

PASSION FOR PERFORMANCE IN HEALTH CARE



		(In millions, except percentages and per share amounts)	1999	1998	1997
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Summary of Operations					
Revenues:					
		Operating Revenues	\$ 21,480.6	\$ 18,004.0	\$ 15,924.8
		Bulk deliveries to customer warehouses	3,553.0	2,991.4	2,469.1
		Total Revenues	\$ 25,033.6	\$ 20,995.4	\$ 18,393.9
		Merger-Related Costs and Other Special Charges	(142.6)	(57.8)	(50.9)
		Operating Earnings (1)	877.0	772.5	664.8
		Net Earnings (1)	\$ 456.3	\$ 425.1	\$ 334.8
Balance Sheet					
		Working Capital	\$ 2,187.6	\$ 2,060.7	\$ 1,760.6
		Total Assets	\$ 8,289.0	\$ 7,478.0	\$ 6,521.8
		Long Term Obligations	\$ 1,223.9	\$ 1,330.0	\$ 1,320.9
		Shareholders' Equity	\$ 3,463.0	\$ 2,954.9	\$ 2,627.0
Performance Ratios					
		Operating Earnings (1)	4.08%	4.28%	4.17%
		Return on Average Equity (1)	14.35%	15.18%	13.81%
Per Share Results					
		Diluted Net Earnings (1)	\$ 1.64	\$ 1.53	\$ 1.23
		Dividends Declared	\$ 0.10	\$ 0.07	\$ 0.06
Weighted Average Shares Outstanding (Number)					
		Diluted	279.0	277.9	272.0

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

(1) Merger-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.

Some of the information in this report (including information incorporated by reference) includes "forward-looking statements" within the meaning of the Private Securities Litigation Reform Act of 1995. The words "believe," "expect," "anticipate," and similar expressions, among others, identify "forward-looking statements," which speak only as of the date the statement was made. Such forward-looking statements are subject to risks, uncertainties and other factors that could cause actual results to materially differ from those projected, anticipated, or implied. The most significant of such risks, uncertainties and other factors 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. Cardinal undertakes no obligation to update or revise any forward-looking statements, whether as a result of new information, future events, or otherwise.

TO OUR FELLOW SHAREHOLDERS

Cardinal Health continued to distinguish itself financially, operationally, and strategically in fiscal 1999—it was another outstanding year for our company.

Cardinal Health delivered another excellent year for its shareholders. Our passion for performance in health care resulted in superior financial results—results that stand out in our industry and among public companies in general. In addition, we successfully completed significant strategic initiatives that position us well to expand on our leadership position.

Our success is a direct reflection of the skills, experience and commitment of our people. Their unique bias for action and commitment to the highest

quality customer service yields consistently outstanding financial results and gains for investors, including the 14th highest 10-year (1988–1998) return to shareholders among all *Fortune 500* corporations.

Just five years ago, we were predominantly a pharmaceutical wholesaler with 3,500 employees and annual revenues of \$5.8 billion. Since then, we have grown to become a *Fortune 100* company that is a leading manufacturer of products and provider of services supporting a broad cross section of health care. Our 36,000 associates work on five continents producing annual operating revenues of \$21.5 billion. We are stronger financially and strategically than we have ever been in our 28-year history.

Our customers today span the health-care continuum—they include retail pharmacies, hospitals and health systems; drug and medical-device manufacturers; laboratories, surgery



centers, cancer-treatment facilities and other providers of health care. Cardinal companies—each a market leader—distribute pharmaceuticals, medical, surgical and laboratory supplies; create and manufacture automated dispensing systems for drugs and supplies; develop drug-delivery technologies that make medicines more effective; manufacture, package and market health-care products; and offer consulting and other services that improve quality and efficiency in health care.

Our strategy is clear. We are a vital component of the health-care continuum, from the creation and development of critically needed health-care products to the provision of products and services to those who care for patients. By strategically adding products and services that increase Cardinal's value to the health-care delivery system, we enjoy greater opportunities for growth and a more diversified earnings stream.

*Robert D. Walter,
chairman and
chief executive
officer (left) and
John C. Kane,
president and
chief operating
officer.*

Another Record Year Cardinal Health had an outstanding year both financially and strategically. We achieved financial records across the board—revenues, operating earnings, net earnings, and returns on capital and shareholders' equity all hit new highs. We produced this strong growth while generating impressive operating cash flow of \$346 million. Importantly, the company's growth was balanced across all three of our business segments—pharmaceutical distribution, pharmaceutical services, and medical-surgical products—each of which grew operating earnings by more than 20 percent during the year. Each segment also produced record revenues, operating earnings, and returns in fiscal 1999. Cardinal associates are growing our businesses by working together to offer an unequaled breadth of products, programs and services that customers need, want and value.

Simply stated, Cardinal's financial formula is designed to produce high-quality growth. While it sounds easy, achieving our financial objectives requires considerable operating discipline and financial focus. We strive to grow sales faster than our markets, grow operating earnings faster than sales and grow net earnings faster than operating earnings. We are disciplined in our use of capital and consequently drive higher returns on investment. Our approach has produced consistently excellent performance at Cardinal, including reported earnings per share growth of 20 percent or more for the past 12 years.

Cardinal also carried out numerous strategic initiatives in fiscal 1999. During the year, we completed a remarkable 12 acquisitions, including our two largest mergers ever—R.P. Scherer Corporation and Allegiance Corporation, both of which share our passion for performance. The remaining acquisitions were important product and service extensions for Cardinal's existing businesses. We're very pleased with the positive contributions these acquisitions have made to Cardinal already.

R.P. Scherer is a drug-delivery firm that serves pharmaceutical companies. It is the No. 1 producer of soft gelatin

capsules such as Advil® Liqui-Gels™, and its newest innovation is Zydis®, a unique, patented technology that produces pharmaceutical wafers such as Claritin® RediTabs® that dissolve on the tongue in seconds without water. Allegiance is the nation's premier manufacturer and distributor of medical, surgical and laboratory products and services. Allegiance now comprises about a quarter of our total sales and a third of our earnings.

We completed other important strategic initiatives during the year as well. We established Cardinal OneSource™, a group of Cardinal companies marketed together with offerings for drug makers, and expanded Cardinal OneSource to include contract manufacturing and contract sales capabilities.

Following our merger with Allegiance, we created a corporate sales organization to facilitate joint-selling by Cardinal companies,

representing our combined portfolio of products and services for hospitals and health-care networks. At Pyxis, we introduced a number of significant new automated medication and supply dispensing systems, the result of our considerable efforts and investment in research and development. At R.P. Scherer, we continued to invest in facilities and expand our pharmaceutical-development pipeline.

Our investments in information systems, both internally and for our customers, also were considerable, including new web-based products for our hospital and retail customers.

Unless noted otherwise, the following discussion excludes special charges.

Higher Sales and Earnings In fiscal 1999, Cardinal produced strong earnings gains and extended its 12-year succession of reported annual growth in earnings per share of 20 percent or more. Cardinal's results for the year reflect the effective execution of our strategy and growing demand for our unique portfolio of products and services.

For the fiscal year ended June 30, 1999, Cardinal grew operating revenues 19 percent to \$21.5 billion from

“Our success is a direct reflection of the skills, experience and commitment of our people.”

\$18.0 billion in the prior year. The company's operating earnings in fiscal 1999 exceeded \$1 billion for the first time, rising 23 percent (faster than revenues) to \$1.02 billion.

Net earnings grew faster than operating earnings, as we used our strong operating cash flow to reduce debt and leverage interest expense. Cardinal generated net earnings of \$574 million, a 28 percent increase. Earnings per diluted share rose 27 percent to \$2.06.

The quality of our earnings growth is reflected in significant improvements in our profitability measures. Operating margin increased 16 basis points to a record 4.77 percent in fiscal 1999, and return on committed capital rose a sharp 280 basis points to a record 29.1 percent. Cardinal's return on equity climbed 190 basis points to 17.9 percent, also a record. These measures demonstrate the success of our focus on an increasingly profitable mix of businesses that are enjoying strong demand in a growing health-care marketplace as well as our continued emphasis on improving expense productivity.

In addition to our excellent earnings performance, Cardinal ended the year with a very solid balance sheet. The company's strong equity position of \$3.5 billion and low ratio of net debt to total capital of just 24 percent give us exceptional financial flexibility to invest further in our continued growth.

Our Acquisition Philosophy Cardinal has a 20-year history of making successful acquisitions, the product of a rigorous process for evaluating companies, their opportunities and risks. To be right for Cardinal, an acquisition first must link to our strategy of making us more valuable to our customers and creating value for our shareholders. We only consider companies that have leading market positions, have the potential for leadership as part of Cardinal, or represent a product- or service-line extension of an existing business. Before making an acquisition, we complete a comprehensive process of due diligence.

Following the transaction, we retain key members of management to assure a smooth integration and future success. Finally, we use our financial strength to invest further in the business.

Tremendous Momentum Cardinal's outstanding financial performance reflects the company's focus on health care, which continues to be a rapidly growing market, as well as strong customer demand for our portfolio of leading health-care services. We intend to continue to produce balanced earnings growth, higher operating margins, strong cash flow and rising returns. We intend to invest in the growth of our companies, through internal development and acquisitions that make us more valuable to customers and shareholders.

