



Customer Focused...

1998 Annual Report to Shareholders



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, anticipated, or implied. The most significant of such uncertainties are described in Cardinal's Forms 10-K, 10-Q, and 8-K Reports and exhibits to those Reports filed with the Securities and Exchange Commission.

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Financial Highlights

	1998	1997	1996
Summary of Operations			
(In thousands, except percentages and per share amounts)			
Revenue: (1)			
Operating revenue	\$ 12,926,778	\$ 10,968,042	\$ 9,407,591
Bulk deliveries to customer warehouses	2,991,360	2,469,138	2,178,532
Total revenue	15,918,138	13,437,180	11,586,123
Mergers-related costs and other special charges	(57,778)	(50,929)	(49,200)
Operating earnings (2)	416,016	333,178	245,634
Net earnings (2)	\$ 247,081	\$ 184,599	\$ 127,240
Balance Sheet			
Working capital	\$ 1,384,532	\$ 1,097,677	\$ 942,040
Total assets	3,961,077	3,091,750	2,959,401
Long-term obligations	272,575	277,766	320,327
Shareholders' equity	\$ 1,625,198	\$ 1,334,730	\$ 1,095,225
Performance Ratios			
Operating earnings (2)	3.22%	3.04%	2.61%
Return on average equity (2)	16.70%	15.40%	13.00%
Per Share Results			
Diluted net earnings (2) (3)	\$ 2.22	\$ 1.69	\$ 1.19
Dividends declared	\$ 0.11	\$ 0.095	\$ 0.08
Weighted Average Number of Shares Outstanding (3)			
Diluted	111,447	109,118	106,808

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

(1) The Company, beginning in fiscal 1998, is reporting bulk deliveries to customer warehouses as part of total revenue.

Previously, only the gross margin from such sales had been classified in revenue. Such sales have been reclassified into revenue and cost of product sold for all periods presented. See Note 1 of "Notes to Consolidated Financial Statements" for a further discussion.

(2) Mergers-related and other special charges have been recorded in connection with various business combinations and facility rationalizations, 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 special charges.

(3) Effective for the fiscal year ended June 30, 1998, the Company adopted SFAS No. 128, "Earnings per Share."

In accordance with SFAS No. 128, diluted EPS has been restated for all periods presented.



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...Solutions Driven





Robert D. Walter
Chairman and Chief Executive Officer

To Our Shareholders

Cardinal Health continued to distinguish itself financially, operationally, and strategically in fiscal 1998 – it was another outstanding year for your company. We achieved record revenues and earnings, and improved our return on sales and capital employed. The company's performance was very well balanced – each of our operating divisions delivered pre-tax earnings growth of 20% or more for the fiscal year. Our operating cash flow in 1998 was up significantly, and the strength of our balance sheet at year-end provides the company with enormous flexibility for future growth. The year was not, however, without disappointment. We terminated our merger agreement with Bergen Brunswig Corporation, originally announced in August 1997, following the Federal Trade Commission's (FTC) successful court challenge to the transaction. Despite this event, we successfully completed several other merger transactions since my last letter to you, including the acquisition of R.P. Scherer Corporation – our largest merger ever, continuing our strategy to extend the range of pharmaceutical-related services Cardinal can provide to its pharmacy and healthcare product partners.

I would like to mention just a few financial performance highlights from our most recent fiscal year. Net earnings in fiscal 1998 rose 28% to \$282.9 million and diluted earnings per share increased 25% to \$2.54, before costs related to mergers and other special charges. The company experienced very strong operating revenue growth of 18% to \$12.9 billion in fiscal 1998. This \$2 billion increase in operating revenue resulted entirely from internal growth. Cardinal showed revenue improvement throughout the year, ending 1998 on a high note with a fourth quarter revenue increase of 27%. Excluding the special charges mentioned above, the company generated record profitability in fiscal 1998 with a return on operating revenue of 3.6%, a return on committed capital of 27.2%, and a return on equity of 19.1%.

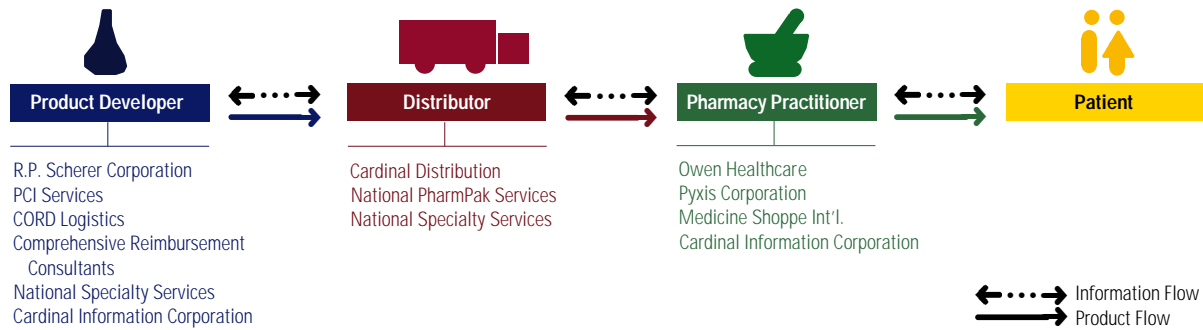
The theme of our annual report, "Customer Focused...Solutions Driven," captures the spirit of what we are working to accomplish. Cardinal's success in the market is the result of listening to our pharmacy and healthcare product customers discuss their needs and challenges, and identifying and supplying improved tools and processes to help them manage their businesses more effectively. This effort has led to the

development of a broad range of drug distribution services, as well as the creation or acquisition of related businesses that can help streamline or enhance pharmaceutical care. While drug distribution is clearly a pharmaceutical service, for ease of discussion, I will refer to these two portions of our business as the "distribution businesses" and the "service businesses."

Cardinal has very strong roots in drug distribution. With a return on sales of 2.58% for our distribution businesses in fiscal 1998, our profitability is the highest of any publicly traded pharmaceutical wholesaler in the country. Cardinal's distribution businesses have increased revenue at a rate well in excess of U.S. pharmaceutical sales growth, which is currently running at about 12% annually. In fiscal 1998, our distribution businesses generated revenue growth of 19%, capped by a stellar fourth quarter increase of 31%. The combination of strong distribution revenue growth and continued improvement in return on sales resulted in pre-tax earnings growth of 31% and 29%, respectively, in fiscal 1998 and 1997.

While our distribution results have been outstanding, the importance of the company's related pharmaceutical service businesses continues to increase. The service businesses grew revenue 22% in fiscal 1998, but still represented only 9% of the company's operating revenue. However, due to the higher margins of these businesses, they accounted for a very substantial 36% of operating earnings. As the diagram on the next page indicates, some of these businesses, such as Owen Healthcare's hospital pharmacy management services, Pyxis' automated dispensing technologies, and Medicine Shoppe's retail pharmacy franchising operation, are focused "downstream" toward our pharmacy customers. Others, such as PCI Services' full range of pharmaceutical packaging capabilities and Comprehensive Reimbursement Consultants' pharmaceutical reimbursement consulting services, are focused "upstream" toward healthcare product developers. In August of

Cardinal Is Well-Positioned to Provide Services Throughout the Pharmaceutical Supply System



1998, we added the development of drug delivery technologies to our list of capabilities directed toward healthcare product companies upon completion of a merger transaction with R.P. Scherer Corporation. Having a total transaction value of approximately \$2.5 billion, this is the largest merger we have completed to date. With the addition of Scherer, nearly half of the company's operating earnings are expected to be derived from the service businesses going forward.

Importantly, each of the businesses in the services group holds a leading position within its respective market. We strongly believe that in order to provide the highest quality solutions for our pharmacy and healthcare product customers, we must affiliate with the highest quality companies, who themselves offer the broadest range of capabilities. We have already designed customized, integrated solutions for many health system customers considered to be thought leaders in the industry, including: Duke University Medical Center, Evanston Northwestern Healthcare, Scripps Health, Sharp HealthCare, and Swedish Medical Center. The complementary nature of these businesses is evident in that 65% of Cardinal's hospital and health system customers currently use services from two or more of the company's affiliates.

The fundamentals of our business remain very strong. First, we are operating in an industry that is experiencing impressive growth. Second, our own pharmaceutical distribution growth continues to outpace that of the industry. And finally, our service businesses augment our strengths by providing us with a range of capabilities to offer to our customers which are unmatched by any other company. There is a symbiotic relationship between

these two sides of our business – each enhances the growth opportunities of the other. While distribution continues to provide strong economic returns (the return on committed capital in distribution was 22% in 1998), the returns of the service businesses are even better. The service businesses generate a return on sales approximately six times greater than that of distribution and provide a higher return on committed capital (37% in fiscal 1998). Our outlook for the future remains bright based upon the current momentum and solid financial profiles of these two sides of our business.

Last August, we announced the signing of a definitive merger agreement with Bergen Brunswig Corporation. We were very enthusiastic about the potential synergies that would have been created by this merger. It would have enabled the combined company to realize enormous operating efficiencies which would have benefited our customers by enabling us to further lower our prices and increase the breadth of services we could offer. It was, unfortunately, not to be. The FTC sought and won a court injunction preventing the merger from closing. To avoid a more lengthy legal process, the companies jointly agreed to terminate their merger agreement. I would like, once again, to thank the many customers, and others, who supported our transaction. It was a long and difficult process for them as well, and we regret that the outcome wasn't what we and our customers had hoped for.

Time consuming as it was, we did not let the proposed merger with Bergen Brunswig distract our attention from other internal or external growth opportunities. We are very pleased with the strong internal revenue growth and earnings momentum of our operating divisions in fiscal 1998. In addition, Cardinal successfully completed strategic mergers or acquisitions with four companies over the past twelve months. Anesthesia Data Systems, Inc., which now operates as part of Owen Healthcare, collects anesthesia data and benchmarks performance for hospitals and anesthesia practice groups. MediQual Systems, Inc., which now operates as part of Cardinal Information Corporation, is a leading supplier of clinical information management systems to the healthcare industry. Comprehensive Reimbursement Consultants, Inc. is a leading provider

The company's performance was very well balanced -- each of our operating divisions delivered pre-tax earnings growth of 20% or more for the fiscal year.

of reimbursement consulting services to pharmaceutical, biotechnology, and medical products companies.

Our most recent merger partner, R.P. Scherer Corporation, is an international leader in the development of drug delivery systems and the manufacturer of healthcare products utilizing these technologies. Scherer is the world's largest producer of soft gelatin capsules -- formulations used to create a broad spectrum of healthcare products from Vitamin E capsules to important pharmaceutical products such as protease

inhibitors used for the treatment of HIV infection. In addition, the company's Zydis® technology is the only fast-dissolving dosage form commercially available to the pharmaceutical industry today. The company's proprietary drug delivery systems can improve the efficacy of drugs by regulating the dosage so as to ease administration, increase absorption, enhance bioavailability, and control the time and place of release. At this time, four of the world's 20 top-selling pharmaceuticals have been reformulated and commercialized using Scherer's proprietary technologies, and more are under development. Scherer currently operates a global network of 19 facilities in 12 countries, and maintains ongoing relationships with many of the world's largest manufacturers.

We are very excited about the strategic opportunities this combination creates for Cardinal. Drug companies are increasingly seeking to focus on their core research and product development competencies, and outsource other functions such as manufacturing, packaging, and distribution. We believe that the merger with Scherer will enhance our ability to market our services to drug companies, create unique contract manufacturing opportunities, and streamline the manufacturing, packaging, and distribution process on behalf of drug companies.

Beyond its financial benefits, the merger with R.P. Scherer brings to Cardinal increased management expertise in

manufacturing. Upon completion of the transaction, Aleksandar Erdeljan, former chairman and CEO of R.P. Scherer, joined Cardinal's board of directors, and George Fotiadis continues his role as Scherer's president. George has more than 21 years of experience with pharmaceutical and healthcare product manufacturers. Simultaneous with our announcement of the Scherer merger, we announced the formation of the Healthcare Product Services group and the hiring of Carl Spalding as group president of the new division. Carl, who has 26 years of experience working for pharmaceutical and medical supply manufacturers, has responsibility for the operations and coordinated marketing of a number of Cardinal's outsourcing services including clinical, commercial, and specialty packaging; reimbursement planning and management; and physician office sales and marketing.

Cardinal's internal growth and complementary acquisition strategy have added considerable value for shareholders. Looking back just three years, the market value of the company's common shares outstanding stood at just under \$2 billion as of June 30, 1995. Since then, Cardinal has completed nine mergers or acquisitions for which it paid approximately \$5 billion. From the end of fiscal 1995 through early August 1998 when we completed the Scherer merger, Cardinal has enjoyed a more than sixfold increase in market

value to nearly \$13 billion. The company's program of balanced internal and external growth has created \$6 billion in additional value for its shareholders over that same period.

We have been pleased to note continued strong support from the business and financial community regarding Cardinal's

performance. Since its inclusion in the Fortune 500 three years ago, Cardinal Health has consistently been ranked among the 25 companies with the highest ten-year total return to investors. In its most recent top 500 company listing, Fortune ranked Cardinal as having the sixth best total return to investors for the ten years ended December 30, 1997, with an average total return of 40.2% annually. In addition, for the second year in a row, Cardinal was ranked as the most admired wholesaler in Fortune's 1998 survey of America's Most Admired Companies.

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We enter fiscal 1999 with very good momentum in our businesses and an energized management team. We remain optimistic about the opportunities we see for further growth and success. We have reaffirmed our goal, set 15 years ago when Cardinal first went public, to consistently achieve earnings per share growth of 20% or more. I greatly appreciate the interest in and support of Cardinal Health from our customers, suppliers, shareholders, and 15,000 associates worldwide which resulted in another year of outstanding performance.

