediTROL, that manufactured, marketed, sold and serviced point-of-use medication distribution systems similar to Pyxis. Upon consummation of the Owen Merger, management committed to merge the operations of MediTROL into Pyxis, and phase out production of the separate MediTROL product line. As a result of this decision, a MediTROL patent (\$7.4 million) and certain other operating assets (\$3.2 million) were written off as impaired.

On October 11, 1996, the Company completed the PCI Merger. The PCI Merger was accounted for as a pooling-of-interests business combination and the Company issued approximately 3.1 million Common Shares to PCI shareholders and PCI's outstanding stock options were converted into options to purchase approximately 0.2 million Common Shares. The historical cost of PCI assets combined was approximately \$147.6 million and the total liabilities assumed (including total debt of approximately \$62.0 million) were approximately \$87.2 million. Because the impact of the PCI Merger, on a historical basis, was not significant, prior period financial statements have not been restated. The Company recorded costs totaling approximately \$17.4 million (\$12.7 million, net of tax) related to the PCI Merger. These costs include \$14.5 million for transaction and employee-related costs associated with the PCI Merger, (including \$7.6 million for retirement benefits and incentive fees to two executives of PCI, which vested and became payable upon consummation of the merger) and \$2.9 million related to other integration activities, including exit costs.

The effect of the merger-related costs recorded in fiscal 1997 was to reduce reported net earnings by \$40.2 million to \$181.1 million and to reduce reported fully diluted earnings per common share by \$0.37 per share to \$1.66 per share. Certain merger-related costs are based upon estimates, and actual amounts paid may ultimately differ from these estimates. If additional costs are incurred, such items will be expensed in subsequent periods.

The following table presents a reconciliation of net revenues and net earnings as reported in the accompanying consolidated financial statements with those previously reported by the Company. The term "Cardinal" as used in this footnote refers to Cardinal Health, Inc. and subsidiaries prior to the Owen Merger.

(In thousands)	Cardinal	Owen	Combined
Fiscal year ended June 30, 1995:			
Net revenues	\$8,022,108	\$320,409	\$8,342,517
Net earnings	\$137,534	\$4,981	\$142,515
Fiscal year ended June 30, 1996:			
Net revenues	\$8,862,425	\$383,995	\$9,246,420
Net earnings	\$111,864	\$5,770	\$117,634
Six months ended December 31, 1996:			
Net revenues	\$5,116,996	\$234,886	\$5,351,882
Net earnings	\$78,251	\$4,750	\$83,001

Adjustments affecting net income and shareholders' equity resulting from the merger to adopt the same accounting practices were not material for the periods presented herein.

On May 7, 1996, the Company completed a merger with Pyxis (the "Pyxis Merger"). The Pyxis Merger was accounted for as a pooling-of-interests business combination, and the Company issued approximately 22.6 million Common Shares to Pyxis shareholders. In addition, Pyxis' outstanding stock options were converted into options to purchase approximately 2.3 million additional Common Shares. The Company recorded costs totaling approximately \$50.7 million (\$35.3 million, net of tax) related to the Pyxis Merger. These costs include \$30 million for transaction and employee-related costs associated with the merger (including \$7.6 million for vested stay bonuses covering substantially all Pyxis employees), \$17.6 million related to certain exit and lease termination costs (including \$17.2 million to exit a long-term contract with a financing company, see Note 3), and \$3.1 million related to asset impairments and other integration activities.

On November 13, 1995, the Company completed a merger with Medicine Shoppe (the "Medicine Shoppe Merger"). The Medicine Shoppe Merger was accounted for as a pooling-of-interests business combination and the Company issued approximately 9.6 million Common Shares to Medicine Shoppe shareholders. In addition, Medicine Shoppe's outstanding stock options were converted into options to purchase approximately 0.2 million Common Shares. The Company recorded costs totaling approximately \$16.6 million (\$12.5 million, net of tax) related to the Medicine Shoppe Merger. These costs include \$6.7 million for transaction and employee-related costs associated with the Medicine Shoppe Merger, \$7.4 million for unconditional commitments to franchisees, and \$2.5 million related to other integration activities.

The effect of the merger-related costs recorded in fiscal 1996 was to reduce reported net earnings by \$47.8 million to \$117.6 million and to reduce reported fully

diluted earnings per common share by \$0.46 per share to \$1.14 per share. Certain merger-related costs are based upon estimates, and actual amounts paid may ultimately differ from these estimates. If additional costs are incurred, such items will be expensed in subsequent periods.