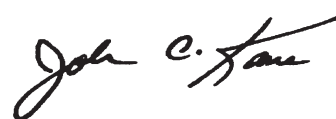
Cardinal is well positioned strategically with leading companies that work well together, and we have tremendous momentum moving forward. We plan to continue to meet our long-standing objective of growing EPS each year by 20 percent or more. We go into our new fiscal year with a talented, committed, and highly motivated management team and group of associates.

They are creative problem solvers whose passion for performance drives them to find answers where others only see obstacles. They know that their success is dependent entirely on helping our customers succeed—and that doing so will drive continued excellent shareholder value for many years to come.

“We are stronger financially and strategically than we have ever been in our 28-year history.”



Robert D. Walter
Chairman and Chief Executive Officer



John C. Kane
President and Chief Operating Officer

THE COMPANIES OF CARDINAL HEALTH, INC.

PHARMACEUTICAL DISTRIBUTION

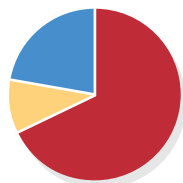
Services Supporting Health Care For 28 years, the people of Cardinal Health, Inc. have grown the company rapidly by focusing on the highest priority needs of customers—and delivering excellent results. In the last 10 years, Cardinal has increased its annual operating revenues more than 40-fold to \$21.5 billion. More recently, Cardinal has built on its core business of pharmaceutical distribution, adding market-leading services that make the company more valuable to health-care manufacturers and providers of patient care. From manufacturing, packaging and distribution, to marketing and consulting, Cardinal today offers the industry's broadest range of services supporting health care. The company operates in three business segments, each representing about a third of the company's earnings. In fiscal 1999, all three segments reported record revenues and operating earnings.

Cardinal Distribution is one of the largest distributors of pharmaceuticals in the United States, delivering to more than 18,000 retail, hospital and alternate-site pharmacies nationwide. The company's 23 U.S. warehouses use advanced automation to deliver excellent service as well. The company offers numerous programs and services to help pharmacies improve efficiency in ordering, managing, storing and dispensing drugs. With proprietary software such as CardinalCHOICE™ and Renlar®, the company helps its customers track purchase orders, create customized reports, control inventory and safeguard against adverse drug interactions. **Leader**



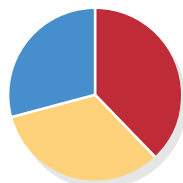
Drug Stores is a voluntary cooperative of more than 2,100 independent retail pharmacies for whom Cardinal Distribution provides a variety of support services. **National PharmPak Services, Inc.** repackages bulk pharmaceuticals into smaller volumes for more efficient use by pharmacies. It is the largest provider of repackaging services to retail pharmacies in the United States, serving most of the leading drug store chains in the country. National PharmPak also serves hospitals and other large pharmacies, providing low-unit-of-measure packaging for automated drug-dispensing systems. **National Specialty Services, Inc.** is a leading distributor of therapeutic blood products to hospitals, and of drugs and medical supplies to physician practices, cancer centers, home-infusion companies and other sites of care. Many of these are specialty, frozen and refrigerated products shipped to customers daily. **CORD Logistics, Inc.** provides specialized warehousing, distribution, inventory management and other logistics services to drug manufacturers. Using CORD's RAPIDistribution® program, Cardinal can stock U.S. pharmacies with a new product within 48 hours of Food & Drug Administration approval. ■

1999 Operating Revenues



■ Pharmaceutical Distribution	\$15.0 billion
■ Pharmaceutical Services	\$2.1 billion
■ Medical-Surgical Products	\$4.7 billion

1999 Operating Earnings



■ Pharmaceutical Distribution	\$399 million
■ Pharmaceutical Services	\$348 million
■ Medical-Surgical Products	\$303 million

Cardinal's pharmaceutical services segment includes a growing number of market-leading companies that serve health-care providers and pharmaceutical companies. Fast-growing **Pyxis Corporation** is the No.1 provider of automated pharmaceutical and medical-supply dispensing systems. These advanced systems streamline and control inventory-management processes in hospitals and clinics, and capture information to help further reduce costs and improve outcomes.

Nearly 400 hospitals and health networks use **Owen Healthcare, Inc.** to manage their pharmacies and materials departments. Acquired in 1999, **The Enright Group** offers



pharmacy-consulting services in areas such as managing disease states, new pharmacy practices and accreditation.

PHARMACISTS: prn, Inc., a pharmacy-staffing firm also acquired in 1999, places registered pharmacists and technicians into pharmacies across the country. The **Cardinal Information Companies (CIC)** provide information systems that analyze clinical outcomes according to severity of illness and other variables. For retail pharmacists, CIC offers ScriptLINE®, an automated system that helps pharmacies gain proper reimbursement from third-party payers. **Medicine Shoppe International, Inc.** provides services as the franchiser of a network of nearly 1,300 pharmacies. For drug manufacturers, **R.P. Scherer Corporation** is the world's largest producer of soft gelatin capsules; and Scherer's exclusive Zydis® drug delivery system is the only significant commercialized technology for producing pharmaceutical wafers that dissolve rapidly on the tongue. **PCI Services, Inc.** provides custom packaging and newly acquired **Automatic Liquid Packaging, Inc.** provides custom manufacturing for drug companies.

Comprehensive Reimbursement Consultants, Inc. helps manufacturers obtain insurance coverage and payment for new drugs. ■

In 1999, Cardinal merged with **Allegiance Corporation**, a leading manufacturer and distributor of medical, surgical and laboratory products for hospitals and other points of care. Allegiance also offers consulting and other services to help health-care providers reduce costs and improve quality in caring for patients. About 14,000 Allegiance manufacturing employees work in 27 manufacturing centers around the world producing products used primarily in surgery. All of these products hold leading market positions. They include

Convertors® single-use surgical drapes and gowns, **Custom Sterile™** procedure kits, **Medi-Vac®** fluid-collection systems, **V.Mueller®**



surgical instruments, and **Airlife®** respiratory care products. Allegiance also manufactures one of the industry's broadest lines of medical gloves, as well as other supplies. In addition to its own products, Allegiance distributes supplies from hundreds of manufacturers—more than 300,000 products in all. Operating out of 48 U.S. distribution centers, Allegiance drivers deliver nearly a million boxes of products to about 6,000 customers each day. Allegiance distribution centers feature advanced materials-handling and information technology. The company uses information systems and web technology to connect to its customers and improve sales and service. Allegiance also helps customers through clinical and productivity consulting, procedure-based supply packaging, and just-in-time delivery. Allegiance consultants work directly with medical staff to standardize product usage, reduce variations in medical practice patterns and eliminate unnecessary supplies. Allegiance has expanded its consulting expertise with the acquisitions of **Higman Healthcare** and **West Hudson**, allowing Allegiance to address cost, quality and labor-productivity throughout a hospital or health system. ■

PARTNERING WITH AMERICA'S CHAIN PHARMACIES

From CVS, Kerr Drug and Walgreens to your local Kmart drug counter, pharmacists at the busiest drug stores in America depend on Cardinal for pharmaceuticals and much more.

Retail chain pharmacies are Cardinal Health's largest customer segment, accounting for about a quarter of the company's total revenues. Cardinal associates distinguish themselves every day with these customers through reliable and efficient delivery of a broad range of pharmaceuticals. But dependable distribution is only part of



Kmart, Cardinal's largest single customer, renewed its long-term agreement with Cardinal in fiscal 1999.

the story. Increasingly, Cardinal also is helping large chains improve inventory logistics, in some cases eliminating the need for chains to warehouse and distribute pharmaceuticals to their stores. Instead, Cardinal delivers direct to these locations from its 23 pharmaceutical distribution centers across the United States, stopping at many locations on a daily or just-in-time basis.

In January 1999, Cardinal signed a five-year agreement with Kerr Drug, Inc. to distribute pharmaceuticals daily to Kerr's 155 retail drug stores, most of which are in the southeastern United States. In addition to drug distribution, Cardinal is providing a broad range of value-added products and services to Kerr, including CardinalCHOICE™-HQ, which enables the chain to consolidate product data from all its stores and apply a consistent, chainwide purchasing strategy.