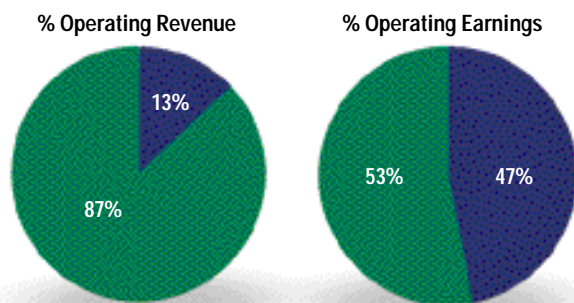
Sincerely,

Robert D. Walter



Robert D. Walter
Chairman and Chief Executive Officer

1998 Business Mix*



● Distribution
● Services

*Adjusted to include merger with R.P. Scherer

From new product development to acquisition strategy, Cardinal Health continually strives to identify ways that it can help its customers and the healthcare system operate more efficiently. Building upon its strong roots in drug distribution services, Cardinal has assembled a broad range of pharmaceutical-related services that enable the company to provide its pharmacy and healthcare product customers with unique solutions tailored to address their specific needs. These services provide healthcare participants with a means to improve the quality of pharmaceutical care in an environment increasingly focused on containing costs.

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Customer Focused Solutions Driven



Every day, Cardinal Distribution makes more than 17,000 deliveries from its inventory of approximately 26,000 pharmaceutical and healthcare products, shipping over one million items to its customers nationwide.



Cardinal Distribution has selectively deployed automated picking technology in its facilities, such as the A-Frame pictured above, to further improve order quality and efficiency.



National Specialty Services has more than 30,000 cubic feet of refrigerated space to house its inventory of specialty and oncology drugs that are shipped daily to physician's offices.

Cardinal Distribution has pursued a customer-focused strategy to identify meaningful solutions to help pharmacies maximize their productivity and drive further improvements in pharmaceutical care. Today, the company is one of the leading distributors of pharmaceuticals and healthcare products in the United States, serving more than 16,000 customer locations across the country.

Cardinal Distribution has installed new automated quality control stations in many of its facilities that utilize bar-code technology to ensure error-free orders.



Distribution Services

The division's ability to consistently deliver fundamental distribution services is absolutely critical to its retail and health system pharmacy customers who rely on Cardinal Distribution's sophisticated logistics and advanced information systems to successfully manage their pharmacies. Cardinal Distribution offers comprehensive product lines, maintains superior order fill rates, and provides timely delivery at very competitive prices. The company places very strong emphasis on the efficiency of its operations. Over the past three years, 85% of the company's more than three million square feet of warehouse space have been relocated, expanded, or upgraded utilizing state-of-the-art distribution technology to improve order quality and reduce delivery costs. By this time next year, 100% of the division's facilities will have been modified.

Cardinal offers numerous distribution services and programs that draw from the company's expertise in logistics, procurement, inventory management, and marketing to help pharmacists deal with the challenges of their environment characterized by a complex reimbursement claims process, rising pressure to control healthcare costs, and intense competition in the marketplace. An advantage Cardinal Distribution provides to its customers through the Leader® Drug Stores program, for example, is an ability to leverage the purchasing power of approximately 2,200 independent retail pharmacies, enabling this important customer segment to receive many of the same economic benefits enjoyed by large retail chains.

To further enhance its distribution services, Cardinal has developed a number of user-friendly pharmacy information systems, such as CardinalCHOICE® and Renlar®, which provide pharmacy customers with highly effective order processing, inventory control, and pharmacy management solutions. In September 1997, Cardinal introduced ScriptLINESM, a pre- and post-adjudication system with data warehousing capabilities, designed to enable retail pharmacies to maximize their reimbursement on pharmaceuticals from third-party payers. Today, ScriptLINE processes nearly two million prescriptions per month earning retail pharmacies an additional \$.40 per claim, or an average of \$400 to \$500 per month.

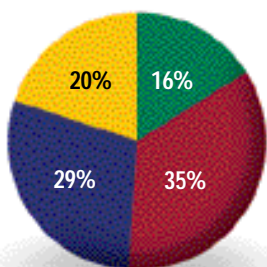
In addition to Cardinal Distribution, Cardinal Health has developed several special distribution businesses focused on specific activities or markets.

National PharmPak Services, Inc., founded by Cardinal in 1987, is the country's largest provider of pharmaceutical repackaging services to retail pharmacies including the majority of the nation's largest drug chains. The company was originally conceived as a means to provide customers with bulk product pricing on smaller units more appropriate for their usage levels. Over time, National PharmPak has developed a broad range of repackaging services such as low unit of measure packaging for automated pharmaceutical dispensing systems.

In 1992, Cardinal formed **National Specialty Services, Inc. (NSS)**, which distributes pharmaceuticals and medical supplies to physician practices, and therapeutic plasma products to hospitals, outpatient clinics, and surgery centers. Today, NSS is one of the nation's leading specialty distributors with a very strong presence in the oncology market.

Cardinal Health's willingness to listen and respond to its customers' needs has firmly established the company's leadership role in the pharmaceutical distribution industry. The company's drug distribution businesses serve as a strong foundation for Cardinal's other related pharmaceutical services and a springboard for future growth.

Cardinal Distribution Customer Mix



- Retail Independent
- Retail Chain
- Health Systems
- Alternate Site



Cardinal's pharmacy services help reposition pharmacists within hospitals so they can work more closely with physicians and nurses to address clinical issues.

Pharmacy Services

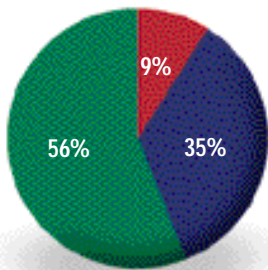
Through **Owen Healthcare, Inc.**, for example, Cardinal provides a full range of pharmacy and materials management services to more than 600 clients ranging from small, community hospitals to large, integrated health systems. Owen pharmacists are well-equipped with the tools necessary to manage a progressive, clinically-oriented practice by utilizing the company's extensive pharmacy resources and unique therapeutic programs. The company's proprietary medical information program, Econotherapeutics®, assists pharmacists with selection of the most appropriate medication based upon efficacy, safety, and cost.

While Owen currently manages approximately 75% of all outsourced hospital pharmacies, the market for these services continues to expand as hospitals seek new ways to control costs. Only about 9% of the hospitals in this \$9 billion market currently outsource their pharmacy operations, with another 35% currently considering full-service outsourcing. Hospitals electing to manage their pharmacies in-house can still benefit from Owen's pharmacy management and clinical expertise through several new customized diagnostic and consulting services introduced in the spring of 1998. One of these services, OptionRx™, enables hospitals to utilize a full-time, on-site pharmacy project advisor from Owen to help the pharmacy achieve its clinical objectives. Another service, Anesthesia Data Systems™, can reduce anesthesia costs, the second highest pharmaceutical expense category for most hospitals, by up to 25%.

Pyxis Corporation offers hospitals and other healthcare providers a wide range of pharmaceutical and medical supply dispensing systems for more effective distribution and control of these items. Pyxis' automated systems streamline the labor-intensive pharmaceutical delivery process, enabling pharmacists and nurses to focus on the clinical aspects of pharmaceutical care. With more than 50,000 units installed at over 3,300 customer sites, Pyxis' technology is used in more hospitals than any other form of pharmaceutical dispensing automation. A large part of Pyxis' success is attributable to the company's commitment to unparalleled

With the ever-present influence of managed care, healthcare providers face continually increasing pressure to reduce healthcare costs while optimizing patient outcomes. Pharmaceutical therapy has assumed a more critical role as a form of treatment since it can be far less costly and invasive than surgical procedures. However, if used improperly, pharmaceuticals can result in drug therapy complications which affect the quality of patient care and result in higher costs. Drug therapy complications may have multiple causes such as medication errors, adverse drug events, or patient non-compliance. These complications are costly – in recent years, the costs related to such complications have exceeded total U.S. retail sales of pharmaceuticals, which currently run in excess of \$75 billion annually. The majority of these drug therapy complications are preventable through greater clinical intervention by pharmacists, improved information systems, and compliance-style packaging and devices. Cardinal Health is well-positioned to offer its customers more comprehensive solutions in pharmaceutical care by combining very effective distribution services with complementary pharmaceutical-related businesses, enabling pharmacies to achieve their goals of becoming more efficient and improving the quality of patient care.

Owen Healthcare Market Expansion Opportunities



- Currently outsourcing pharmacy
- Considering full-service outsourcing
- Focused on self-managed improvement



Pyxis' MEDSTATION systems, currently installed at more than 2,200 customer sites, enable hospitals to provide more timely, accurate, and efficient dispensing of pharmaceuticals to patients.

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service. Today, the company has more than 500 dedicated field representatives located across the country providing 24-hour a day service to Pyxis' customers.

Pyxis' research and development efforts have accelerated over the past year with seven new product introductions during fiscal 1998. The introduction of Pyxis' third generation MEDSTATION-Rx® System 2000 met with outstanding customer acceptance. Sales of this new system, which has the hardware and software capabilities to dispense more than 90% of the pharmaceutical needs within a given hospital unit, have far exceeded company expectations. The company also has a strong pipeline of innovative new

products scheduled for commercial release in the coming year. One of these is the CUBIE Intelligent Logistics™ System (or Computerized Unit-Based Inventory Exchange) which is new technology that deploys portable, microprocessor-controlled "lockboxes" that can be easily docked or connected into Pyxis' MEDSTATION systems for enhanced product control, logistical efficiency, and ease of replenishment. Another major product, known as the HOMERUS™ Integrated Packaging and Storage Retrieval System, is being jointly developed with Exper di Peroni G.&C.S.A.S., an Italian healthcare company. This innovative new system marries complete bar coding and unit dose packaging capabilities with a

centralized storage and retrieval unit that takes up less space and has significantly greater storage and retrieval capabilities than other commercially available systems. The integrated system is linked electronically to multiple information systems including the pharmacy and other hospital information systems, as well as the CardinalCHOICE order and inventory management system, for much more efficient management, reordering, and handling of pharmaceuticals. Both CUBIE and HOMERUS are expected to be available for sale to customers by January of 1999.

Customer Focused Solutions Driven

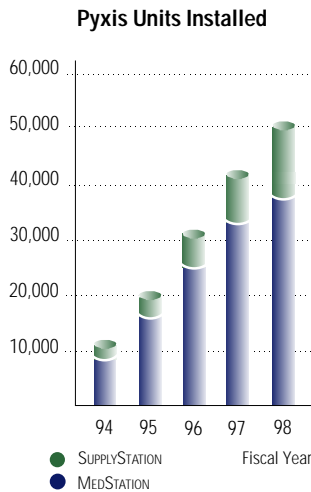
Cardinal has been developing numerous proprietary products and services that integrate multiple new offerings to help customers achieve their objectives. For example, the company has been testing a new process called CardinalASSISTSM which combines Pyxis' MEDSTATION systems with drug distribution logistics and innovative, Pyxis-ready packaging supplied by National PharmPak and PCI Services, Inc. for a seamless, integrated distribution and replenishment solution. Cardinal already has a significant pipeline of customers who have requested this new service when it becomes commercially available. Healthcare providers, eager for new information products that will help them manage their businesses better, are increasingly turning to clinical information management systems to provide a data-driven perspective on quality improvement and cost reduction. These advanced systems enable healthcare practitioners to make informed decisions about appropriate treatment protocol based upon relevant data. To meet this emerging demand, Pyxis joined forces with another Cardinal subsidiary, **Cardinal Information Corporation**, to develop JerichoSM, a new system that gathers drug use and outcomes data from Pyxis-based interfaces, allowing healthcare providers to compare risk-adjusted outcomes data by drug class and brand.

Healthcare providers are also focusing on the retail environment for the reduction of drug therapy complications. Today's fragmented system, including physician offices, retail independent and chain pharmacies, acute and sub-acute care providers, mail-order pharmacies, and others, does not allow providers to follow their patients through the entire healthcare system. Absent an information link between the various stages of care, patients are exposed to substantial risk of experiencing drug therapy complications. To better manage pharmaceutical care in the outpatient setting, some health systems have been exploring partnerships with **Medicine Shoppe International, Inc.**, Cardinal's retail pharmacy franchising subsidiary, as a solution to this complex issue.

With approximately 1,100 retail locations nationwide, Medicine Shoppe's proven business format provides franchisees with retail pharmacy expertise and marketing support, permitting pharmacists to devote their time more fully to clinical intervention. The company provides specialized training programs on topics including osteoporosis, asthma, diabetes, cardiovascular diseases, and anti-coagulation to enhance pharmaceutical treatment through closer patient-pharmacist relationships. Medicine Shoppe has established conclusive evidence that disease management programs at the pharmacy level can add significant value to the healthcare system. A pilot disease management program undertaken by CIGNA HealthCare, Inc. and Medicine Shoppe (the first of its size and scope) to demonstrate the impact pharmacists can have in the management of peptic ulcer disease resulted in a reduction in medication costs of more than 25% for the insurer.

Through Cardinal's pharmacy consultation service, Cardinal ConsultRxSM, healthcare clients can benefit from the expertise of nationally recognized leaders in the pharmacy practice field who focus on optimizing the medication use process across the entire continuum of care. Unlike other consultation services, Cardinal's practitioners not only assess their clients' needs and make objective recommendations to improve the quality and cost-effectiveness of pharmaceutical care, they remain alongside the client during the implementation and integration stage to facilitate and support the necessary changes.

Recognizing that each customer is as unique as the challenges they face in today's cost-focused and quality-conscious environment, Cardinal Health provides unparalleled flexibility in its ability to assemble a package of services ideally suited for each of its pharmacy customers.



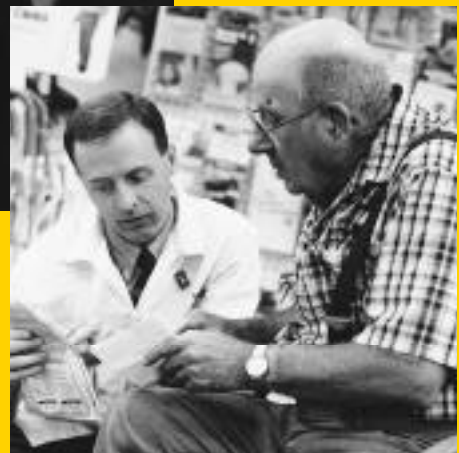
Pyxis' new CUBIE Intelligent Logistics System.