As of June 30, 1997 and 1996, the Company had incurred approximately \$101.9 million and \$22.1 million, respectively, related to the costs recorded at the time of the various mergers. The Company's current estimates of the merger-related costs ultimately to be incurred are not materially different from the amounts originally recorded.

During fiscal 1996, the Company completed two business combinations which were accounted for under the purchase method of accounting. These business combinations were primarily related to the Company's point-of-use pharmacy systems and pharmacy management services. The aggregate purchase price, which was paid primarily in cash, including fees and expenses, was \$40.0 million. Liabilities of the operations assumed were approximately \$33.2 million, consisting primarily of debt of \$27.8 million. Had the purchases occurred at the beginning of fiscal 1995, operating results for fiscal 1996 and 1995 on a pro forma basis would not have been significantly different.

On July 18, 1994, the Company issued approximately 1.4 million Common Shares in a merger transaction for all of the common shares of Behrens Inc. ("Behrens"), a pharmaceutical wholesaler based in Waco, Texas. The transaction was accounted for as a pooling-of-interests business combination. The historical cost of Behrens assets combined was approximately \$25.4 million, and the total liabilities assumed (including total debt of approximately \$1.3 million) were approximately \$15.6 million. Because the impact of the Behrens merger, on both a historical and pro forma basis, was not significant, prior periods have not been restated.

During fiscal 1995, the Company completed two business combinations which were accounted for under the purchase method of accounting. These business combinations were primarily related to the Company's drug distribution and point-of-use pharmacy systems. The aggregate purchase price was \$54.5 million (\$8.9 million was assumed debt), which included approximately 0.8 million Common Shares valued at \$11.2 million. Liabilities of the operations assumed were approximately \$98.9 million, consisting of \$1.7 million of debt. Had the purchases occurred at the beginning of fiscal 1995, operating results for fiscal 1995 on a pro forma basis would not have been significantly different.

3. LEASES

Sales-Type Leases

The Company's sales-type leases are for terms generally ranging up to five years. Lease receivables are generally collateralized by the underlying equipment. The components of the Company's net investment in sales-type leases are as follows (in thousands):

	June 30, 1997	June 30, 1996
Future minimum lease payments receivable	\$189,810	\$176,963
Unguaranteed residual values	1,333	1,457
Unearned income	(27,817)	(25,637)
Allowance for uncollectible minimum lease payments receivable	(3,074)	(3,226)
Net investment in sales-type leases	160,252	149,557
Less: current portion	40,720	37,953
Net investment in sales-type leases, less current portion	\$119,532	\$111,604

Future minimum lease payments to be received pursuant to sales-type leases are as follows at June 30, 1997:

1998	\$52,104
1999	51,166
2000	41,511
2001	28,246
2002	15,813
Thereafter	970
Total	\$189,810

Lease-Related Financing Arrangements

Prior to the Pyxis Merger, Pyxis had financed its working capital needs through the sale of certain lease receivables to a non-bank financing company. In March 1994, Pyxis entered into a five-year financing and servicing agreement with the financing company, whereby the financing company agreed to purchase a minimum of \$500 million of Pyxis' lease receivables under certain conditions, provided that the total investment in the lease receivables at any one time did not exceed \$350 million. As of June 30, 1997, \$203 million of lease receivables were owned by the financing company. The aggregate lease receivables sold under this arrangement totaled approximately \$312 million and \$233 million at June 30, 1997 and 1996, respectively. As a result of the Pyxis Merger, the Company entered into negotiations with the financing company to amend and terminate this arrangement. In June 1997, the agreement with the financing company was amended to modify financing levels over the remaining term of the agreement and to terminate the lease portfolio servicing responsibilities of the financing company. The Company made provision for the estimated costs associated with the exiting of this arrangement at the time of the Pyxis Merger.

4. NOTES PAYABLE, BANKS

The Company has entered into various unsecured, uncommitted line-of-credit arrangements which allow

for borrowings up to \$279 million at June 30, 1997, at various money market rates. At June 30, 1997, \$22.2 million, at a weighted average interest rate of 6.26%, was outstanding under such arrangements and no amounts were outstanding as of June 30, 1996. In addition, the Company has revolving credit agreements, which have a maturity of less than one year, with seven banks. These credit agreements are renewable on a quarterly basis and allow the Company to borrow up to \$95 million (none of which was in use at June 30, 1997). The Company is required to pay a commitment fee at the annual rate of 0.125% on the average daily unused amounts of the total credit allowed under the revolving credit agreements. The total available but unused lines of credit at June 30, 1997 were \$352 million.