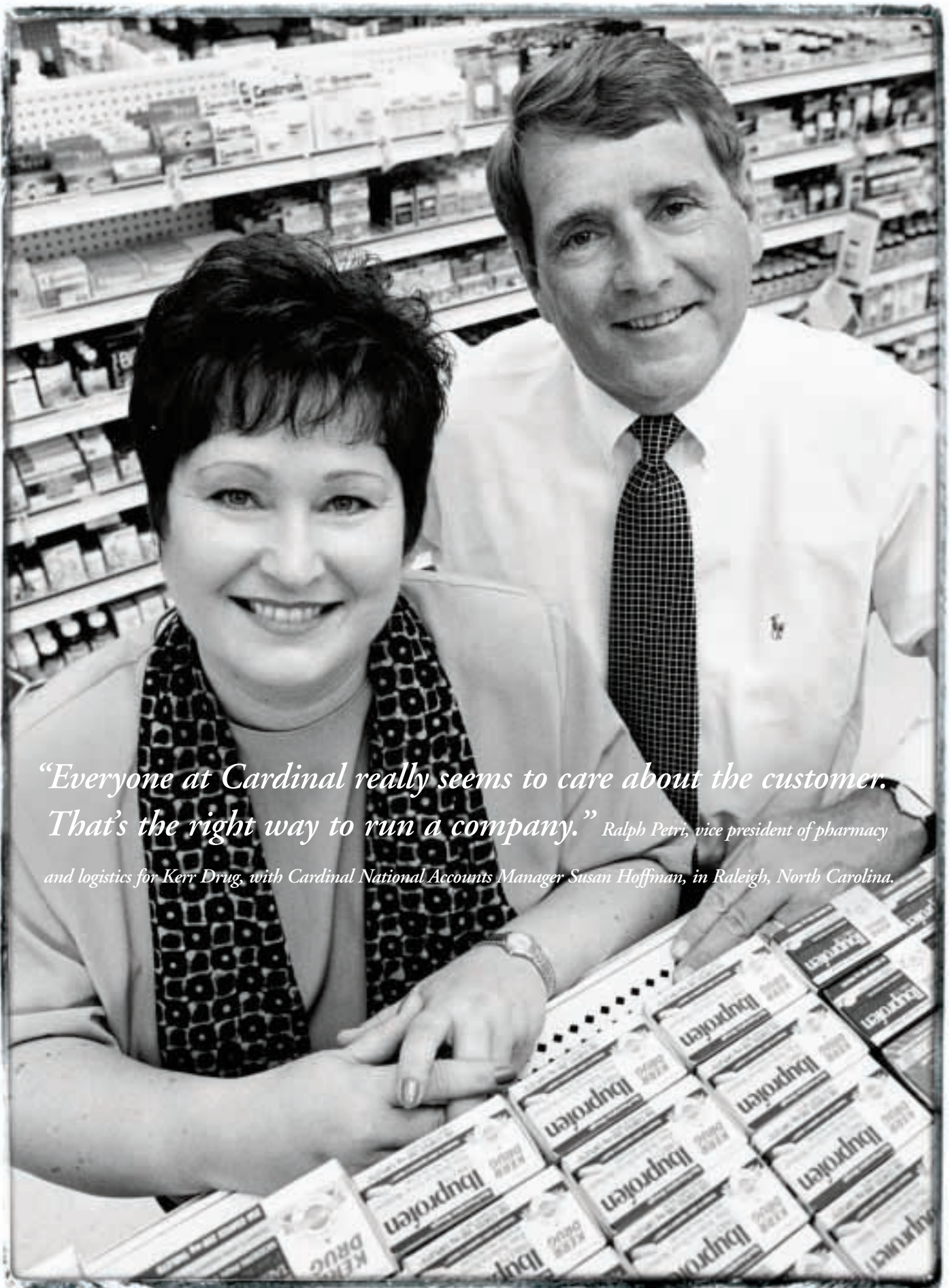
Cardinal's relationships run deep with many of its retail-chain customers. At CVS, based in Woonsocket, Rhode Island, Cardinal participates in strategic market planning with CVS executives to align its goals and incentives with those of the customer. In addition to being a primary pharmaceutical supplier to CVS' chain of more than 4,100 stores, Cardinal also has been selected to supply a new CVS network of

specialized pharmacies, called ProCare, which will focus on organ transplant, AIDS and cancer treatments.

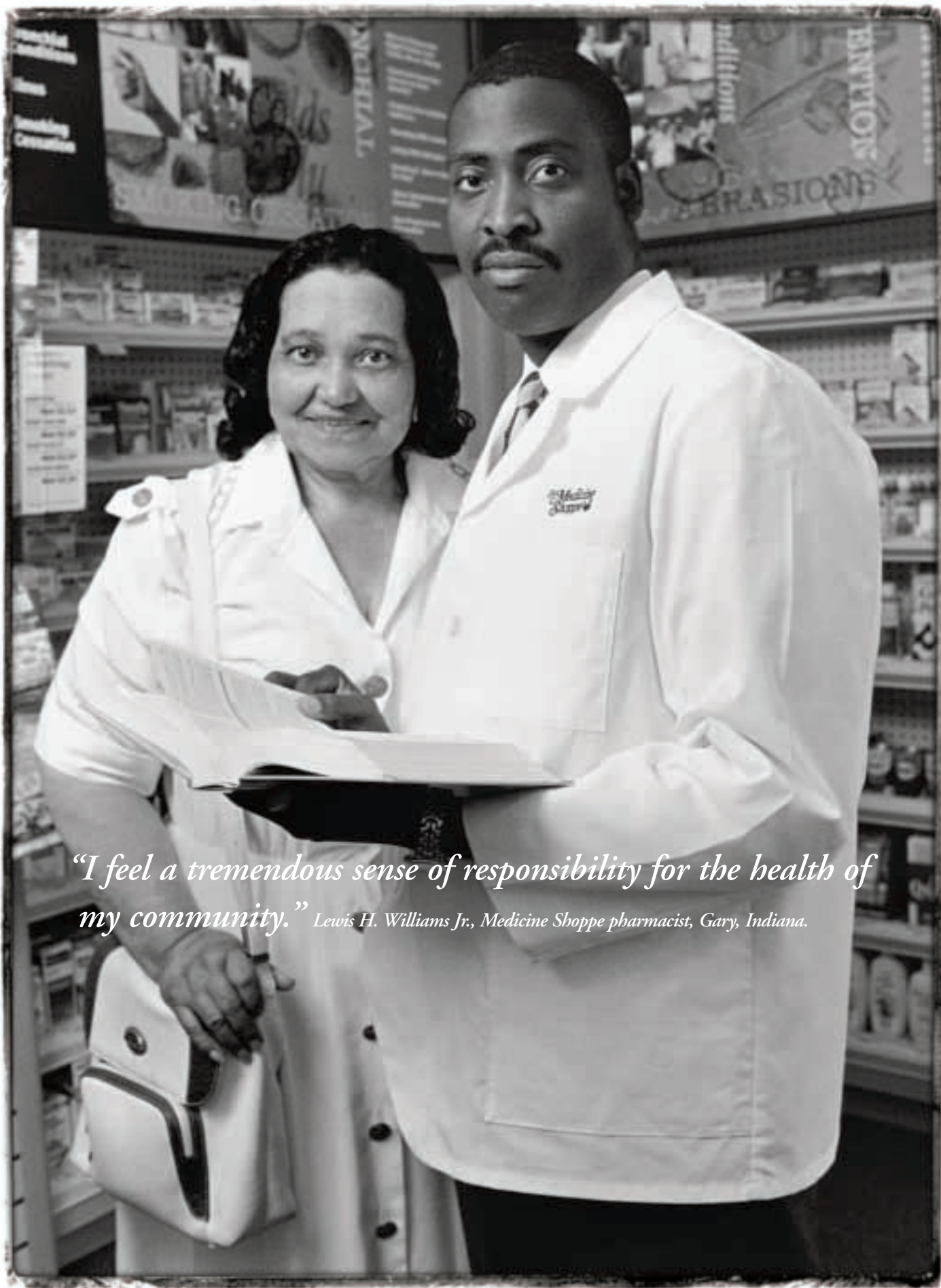
Kmart, Cardinal Distribution's largest single customer, presented Cardinal with its prestigious Kmart President's Award in 1999 for outstanding service as a strategic partner. Full-time Cardinal employees work on-site with Kmart to manage the relationship, in which Cardinal helps handle Kmart's inventory and works with the retail chain on other joint programs. In another vote of confidence for Cardinal's performance, Kmart recently extended its relationship with Cardinal under a new five-year agreement and is using Cardinal's ScriptLINE® transaction-processing network in 1,560 of its stores.

Cardinal Distribution provides other programs that help chain drug stores operate more efficiently. These include the CardinalCHOICE™ order-processing and inventory-management system; Renlar® patient information systems; CardinalSOURCESM, a generic-drug program for retail pharmacies; Cardinal Express Care® products and equipment for home health care; and Healthtouch® and Vitatouch® touch-screen consumer-information kiosks.

In Zanesville, Ohio, 145 employees of Cardinal's National PharmPak Services unit repackage bulk quantities of drugs into smaller amounts for more efficient use by retail pharmacies and hospitals. In the last year, Kerr, CVS and Walgreens were among the retail chains that decided to use National PharmPak for all of their pharmaceutical-repackaging needs. These new agreements enabled National PharmPak—the industry's largest drug repackager—to nearly double its sales, which surpassed \$1 billion in 1999. ■



“Everyone at Cardinal really seems to care about the customer. That’s the right way to run a company.” Ralph Petri, vice president of pharmacy and logistics for Kerr Drug, with Cardinal National Accounts Manager Susan Hoffman, in Raleigh, North Carolina.



“I feel a tremendous sense of responsibility for the health of my community.” Lewis H. Williams Jr., Medicine Shoppe pharmacist, Gary, Indiana.

HELPING PHARMACISTS CONNECT WITH THEIR NEIGHBORS

Cardinal is enabling independent pharmacists to be stronger competitors by helping them enhance their clinical role as trusted health advisers.

Stomach ulcers and other digestive diseases affect more than 60 million Americans each year. About 10 million of these patients end up in the hospital. Physician visits and other expenses bring the annual cost of treating stomach disorders to more than \$100 billion.