The HOMERUS Integrated Packaging and Storage Retrieval System.



Medicine Shoppe provides its franchisees with retail pharmacy expertise and marketing support, permitting pharmacists to devote their time more fully to clinical intervention.



Healthcare Product Services

The healthcare industry is witnessing an explosion of new pharmaceuticals, medical devices, and biotechnology products that are being developed, approved, and introduced across virtually every therapeutic class. This product surge

is creating enormous medical and economic benefits, including the development of breakthrough therapies for many diseases that have eluded solutions until now.

However, pharmaceutical, biotech, and device companies are meeting with greatly increased levels of complexity, competition, and risk as they race to commercialize healthcare products in this dynamic environment.

To be successful today, healthcare product developers must incorporate the diverse needs of patients, providers, payers, dispensers, and distributors – needs which can sometimes be in conflict. They must address challenges such as patient compliance, drug efficacy and side effect management, where and how pharmaceutical care is best delivered, payer reimbursement, and a lack of timely, meaningful information about product utilization. Developing an effective therapy is no longer enough to assure the commercial success of a product.

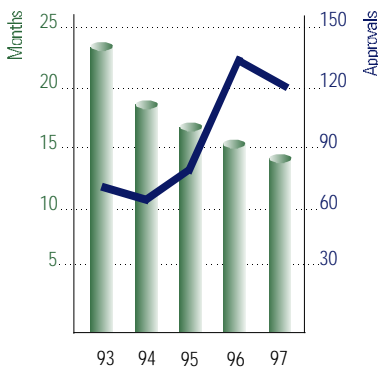
These market conditions have driven the trend among healthcare product developers to outsource certain activities in an effort to speed a product's time to market, optimize its commercial success, and increase operating efficiency and flexibility. Cardinal is at the forefront of this outsourcing trend, providing a unique set of services and tools to maximize a healthcare product's commercial opportunities in today's complex environment.

Through several subsidiaries, Cardinal provides a broad range of outsourcing services across the complete product life cycle, beginning with the point of product discovery and continuing through clinical development, launch, and market maturity. Clients can utilize these services individually, or construct customized programs involving multiple services to meet their individualized needs. This expanding suite of services includes manufacturing, packaging, distribution, product launch support, and a wide variety of marketing and sales services.

With the August 1998 acquisition of **R.P. Scherer Corporation**, Cardinal provides manufacturers with unique drug delivery systems and related manufacturing capabilities. Scherer develops proprietary drug delivery technologies for pharmaceutical companies that can increase a drug's efficacy, enhance its bioavailability, improve product safety, and ease administration. Technologies like RP Scherersol™, patented and proprietary formulations for softgel capsules, and Zydys®, a freeze-dried, porous tablet that dissolves quickly on the tongue, can regulate a medication's dosage, rate of absorption, and place of release. Decisions regarding dosage forms are increasingly becoming a marketing issue for drug manufacturers. These innovative drug delivery systems can contribute to an extended product life cycle or a competitive advantage over similar products in the market. To support the needs of its customers, Scherer maintains a global presence with manufacturing facilities in the top ten pharmaceutical markets and ongoing relationships with many of the world's largest drug companies.

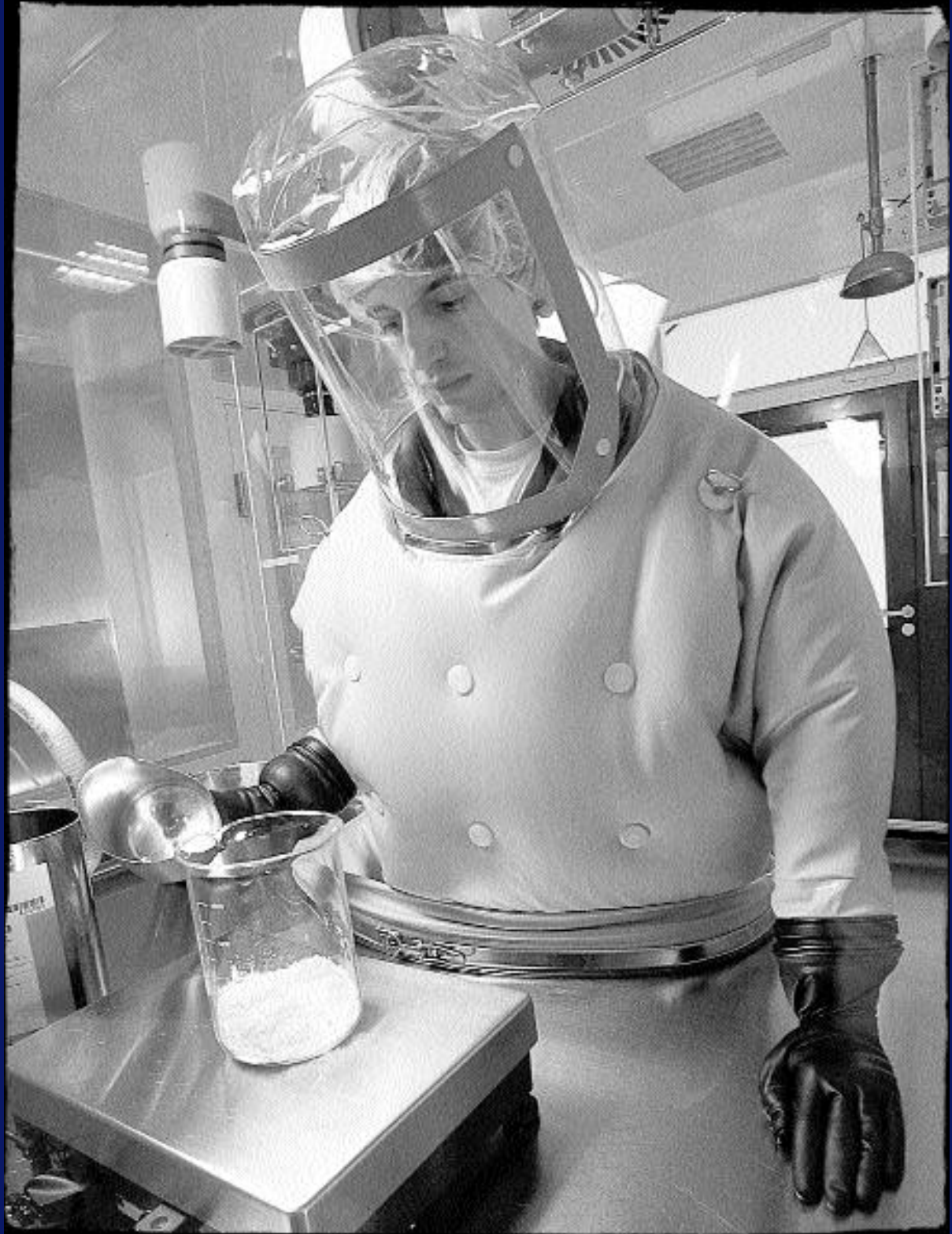
Packaging is another important consideration for healthcare product developers. Effective healthcare packaging must address a number of issues including adherence to Food and Drug Administration (FDA) guidelines, patient safety and compliance, and the product marketing message. **PCI Services, Inc.** has a 27-year history of providing pharmaceutical and biotechnology clients with a comprehensive array of industry-leading packaging services. PCI has the capability to package virtually any healthcare product per a manufacturer's specifications. Alternatively, the company maintains its own design engineering group that can provide manufacturers with customized packaging design services. PCI has developed a number of innovative

Original New Drug Application Approvals (As of December 31)



● Average total FDA review time
● Original new drug applications approved

Source: U.S. Food and Drug Administration



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R.P.Scherer operates four world class pharmaceutical manufacturing facilities that include special features such as this cytotoxic containment suite at one of the company's softgel manufacturing facilities.

Blister packaging for hospital unit dose packages, physician samples, clinical trials, or the consumer market can be manufactured on any one of PCI Services' numerous production lines.



PCI Services has more than 1.1 million square feet of capacity, utilizing state-of-the-art technology to fulfill healthcare product developers' manufacturing and packaging needs.



packaging solutions that can increase patient compliance, hence improving health outcomes and product sales. This type of packaging, in which individual dosage times are clearly indicated, significantly improves compliance due to the ease with which patients can monitor and verify medication consumption. With more than 1.1 million square feet of manufacturing space in nine facilities, PCI is the only fully integrated, single source, global manufacturer dedicated exclusively to the distinct packaging needs of the pharmaceutical and healthcare industries.

PCI's recent agreement with Aviron provides an excellent example of Cardinal's ability to provide comprehensive solutions for healthcare product developers. Aviron approached PCI to investigate its packaging capabilities for a new flu vaccine, administered by means of a nasal spray. Discussions with PCI led to a seven-year agreement in which PCI will perform the aseptic filling as well as the packaging of Aviron's FluMist™ product in a dedicated facility built by both companies. This new facility is currently running test batches of the vaccine to support Aviron's FDA filing.

Following manufacturing and packaging decisions, manufacturers must next determine how best to distribute their products. **CORD Logistics, Inc.** is a full-service operations and logistics support company for pharmaceutical and other healthcare products that was formed by Cardinal in 1995. CORD manages the warehousing, distribution, transportation, inventory, financial services, regulatory, customer service, and reporting functions for its clients, who are typically emerging biotechnology companies that choose to focus their time and resources on their core research and development capabilities.

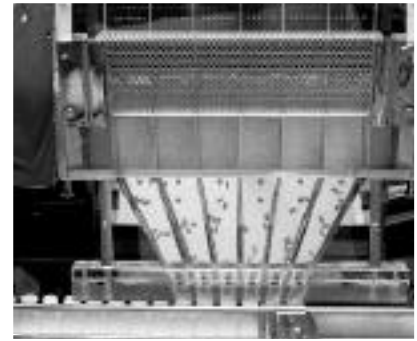


CORD Logistics' RAPIDistribution™ service enables manufacturers to have their products stocked by pharmacies and available for purchase within days of FDA approval.

In addition to these production and distribution-related services, Cardinal also offers an array of sales, marketing, and information services designed to enhance its clients' product campaigns. **Comprehensive Reimbursement Consultants, Inc. (CRC)**, acquired by Cardinal in May 1998, is a leader in creating reimbursement pathways for healthcare products with services in five key areas: strategic reimbursement planning, product advocacy with payers, research and due diligence, sales training and education, and reimbursement case management ("hotline") services. CRC has obtained coverage and appropriate levels of payment for more than 500 products launched by hundreds of companies since its founding in 1984.

Through **National Specialty Services, Inc. (NSS)**, Cardinal provides a variety of sales and marketing support services to companies introducing products for administration in physicians' offices. NSS is currently managing programs in a number of physician specialties including oncology and immunology, pediatrics, urology, and obstetrics and gynecology.

With its increasingly deep healthcare reach, Cardinal is very well-positioned to provide pharmaceutical companies with valuable information services. For example, pharmaceutical manufacturers know, in great detail, what products their health system customers purchase. However, they do not know why or how their products are used and, most importantly, the outcomes associated with the use



High-speed bottle filling operations are capable of handling any volume of production with highly automated precision and accuracy.

of their compounds. Just as Jericho can provide hospital pharmacy customers with valuable benchmarking and outcomes information, it can also provide **Cardinal Information Corporation's** manufacturing customers with unique and valuable pooled information regarding utilization of their products.

Throughout its history in drug distribution, Cardinal Health has provided services to healthcare product developers. Building upon its existing relationships with these companies, as well as its understanding of the needs of healthcare providers, Cardinal is in an ideal position to help healthcare product clients identify solutions to fulfill their own outsourcing needs in the increasingly complex environment in which they operate.

Focusing on the challenges faced by its pharmacy and healthcare product customers has enabled Cardinal Health to develop meaningful solutions that address their needs. The company's broad array of services places it in a uniquely qualified position to accommodate a comprehensive range of activities for its customers – from assisting drug companies with new product commercialization to enabling pharmacists to increase their focus on clinical issues and patient intervention. As the healthcare industry continues to evolve, so too will Cardinal Health as the company strives to deliver powerful solutions to meet the needs of each of its customers.

Shareholder Information

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," and is a component of the Standard & Poor's 500 Index. As of August 21, 1998, Cardinal had approximately 2,600 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, L.L.C.
Overpeck Centre
85 Challenger Road
Ridgefield Park, New Jersey 07660
(888) 213-0965

Shareholders can also make inquiries via the Internet at:
<http://www.chasemellon.com>

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

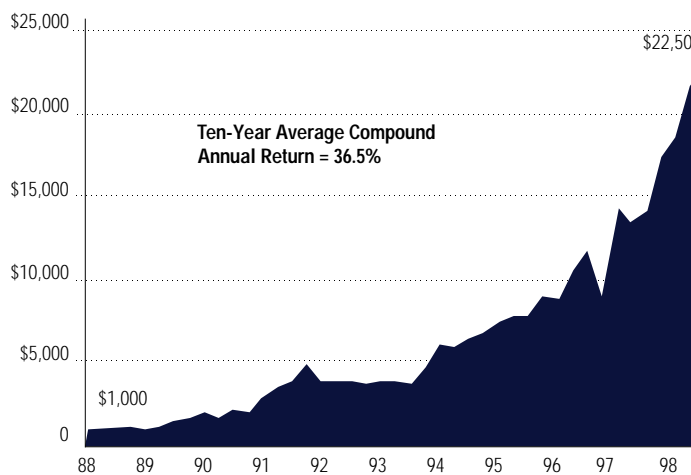
The 1998 Annual Meeting of Shareholders will be held at 10:00 a.m. on Monday, November 23, 1998, at Cardinal Health's corporate office in Dublin, Ohio. Shareholders are cordially invited to attend.