5. LONG-TERM OBLIGATIONS

Long-term obligations consist of the following (in thousands):

	June 30, 1997	June 30, 1996
Notes; 6.0% due 2006	\$150,000	\$150,000
Notes; 6.5% due 2004	100,000	100,000
Notes; 8% paid in 1997	—	100,000
Other obligations; interest averaging 6.38% in 1997 and 7.14% in 1996, due in varying installments through 2011	33,924	21,154
Total	283,924	371,154
Less: current portion	6,158	106,008
Long-term obligations, less current portion	\$277,766	\$265,146

On January 23, 1996, the Company sold \$150 million of 6% Notes due 2006 (the "6% Notes") in a public offering. The 6% Notes represent unsecured obligations of the Company, are not redeemable prior to maturity, and are not subject to a sinking fund. Issuance costs of approximately \$1.3 million incurred in connection with the offering are

being amortized on a straight-line basis over the period the 6% Notes will be outstanding.

During fiscal 1996, holders of the \$10 million, 9.53% convertible subordinated notes due 2002, originally issued by Owen, converted the notes into the equivalent of approximately 1.1 million Common Shares. Additionally, Owen repaid \$34.8 million of debt with proceeds from a common stock offering. If the previously mentioned conversion and retirement of debt had occurred at the beginning of all periods presented, the changes to primary earnings per share would be less than 3%.

The 6.5% Notes represent unsecured obligations of the Company, are not redeemable prior to maturity and are not subject to a sinking fund. Issuance costs of approximately \$860,000, incurred in connection with these Notes are being amortized on a straight-line basis over the period the 6.5% Notes will be outstanding.

The 8% Notes represented unsecured obligations of the Company, were not redeemable prior to their maturity on March 1, 1997 and were not subject to a sinking fund.

Certain long-term obligations are collateralized by property and equipment of the Company with an aggregate book value of approximately \$33.5 million at June 30, 1997.

Maturities of long-term obligations for future fiscal years are as follows (in thousands):

1998	\$6,158
1999	6,706
2000	3,985
2001	3,016
2002	1,890
Thereafter	262,169
Total	\$283,924

The Company filed a shelf debt registration statement on Form S-3 with the Securities and Exchange Commission, which was declared effective on April 21, 1997. The registration increases the Company's shelf debt capacity by \$350 million to a total of \$400 million. No securities have been sold under this registration statement.

6. ESTIMATED FAIR VALUE OF FINANCIAL INSTRUMENTS

The carrying amounts of cash and equivalents, marketable securities, trade receivables, accounts payable, notes payable – banks and other accrued liabilities at June 30, 1997 and 1996, approximate their fair value because of the short-term maturities of these items.

The estimated fair value of the Company's long-term obligations was \$270.1 million and \$354.2 million as compared to the carrying amounts of \$283.9 million

and \$371.2 million at June 30, 1997 and 1996, respectively.

The fair value of the Company's long-term obligations is estimated based on the quoted market prices for the same or similar issues and the current interest rates offered for debt of the same remaining maturities.

7. INCOME TAXES

The provision for income taxes consists of the following (in thousands):

	Fiscal Year Ended June 30,		
	1997	1996	1995
Current:			
Federal	\$101,877	\$64,480	\$45,654
State	13,387	8,447	5,496
Total	115,264	72,927	51,150
Deferred	15,897	21,502	48,454
Total provision	\$131,161	\$94,429	\$99,604

A reconciliation of the provision based on the federal statutory income tax rate to the Company's income tax provision is as follows:

	Fiscal Year Ended June 30,		
	1997	1996	1995
Provision at federal statutory rate	35.0%	35.0%	35.0%
State income taxes, net of federal benefit	4.3	4.8	4.7
Nondeductible expenses	2.4	4.3	0.1
Other	0.3	0.4	1.3
Effective income tax rate	42.0%	44.5%	41.1%

Deferred income taxes arise from temporary differences between financial reporting and tax reporting bases of assets and liabilities, and operating loss and tax credit carryforwards for tax purposes. Amounts for fiscal 1996 have been reclassified to conform to the fiscal 1997 presentation.