Merck-Medco Managed Care, the nation's leading pharmacy-benefits provider, was looking for a way to reduce these costs for its members. Recognizing the role that community pharmacists can play in effective patient care, Merck-Medco teamed up with Cardinal's subsidiary, Medicine Shoppe International, to implement a disease-management program for patients with gastrointestinal conditions. Medicine Shoppe is the nation's largest franchiser of independent pharmacies, processing about \$1.3 billion in pharmaceutical transactions each year.

Under the program, launched in 1999, Merck-Medco refers patients to their local Medicine Shoppe® pharmacy, where the pharmacist consults with the patient, reviews current medications, assesses the patient's response to treatment, then shares this information with the patient's physician and collaborates on a treatment plan.

Medicine Shoppe pharmacists have been successful before in reducing costs and improving outcomes of specific disease states. In Kansas City, CIGNA Healthcare teamed with Medicine Shoppe to improve care for ulcer patients. CIGNA identified 550 patients suspected of having peptic ulcer disease. Patients were screened for *h. pylori*, a bacterium that produces ulcer-like symptoms. Those who tested positive were referred by their Medicine Shoppe pharmacist to their doctor. Where appropriate, the patients were given antibiotics and monitored closely by their pharmacist. In the process, CIGNA reduced its drug costs for these patients by more than 25 percent. Medicine Shoppe pharmacies also have participated in disease-

management programs for cancer, HIV, thyroid and cardiovascular disease, asthma, diabetes and osteoporosis.

Working directly with patients and payers to improve quality of care and reduce costs is one way Medicine Shoppe pharmacists contribute to healthier communities. Cardinal provides franchisees with a variety of products, systems, programs and support services to help make them successful—and it's working. Medicine Shoppe opened 86 new stores in fiscal 1999 and same-store sales growth increased to 14 percent from 10 percent the year before.

Today, there are nearly 1,300 Medicine Shoppe pharmacies in nine countries. As franchisees, they can take advantage of the resources of Cardinal Distribution, Cardinal Information Companies and other parts of the organization to gain a competitive edge, and enhance their role as valuable members of the health-care team in their communities.

Cardinal provides other independent retail community pharmacies with unique programs and services like its Leader® Drug Stores cooperative. There are more than 2,100 Leader pharmacies nationwide. Last year, the company introduced Cardinal ScriptNetSM services, a collection of Internet-based services for retail pharmacies. The first of these services, Leader OnlineSM, is a turnkey program that enables pharmacies to establish their own web sites, allowing patients to interact with pharmacists, order prescription refills and access health-related information online, at any hour of the day.

In these ways, and many others, Cardinal associates are bringing advanced capabilities and superior performance to independent pharmacists, helping them succeed by becoming more valuable to the communities they serve. ■



In 1999, Cardinal introduced a collection of Internet services for retail pharmacies, including a program that enables pharmacies to establish their own web sites.

INVESTING WISELY IN INFORMATION TECHNOLOGY

Cardinal stays ahead of the competition by using powerful information systems that put 'e-commerce' and more at its customers' fingertips.

Cardinal Health has made significant investments in industry-leading information technology that is improving customer service and generating profitable sales for the company.

For many years, Cardinal has served its customers through electronic data interchange, or EDI—a paperless system that connects the company with its customers and suppliers, resulting in faster and more accurate transactions. Today, more than 90 percent of Cardinal's supplier and customer orders are handled this way, or over the Internet.

In May 1999, Cardinal introduced *asapSM-e.com*, which enables hospitals, clinics, doctors' offices and other qualified buyers to order products and access information from the company via the Internet.

The web site offers the industry's most extensive on-line catalog of health-care products, including more than 300,000 medical and surgical supplies from 2,800 manufacturers, as well as the full pharmaceutical line of Cardinal Distribution. The system is particularly popular with clinics and other non-hospital customers who typically have not had access to EDI technology. For them, *asap-e.com* provides an inexpensive electronic-ordering capability, and for all customers, an efficient way to check real-time product availability, order status, pricing, shipment and other information, 24 hours a day.


Also in May, Cardinal introduced Cardinal ScriptNetSM services, a series of Internet-based services for retail pharmacies. Another of the company's fast-growing new products for retail pharmacies is the ScriptLINE[®] system. ScriptLINE maintains

up-to-the-minute data on pharmaceutical pricing and reimbursement, helping pharmacists maximize reimbursement from payers. Introduced two years ago, ScriptLINE is being used by more than 3,000 pharmacies today.

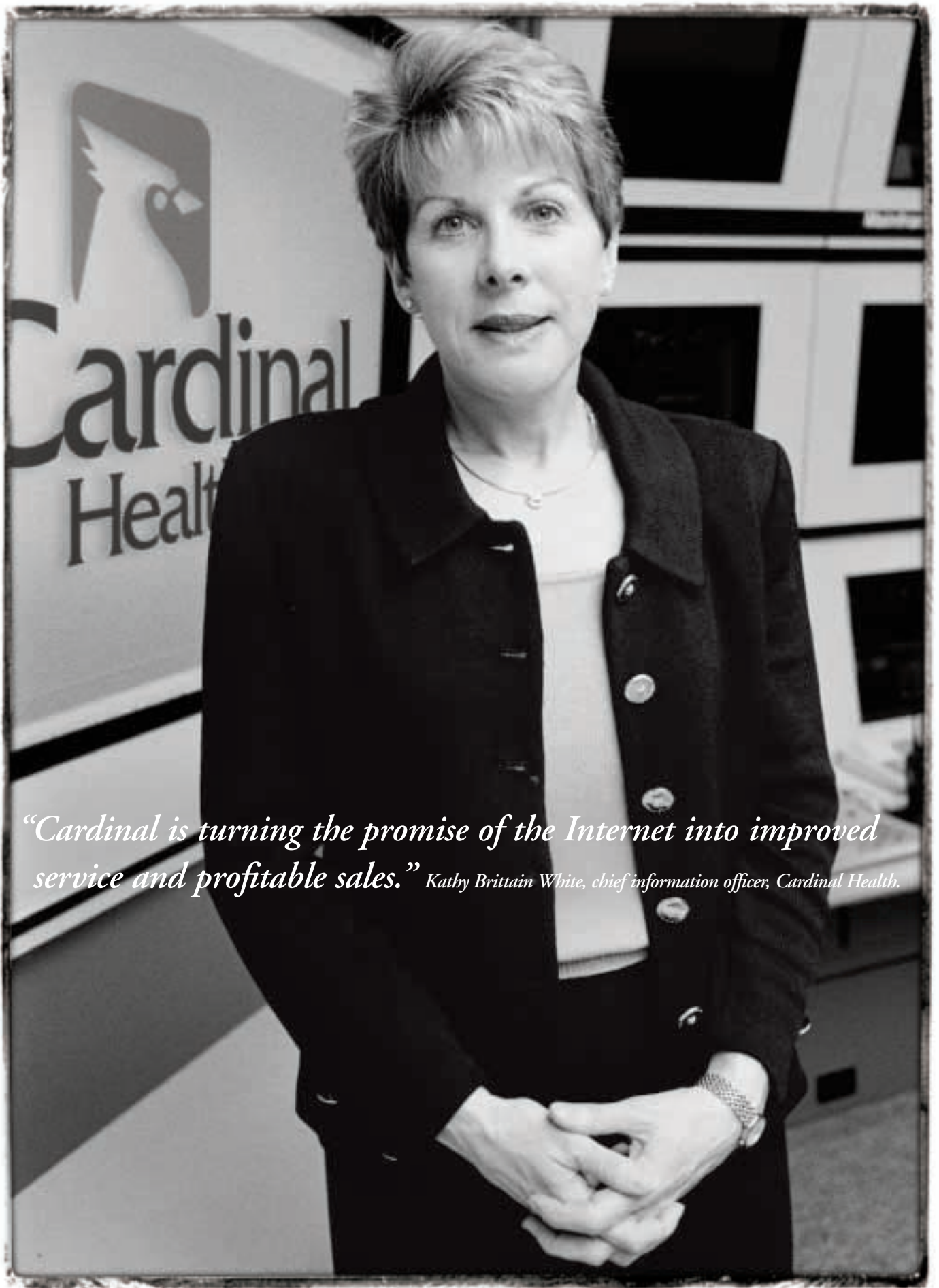
Pyxis Corporation is the leading provider of automated supply and pharmaceutical dispensing systems, which make use of the latest information technology. More than 60,000 Pyxis machines perform 4 million transactions a day in more than 3,000 medical sites worldwide. Pyxis systems not only make the dispensing of drugs and supplies more accurate, efficient and secure, they capture information that helps health-care providers reduce costs. Earlier this year, Pyxis introduced PyxisConsultant[™], a web-based system that integrates patient, cost, treatment and outcomes data throughout an institution. Pyxis also introduced a web-based version of its PyxisLink[™] electronic ordering system, and several web-based education and training programs for customers.

Cardinal consultants use proprietary databases and other information technology to help hospitals boost efficiency and make product-standardization decisions.