Research Coverage

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

Ten-Year Total Return To Investors

(June 30, 1988 to June 30, 1998)



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

Fiscal 1998 Cash Dividend Data

Fiscal Quarter	Record Date	Payment Date	Per Common Share Amount
I	October 1, 1997	October 15, 1997	\$0.025
II	January 1, 1998	January 15, 1998	\$0.025
III	April 1, 1998	April 15, 1998	\$0.030
IV	July 1, 1998	July 15, 1998	\$0.030

As adjusted for stock dividends and stock splits through June 30, 1998.

Common Stock Price History

(Twelve Months Ended June 30)

	1998	1997	1996	1995	1994
High	\$96.250	\$64.125	\$50.172	\$33.922	\$27.203
Low	\$54.625	\$44.672	\$29.172	\$24.422	\$14.531
Close	\$93.750	\$57.250	\$48.078	\$31.500	\$26.141

As adjusted for stock dividends and stock splits through June 30, 1998.

Dividend History

(Twelve Months Ended June 30)

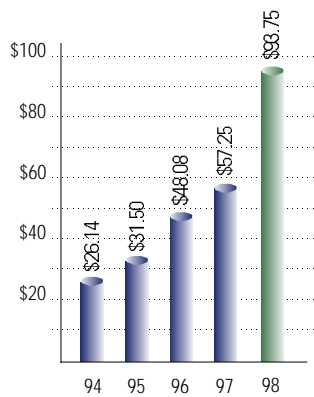
Year	Cash Dividends Declared	Stock Dividends/Splits	Distribution Date of Dividend/Split
1988	\$0.020	10% Stock Dividend	September 30, 1987
1989	\$0.022	10% Stock Dividend	September 30, 1988
1990	\$0.027	5/4 Stock Split	September 30, 1989
1991	\$0.034	5/4 Stock Split	September 30, 1990
1992	\$0.043	5/4 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
1998	\$0.110		

As adjusted for stock dividends and stock splits through June 30, 1998.

| 17

Closing Price Per Share

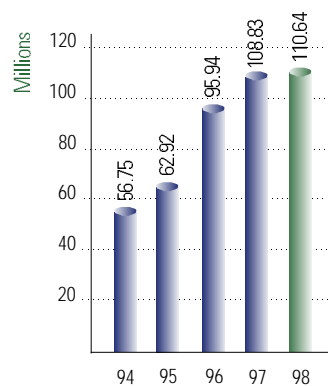
(As of June 30)



As adjusted for stock dividends and stock splits.

Number of Common Shares Outstanding

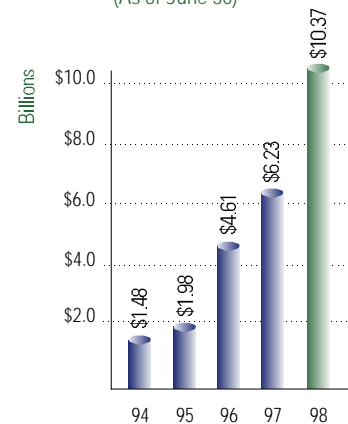
(As of June 30)



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

Market Valuation

(As of June 30)



As originally reported.

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Shareholder Focused Results Driven

Selected Operating Trends

	Percentage of Operating Revenue			Percentage Change From Prior Period	
	1998	1997	1996	1998 vs. 1997	1997 vs. 1996
Operating revenue	100.00%	100.00%	100.00%	18%	17%
Gross margin	8.06%	8.20%	8.61%	16%	11%
Selling, general and administrative expenses	4.39%	4.70%	5.47%	10%	–
Special charges	0.45%	0.46%	0.53%	N.M.	N.M.
Operating earnings	3.22%	3.04%	2.61%	25%	36%
Interest expense	0.18%	0.26%	0.33%	(18%)	(9%)
Other income	0.07%	0.05%	0.13%	62%	(53%)
Income taxes	1.20%	1.15%	1.07%	23%	26%
Net earnings	1.91%	1.68%	1.35%	34%	45%
Effect of special charges on net earnings	0.28%	0.33%	0.39%	(2%)	(1%)

N.M.- Not Meaningful

Management's Discussion and Analysis of Financial Condition and Results of Operations

RESULTS OF OPERATIONS

Operating Revenue Operating revenue for fiscal 1998 increased 18% as compared to the prior year. Distribution businesses' (those whose primary operations involve the wholesale distribution of pharmaceuticals, representing 91% of total operating revenue) operating revenue (including approximately \$196 million sold to Owen, eliminated in consolidation) grew at a rate of 19% during the fiscal year ended June 30, 1998, while Service businesses' (those that provide services to the healthcare industry, primarily through pharmacy franchising, pharmacy automation equipment, pharmacy management and pharmaceutical packaging) operating revenue grew at a rate of 22% during the fiscal year ended June 30, 1998, primarily on the strength of the Company's pharmacy automation and pharmacy management businesses. The majority of the operating revenue increase (approximately 80% for the year ended June 30, 1998) came from existing customers in the form of increased volume and pharmaceutical price increases. The remainder of the growth came from the addition of new customers.

Operating revenue for fiscal 1997 increased 17% as compared to the prior year. Distribution businesses' operating revenue (including approximately \$22 million sold to Owen, eliminated in consolidation) grew at a rate of 17% during the fiscal year ended June 30, 1997, while Service businesses grew at a rate of 13%, primarily on the strength of the Company's pharmacy management business. The increase resulted 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.

Bulk Deliveries to Customer Warehouses Along with other companies in its industry, the Company has begun reporting as revenue bulk deliveries made to customers' warehouses, whereby the Company acts as an intermediary in the ordering and subsequent delivery of pharmaceutical products. All years presented have been restated to include these bulk deliveries as revenue (previously, only the service fees related to such bulk deliveries were reported as revenue, although service fees were not significant in any period presented).

Fluctuations in bulk deliveries result largely from circumstances that are beyond the control of the Company, including consolidation within the chain drugstore industry, decisions by chains to either begin or discontinue warehousing activities, and changes in policy by manufacturers related to selling directly to chain drugstore customers. Due to the insignificant margins generated through bulk deliveries, fluctuations in their amount have no significant impact on operating earnings.

Gross Margin For fiscal 1998 and 1997, gross margin as a percentage of operating revenue was 8.06% and 8.20%, respectively. The fiscal 1998 decrease in the gross margin as a percentage of operating revenue is due to declines in the Distribution businesses' gross margin, and, to a lesser extent, declines in the Service businesses' gross margin. The Distribution businesses' gross margin as a percentage of operating revenue decreased from 5.82% in fiscal 1997 to 5.57% in fiscal 1998. The decrease is primarily due to the impact of lower selling margins, as a result of a highly competitive market and a greater mix of high volume customers, where a lower cost of distribution and better asset management enable the Company to offer lower selling margins to its customers. The Service businesses' gross margin as a percentage of operating revenue was 31.47% and 32.52% in fiscal 1998 and 1997, respectively. The slight decline in gross margin rates experienced by the Service businesses is primarily a function of the mix of the various businesses. Revenue growth has been greater in the relatively lower margin pharmacy management and pharmaceutical packaging businesses than it has been in the higher margin pharmacy franchising business.

For fiscal 1997 and 1996, gross margin as a percentage of operating revenue was 8.20% and 8.61%, respectively. The change in gross margin for the year was primarily due to the shift in 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.

Management's Discussion and Analysis of Financial Condition and Results of Operations

Selling, General and Administrative Expenses Selling, general and administrative expenses as a percentage of operating revenue improved to 4.39% in fiscal 1998 compared to 4.70% in fiscal 1997. The improvements reflect 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. The 10% growth in selling, general and administrative expenses experienced during fiscal 1998 was due primarily to increases in personnel costs and depreciation expense, and compares favorably to the 18% growth in operating revenue for the same period.

Selling, general and administrative expenses as a percentage of operating revenue improved to 4.70% in fiscal 1997 compared to 5.47% 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. Additionally, certain expenses such as employee severance, asset impairments and lease exit costs, recorded in fiscal 1996 did not recur in fiscal 1997.

Special Charges During fiscal 1998, the Company recorded mergers-related charges associated with transaction costs incurred in connection with the MediQual Merger (\$2.3 million) and transaction costs incurred in connection with the proposed merger transaction with Bergen (\$33.4 million) which was terminated subsequent to year-end (see Note 17 of "Notes to Consolidated Financial Statements").

Additional costs related to asset impairments (\$3.8 million) and integrating the operations of companies that previously merged with the Company (\$9.6 million) were incurred and recorded during fiscal 1998. During fiscal 1997, the Company recorded mergers-related charges associated with the PCI and Owen Mergers (\$46.2 million) and additional integration costs related to the Pyxis and Medicine Shoppe Mergers (\$4.7 million). During fiscal 1996, the Company recorded charges (\$49.2 million) to reflect the estimated Medicine Shoppe and Pyxis mergers-related costs. See further discussion in Note 2 of "Notes to Consolidated Financial Statements." The Company classifies costs associated with a merger transaction as "mergers-related costs." It should be noted that the amounts presented may not be comparable to similarly titled amounts reported by other companies.

During fiscal 1998, the Company recorded a special charge of \$8.6 million related to the rationalization of its distribution operations. Approximately \$6.1 million related to asset impairments and lease exit costs resulting primarily from the Company's decision to accelerate the consolidation of a number of distribution facilities and the relocation to more modern facilities for certain others. The remaining amount related to employee severance costs, including approximately \$2.0 million incurred in connection with the settlement of a labor dispute with former employees of the Company's Boston distribution facility, resulting in termination of the union relationship.

The following is a summary of the special charges incurred by the Company in the last three fiscal years:

	Fiscal Year Ended June 30,		
	1998	1997	1996
(In thousands, except per share amounts)			
Mergers-Related Costs:			
Transaction and employee-related costs:			
Transaction costs	\$ (35,696)	\$ (14,500)	\$ (21,315)
PCI vested retirement benefits and incentive fees	-	(7,600)	-
Pyxis stay bonuses	-	-	(7,600)
Employee severance/termination	-	(4,400)	(2,540)
Other	-	(600)	(300)
Total transaction and employee-related costs	(35,696)	(27,100)	(31,755)
Other mergers-related costs:			
Asset impairments	(3,800)	(13,200)	(400)
Exit and restructuring costs	-	(2,250)	(15,600)
Duplicate facilities elimination	-	(1,700)	-
Integration and efficiency implementation	(9,648)	(6,679)	(1,445)
Total other mergers-related costs	(13,448)	(23,829)	(17,445)
Total mergers-related costs	\$ (49,144)	\$ (50,929)	\$ (49,200)
Other Special Charges:			
Facilities closures	\$ (6,112)	\$ -	\$ -
Employee severance	(2,522)	-	-
Total other special charges	(8,634)	-	-
Total Special Charges	(57,778)	(50,929)	(49,200)
Tax effect of special charges	21,931	14,372	12,280
Effect on net earnings	\$ (35,847)	\$ (36,557)	\$ (36,920)
Effect on diluted earnings per share	\$ (0.32)	\$ (0.34)	\$ (0.34)

The effects of the mergers-related costs and other special charges are included in the reported net earnings of \$247.1 million in fiscal 1998, \$184.6 million in fiscal 1997 and \$127.2 million in fiscal 1996 and in the reported diluted earnings per Common Share of \$2.22 in fiscal 1998, \$1.69 in fiscal 1997 and \$1.19 in fiscal 1996.

The Company estimates that it will incur additional mergers-related costs associated with the various mergers it has completed to date totaling approximately \$3.7 million in future periods (excluding the Scherer Merger - see Note 16 of "Notes to Consolidated Financial Statements") in order to properly integrate operations and implement efficiencies with regard to, among other things, information systems, customer systems, marketing programs and administrative functions. Such amounts will be charged to expense when incurred.

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, Inc. ("MediTROL," a subsidiary acquired by the Company in the Owen merger transaction) 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 \$15.6 million related to cancellation of a long-term contract with a financing company related to the servicing and financing of the accounts receivable from Pyxis customers at the time of the Pyxis Merger (see Note 3 of "Notes to Consolidated Financial Statements").

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 operating revenue than pharmaceutical distribution. As the healthcare industry continues to change, the Company is constantly evaluating merger or 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 pursued. If additional transactions are entered into or consummated, additional mergers-related costs would be incurred by the Company.

Interest Expense The decrease in interest expense of \$5 million in fiscal 1998 compared to fiscal 1997 is primarily due to extinguishment of the Company's \$100 million 8% Notes on March 1, 1997. The increase in other income for fiscal 1998 compared to fiscal 1997 of \$3.6 million is primarily due to higher investment income. This is in part due to better asset management. During fiscal 1998, \$61.9 million of cash was generated (including \$143.1 million from operations) compared to use of \$69.0 million of cash during fiscal 1997.

Interest expense for fiscal 1997 decreased by \$2.6 million compared to the prior year. This decrease is attributable to the extinguishment of the Company's \$100 million 8% Notes on March 1, 1997, and lower interest rates during fiscal 1997 compared to fiscal 1996. In addition, various outstanding debt instruments utilized by PCI prior to the merger were extinguished after the merger was consummated.

Partially offsetting this decrease in fiscal 1997 is the impact of the issuance of \$150 million 6% Notes due 2006, in a public offering in January 1996.

As discussed below under "Liquidity and Capital Resources," the Company issued \$150 million of 6.25% Notes in July 1998 and assumed additional debt as part of its acquisition of Scherer on August 7, 1998.

Provision for Income Taxes The Company's provision for income taxes relative to pretax earnings was 39%, 41% and 44% for fiscal years 1998, 1997 and 1996, respectively. The fluctuation in the tax rate is primarily due to the impact of recording certain non-deductible mergers-related costs during various periods. In addition, the reduction in the state effective tax rate as a result of the change in the Company's business mix impacted the tax rate for fiscal year 1997.