The components of the deferred income tax assets and liabilities are as follows (in thousands):

	June 30, 1997	June 30, 1996
Deferred income tax assets:		
Allowance for doubtful accounts	\$18,669	\$19,020
Accrued liabilities	32,017	23,775
Net operating loss carryforwards	30,978	35,023
Other	38,285	48,281
Total deferred income tax assets	119,949	126,099
Valuation allowance for deferred income tax assets		
	(2,696)	(3,008)
Net deferred income tax assets	117,253	123,091
Deferred income tax liabilities:		
Inventory basis differences	(58,077)	(55,431)
Property-related	(63,171)	(55,962)
Revenues on lease contracts	(89,101)	(91,996)
Other	(13,128)	(10,029)
Total deferred income tax liabilities	(223,477)	(213,418)
Net deferred income tax liabilities	\$(106,224)	\$(90,327)

The above amounts are classified in the consolidated balance sheets as follows (in thousands):

	June 30, 1997	June 30, 1996
Other current assets (liabilities)	\$(30,858)	\$3,335
Deferred income taxes and other liabilities	(75,366)	(93,662)
Net deferred income tax liabilities	\$(106,224)	\$(90,327)

The Company had federal net operating loss carryforwards of \$91 million as of June 30, 1997 and 1996. Also at June 30, 1997 and 1996, the Company had state net operating loss carryforwards of \$56 million and \$63 million, respectively. A valuation allowance of \$2.7 million and \$3.0 million at June 30, 1997 and 1996, respectively, has been provided for the state net operating loss carryforwards, as utilization of such carryforwards within the applicable statutory periods is uncertain. In addition, use of the Company's net operating loss carryforwards will be limited due to the Pyxis Merger and the carryforwards are also only available to offset future taxable income of Pyxis. However, with the exception of the valuation allowance described above, the Company anticipates that no limitations will apply. The federal net operating loss carryforwards begin expiring in 2001 and the state net operating loss carryforwards began expiring in 1994.

8. EMPLOYEE RETIREMENT BENEFIT PLANS

Substantially all of the Company's non-union employees are eligible to be enrolled in Company-sponsored contributory profit sharing and retirement savings plans which include features under Section 401(k) of the Internal Revenue Code, and provide for Company matching and profit sharing contributions. The Company's contributions to the plans are determined by the Board of Directors subject to certain minimum requirements as specified in the plans.

Qualified union employees are covered by multiemployer defined benefit pension plans under the provisions of collective bargaining agreements. Benefits under these plans are generally based on the employee's years of service and average compensation at retirement.

The total expense for employee retirement benefit plans was as follows (in thousands):

	Fiscal Year Ended June 30,		
	1997	1996	1995
Defined contribution plans	\$10,765	\$8,107	\$6,033
Multiemployer plans	947	711	637
ESOP compensation	—	257	533
Total	\$11,712	\$9,075	\$7,203

Prior to the Owen Merger, Owen established an Employee Stock Ownership Plan (ESOP). Costs for the ESOP debt service were recognized for additional contributions to satisfy ESOP obligations and plan operating expenses. As of January 2, 1996, contributions to the ESOP were suspended and all participants became fully vested.

9. COMMITMENTS AND CONTINGENT LIABILITIES

The future minimum rental payments for operating leases having initial or remaining noncancelable lease terms in excess of one year at June 30, 1997, are as follows (in thousands):

1998	\$17,083
1999	12,626
2000	7,655
2001	6,339
2002	5,601
Thereafter	22,341
Total	\$71,645

Rental expense relating to operating leases was approximately \$23.0 million, \$22.6 million and \$16.4 million in fiscal 1997, 1996, and 1995, respectively. Sublease rental income was not material for any period presented herein.

The Company has entered into operating lease agreements with several banks for the construction of various new

facilities. The initial terms of the lease agreements extend through April 2003, with optional five-year renewal periods. In the event of termination, the Company is required to either purchase the facility or vacate the property and make reimbursement for a portion of the uncompensated price of the property cost. The instruments provide for maximum fundings of

\$159 million, which is the total estimated cost of the construction projects. As of June 30, 1997, the amount expended was \$32.5 million. Currently, the Company's minimum annual lease payments under the agreements are approximately \$2.2 million.

As of June 30, 1997, amounts outstanding on customer notes receivable sold with full recourse to a commercial bank totaled approximately \$12.9 million. The Company also has outstanding guarantees of indebtedness and financial assistance commitments which totaled approximately \$3 million at June 30, 1997.

The Company becomes involved from time-to-time in litigation incidental to its business. In addition, in November 1993, Cardinal, Whitmire, five other pharmaceutical wholesalers, and twenty-four pharmaceutical manufacturers were named as defendants in a series of purported class action antitrust lawsuits alleging violations of various antitrust laws associated with the chargeback pricing system. The Company believes that the allegations set forth against Cardinal and Whitmire in these lawsuits are without merit. Although the ultimate resolution of litigation cannot be forecast with certainty, the Company does not believe that the outcome of any pending litigation would have a material adverse effect on the Company's financial statements.