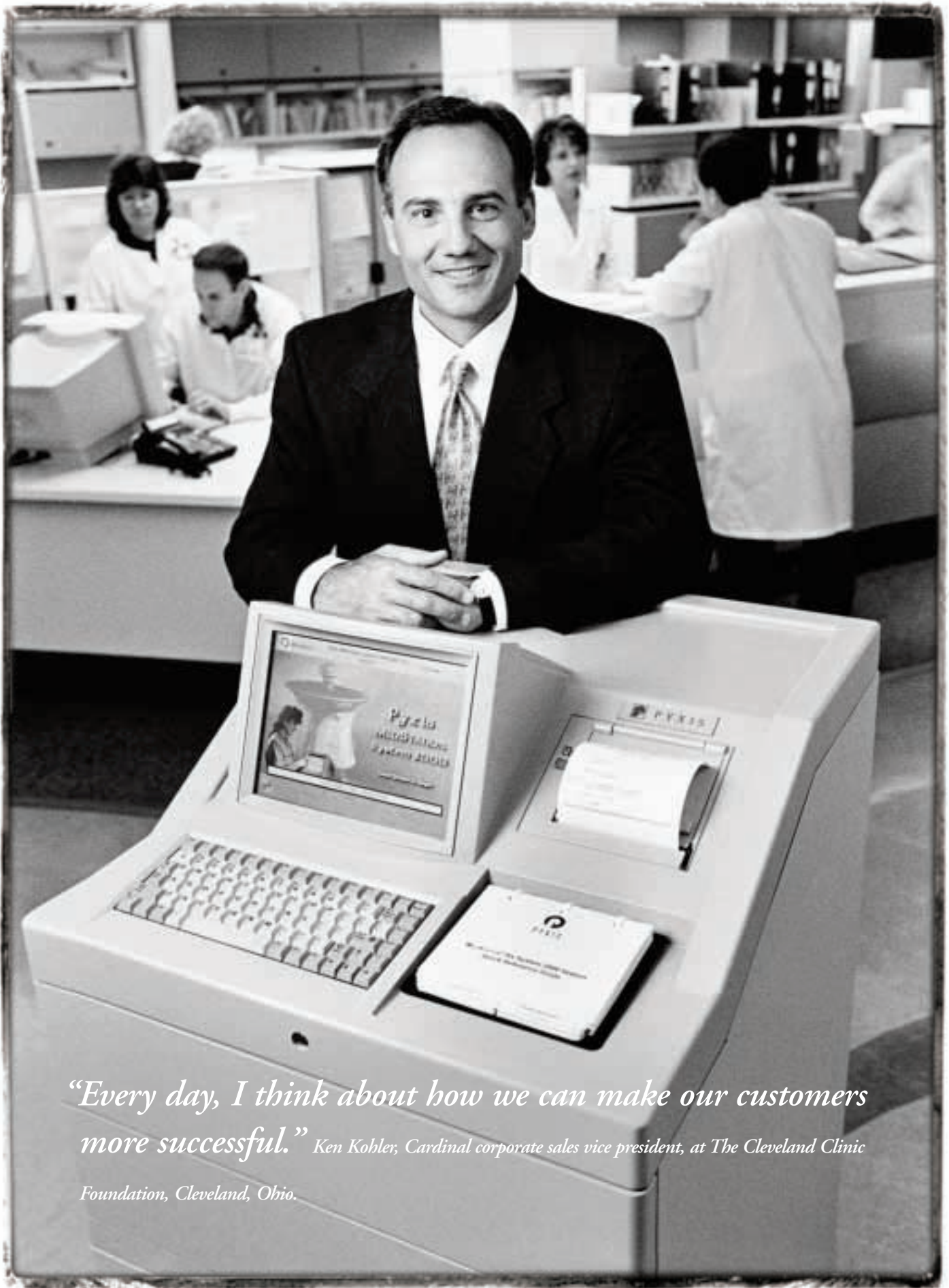
Owen Healthcare's Supplyline[®] classifies more than 450,000 health-care products and tracks purchasing trends. Cardinal also provides systems such as Jericho[™] and Atlas[™], which enable hospitals to measure severity-adjusted outcomes by drug, physician or procedure. CardinalCHOICE[™] software streamlines ordering and minimizes on-hand inventory of pharmaceuticals. And in its plants and warehouses, Cardinal uses advanced systems to take costs out of the supply chain and provide better service to customers. ■



*In 1999, Cardinal launched *asapSM-e.com*, an electronic ordering system that gives customers online access to the world's largest catalog of health-care products.*



“Cardinal is turning the promise of the Internet into improved service and profitable sales.” Kathy Brittain White, chief information officer, Cardinal Health.



“Every day, I think about how we can make our customers more successful.” Ken Kohler, Cardinal corporate sales vice president, at The Cleveland Clinic Foundation, Cleveland, Ohio.

FORGING RELATIONSHIPS ACROSS NETWORKS OF CARE

Health-care providers rely on Cardinal people to deliver products, technology and ideas that make a difference in caring for patients.

Managed care and cost pressures continue to drive consolidation in health care. More and more health-care providers are joining systems or networks to gain efficiencies and deliver better, more integrated care. As consumers, they want to deal with fewer vendors, and partner with those who can provide the best solutions.

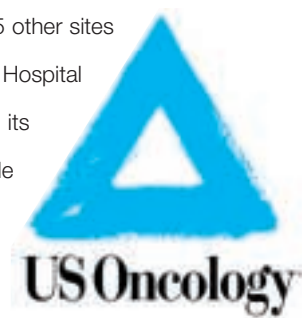
In 1999, Cardinal created a corporate sales organization to represent the company's entire portfolio of products and services for hospitals and health-care networks. This team coordinates the activities of more than 2,000 sales and service representatives from different Cardinal businesses, offering a convenient point of contact for products, distribution, logistics, medication and supply automation, integrated information systems and consulting services.

At The Cleveland Clinic Foundation, the world's largest cardiovascular center, Pyxis has installed more than 400 automated pharmaceutical and supply dispensing systems throughout the institution. Allegiance delivers Custom Sterile™ supply kits and perfusion packs directly to the operating room five days a week. Allegiance also provides just-in-time distribution of supplies to Cleveland's clinical laboratories, and its V. Mueller division has a research agreement with Cleveland to jointly develop surgical instruments.

Late last year, Cardinal Distribution signed an agreement with The Cleveland Health Network, which consists of nearly two dozen hospitals and clinics, to provide pharmaceuticals to the entire system. The Cleveland Clinic also is working with Cardinal to implement the Jericho™ information system for outcomes analysis, and to link CardinalCHOICE™, a pharmaceutical order-entry and inventory management system, with the hospital's

pharmacy information system and Pyxis for a fully integrated flow of information.

In south Florida, Cardinal recently was named the primary distributor of pharmaceuticals as well as medical, surgical and laboratory products under a new corporate sales agreement with the four hospitals and 35 other sites of care that make up the North Broward Hospital District. Cardinal continues to strengthen its capabilities in serving sites of care outside the hospital, which make up the fastest-growing segment of U.S. health-care delivery networks.



Earlier this year, for example, Cardinal established a significant relationship with NeighborCare, a network of pharmacies that serve nursing homes and other long-term care facilities. Cardinal Distribution will provide pharmaceuticals to NeighborCare's more than 40 institutional and retail pharmacies.

Cardinal's National Specialty Services (NSS) subsidiary distributes drugs to doctors' offices. The largest and fastest growing segment of this market is oncology. In March 1999, US Oncology Inc.—the largest firm in the United States focused specifically on cancer treatment—selected NSS to provide pharmaceuticals and Pyxis to provide automated dispensing systems for US Oncology's 700 physicians at more than 200 treatment sites.

NSS also is a leading supplier of therapeutic blood products to hospitals, doctors' offices and home-infusion companies. These products include clotting factor for hemophilia, gammaglobulins for immune disorders, albumin for shock and other products. The company maintains close relationships with the manufacturers of these products to serve the doctors and patients who need them. ■

Under a \$2.5 billion agreement signed in 1999, the largest cancer-treatment firm in America—US Oncology—selected Cardinal companies for supplies and automated dispensing systems.

PRODUCING PRODUCTS TO THE HIGHEST STANDARDS

Across five continents, Cardinal's award-winning manufacturing teams are serving the needs of patients and those who care for them.

Every day, the manufacturing teams at Allegiance Corporation's plant in El Paso, Texas, fashion more than a million yards of nonwoven fabric into Convertors® brand surgical gowns, drapes and apparel. Allegiance is the world's leading producer of these vital supplies, which protect doctors, nurses and patients during surgery.

Last year, the El Paso facility was named one of the 10 best manufacturing plants in America by *Industry Week*

magazine. Over the last five years, teams there have reduced waste by 85 percent, cut raw-material inventories in half and accelerated product-development time by 79 percent.

Cardinal's merger with Allegiance last year brought the company a number of leading medical-surgical manufacturing businesses. In addition to Convertors, these include Custom Sterile™ procedure kits, Medi-Vac® fluid-collection systems, V. Mueller® surgical instruments and Airlife™ respiratory-care products. Allegiance also manufactures medical and surgical gloves. About 14,000 people work in 27 Allegiance plants—all ISO 9000 quality certified—around the world.