LIQUIDITY AND CAPITAL RESOURCES

Working capital increased to \$1,384.5 million at June 30, 1998, from \$1,097.7 million at June 30, 1997. This increase included \$61.9 million of cash generated in fiscal 1998, as well as additional investments in merchandise inventories and trade receivables of \$459.3 million and \$154.0 million, respectively. Offsetting the increases in working capital was an increase in accounts payable of \$486.4 million. Increases in merchandise inventories reflect the higher level of business volume in pharmaceutical distribution activities, especially in the fourth quarter of fiscal 1998 when distribution revenue grew 31% over the same period in the prior year. The increase in trade receivables is consistent with the Company's revenue growth (see "Operating Revenue" above). The change in accounts payable is due to the timing of inventory purchases and related payments.

On July 13, 1998, the Company issued \$150 million of 6.25% Notes due 2008, the proceeds of which will be used for working capital needs due to growth in the Company's business. As part of its acquisition of Scherer on August 7, 1998, the Company has assumed approximately \$212 million in long-term debt. The Company currently has the capacity to issue \$250 million of additional long-term debt pursuant to a shelf debt registration statement filed with the Securities and Exchange Commission (see Note 5 of "Notes to Consolidated Financial Statements"). The Company extinguished \$100 million of long-term debt during fiscal 1997.

Property and equipment, at cost, increased by \$71 million in fiscal 1998. The increase in property and equipment included additional investments in management information systems and customer support systems. 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 \$1,625.2 million at June 30, 1998, from \$1,334.7 million at June 30, 1997, primarily due to net earnings of \$247.1 million and the investment of \$50.0 million by employees of the Company through various stock incentive plans.

The Company has line-of-credit agreements with various bank sources aggregating \$503 million, of which \$95 million is represented by committed line-of-credit agreements and the balance is uncommitted. The Company had \$23.9 million outstanding under these lines at June 30, 1998.

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, including those related to business combinations. See "Other."

Management's Discussion and Analysis of Financial Condition and Results of Operations

OTHER

Subsequent Business Combinations On May 17, 1998, the Company announced that it had entered into a definitive merger agreement with Scherer. The Scherer merger transaction was completed on August 7, 1998, and will be accounted for as a pooling-of-interests for financial reporting purposes. In the merger, the Company issued approximately 22.8 million Common Shares to Scherer stockholders and Scherer's outstanding stock options were converted into options to purchase approximately 2.4 million Common Shares. The Company has assumed approximately \$212 million in long-term debt as part of its acquisition of Scherer. The Company expects to record a merger-related charge to reflect transaction and other costs incurred as a result of the Scherer Merger in the first quarter of fiscal 1999. Additional merger-related costs associated with integrating the separate companies and instituting efficiencies will be charged to expense in subsequent periods when incurred. The total amount of the merger-related charges to be recognized in connection with the Scherer Merger is estimated to be between \$35 and \$40 million, after tax (see Note 16 of "Notes to Consolidated Financial Statements").

Terminated Merger On August 24, 1997, the Company and Bergen announced that they had entered into a definitive merger agreement (as subsequently amended by the parties on March 16, 1998), pursuant to which a wholly owned subsidiary of the Company would be merged with and into Bergen (the "Bergen Merger Agreement"), which was subsequently approved by both companies' shareholders on February 20, 1998. On March 9, 1998, the FTC filed a complaint in the United States District Court for the District of Columbia seeking a preliminary injunction to halt the proposed merger. On July 31, 1998, the District Court granted the FTC's request for an injunction to halt the proposed merger. On August 7, 1998, the Company and Bergen jointly terminated the Bergen Merger Agreement. In accordance with the terms of the Bergen Merger Agreement, its termination gave rise to an obligation for the Company to reimburse Bergen for \$7 million of transaction costs. Additionally, the termination of the Bergen Merger Agreement will cause the costs incurred by the Company (that would not have been deductible had the proposed merger been consummated) to become tax deductible, resulting in a tax benefit of \$12.2 million. The obligation to reimburse Bergen and the additional tax benefit have been reflected in the consolidated financial statements in the fourth quarter of the fiscal year ended June 30, 1998 (see Notes 2 and 17 of "Notes to Consolidated Financial Statements").

Year 2000 Project The Company utilizes computer technologies throughout its business to effectively carry out its day-to-day operations. Computer technologies include both information technology in the form of hardware and software, as well as embedded technology in the Company's facilities and equipment. Similar to most companies, the Company must determine whether its systems are capable of recognizing and processing date-sensitive information properly as the year 2000 approaches. The Company is utilizing a multi-phased concurrent approach to address this issue. The phases included in the Company's approach are the awareness, assessment, remediation, validation and implementation phases. The Company has completed the awareness phase of its project. Furthermore, the Company has substantially completed the assessment phase and is well into the remediation phase. The Company is actively correcting and replacing those systems which are not year 2000 ready in order to ensure the Company's ability to continue to meet its internal needs and those of its suppliers and customers.

The Company currently intends to substantially complete the remediation, validation and implementation phases of the year 2000 project prior to June 30, 1999. This process includes the testing of critical systems to ensure that year 2000 readiness has been accomplished. The Company currently believes it will be able to modify, replace, or mitigate its affected systems in time to avoid any material detrimental impact on its operations. If the Company determines that it may be unable to remediate and properly test affected systems on a timely basis, the Company intends to develop appropriate contingency plans for any such mission-critical systems at the time such determination is made. While the Company is not presently aware of any significant exposure that its systems will not be properly remediated on a timely basis, there can be no assurances that all year 2000 remediation processes will be completed and properly tested before the year 2000, or that contingency plans will sufficiently mitigate the risk of a year 2000 readiness problem. An interruption of the Company's ability to conduct its business due to a year 2000 readiness problem could have a material adverse effect on the Company.

The Company estimates that the aggregate costs of its year 2000 project will be approximately \$20 million, including costs already incurred. A significant portion of these costs are not likely to be incremental costs, but rather will represent the redeployment of existing resources. This reallocation of resources is not expected to have a significant impact on the day-to-day operations of the Company. Total costs of approximately \$5 million were incurred by the Company for this project during fiscal 1998, of which approximately \$1.4 million represented incremental expense. The anticipated impact and costs of the project, as well as the date on which the Company expects to complete the project, are based on management's best estimates using information currently available and numerous assumptions about future events. However, there can be no guarantee that these estimates will be achieved and actual results could differ materially from those plans. Based on its current estimates and information currently available, the Company does not anticipate that the costs associated with this project will have a material adverse effect on the Company's consolidated financial position, results of operations or cash flows in future periods.

The Company has initiated formal communications with its significant suppliers, customers, and critical business partners to determine the extent to which the Company may be vulnerable in the event that those parties fail to properly remediate their own year 2000 issues. The Company has taken steps to monitor the progress made by those parties, and intends to test critical system interfaces, as the year 2000 approaches. The Company will develop appropriate contingency plans in the event that a significant exposure is identified relative to the dependencies on third-party systems. While the Company is not presently aware of any such significant exposure, there can be no guarantee that the systems of third parties on which the Company relies will be converted in a timely manner, or that a failure to properly convert by another company would not have a material adverse effect on the Company. The Company is currently evaluating the year 2000 readiness of Scherer, the Company's newest subsidiary acquired as of August 7, 1998. As such, the above discussion does not reflect the impact of Scherer.

Recently Issued Financial Accounting Standards In June 1997, the Financial Accounting Standards Board ("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, the 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.

In June 1998, the FASB issued Statement of Financial Accounting Standards No. 133 ("SFAS 133"), "Accounting for Derivative Instruments and Hedging Activities," which will require adoption no later than the Company's fiscal quarter ending September 30, 1999. This new statement requires companies to recognize all derivatives as either assets or liabilities in the balance sheet and measure such instruments at fair value.

In March 1998, the American Institute of Certified Public Accountants ("AICPA") issued Statement of Position 98-1 ("SOP 98-1"), "Accounting for the Costs of Computer Software Developed or Obtained for Internal Use," which will require adoption no later than the beginning of the Company's fiscal year ending June 30, 1999. This new statement provides guidance on accounting for costs of computer software developed or obtained for internal use.

Adoption of these statements is not expected to have a material impact on the Company's consolidated financial statements.

Consolidated Statements of Earnings

	Fiscal Year Ended June 30,		
	1998	1997	1996
	(In thousands, except per share amounts)		
Revenue:			
Operating revenue	\$ 12,926,778	\$ 10,968,042	\$ 9,407,591
Bulk deliveries to customer warehouses	2,991,360	2,469,138	2,178,532
Total revenue	15,918,138	13,437,180	11,586,123
Cost of products sold:			
Operating cost of products sold	11,885,228	10,068,436	8,598,333
Cost of products sold - bulk deliveries	2,991,360	2,469,086	2,178,077
Total cost of products sold	14,876,588	12,537,522	10,776,410
Gross margin	1,041,550	899,658	809,713
Selling, general and administrative expenses	567,756	515,551	514,879
Special charges:			
Mergers-related costs:			
Transaction and employee-related costs	(35,696)	(27,100)	(31,755)
Other	(13,448)	(23,829)	(17,445)
Total mergers-related costs	(49,144)	(50,929)	(49,200)
Facilities closures and employee severance	(8,634)	—	—
Operating earnings	416,016	333,178	245,634
Other income (expense):			
Interest expense	(23,022)	(27,974)	(30,611)
Other, net – primarily interest income	9,519	5,876	12,479
Earnings before income taxes	402,513	311,080	227,502
Provision for income taxes	155,432	126,481	100,262
Net earnings	\$ 247,081	\$ 184,599	\$ 127,240
Earnings per Common Share:			
Basic	\$ 2.25	\$ 1.72	\$ 1.22
Diluted	\$ 2.22	\$ 1.69	\$ 1.19
Weighted average number of Common Shares outstanding:			
Basic	109,757	107,152	103,872
Diluted	111,447	109,118	106,808

The accompanying notes are an integral part of these statements.

Consolidated Balance Sheets

	June 30,	
	1998	1997
	(In thousands)	
Assets		
Current assets:		
Cash and equivalents	\$ 304,951	\$ 243,061
Trade receivables, net	826,199	672,164
Current portion of net investment in sales-type leases	75,450	40,997
Merchandise inventories	1,895,525	1,436,220
Prepaid expenses and other	126,526	94,668
Total current assets	3,228,651	2,487,110
Property and equipment, at cost:		
Land, buildings and improvements	115,248	110,552
Machinery and equipment	349,848	305,822
Furniture and fixtures	83,339	61,046
Total	548,435	477,420
Accumulated depreciation and amortization	(217,032)	(199,949)
Property and equipment, net	331,403	277,471
Other assets:		
Net investment in sales-type leases, less current portion	195,013	118,563
Goodwill and other intangibles	125,095	122,104
Other	80,915	86,502
Total Assets	\$ 3,961,077	\$ 3,091,750
Liabilities and Shareholders' Equity		
Current liabilities:		
Notes payable, banks	\$ 23,850	\$ 22,159
Current portion of long-term obligations	6,803	6,158
Accounts payable	1,622,392	1,135,951
Other accrued liabilities	191,074	225,165
Total current liabilities	1,844,119	1,389,433
Long-term obligations, less current portion	272,575	277,766
Deferred income taxes and other liabilities	219,185	89,821
Shareholders' equity:		
Common Shares, without par value	713,006	645,051
Retained earnings	928,196	701,896
Common Shares in treasury, at cost	(9,469)	(6,373)
Other	(6,535)	(5,844)
Total shareholders' equity	1,625,198	1,334,730
Total Liabilities and Shareholders' Equity	\$ 3,961,077	\$ 3,091,750

The accompanying notes are an integral part of these statements.

Consolidated Statements of Shareholders' Equity

	Common Shares		Retained Earnings	Treasury Shares		Adjusted for ESOP	Other	Total Shareholders' Equity
	Shares Issued	Amount		Shares	Amount			
	(In thousands)							
Balance, June 30, 1995	70,839	\$ 504,943	\$ 401,042	(1,356)	\$ (15,966)	\$ (21,296)	\$ (2,249)	\$ 866,474
Net earnings			127,240					127,240
Employee stock plans activity, including tax benefits of \$11,168	1,015	29,754		134	922		(1,173)	29,503
Treasury shares acquired and shares retired	(240)	(5,662)		170	3,522		307	(1,833)
Change in unrealized loss on marketable securities available-for-sale, net of tax							446	446
Dividends paid			(7,616)					(7,616)
Foreign currency translation and other adjustments							(726)	(726)
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	74,754	589,476	520,666	(1,052)	(11,522)	–	(3,395)	1,095,225
Net earnings			184,599					184,599
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 and other adjustments							(1,351)	(1,351)
3-for-2 stock split effected as a stock dividend and cash paid in lieu of fractional shares	33,411		(30)					(30)
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	701,896	(240)	(6,373)	–	(5,844)	1,334,730
Net earnings			247,081					247,081
Employee stock plans activity, including tax benefits of \$18,638	1,286	53,438		(39)	(3,077)		(407)	49,954
Dividends paid			(11,507)					(11,507)
Foreign currency translation and other adjustments							(778)	(778)
Acquisition of subsidiary (see Note 2)	565	14,517	(9,274)		(19)		494	5,718
Balance, June 30, 1998	110,923	\$ 713,006	\$ 928,196	(279)	\$ (9,469)	\$ –	\$ (6,535)	\$ 1,625,198

The accompanying notes are an integral part of these statements.