10. SHAREHOLDERS' EQUITY

At June 30, 1997, the Company's authorized capital shares consisted of (a) 150,000,000 Class A common shares, without par value; (b) 5,000,000 Class B common shares, without par value; and (c) 500,000 non-voting preferred shares without par value. At June 30, 1996, the Company's authorized capital shares consisted of (a) 100,000,000 Class A common shares, without par value; (b) 5,000,000 Class B common shares, without par value; and (c) 500,000 non-voting preferred shares without par value. The Class A common shares and Class B common shares are collectively referred to as Common Shares. Holders of Class A and Class B common shares are entitled to share equally in any dividends declared by the Company's Board of Directors and to participate equally in all distributions of assets upon liquidation. Generally, the holders of Class A common shares are entitled to one vote per share and the holders of Class B common shares are entitled to

one-fifth of one vote per share on proposals presented to shareholders for vote. Under certain circumstances, the holders of Class B common shares are entitled to vote as a separate class. Only Class A common shares were outstanding as of June 30, 1997 and 1996.

On September 26, 1994, approximately 12.1 million of the Company's Common Shares were sold pursuant to a public offering. Approximately 2.8 million Common Shares were sold by the Company, and approximately 9.3 million Common Shares (the "Existing Shares") were sold by certain shareholders of the Company. The Company did not receive any of the proceeds from the sale of the Existing Shares.

11. CONCENTRATION OF CREDIT RISK AND MAJOR CUSTOMERS

The Company's trade receivables, finance notes and accrued interest receivable, and lease receivables are exposed to a concentration of credit risk with customers in the retail and healthcare sectors. Credit risk can be affected by changes in reimbursement and other economic pressures impacting the acute care portion of the healthcare industry. However, the credit risk is limited due to supporting collateral and the diversity of the customer base, including its wide geographic dispersion. The Company performs ongoing credit evaluations of its customers' financial conditions and maintains reserves for credit losses. Such losses historically have been within the Company's expectations.

During fiscal 1997, the Company's two largest customers individually accounted for 13% of net revenues and 62% of bulk deliveries, respectively. During fiscal 1996, the Company's two largest customers individually accounted for 12% of net revenues and 70% of bulk deliveries, respectively. During fiscal 1995, the Company's two largest customers individually accounted for 11% of net revenues and 82% of bulk deliveries, respectively. Trade receivables due from these two customers aggregated approximately 23% of total trade receivables at June 30, 1997 and 1996.

12. STOCK OPTIONS AND RESTRICTED SHARES

The Company maintains stock incentive plans (the "Plans") for the benefit of certain officers, directors and employees. Options granted generally vest over three years and are exercisable for periods up to ten years from the date of grant at a price which equals fair market value at the date of grant.

The Company accounts for the Plans in accordance with APB Opinion No. 25, under which no compensation cost has been recognized. Had compensation cost for the Plans been determined consistent with the Statement of Financial Accounting Standards No. 123

("SFAS 123"), "Accounting for Stock-Based Compensation," the Company's net income and earnings per share would have been reduced by \$2.3 million and \$0.02 per share, respectively, for fiscal 1997 and \$6.4 million and \$0.07 per share, respectively, for fiscal 1996.

Because the SFAS 123 method of accounting has not been applied to options granted prior to July 1, 1995, the resulting pro forma compensation cost may not be representative of that to be expected in future years.

The following summarizes all stock option transactions for the Company (excluding Whitmire, see below) under the Plans from June 30, 1994, through June 30, 1997, giving retroactive effect to conversions of options in connection with merger transactions and stock splits (in thousands, except per share amounts):

	Fiscal 1997		Fiscal 1996		Fiscal 1995	
	Options	Weighted average exercise price	Options	Weighted average exercise price	Options	Weighted average exercise price
Outstanding, beginning of year	6,432	\$24.15	5,737	\$20.98	4,675	\$18.22
Granted	840	54.88	1,382	36.82	1,196	31.04
Exercised	(2,284)	19.87	(527)	21.10	(92)	9.43
Canceled	(240)	27.27	(160)	29.93	(42)	25.19
Outstanding, end of year	4,748	\$31.49	6,432	\$24.15	5,737	\$20.98
Exercisable, end of year	2,718	\$23.15	4,076	\$20.89	1,816	\$10.25

The weighted average fair value of options granted during fiscal 1997 and 1996 was \$14.48 and \$14.50, respectively. The fair value of the options granted were estimated on the date of grant using the Black-Scholes option-pricing model with the following assumptions for grants in both fiscal 1997 and 1996: risk-free interest rate of 6.23%, expected life of 3 years, expected volatility of 0.25% and dividend yield of 0.17%.