Many Allegiance products are packaged in PBDS Pathways™ modules, which contain virtually all of the products needed for a given procedure. The time, labor and supply savings these offer customers have made PBDS one of Allegiance's fastest-growing businesses. To keep up with demand, the company recently opened a new Custom Sterile facility in South Carolina, and is building or expanding plants in France, Holland and the Dominican Republic. Allegiance also is adding capacity with a new \$45-million gloves facility expected to open next year in Rayong, Thailand.

Throughout Cardinal, manufacturing teams are reducing costs and improving quality. To accommodate rapid growth at Pyxis, the world's leading maker of automated supply and medication dispensing systems moved its manufacturing to larger facilities in fiscal 1999. Since then, Pyxis has cut lead times by 50 percent and improved productivity by 30 percent, while quality and other production measures are at all-time highs.

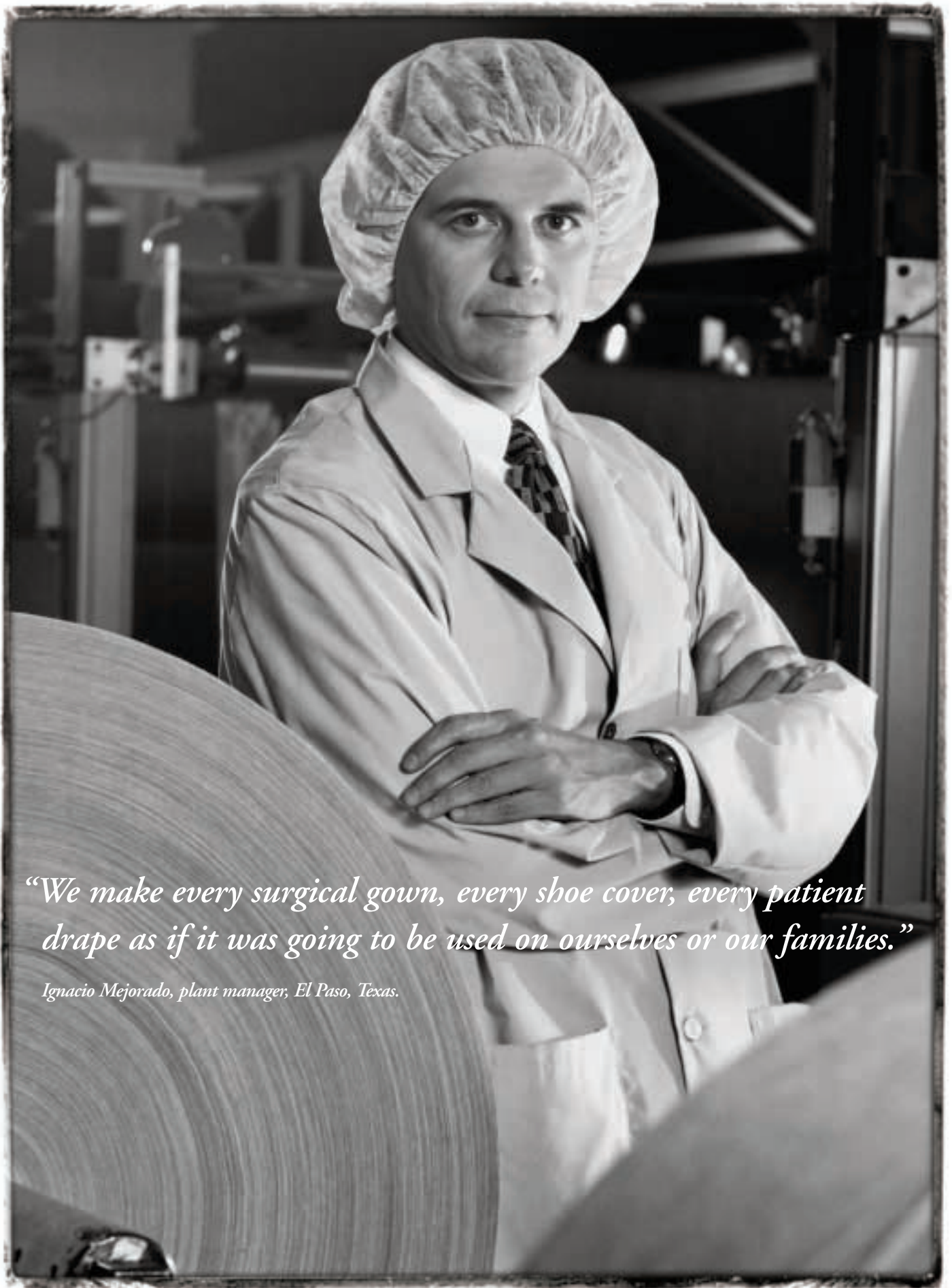
Cardinal brings its excellence in manufacturing to the pharmaceutical industry through contract development and manufacturing services. R.P. Scherer Corporation is the leader in two drug delivery technologies: soft gelatin capsules and fast-dissolving tablets. In 1999, Scherer began producing Glaxo Wellcome's new anti-HIV medicine, Agenerase® (amprenavir), in softgel capsules. Orion Pharma of Finland chose Scherer in 1999 to develop and produce a Zydis® formulation of apomorphine, a drug for Parkinson's Disease. About 3,500 employees work in 16 R.P. Scherer plants in North and South America, Europe, Asia, and Australia.

Cardinal further expanded its contract manufacturing capabilities by agreeing to acquire privately held Automatic Liquid Packaging, Inc. of Woodstock, Illinois, and a manufacturing plant in Puerto Rico from the Alcon group. Cardinal expects to produce a range of drug therapies in sterile liquid, injectable, ointment and solid formulations at these facilities.

PCI Services, Inc. manufactures drug-packaging components and does contract packaging for pharmaceutical companies. This includes patented packaging designed to improve patient compliance with drug therapy, such as date- and time-specific blister packaging. More than 3,000 PCI employees package more than 50 million doses of medication a day at 12 plants in Europe and North America. ■

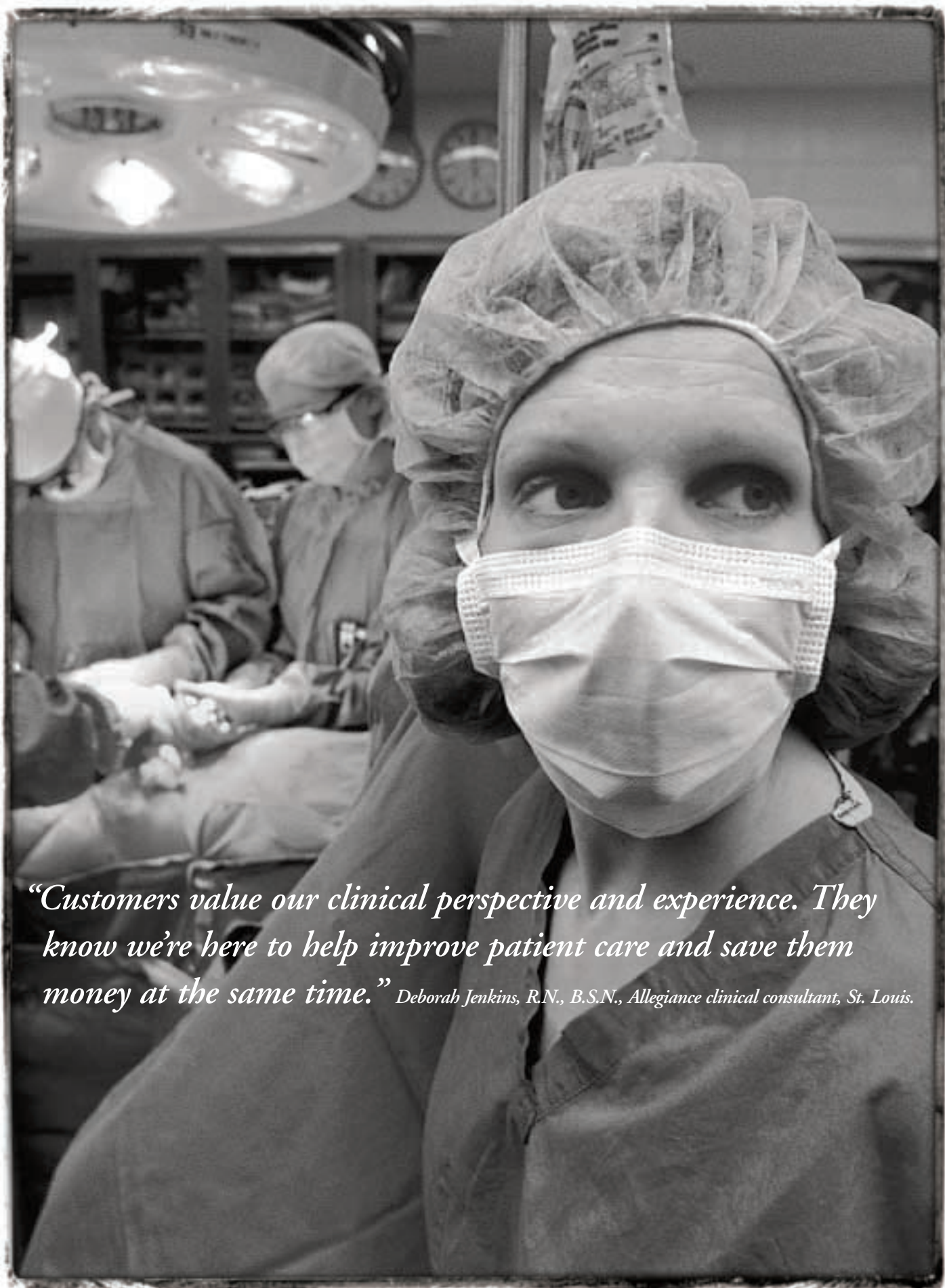
Cardinal's patented drug-delivery technologies give pharmaceutical companies a competitive edge. R.P. Scherer, for example, manufactures the prescription allergy medicine Claritin® in unique tablets that dissolve in seconds on the tongue.