Consolidated Statements of Cash Flows

	Fiscal Year Ended June 30,		
	1998	1997	1996
	(In thousands)		
Cash Flows From Operating Activities:			
Net earnings	\$ 247,081	\$ 184,599	\$ 127,240
Adjustments to reconcile net earnings to net cash from operating activities:			
Depreciation and amortization	64,275	51,368	48,566
Provision for deferred income taxes	95,483	11,217	23,602
Provision for bad debts	14,499	8,073	12,496
Change in operating assets and liabilities, net of effects from acquisitions:			
Increase in trade receivables	(167,447)	(46,971)	(64,880)
Increase in merchandise inventories	(459,305)	(164,108)	(156,224)
Increase in net investment in sales-type leases	(110,903)	(11,803)	(34,125)
Increase (decrease) in accounts payable	486,184	(10,778)	161,611
Increase in accrued other	66,958	20,039	34,077
Other operating items, net	(93,750)	(9,358)	(23,736)
Net cash provided by operating activities	143,075	32,278	128,627
Cash Flows From Investing Activities:			
Acquisition of subsidiaries, net of cash acquired	(4,000)	–	(53,722)
Proceeds from sale of property and equipment	2,547	2,986	1,833
Additions to property and equipment	(110,709)	(76,089)	(107,843)
Purchase of marketable securities available-for-sale	–	(3,400)	(163,719)
Proceeds from sale of marketable securities available-for-sale	–	57,735	218,019
Net cash used in investing activities	(112,162)	(18,768)	(105,432)
Cash Flows From Financing Activities:			
Net short-term borrowing activity	1,691	3,347	(4,139)
Reduction of long-term obligations	(7,881)	(134,479)	(40,888)
Proceeds from long-term obligations, net of issuance costs	852	–	187,873
Proceeds from issuance of Common Shares	32,261	41,244	69,991
Tax benefit of stock options	18,638	18,459	11,168
Dividends on Common Shares and cash paid in lieu of fractional shares	(11,507)	(9,075)	(7,616)
Purchase of treasury shares	(3,077)	(1,975)	(1,833)
Net cash provided by (used in) financing activities	30,977	(82,479)	214,556
Net Increase (Decrease) in Cash and Equivalents	61,890	(68,969)	237,751
Cash and Equivalents at Beginning of Year	243,061	312,030	74,279
Cash and Equivalents at End of Year	\$ 304,951	\$ 243,061	\$ 312,030

The accompanying notes are an integral part of these statements.

Notes to Consolidated Financial 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); Owen Healthcare, Inc. ("Owen") (a provider of pharmacy management and information services to hospitals); and MediQual Systems, Inc. ("MediQual") (a developer and provider of clinical information systems). 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; PCI on October 11, 1996 and Owen on March 18, 1997 (see Note 2). Such business combinations were accounted for under the pooling-of-interests method.

The Company's fiscal year end is June 30 and Owen's fiscal year end was November 30. For the fiscal year ended June 30, 1996, the consolidated financial statements combine the Company's fiscal year ended June 30, 1996, with the financial results for Owen's fiscal year ended November 30, 1995. For the fiscal year ended June 30, 1997, the consolidated financial statements combine the Company'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 the Company'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.

On February 18, 1998, the Company completed a merger with MediQual (the "MediQual Merger"). The MediQual Merger was accounted for as a pooling-of-interests. Because the impact of the MediQual Merger was not significant on a historical basis, prior period financial statements have not been restated. MediQual's financial information for all periods beginning with March 1, 1998, has been included in the Company's consolidated financial results for fiscal 1998.

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.

Receivables

Trade receivables are primarily comprised of amounts owed to the Company through its pharmaceutical wholesaling activities and are presented net of an allowance for doubtful accounts of \$34.2 million and \$35.0 million at June 30, 1998 and 1997, 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 \$66.6 million and \$52.5 million at June 30, 1998 and 1997, respectively (the current portion was \$29.4 million and \$12.1 million, respectively), and are included in other assets. These amounts are reported net of an allowance for doubtful accounts of \$6.4 million and \$8.2 million at June 30, 1998 and 1997, respectively.

Merchandise Inventories

Substantially all merchandise inventories (81% in 1998 and 87% in 1997) 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, 1998, by \$54.6 million and at June 30, 1997, by \$69.6 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 1998 and 1997, the Company had partial inventory liquidations in certain LIFO pools which reduced the LIFO provision by approximately \$2.3 million and \$2.0 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. At each balance sheet date, the Company assesses the recoverability of its long-lived property, based on a review of projected undiscounted cash flows associated with these assets.

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 \$23.7 million and \$20.3 million at June 30, 1998 and 1997, 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 for each subsidiary.

Revenue Recognition

The Company records distribution revenue when merchandise is shipped to its customers and the Company has no further obligation to provide services related to such merchandise. Along with other companies in its industry, the Company has begun reporting as revenue bulk deliveries made to customers' warehouses, whereby the Company acts as an intermediary in the ordering and subsequent delivery of pharmaceutical products. All years presented have been reclassified to include these bulk deliveries as revenue (previously only the service fees related to such bulk deliveries were reported as revenue; such service fees were not significant in any period presented). Fluctuations in bulk deliveries result largely from circumstances that are beyond the control of the Company, including consolidation within the chain drugstore industry, decisions by chains to either begin or discontinue warehousing activities, and changes in policy by manufacturers related to selling directly to chain drugstore customers. Due to the insignificant margins generated through bulk deliveries, fluctuations in their amount have no significant impact on operating earnings.

Revenue is recognized from sales-type leases of point-of-use pharmacy systems when the systems are delivered, the customer accepts the system, and the lease becomes noncancelable. 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. Revenue for systems installed under operating lease arrangements is recognized over the lease term as such amounts become receivable according to the provisions of the lease.

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 revenue when they are earned. Origination fees from signing new franchise agreements are recognized as revenue when the new franchise store is opened. Master franchise origination fees are recognized as revenue 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 either 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. Revenue is adjusted to reflect the estimated effects of such contractual guarantees and risk-sharing provisions.

Packaging revenue is recognized from services provided upon the completion of such services.

System license revenue is recognized upon shipment of the system to the customer. The portion of the license fee related to system maintenance is deferred and recognized over the annual maintenance period.

Earnings Per Common Share

The Company adopted Statement of Financial Accounting Standards No. 128 ("SFAS No. 128"), "Earnings per Share," in the quarter ended December 31, 1997. In accordance with the provisions of the Standard, all prior periods presented have been restated to comply with SFAS No. 128.

Basic earnings per Common Share ("Basic") is computed by dividing net earnings (the numerator) by the weighted average number of Common Shares outstanding during each period (the denominator). Diluted earnings per Common Share is similar to the computation for Basic, except that the denominator is increased by the dilutive effect of stock options outstanding, computed using the treasury stock method, and in fiscal 1996 by the dilutive effect of convertible debentures (\$270,000 impact on diluted net earnings and an increase of 717,000 diluted shares).

Excluding dividends paid by all entities with which the Company has merged, the Company paid cash dividends per Common Share of \$0.105, \$0.09, \$0.08 for the fiscal years ended June 30, 1998, 1997 and 1996, respectively.

Stock Splits

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.

On August 12, 1998, the Company declared a three-for-two stock split which will be effected as a stock dividend and distributed on October 30, 1998, to shareholders of record at the end of business on October 9, 1998. Giving retroactive effect to the stock split, the diluted earnings per Common Share for the fiscal years ended June 30, 1998, 1997 and 1996 will be \$1.48, \$1.13 and \$0.80 per Common Share, respectively.

2. BUSINESS COMBINATIONS, MERGERS-RELATED COSTS AND OTHER SPECIAL CHARGES

In the merger transaction with MediQual, which was completed on February 18, 1998, the Company issued approximately 576,000 Common Shares to MediQual shareholders and MediQual's outstanding stock options were converted into options to purchase approximately 24,000 Common Shares of the Company. The historical cost of MediQual's assets combined was approximately \$7.3 million and the total liabilities assumed were approximately \$1.6 million. The impact of the MediQual Merger, on an historical basis, is not significant. Accordingly, prior period historical financial statements have not been restated for the MediQual Merger. MediQual's financial results have been included in the consolidated financial results of the Company since March 1, 1998.

On May 15, 1998, the Company completed a business combination with Comprehensive Reimbursement Consultants, Inc. ("CRC"), which was accounted for as a purchase. The aggregate purchase price, which was paid primarily in cash, was approximately \$6 million, which included the issuance of Common Shares valued at approximately \$1.3 million. The financial results of CRC are included in the consolidated financial results of the Company since the date of the acquisition. Had the purchase occurred at the beginning of fiscal 1997, operating results on a pro forma basis would not have been significantly different.

During fiscal 1998, the Company recorded mergers-related charges associated with transaction costs incurred in connection with the MediQual Merger (\$2.3 million) and transaction costs incurred in connection with the proposed merger transaction with Bergen Brunswick Corporation ("Bergen") (\$33.4 million) which was terminated subsequent to year-end (see Note 17).

Notes to Consolidated Financial Statements

In accordance with the terms of the Bergen Merger Agreement, its termination gave rise to an obligation for the Company to reimburse Bergen for \$7 million of transaction costs. Additional mergers-related costs, related to asset impairments (\$3.8 million) and integrating the operations of companies that previously merged with the Company (\$9.6 million), were incurred and recorded during fiscal 1998.

During fiscal 1998, the Company recorded a special charge of \$8.6 million (\$5.2 million, net of tax) related to the rationalization of its distribution operations. Approximately \$6.1 million related to asset impairments and lease exit costs resulting primarily from the Company's decision to accelerate the consolidation of a number of distribution facilities and the relocation to more modern facilities for certain others. The remaining amount related to employee severance costs, including approximately \$2.0 million incurred in connection with the final settlement of a labor dispute with former employees of the Company's Boston distribution facility, resulting in termination of the union relationship.

On March 18, 1997, the Company completed a merger transaction with Owen (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. During fiscal 1997, the Company recorded costs of approximately \$31.1 million (\$22.4 million, net of tax) related to the Owen Merger. These costs include \$13.1 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 discussed below), and \$4.8 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 a merger transaction with PCI (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. During fiscal 1997, the Company recorded costs totaling approximately \$15.1 million (\$11.4 million, net of tax) related to the PCI Merger. These costs include \$13.8 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 \$1.3 million related to other integration activities, including exit costs.

In addition to the mergers-related costs recorded in fiscal 1997 for the Owen and PCI Mergers (as discussed above), the Company recorded \$4.7 million (\$2.8 million, net of tax) related to integrating the operations of companies that previously merged with the Company.

On May 7, 1996, the Company completed a merger transaction 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 Common Shares. During fiscal 1996, the Company recorded costs totaling approximately \$42.0 million (\$30.6 million, net of tax) related to the Pyxis Merger. These costs include \$25.4 million for transaction and employee-related costs associated with the merger (including \$7.6 million for vested stay bonuses covering substantially all Pyxis employees), \$15.6 million related to certain exit and lease-termination costs (pertaining to cancellation of a long-term contract with a financing company in connection with the servicing of the accounts receivable from Pyxis customers at the time of the Pyxis Merger, see Note 3), and \$1.0 million related to asset impairments and other integration activities.

On November 13, 1995, the Company completed a merger transaction 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. During fiscal 1996, the Company recorded costs totaling approximately \$7.2 million (\$6.4 million, net of tax) related to the Medicine Shoppe Merger. These costs include \$6.3 million for transaction and employee-related costs associated with the Medicine Shoppe Merger and \$0.9 million related to other integration activities.

The effect of the various mergers-related costs and other special charges recorded in fiscal 1998 was to reduce reported net earnings by \$35.8 million to \$247.1 million and to reduce reported diluted earnings per Common Share by \$0.32 per share to \$2.22 per share. The effect of the various mergers-related costs recorded in fiscal 1997 was to reduce reported net earnings by \$36.6 million to \$184.6 million and to reduce reported diluted earnings per Common Share by \$0.34 per share to \$1.69 per share. The effect of the various mergers-related costs recorded in fiscal 1996 was to reduce reported net earnings by \$36.9 million to \$127.2 million and to reduce reported diluted earnings per Common Share by \$0.34 per share to \$1.19 per share.

Certain mergers-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 as incurred.

During fiscal 1996, the Company completed three 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 \$58.8 million. Liabilities of the operations assumed were approximately \$41.7 million, consisting primarily of debt of \$29.7 million. Had the purchases occurred at the beginning of fiscal 1996, operating results for fiscal 1996 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:

	June 30, 1998	June 30, 1997
	(In thousands)	
Future minimum lease payments receivable	\$ 320,064	\$ 190,918
Unguaranteed residual values	1,267	1,333
Unearned income	(46,296)	(27,817)
Allowance for uncollectible minimum lease payments receivable	(4,572)	(4,874)
Net investment in sales-type leases	270,463	159,560
Less: current portion	75,450	40,997
Net investment in sales-type leases, less current portion	\$ 195,013	\$ 118,563

Future minimum lease payments to be received pursuant to sales-type leases are as follows at June 30, 1998:

(In thousands)	
1999	\$ 79,800
2000	75,758
2001	65,208
2002	55,729
2003	37,577
Thereafter	5,992
Total	\$ 320,064

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, 1998, \$198 million of lease receivables were owned by the financing company. The aggregate lease receivables sold under this arrangement totaled approximately \$382 million and \$312 million at June 30, 1998 and 1997, 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. In June 1998, the agreement with the financing company was further amended to terminate Pyxis' obligation to sell lease receivables to 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 (see Note 2).

4. NOTES PAYABLE, BANKS

The Company has entered into various unsecured, uncommitted line-of-credit arrangements which allow for borrowings up to \$408 million at June 30, 1998, at various money market rates. At June 30, 1998, \$23.9 million, at a weighted average interest rate of 7.2%, was outstanding under such arrangements and \$22.2 million, at a weighted average interest rate of 6.26% was outstanding at June 30, 1997. 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, 1998). 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, 1998, was \$479 million.

5. LONG-TERM OBLIGATIONS

Long-term obligations consist of the following:

	June 30, 1998	June 30, 1997
	(In thousands)	
6.0% Notes due 2006	\$ 150,000	\$ 150,000
6.5% Notes due 2004	100,000	100,000
Other obligations; interest averaging 6.39% in 1998 and 6.38% in 1997, due in varying installments through 2010	29,378	33,924
Total	279,378	283,924
Less: current portion	6,803	6,158
Long-term obligations, less current portion	\$ 272,575	\$ 277,766

Notes to Consolidated Financial Statements

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. 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.