Information relative to stock options outstanding as of June 30, 1997:

Range of exercise prices	Options Outstanding			Options Exercisable	
	Options	Weighted average remaining contractual life in years	Weighted average exercise price	Options	Weighted average exercise price
\$ 0.08-\$23.07	1,737	4.99	\$15.35	1,584	\$15.30
\$23.27-\$39.92	1,905	7.76	33.11	842	30.20
\$40.00-\$63.00	1,106	8.84	54.02	292	45.39
	4,748	7.00	\$31.49	2,718	\$23.15

As of June 30, 1997, there remained approximately 1.5 million additional shares available to be issued pursuant to the Plans.

In connection with the Whitmire Merger, outstanding Whitmire stock options granted to current or former Whitmire officers or employees were automatically converted into options ("Cardinal Exchange Options") to purchase an aggregate of approximately 2.6 million additional Common Shares. Under the terms of their original issuance, the exercise price for substantially all of the Cardinal Exchange Options is remitted to certain former investors of Whitmire. Cardinal Exchange Options to purchase 0.3 million and 1.9 million Common Shares, with an average option price of \$1.37 and \$1.01 were exercised in fiscal 1996 and 1995, respectively. At June 30, 1996, all Cardinal Exchange Options had been exercised.

The market value of restricted shares awarded by the Company is recorded in the "Other" component of shareholders' equity in the accompanying balance sheets. The compensation awards are amortized to expense over the period in which participants perform services, generally one to six years. As of June 30, 1997, approximately 0.7 million restricted shares had been issued, of which approximately 0.2 million shares remained restricted and subject to forfeiture and approximately 67,000 shares had been forfeited.

13. SELECTED QUARTERLY FINANCIAL DATA (UNAUDITED)

The following selected quarterly financial data (in thousands, except per share amounts) for fiscal 1997 and 1996 has been restated to reflect the pooling-of-interests business combinations (see Note 2):

	First Quarter	Second Quarter	Third Quarter	Fourth Quarter
Fiscal 1997:				
Net revenues	\$2,535,476	\$2,816,406	\$2,825,500	\$2,790,660
Gross margin	197,128	223,558	243,658	240,614
Selling, general and administrative expenses	124,156	127,313	129,702	132,446
Operating earnings	72,972	78,886	74,352	108,168
Net earnings	41,401	41,600	36,228	61,890
Net earnings per Common Share:				
Primary	\$0.39	\$0.38	\$0.33	\$0.56
Fully diluted	0.39	0.38	0.33	0.56
Fiscal 1996:				
Net revenues	\$2,187,518	\$2,284,993	\$2,352,254	\$2,421,655
Gross margin	177,420	188,473	203,587	203,754
Selling, general and administrative expenses	116,899	117,323	122,382	122,836
Operating earnings	60,521	53,598	81,205	31,220
Net earnings	33,775	28,154	44,691	11,014
Net earnings per Common Share:				
Primary	\$0.33	\$0.28	\$0.43	\$0.10
Fully diluted	0.33	0.28	0.43	0.10

As more fully discussed in Note 2, merger-related costs were recorded in various quarters in fiscal 1997 and 1996. The following table summarizes the impact of such costs on net earnings and fully diluted earnings per share in the quarters in which they were recorded:

	First Quarter	Second Quarter	Third Quarter	Fourth Quarter
Fiscal 1997:				
Net earnings	—	\$(12,655)	\$(27,522)	—
Fully diluted net earnings per Common Share	—	\$(0.12)	\$(0.25)	—
Fiscal 1996:				
Net earnings	—	\$(12,495)	—	\$(35,338)
Fully diluted net earnings per Common Share	—	\$(0.12)	—	\$(0.34)

14. SUPPLEMENTAL CASH FLOW INFORMATION

Income tax and interest payments for the fiscal years ended June 30, 1997, 1996 and 1995 were as follows (in thousands):

	Fiscal Year Ended June 30,		
	1997	1996	1995
Interest paid	\$30,487	\$21,619	\$23,002
Income taxes paid	\$83,639	\$61,897	\$25,262

See Note 2 and 5 for additional information regarding non-cash investing and financing activities.

15. RECENTLY ISSUED FINANCIAL ACCOUNTING STANDARDS

In February 1997, FASB issued Statement of Financial Accounting Standards No. 128 ("SFAS 128"), "Earnings per Share," which will require retroactive adoption in the Company's fiscal quarter ending December 31, 1997. The new standard simplifies the computation of earnings per share and requires the presentation of basic and diluted earnings per share. In light of the present capital structure, the impact of adopting SFAS 128 will not be significant.