“We make every surgical gown, every shoe cover, every patient drape as if it was going to be used on ourselves or our families.”

Ignacio Mejorado, plant manager, El Paso, Texas.



“Customers value our clinical perspective and experience. They know we’re here to help improve patient care and save them money at the same time.” Deborah Jenkins, R.N., B.S.N., Allegiance clinical consultant, St. Louis.

HELPING CUSTOMERS FIND BETTER WAYS TO WORK

From the pharmacy to the operating room, Cardinal's highly regarded consultants work shoulder-to-shoulder with medical staff.

When Scripps Health of San Diego was looking to reduce costs in its six hospital pharmacies, it partnered with Owen Healthcare, Cardinal's hospital pharmacy-management company.

By implementing proven purchasing, automation and clinical-management systems, Owen helped Scripps reduce costs by more than \$2.7 million. Now, Owen and Scripps are targeting drug costs by diagnosis-related group.

Owen is one of a number of organizations at Cardinal that help health-care providers manage costs and improve quality. Owen's focus is on the pharmacy, where it has been helping hospitals manage their operations for more than 30 years. Owen currently manages more hospital pharmacies than anyone else in the world. Nearly half of Owen's 3,600 employees are pharmacists—the most pharmacists in any institution outside the U.S. government.

Cardinal consultants are creative problem-solvers with deep experience in all areas of health-care institutions—from the loading dock to the laboratory, the pharmacy to the operating room. Cardinal's acquisition in June 1999 of The Enright Group—a leader in medication-use consulting—significantly strengthens the company's ability to help health-care providers in this critical area. Enright consultants assess the management and use of medications throughout hospitals and other organizations, and identify opportunities for improvement. They recommend and implement automation, provide tools to streamline workflow and inventory, help manage formulary compliance, and identify and execute other ways to improve medication use. Enright consultants also work with pharmaceutical companies, developing education programs and keeping the firms well versed in current pharmacy practice.

Another 1999 acquisition that has expanded Cardinal's portfolio of services for pharmacies is PHARMACISTS: prn, Inc., a pharmacy-staffing service that places registered pharmacists and pharmacy technicians in hospitals, home-infusion centers, retail pharmacies, health maintenance organizations and long-term care facilities. PHARMACISTS: prn helps these customers fill the gap created by a nationwide shortage of pharmacy professionals.



In the operating room—the largest consumer of medical and surgical supplies in most hospitals—Allegiance Corporation's Higman Healthcare consultants work directly with medical staff to reduce variations in practice patterns, standardize product use and eliminate unnecessary supplies. They draw on a proprietary database of best-demonstrated practices identified in more than 1,600 studies of some 200 medical procedures. The company can then deliver, directly to the point of care, customized supply kits containing all of the items to perform these procedures. Such efforts saved Georgetown University Hospital more than \$3 million in supply costs alone last year.

Other Allegiance consultants focus on process improvements throughout hospitals. They examine the operations of different departments and help implement changes to increase effectiveness and efficiency. West Hudson, for example, specializes in labor and productivity effectiveness. Logistics consultants help make the flow of products through an institution more efficient. Allegiance also provides capital-asset services, including surgical-instrument assessment, refurbishing and repair. As the demand for such services continues to grow, Cardinal and its growing family of companies will continue to bring new insight and expertise to their customers. ■

Cardinal in 1999 acquired The Enright Group, a leader in medication-use consulting.

BETTER THERAPIES, STRONGER BRANDS

Cardinal has more resources than any other company to help pharmaceutical firms formulate, develop, produce, package, launch, distribute, and market their products.

Advances in biotechnology and other life sciences, combined with increasing demand for new therapies by aging populations, have led to a sharp rise in the development of new drugs and spawned a fast-growing industry in pharmaceutical-services outsourcing.

To become a more valuable partner to pharmaceutical companies, Cardinal in recent years has expanded on its core business of pharmaceutical distribution, adding market-leading capabilities in drug delivery technology, manufacturing,

packaging and marketing. As a result, drug companies are looking to Cardinal for cost-effective assistance throughout a product's life cycle.

In 1999, the company formed Cardinal OneSourceSM, a group of Cardinal companies marketed together with offerings for drug makers. Cardinal OneSource companies can help design reimbursement strategies for drugs; formulate, manufacture, package and distribute them; promote, sell and create education programs to support them; dispense them from franchise pharmacies and track their sales and clinical effectiveness versus the competition. No other company has as comprehensive a portfolio of services.

In fiscal 1999, Cardinal merged with R.P. Scherer Corporation, a global leader in developing advanced dosage forms for drugs. Scherer is the world's largest producer of soft gelatin capsules such as Advil[®] Liqui-Gels[™] and fast-dissolving pharmaceutical wafers for products such as Claritin[®] RediTabs.[®] Scherer helped launch 12 major new drug formulations in 1999, including Glaxo Wellcome's Agenerase[®] (amprenavir) and Abbott Laboratories' Norvir[®] (ritonavir), two protease inhibitors used in the treatment of HIV.

Cardinal is expanding its capabilities further with additional acquisitions. In June 1999, Cardinal announced it is buying a manufacturing center in Puerto Rico for oral, injectable and ointment medications. In early September, Cardinal merged with Automatic Liquid Packaging, Inc., a maker of sterile liquid pharmaceuticals.

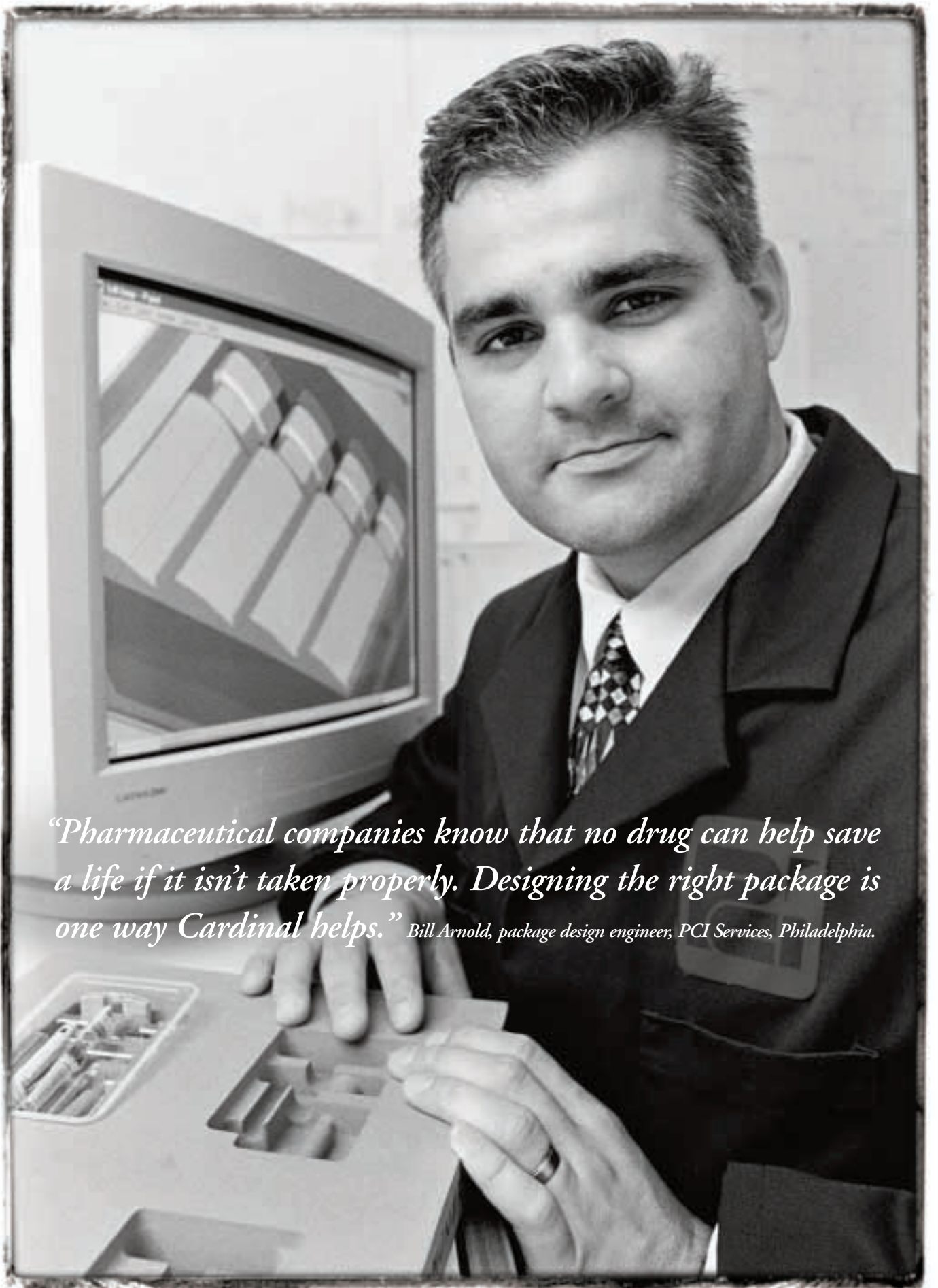
Drug makers also are choosing Cardinal to package their products. Cardinal's subsidiary, PCI Services, Inc., creates custom packaging for pharmaceutical firms around the world. PCI helps manufacturers build strong brands for their products and improve patient compliance in taking medicines. Since merging with Cardinal in fiscal 1997, PCI has achieved record sales gains, doubled operating earnings, and boosted capacity, including the July 1999 purchase of Pharmaceutical Packaging Specialties, Inc. of Humacao, Puerto Rico. This acquisition gives PCI complete packaging operations in Puerto Rico with room to expand. Today, PCI is the world's largest integrated contract packager of pharmaceuticals.