During fiscal 1996, holders of \$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 diluted earnings per share would not have been material.

Certain long-term obligations are collateralized by property and equipment of the Company with an aggregate book value of approximately \$31.8 million at June 30, 1998.

Maturities of long-term obligations for future fiscal years are as follows:

(In thousands)	
1999	\$ 6,803
2000	5,418
2001	3,478
2002	2,288
2003	1,654
Thereafter	259,737
Total	\$ 279,378

On July 13, 1998, the Company issued \$150 million of 6.25% Notes due 2008, the proceeds of which will be used for working capital needs due to growth in the Company's business. The 6.25% Notes represent unsecured obligations of the Company, are not redeemable prior to maturity and are not subject to a sinking fund. Subsequent to issuing the 6.25% Notes, the Company has the capacity to issue \$250 million of additional long-term debt pursuant to a shelf debt registration statement filed with the Securities and Exchange Commission. In addition, as part of its merger transaction with R.P. Scherer Corporation ("Scherer") on August 7, 1998, the Company has assumed approximately \$212 million in long-term debt.

6. ESTIMATED FAIR VALUE OF FINANCIAL INSTRUMENTS

The carrying amounts of cash and equivalents, trade receivables, accounts payables, notes payable-banks and other accrued liabilities at June 30, 1998 and 1997, 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 \$280.2 million and \$270.1 million as compared to the carrying amounts of \$279.4 million and \$283.9 million at June 30, 1998 and 1997, 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:

	Fiscal Year Ended June 30,		
	1998	1997	1996
	(In thousands)		
Current:			
Federal	\$ 50,001	\$ 101,877	\$ 67,397
State	9,948	13,387	9,263
Total current	59,949	115,264	76,660
Deferred	95,483	11,217	23,602
Total provision	\$ 155,432	\$ 126,481	\$ 100,262

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

	Fiscal Year Ended June 30,		
	1998	1997	1996
Provision at Federal statutory rate	35.0 %	35.0 %	35.0 %
State income taxes, net of Federal benefit	4.7	4.3	4.7
Nondeductible expenses	0.9	2.4	3.9
Other	(2.0)	(1.0)	0.5
Effective income tax rate	38.6 %	40.7 %	44.1 %

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. The components of the deferred income tax assets and liabilities are as follows:

	June 30, 1998	June 30, 1997
	(In thousands)	
Deferred income tax assets:		
Receivable basis difference	\$ 10,330	\$ 18,669
Accrued liabilities	23,672	35,179
Net operating loss carryforwards	42,455	30,978
Other	3,976	38,285
Total deferred income tax assets	80,433	123,111
Valuation allowance for deferred income tax assets	(6,413)	(2,696)
Net deferred income tax assets	74,020	120,415
Deferred income tax liabilities:		
Inventory basis differences	(90,027)	(58,077)
Property-related	(72,399)	(63,171)
Revenues on lease contracts	(110,986)	(89,101)
Other	847	(13,128)
Total deferred income tax liabilities	(272,565)	(223,477)
Net deferred income tax liabilities	\$ (198,545)	\$ (103,062)

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

	June 30, 1998	June 30, 1997
	(In thousands)	
Other current liabilities	\$ 13,831	\$ (27,696)
Deferred income taxes and other liabilities	(212,376)	(75,366)
Net deferred income tax liabilities	\$ (198,545)	\$ (103,062)

The Company had Federal net operating loss carryforwards of \$95.4 million and \$91.0 million and state net operating loss carryforwards of \$95.1 million and \$56 million as of June 30, 1998 and 1997, respectively. A valuation allowance of \$6.4 million and \$2.7 million at June 30, 1998 and 1997, respectively, has been provided for the state net operating loss carryforwards, as utilization of such carryforwards within the applicable statutory periods is uncertain. The Company's Federal tax operating loss carryforwards and a portion of the state net operating loss carryforwards are subject to a change in ownership limitation calculation under Internal Revenue Code Section 382. After application of the valuation allowance described above, the Company anticipates no limitations will apply with respect to utilization of these assets. The Federal net operating loss carryforwards begin expiring in 2001, and the state net operating loss carryforwards began expiring in 1994. Expiring state net operating loss carryforwards and the required valuation allowances have been adjusted annually.

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.

Prior to the Owen Merger, Owen established an Employee Stock Ownership Plan (the "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.

The total expense for employee retirement benefit plans was as follows:

	Fiscal Year Ended June 30,		
	1998	1997	1996
	(In thousands)		
Defined contribution plans	\$ 15,363	\$ 10,765	\$ 9,132
Multiemployer plans	531	947	1,216
ESOP	-	-	257
Total	\$ 15,894	\$ 11,712	\$ 10,605

Notes to Consolidated Financial Statements

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, 1998 are as follows:

(In thousands)	
1999	\$ 15,011
2000	8,118
2001	6,189
2002	4,668
2003	3,773
Thereafter	11,813
Total	\$ 49,572

Rental expense relating to operating leases was approximately \$24.1 million, \$23.0 million and \$23.4 million in fiscal 1998, 1997, and 1996, 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 \$181.2 million, which is the total estimated cost of the construction projects. As of June 30, 1998, the amount expended was \$108.2 million. Currently, the Company's minimum annual lease payments under the agreements are approximately \$7.0 million.

As of June 30, 1998, amounts outstanding on customer notes receivable sold with full recourse to a commercial bank totaled approximately \$13.4 million. The Company also has outstanding guarantees of indebtedness and financial assistance commitments which totaled approximately \$4.2 million at June 30, 1998. Upon consummation of the Scherer Merger on August 7, 1998 (see Note 16), the Company guaranteed an additional \$292 million, representing the outstanding long-term debt and available credit facilities of Scherer.

The Company becomes involved from time-to-time in litigation incidental to its business. 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. Trial has been set for the prescription drug litigation to begin on September 14, 1998. The Company believes that the allegations set forth against Cardinal and Whitmire in these lawsuits are without merit.

In January 1995, the Company was named as a defendant in a lawsuit alleging violations of various antitrust statutes and that the Company had tortiously interfered with another pharmaceutical wholesaler's contractual relations. The trial date for this action has been set for November 2, 1998. The Company believes that allegations made against it in this litigation 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 consolidated financial statements.

10. SHAREHOLDERS' EQUITY

At June 30, 1998, the Company's authorized capital shares consisted of (a) 300,000,000 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, 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. 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, 1998 and 1997.

11. CONCENTRATIONS OF CREDIT RISK AND MAJOR CUSTOMERS

The Company invests cash in deposits with major banks throughout the world and in high quality short-term liquid instruments. Such investments are made only in instruments issued or enhanced by high quality institutions. These investments mature within three months and the Company has not incurred any related losses.

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, such 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 1998, the Company's two largest customers individually accounted for 12% of operating revenue and 62% of bulk deliveries, respectively. During fiscal 1997, the Company's two largest customers individually accounted for 13% of operating revenue and 62% of bulk deliveries, respectively. During fiscal 1996, the Company's two largest customers individually accounted for 11% of operating revenue and 70% of bulk deliveries, respectively. Trade receivables due from these two customers aggregated approximately 16% and 23% of total trade receivables at June 30, 1998 and 1997, respectively.

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 diluted earnings per Common Share would have been reduced by \$4.5 million and \$0.04 per share, respectively, for fiscal 1998, \$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 weighted average fair value of options granted during fiscal 1998, 1997 and 1996 was \$19.92, \$14.48 and \$14.50, respectively. The fair values 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 fiscal 1998: risk-free interest rate of 5.53%, expected life of 3 years, expected volatility of 0.27% and dividend yield of 0.16%. The fair values 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%.

As of June 30, 1998, there remained approximately 650,000 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 Common Shares, with an average option price of \$1.37 were exercised in fiscal 1996. 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 consolidated balance sheets. The compensation awards are amortized to expense over the period in which participants perform services, generally one to seven years. As of June 30, 1998, approximately 0.2 million shares remained restricted and subject to forfeiture.

The following summarizes all stock option transactions for the Company (excluding Whitmire, see above) under the plans from June 30, 1995, through June 30, 1998, giving retroactive effect to conversions of options in connection with merger transactions and stock splits:

	Fiscal 1998		Fiscal 1997		Fiscal 1996	
	Options	Weighted avg. exercise price	Options	Weighted avg. exercise price	Options	Weighted avg. exercise price
(In thousands, except per share amounts)						
Outstanding, beginning of year	4,748	\$ 31.49	6,432	\$ 24.15	5,737	\$ 20.98
Granted	802	79.35	840	54.88	1,382	36.82
Exercised	(1,255)	24.34	(2,284)	19.87	(527)	21.10
Canceled	(138)	47.67	(240)	27.27	(160)	29.93
Outstanding, end of year	4,157	\$ 42.32	4,748	\$ 31.49	6,432	\$ 24.15
Exercisable, end of year	2,074	\$ 24.58	2,718	\$ 23.15	4,076	\$ 20.89

Information relative to stock options outstanding as of June 30, 1998:

	Options Outstanding			Options Exercisable	
	Options (000s)	Weighted avg. remaining contractual life in years	Weighted avg. exercise price	Options (000s)	Weighted avg. exercise price
Range of exercise prices					
\$.08-\$23.07	1,076	4.27	\$ 16.51	1,034	\$ 16.46
\$23.27-\$33.00	848	6.45	29.32	781	29.50
\$33.51-\$54.33	832	7.21	41.06	247	40.54
\$54.38-\$81.69	1,385	9.12	70.57	11	74.45
\$88.19-\$94.13	16	9.66	88.58	1	94.13
	4,157	6.94	\$ 42.32	2,074	\$ 24.58

Notes to Consolidated Financial Statements

13. SELECTED QUARTERLY FINANCIAL DATA (UNAUDITED)

The following selected quarterly financial data for fiscal 1998 and 1997 has been restated to reflect the pooling-of-interests business combinations as discussed in Note 2. Earnings per Common Share have been restated in accordance with SFAS 128 (see Note 1).

	First Quarter	Second Quarter	Third Quarter	Fourth Quarter
(In thousands, except per share amounts)				
Fiscal 1998				
Revenue:				
Operating revenue	\$ 2,869,971	\$ 3,130,505	\$ 3,381,479	\$ 3,544,823
Bulk deliveries to customer warehouses	681,155	750,590	720,101	839,514
Total revenue	3,551,126	3,881,095	4,101,580	4,384,337
Gross margin	225,865	248,898	279,376	287,411
Selling, general and administrative expenses	135,054	135,211	142,205	155,286
Operating earnings	88,628	110,498	107,380	109,510
Net earnings	\$ 54,040	\$ 66,179	\$ 56,312	\$ 70,550
Net earnings per Common Share:				
Basic	\$ 0.50	\$ 0.60	\$ 0.51	\$ 0.64
Diluted	\$ 0.49	\$ 0.60	\$ 0.50	\$ 0.63
Fiscal 1997				
Revenue:				
Operating revenue	\$ 2,535,476	\$ 2,816,406	\$ 2,825,500	\$ 2,790,660
Bulk deliveries to customer warehouses	571,704	623,883	624,368	649,183
Total revenue	3,107,180	3,440,289	3,449,868	3,439,843
Gross margin	193,828	223,858	246,658	235,314
Selling, general and administrative expenses	124,156	127,413	131,502	132,480
Operating earnings	69,514	78,429	84,274	100,961
Net earnings	\$ 39,326	\$ 41,326	\$ 42,181	\$ 61,766
Net earnings per Common Share:				
Basic	\$ 0.38	\$ 0.38	\$ 0.39	\$ 0.57
Diluted	\$ 0.37	\$ 0.38	\$ 0.38	\$ 0.56

On August 12, 1998, the Company declared a three-for-two stock split which will be effected as a stock dividend and distributed on October 30, 1998 to shareholders of record at the close of business on October 9, 1998 (see Note 1). Giving retroactive effect to the stock split, the earnings per Common Share for the selected quarterly financial data in fiscal 1998 and 1997 will be restated as follows upon distribution on October 30, 1998:

	First Quarter	Second Quarter	Third Quarter	Fourth Quarter
Net earnings per Common Share:				
Fiscal 1998				
Basic	\$ 0.33	\$ 0.40	\$ 0.34	\$ 0.43
Diluted	\$ 0.32	\$ 0.40	\$ 0.34	\$ 0.42
Fiscal 1997				
Basic	\$ 0.25	\$ 0.26	\$ 0.26	\$ 0.38
Diluted	\$ 0.25	\$ 0.25	\$ 0.26	\$ 0.37

As more fully discussed in Note 2, mergers-related costs and special charges were recorded in various quarters in fiscal 1998 and 1997. The following table summarizes the impact of such costs on net earnings and diluted earnings per share in the quarters in which they were recorded:

	First Quarter	Second Quarter	Third Quarter	Fourth Quarter
(In thousands, except per share amounts)				
Fiscal 1998				
Net earnings	\$ (1,332)	\$ (1,945)	\$ (23,729)	\$ (8,841)
Diluted net earnings per Common Share	\$ (0.01)	\$ (0.01)	\$ (0.22)	\$ (0.08)
Fiscal 1997				
Net earnings	\$ (95)	\$ (13,053)	\$ (22,285)	\$ (1,124)
Diluted net earnings per Common Share	\$ -	\$ (0.12)	\$ (0.20)	\$ (0.02)

Giving retroactive effect to the stock split declared on August 12, 1998, (see Note 1), the impact of mergers-related costs and special charges recorded in various quarters in fiscal 1998 and 1997 on diluted net earnings per Common Share will be restated as follows upon distribution on October 30, 1998:

Fiscal 1998

Fiscal 1997

	First Quarter	Second Quarter	Third Quarter	Fourth Quarter
	\$ (0.01)	\$ (0.01)	\$ (0.14)	\$ (0.05)
	\$ -	\$ (0.08)	\$ (0.13)	\$ (0.01)

14. SUPPLEMENTAL CASH FLOW INFORMATION

Income tax and interest payments for the fiscal years ended June 30, 1998, 1997 and 1996 were as follows:

	Fiscal Year Ended June 30,		
	1998	1997	1996
	(In thousands)		
Interest paid	\$ 22,857	\$ 30,487	\$ 25,263
Income taxes paid	\$ 87,295	\$ 83,639	\$ 67,831

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

15. RECENTLY ISSUED FINANCIAL ACCOUNTING STANDARDS

In June 1997, the Financial Accounting Standard Board ("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 reporting and display of comprehensive income and its components in the financial statements.