In June 1997, the Financial Accounting Standard Board issued Statement of Financial Accounting Standards No. 130 ("SFAS 130"), "Reporting Comprehensive Income," which will require adoption no later than the Company's fiscal quarter ending September 30, 1998. This new statement defines comprehensive income as "all changes in equity during a period, with the exception of stock issuances and dividends." The new pronouncement establishes standards for reporting and display of comprehensive income and its components in the financial statements.

In June 1997, the Financial Accounting Standard Board issued Statement of Financial Accounting Standards No. 131 ("SFAS 131"), "Disclosures about Segments of an Enterprise and Related Information," which will require adoption no later than fiscal 1999. SFAS 131 requires companies to define and report financial and descriptive information about its operating segments. It also establishes standards for related disclosure about products and services, geographic areas, and major customers.

The Company is presently evaluating the applicability of SFAS 130 and 131 to its operations.

16. PENDING MERGERS

On May 27, 1997, the Company announced that it had entered into a definitive merger agreement with MediQual Systems, Inc. ("MediQual"), pursuant to which MediQual will become a wholly owned subsid-

iary of the Company in a stock-for-stock merger expected to be accounted for as a pooling-of-interests for financial reporting purposes. Upon consummation of the merger, the Company will record a merger-related charge to reflect transaction and other costs incurred as a result of the merger. The amount of this charge is not expected to be significant. In connection with the merger, the Company estimates that it will issue approximately 0.6 million Common Shares. The merger is expected to be completed in the first half of fiscal 1998, subject to satisfaction of certain conditions, including approval by shareholders of MediQual.

On August 23, 1997, the Company signed a definitive merger agreement with Bergen Brunswig Corporation ("Bergen"), a distributor of pharmaceuticals and medical-surgical supplies. Under the terms of the transaction, shareholders of Bergen will receive a fixed exchange ratio of .775 of the Company's Common Shares in exchange for each common share of Bergen. The Company will issue approximately 40 million Common Shares in the transaction and will also assume approximately \$386 million in long-term debt. The merger is expected to be completed by the end of the third quarter of fiscal 1998, subject to certain conditions, including approval by shareholders and receipt of certain regulatory approvals. The transaction is expected to be accounted for as a pooling-of-interests.

Common Share Information

	High	Low	Dividends
Fiscal 1996:			
Quarter Ended			
September 30, 1995	\$37.67	\$29.17	\$0.020
December 31, 1995	38.58	34.08	0.020
March 31, 1996	42.83	35.00	0.020
June 30, 1996	50.17	40.17	0.020
Fiscal 1997:			
Quarter Ended			
September 30, 1996	\$55.08	\$44.67	\$0.020
December 31, 1996	58.38	51.92	0.025
March 31, 1997	64.13	54.38	0.025
June 30, 1997	62.00	51.63	0.025
Fiscal 1998:			
Through			
September 12, 1997	\$70.00	\$54.63	\$0.025

Management is responsible for the integrity of the financial information contained in this report, including the audited financial statements, which have been prepared in conformity with generally accepted accounting principles and include amounts that are based on management's careful judgment and the best information available.

In order to fulfill its responsibility for the accuracy of financial information, management has designed a reliable system of internal financial controls that provides a cost effective safeguard over Company assets, while at the same time ensuring that transactions are executed and accounted for in accordance with management's instructions. Compliance with the established financial controls is the responsibility of qualified financial managers, including an internal audit department.

The Audit Committee of the Board of Directors, comprised solely of Directors from outside the Company,

meets on a quarterly basis with management and both the external and internal auditors as necessary. The committee's primary responsibilities, on behalf of shareholders and the Board, include the ongoing assessment of: (i) management's discharge of its responsibility for fair and accurate financial reporting, (ii) the activities and independence of the external and internal auditors, (iii) the adequacy of internal financial controls and the financial reporting process, and (iv) compliance with key Company policies.



Robert D. Walter
Chairman of the Board
and Chief Executive
Officer



David Bearman
Executive Vice President
and Chief Financial
Officer

Independent Auditors' Report

To the Shareholders and Directors of Cardinal Health, Inc.:

We have audited the accompanying consolidated balance sheets of Cardinal Health, Inc. and subsidiaries as of June 30, 1997 and 1996, and the related consolidated statements of earnings, shareholders' equity, and cash flows for each of the three years in the period ended June 30, 1997. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We did not audit the financial statements of Owen Healthcare, Inc. ("Owen") and of Pyxis Corporation ("Pyxis"), both wholly owned subsidiaries of Cardinal Health, Inc., for the years ended June 30, 1996 and 1995. The combined financial statement amounts of Owen and Pyxis represent approximately 13% of consolidated total assets at June 30, 1996 and represent combined revenues and net income of approximately 6% and 6%, and 37% and 29%, respectively, of consolidated amounts for each of the two years in the period ended June 30, 1996. These statements were audited by other auditors whose reports have been furnished to us, and our opinion, insofar as it relates to the amounts included for Owen and Pyxis, is based solely on the reports of such other auditors.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance

about whether the consolidated financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management as well as evaluating the overall financial statement presentation. We believe that our audits and the report of other auditors provide a reasonable basis for our opinion.