In June 1997, the FASB 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.

In June 1998, the FASB issued Statement of Financial Accounting Standards No. 133 ("SFAS 133"), "Accounting for Derivative Instruments and Hedging Activities," which will require adoption no later than the Company's fiscal quarter ending September 30, 1999. This new statement requires companies to recognize all derivatives as either assets or liabilities in the balance sheet and measure such instruments at fair value.

In March 1998, the American Institute of Certified Public Accountants ("AICPA") issued Statement of Position 98-1 ("SOP 98-1"), "Accounting for the Costs of Computer Software Developed or Obtained for Internal Use," which will require adoption no later than the beginning of the Company's fiscal year ending June 30, 1999. This new statement provides guidance on accounting for costs of computer software developed or obtained for internal use.

Adoption of these statements is not expected to have a material impact on the Company's consolidated financial statements.

16. SUBSEQUENT BUSINESS COMBINATION

On May 17, 1998, the Company announced that it had entered into a definitive merger agreement with Scherer (the "Scherer Merger"). This merger transaction was completed on August 7, 1998, and will be accounted for as a pooling-of-interests for financial reporting purposes. In the Scherer Merger, the Company issued approximately 22.8 million Common Shares to Scherer stockholders and Scherer's outstanding stock options were converted into options to purchase approximately 2.4 million Common Shares. The Company has assumed approximately \$212 million in long-term debt as part of the Scherer Merger. The Company expects to record a merger-related charge to reflect transaction and other costs incurred as a result of the Scherer Merger in the first quarter of fiscal 1999. The Company is currently assessing the appropriate reporting periods to be combined and the potential financial implications of conforming the accounting policies of the Company and Scherer, in connection with the restatement of the historical financial statements, as a result of the Scherer Merger.

17. TERMINATED MERGER AGREEMENT

On August 24, 1997, the Company and Bergen announced that they had entered into a definitive merger agreement (as subsequently amended by the parties on March 16, 1998), pursuant to which a wholly owned subsidiary of the Company would be merged with and into Bergen (the "Bergen Merger Agreement"), which was subsequently approved by both companies' shareholders on February 20, 1998. On March 9, 1998, the FTC filed a complaint in the United States District Court for the District of Columbia seeking a preliminary injunction to halt the proposed merger. On July 31, 1998, the District Court granted the FTC's request for an injunction to halt the proposed merger. On August 7, 1998, the Company and Bergen jointly terminated the Bergen Merger Agreement. In accordance with the terms of the Bergen Merger Agreement, its termination gave rise to an obligation for the Company to reimburse Bergen for \$7 million of transaction costs. Additionally, the termination of the Bergen Merger Agreement will cause the costs incurred by the Company (that would not have been deductible had the merger been consummated) to become tax deductible, resulting in a tax benefit of \$12.2 million. The obligation to reimburse Bergen and the additional tax benefit are reflected in the consolidated financial statements in the fourth quarter of the fiscal year ended June 30, 1998.

Common Share Information

	High	Low	Dividends Declared
Fiscal 1997			
Quarter Ended:			
September 30, 1996	\$ 55.08	\$ 44.67	\$ 0.0200
December 31, 1996	58.38	51.92	0.0250
March 31, 1997	64.13	54.38	0.0250
June 30, 1997	62.00	51.63	0.0250
Fiscal 1998			
Quarter Ended:			
September 30, 1997	\$ 71.06	\$ 54.63	\$ 0.0250
December 31, 1997	77.81	68.63	0.0250
March 31, 1998	88.19	70.00	0.0300
June 30, 1998	96.25	85.63	0.0300
Fiscal 1999			
Through August 21, 1998	\$ 101.88	\$ 92.63	\$ 0.0375

On August 12, 1998, the Company's Board of Directors authorized a three-for-two stock split of the Company's Common Shares payable on October 30, 1998, to shareholders of record at the close of business on October 9, 1998.

The Company anticipates that it will continue to pay quarterly cash dividends in the future. However, the payment and amount of future dividends remain within the discretion of the Company's Board of Directors and will depend upon the Company's future earnings, financial condition, capital requirements and other factors.

Management's Statement of Financial Responsibility

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 and
Chief Executive Officer



Richard J. Miller
Controller and Principal
Accounting Officer

Independent Auditors' Report

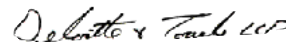
To the Shareholders and Directors of Cardinal Health, Inc.:

We have audited the accompanying consolidated balance sheets of Cardinal Health, Inc. and subsidiaries as of June 30, 1998 and 1997, and the related consolidated statements of earnings, shareholders' equity, and cash flows for each of the three years in the period ended June 30, 1998. 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 year ended June 30, 1996. The combined financial statement amounts of Owen and Pyxis represent combined revenue and net income of approximately 5% and 34%, respectively, of the consolidated amounts for the year 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 reports of other auditors provide a reasonable basis for our opinion.

In our opinion, based on our audits and the reports 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, 1998 and 1997, and the results of their operations and their cash flows for each of the three years in the period ended June 30, 1998 in conformity with generally accepted accounting principles.



Deloitte & Touche LLP
Columbus, Ohio
August 12, 1998

Selected Consolidated Financial Data (1)

	Fiscal Years Ended June 30,				
	1998	1997	1996	1995	1994
	(In thousands, except per share amounts)				
Earnings Statement Data:					
Revenue: (2)					
Operating revenue	\$ 12,926,778	\$ 10,968,042	\$ 9,407,591	\$ 8,472,302	\$ 6,374,734
Bulk deliveries to customer warehouses	2,991,360	2,469,138	2,178,532	1,779,512	561,827
Total revenue	15,918,138	13,437,180	11,586,123	10,251,814	6,936,561
Gross margin	1,041,550	899,658	809,713	693,272	551,833
Selling, general and administrative expenses	567,756	515,551	514,879	428,343	340,430
Mergers-related costs and special charges	(57,778)	(50,929)	(49,200)	—	(35,880)
Operating earnings (3)	416,016	333,178	245,634	264,929	175,523
Net earnings (3)	\$ 247,081	\$ 184,599	\$ 127,240	\$ 146,587	\$ 88,884
Net earnings per Common Share: (3) (4) (5) (6)					
Basic	\$ 2.25	\$ 1.72	\$ 1.22	\$ 1.46	\$ 0.97
Diluted	\$ 2.22	\$ 1.69	\$ 1.19	\$ 1.40	\$ 0.89
Weighted average number of Common Shares outstanding: (4)					
Basic	109,757	107,152	103,872	100,398	91,684
Diluted	111,447	109,118	106,808	104,730	100,400
Balance Sheet Data:					
Cash and marketable securities	\$ 304,951	\$ 243,061	\$ 366,365	\$ 175,039	\$ 159,232
Trade receivables	826,199	672,164	631,866	573,535	392,401
Merchandise inventories	1,895,525	1,436,220	1,272,112	1,112,958	897,979
Property and equipment, net	331,403	277,471	250,559	177,044	117,371
Total assets	\$ 3,961,077	\$ 3,091,750	\$ 2,959,401	\$ 2,363,752	\$ 1,789,455
Short-term obligations	\$ 30,653	\$ 28,317	\$ 113,643	\$ 13,312	\$ 36,858
Accounts payable	1,622,392	1,135,951	1,146,729	979,727	718,229
Long-term obligations	272,575	277,766	320,327	267,677	247,715
Shareholders' equity	1,625,198	1,334,730	1,095,225	866,474	617,464
Total liabilities and shareholders' equity	\$ 3,961,077	\$ 3,091,750	\$ 2,959,401	\$ 2,363,752	\$ 1,789,455
Cash dividends declared per Common Share (5) (6)	\$ 0.11	\$ 0.095	\$ 0.08	\$ 0.08	\$ 0.07

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

(2) The Company, beginning in fiscal 1998, is reporting bulk deliveries to customer warehouses as part of total revenue. Previously, only the gross margin from such sales had been classified in revenue. Such sales have been reclassified into revenue and cost of product sold for all periods presented. See Note 1 of "Notes to Consolidated Financial Statements" for a further discussion.

(3) Mergers-related costs and other special charges have been recorded in connection with various business combinations and facility rationalizations, 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 special charges.

(4) Effective for the fiscal year ended June 30, 1998, the Company adopted SFAS No. 128, "Earnings per Share." In accordance with SFAS No. 128, the basic and diluted EPS have been restated for all periods presented.

(5) Net earnings and cash dividends per Common Share have been adjusted to retroactively reflect all stock dividends and stock splits through June 30, 1998.

(6) On August 12, 1998, the Company declared a three-for-two stock split which will be effected as a stock dividend and distributed on October 30, 1998, to shareholders of record at the close of business on October 9, 1998. Giving retroactive effect to the stock split, the earnings per Common Share and cash dividends declared will be restated as follows upon distribution on October 30, 1998:

	Fiscal Years Ended June 30,				
	1998	1997	1996	1995	1994
Basic earnings per Common Share	\$ 1.50	\$ 1.15	\$ 0.82	\$ 0.97	\$ 0.65
Diluted earnings per Common Share	\$ 1.48	\$ 1.13	\$ 0.80	\$ 0.94	\$ 0.59
Cash dividends declared per Common Share	\$ 0.07	\$ 0.06	\$ 0.05	\$ 0.05	\$ 0.05

Directors and Officers

Board of Directors

Aleksandar Erdeljan

Former Chairman and Chief Executive Officer,
R.P. Scherer Corporation

John F. Finn

Chairman and Chief Executive Officer,
Gardner, Inc.

Robert L. Gerbig

Chairman and Chief Executive Officer,
Gerbig, Snell/Weisheimer & Associates, Inc.

John F. Havens

Retired Chairman and Director Emeritus,
Banc One Corporation

Regina E. Herzlinger, PhD

Professor, Harvard University
Graduate School of Business Administration

John C. Kane

President and Chief Operating Officer,
Cardinal Health, Inc.

J. Michael Losh

Executive Vice President and
Chief Financial Officer,
General Motors Corporation

George R. Manser

Chairman,
Uniglobe Travel (Capital Cities) Inc.

John B. McCoy

Chairman and Chief Executive Officer,
Banc One Corporation

Jerry E. Robertson, PhD

Retired, Former Executive Vice President,
Life Sciences Sector and Corporate Services,
Minnesota Mining & Manufacturing Company

L. Jack Van Fossen

Retired, Former President and
Chief Executive Officer,
Red Roof Inns, Inc.

Robert D. Walter

Chairman and Chief Executive Officer,
Cardinal Health, Inc.

Melburn G. Whitmire

Vice Chairman,
Cardinal Health, Inc.

Corporate Officers

David A. Abrahamson

President
Medicine Shoppe International, Inc.

George H. Bennett, Jr.

General Counsel and Secretary

Lisa M. Dolin

Strategic Initiatives

Brendan A. Ford

Corporate Development

George L. Fotiades

Group President
R.P. Scherer Corporation

Daniel F. Gerner

President
PCI Services, Inc.

Phillip A. Greth

Chief Information Officer

John C. Kane

President and Chief Operating Officer

Robin L. Martial

Western Group
Cardinal Distribution

Bruce D. McWhinney

Pharmacy Practice and Quality Assurance

James F. Millar

Group President
Cardinal Distribution

Richard J. Miller

Controller and Principal Accounting Officer

Mark W. Parrish

Sales and Marketing
Cardinal Distribution

Ramon M. Perez

Purchasing
Cardinal Distribution

Carl A. Spalding

Group President
Healthcare Product Services

Stephen S. Thomas

President
Pyxis Corporation

Carole W. Tomko

Human Resources

Gordon A. Troup

Eastern Group
Cardinal Distribution

Stephanie A. Wagoner

Treasurer

Robert D. Walter

Chairman and Chief Executive Officer

Melburn G. Whitmire

Vice Chairman

Dwight Winstead

President
Owen Healthcare, Inc.

Connie R. Woodburn

Corporate Sales

Robert J. Zollars

Group President
Pharmacy Automation and Management



*Robert D. Walter, Chairman and CEO
John C. Kane, President and COO*

Cardinal Health is one of the leading pharmaceutical service companies 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, automated pharmaceutical and supply dispensing systems manufacturing, hospital pharmacy management, retail pharmacy franchising, drug delivery systems development, pharmaceutical packaging and repackaging, and healthcare information systems development. The company is uniquely positioned to offer healthcare providers and product developers creative solutions in today's complex healthcare environment.

Corporate Profile

Founded in 1971 as a food wholesaler, Cardinal Health first entered the pharmaceutical distribution business 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 thirtyfold from just over \$500 million to \$16 billion today. Since its initial public offering in 1983, Cardinal has completed 21 acquisitions which have enabled the company to expand its distribution services nationwide and augment its portfolio of complementary pharmaceutical services.

Cardinal Health employs approximately 15,000 associates worldwide. The company actively fosters a spirit of ownership among its employees and directors to maximize their focus on creating long-term value for shareholders. Since its inclusion in the Fortune 500 three years ago, Cardinal has consistently been ranked among the top 25 companies with the highest ten-year total return to investors. In its 1998 listing, *Fortune* ranked Cardinal as having the sixth best return to investors for the ten years ended December 31, 1997, with an average return of 40.2% annually.



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