In our opinion, based on our audits and the report of the other auditors, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Cardinal Health, Inc. and subsidiaries at June 30, 1997 and 1996, and the results of their operations and their cash flows for each of the three years in the period ended June 30, 1997 in conformity with generally accepted accounting principles.



Deloitte & Touche LLP
Columbus, Ohio

August 12, 1997, except for Note 16
as to which the date is August 23, 1997



Fiscal Years Ended

	June 30,				March 31,
	1997	1996	1995	1994	1993
Earnings Statement Data:					
Net revenues	\$10,968,042	\$9,246,420	\$8,342,517	\$6,253,557	\$4,991,241
Gross margin	904,958	773,234	669,473	528,648	408,281
Selling, general and administrative expenses	513,617	479,440	413,630	324,181	271,989
Merger-related costs	56,963	67,250	—	35,880	5,434
Operating earnings (2)	334,378	226,544	255,843	168,587	130,854
Net earnings (2) (3)	181,119	117,634	142,515	84,628	57,669
Net earnings per					
Common Share: (2) (3)					
Primary	\$1.66	\$1.14	\$1.42	\$0.88	\$0.67
Fully diluted	1.66	1.14	1.40	0.88	0.66
Weighted average number of Common Shares outstanding:					
Primary	109,118	102,922	100,566	95,908	85,797
Fully diluted	109,172	103,832	101,756	97,008	93,359
Balance Sheet Data:					
Cash and marketable securities	\$243,061	\$358,616	\$171,420	\$156,143	\$183,041
Trade receivables	672,164	612,277	555,595	378,543	283,437
Merchandise inventories	1,453,120	1,272,616	1,110,070	893,835	657,697
Property and equipment, net	276,675	166,856	115,143	73,226	69,923
Total assets	\$3,108,546	\$2,825,175	\$2,264,726	\$1,710,949	\$1,333,601
Short-term obligations	\$28,317	\$106,008	\$7,665	\$31,897	\$18,433
Accounts payable	1,135,951	1,138,368	969,981	711,988	499,429
Long-term obligations	277,766	265,146	240,469	232,955	293,760
Shareholders' equity	1,332,200	1,035,838	817,038	572,720	397,437
Total liabilities and shareholders' equity	\$3,108,546	\$2,825,175	\$2,264,726	\$1,710,949	\$1,333,601
Cash dividends declared per Common Share	\$0.095	\$0.08	\$0.08	\$0.07	\$0.05

(1) Restated to reflect business combinations in fiscal 1997, 1996 and 1994.

(2) Merger-related costs have been recorded in connection with various business combinations, the impact of which is included in the amounts summarized above. See "Management's Discussion and Analysis of Financial Condition and Results of Operations" and Note 2 of "Notes to Consolidated Financial Statements" for further analysis of merger-related costs.

(3) Fiscal 1993 net earnings reflect the impact of a cumulative effect of a change in accounting principle of \$10 million.

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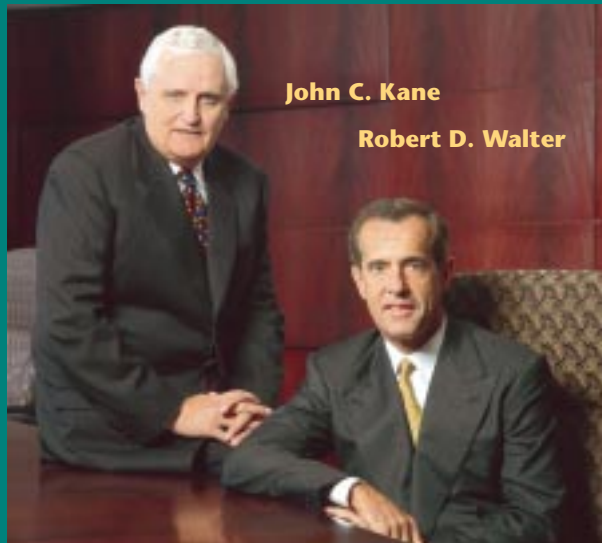
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