To help drug and biotech companies launch and market new drugs, Cardinal in 1999 formed Cardinal MarketForceSM, a business that builds and deploys pharmaceutical sales forces. Its first customer was Duramed Pharmaceuticals, which had just received U.S. Food and Drug Administration clearance to market Cenestin[™] (synthetic conjugated estrogens, A), a plant-derived hormone used to treat symptoms of menopause. In just 90 days, Cardinal recruited and trained a 135-person sales force that was introducing the new therapy to physicians nationwide.

Cardinal will continue to combine its existing resources and add new capabilities to help drug companies maximize the success of new products and breathe new life into established brands. ■



Cardinal's R.P. Scherer unit helped Abbott Laboratories reformulate a life-extending HIV drug in record time.



“Pharmaceutical companies know that no drug can help save a life if it isn’t taken properly. Designing the right package is one way Cardinal helps.” Bill Arnold, package design engineer, PCI Services, Philadelphia.

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SELECTED OPERATING TRENDS

	Percentage of Operating Revenues			Percentage Change From Prior Period	
	1999	1998	1997	1999 vs. 1998	1998 vs. 1997
	Operating revenue	100.00%	100.00%	100.00%	19%
Gross margin	12.03%	12.33%	12.68%	16%	10%
Selling, general and administrative expense to sales	7.28%	7.72%	8.19%	13%	7%
Special charges	0.67%	0.33%	0.32%	N.M.	N.M.
Operating earnings	4.08%	4.28%	4.17%	14%	16%
Interest expense	0.46%	0.52%	0.67%	5%	(12%)
Other income – net	(0.09%)	(0.10%)	(0.11%)	1%	2%
Income taxes	1.41%	1.30%	1.29%	29%	14%
Net earnings	2.12%	2.36%	2.10%	7%	27%
Effect of merger-related costs on net earnings	0.55%	0.13%	0.23%	N.M.	N.M.

N.M.- Not Meaningful

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

GENERAL

The Company operates within three operating business segments: Pharmaceutical Distribution, Pharmaceutical Services, and Medical-Surgical Products. See Note 13 of "Notes to Consolidated Financial Statements" for a description of these segments.

RESULTS OF OPERATIONS

Operating Revenue. Operating revenue for fiscal 1999 increased 19% as compared to the prior year due to strong operating revenue growth in all three of the Company's business segments. The majority of the overall operating revenue increase (approximately 82% for the year ended June 30, 1999) 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.

The Pharmaceutical Distribution segment's operating revenue (representing 69% of total 1999 operating revenue, including approximately \$297.4 million sold to Owen, eliminated in consolidation) grew at a rate of 25% during the fiscal year ended June 30, 1999 primarily due to strong sales to pharmacy chain stores and through the Company's specialty distribution businesses.

The Pharmaceutical Services segment's operating revenue (representing 10% of total 1999 operating revenue) grew at a rate of 15% during fiscal 1999, primarily on the strength of the Company's pharmacy automation and pharmaceutical-packaging businesses. The Company's pharmacy automation business continued to see solid growth in the U.S. hospital sector and increased demand from non-acute care customers. The pharmaceutical-packaging business' growth in fiscal 1999 was attributable to a mix of new customers and an increase in volume from existing customers.

The Medical-Surgical Products segment's operating revenue (representing 21% of total 1999 operating revenue) for fiscal year 1999 grew 6% over the prior year primarily due to strong sales of self-manufactured surgical products and "best value" distributed supplies.

Operating revenue for fiscal 1998 increased 13% as compared to the prior year primarily due to the strength of the Pharmaceutical Distribution and Services segments. Pharmaceutical Distribution segment's (representing 66% of total 1998 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. Pharmaceutical Services segment's (representing 10% of total 1998 operating revenue) operating revenue grew at a rate of 16% during the fiscal year ended June 30, 1998, primarily on the strength of the Company's pharmacy automation and pharmacy management businesses. The Medical-Surgical Products segment's operating revenue (representing 24% of total 1998 operating revenue) for fiscal year 1998 grew 2% over the prior year. The majority of the overall operating revenue increase (approximately 80% for the year ended June 30, 1998) came from existing customers in the form of increased volume and pharmaceutical prices. The remainder of the growth came from the addition of new customers.

Bulk Deliveries to Customer Warehouses. The Company reports as revenue bulk deliveries made to customers' warehouses, whereby the Company acts as an intermediary in the ordering and subsequent delivery of pharmaceutical products. Fluctuations in bulk deliveries result largely from circumstances that are beyond the control of the Company, including consolidation within the customers' industries, decisions by customers to either begin or discontinue warehousing activities, and changes in policies by manufacturers related to selling directly to customers. Due to the lack of margin generated through bulk deliveries, fluctuations in their amount have no significant impact on the Company's earnings.

Gross Margin. For fiscal 1999 and 1998, overall gross margin as a percentage of operating revenue was 12.03% and 12.33%, respectively.

The Pharmaceutical Distribution segment's gross margin as a percentage of operating revenue decreased from 5.58% in fiscal 1998 to 5.29% in fiscal 1999. 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 Pharmaceutical Services segment's gross margin as a percentage of operating revenue was 33.50% and 32.70% in fiscal

1999 and 1998, respectively. Operating revenue growth in the Pharmaceutical Services segment has been greater in the relatively higher margin pharmacy automation and pharmaceutical-packaging businesses than it has been in the lower margin pharmacy management business.

The Medical-Surgical Products segment's gross margin as a percentage of operating revenue was 23.29% in fiscal 1999 compared to 21.62% in fiscal 1998. The increase is primarily the result of improvements in the Company's product mix, including the growth of self-manufactured product sales in both domestic and international markets as well as the impact of manufacturing and other cost efficiencies.

For fiscal 1998 and 1997, gross margin as a percentage of operating revenue was 12.33% and 12.68%, respectively.

The Pharmaceutical Distribution segment's gross margin as a percentage of operating revenue decreased from 5.82% in fiscal 1997 to 5.58% in fiscal 1998. The decrease was 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 enabled the Company to offer lower selling margins to its customers.

The Pharmaceutical Services segment's gross margin as a percentage of operating revenue was 32.70% and 32.88% in fiscal 1998 and 1997, respectively. Operating revenue growth was greater in the relatively lower margin pharmacy management and pharmaceutical-packaging businesses than it was in the higher margin pharmacy franchising business.

The Medical-Surgical Products segment's gross margin as a percentage of operating revenue was 21.62% in fiscal 1998 compared to 20.99% in fiscal 1997. The increase was primarily the result of improvements in the Company's product mix, including the growth of manufactured product sales in both domestic and international markets as well as the impact of manufacturing and other cost efficiencies.

Selling, General and Administrative Expenses. Selling, general and administrative expenses as a percentage of operating revenue declined to 7.28% for fiscal 1999 compared to 7.72% in fiscal 1998. The improvements during fiscal 1999 reflect economies associated with the Company's revenue growth, in addition to significant productivity gains resulting from continued cost control efforts in all three segments and the continuation of consolidation and selective automation of operating facilities in the Pharmaceutical Distribution and Pharmaceutical Services segments. Pharmaceutical Distribution and Pharmaceutical Services segments' selling, general and

administrative expenses as a percentage of operating revenue were 2.63% and 16.80% in fiscal 1999, respectively, compared to 2.94% and 16.90% in fiscal 1998, respectively. Offsetting these improvements was an increase in the selling, general and administrative expenses as a percentage of operating revenue in the Medical-Surgical Products segment which increased from 16.07% in fiscal 1998 to 16.86% in fiscal 1999. This increase is primarily due to the acquisitions of businesses having a higher selling, general and administrative rate than the Medical-Surgical Products segment's normal rate during fiscal 1999. These acquisitions were accounted for under the purchase method of accounting. As such, historical financial statements have not been restated. The 13% growth in selling, general and administrative expenses experienced in the fiscal year 1999, compared to fiscal 1998 was due primarily to increases in personnel costs and depreciation expense, and compares favorably to the 19% growth in operating revenue during fiscal 1999.

Selling, general and administrative expenses as a percentage of operating revenue improved to 7.72% in fiscal 1998 compared to 8.19% in fiscal 1997. The improvements in fiscal 1998 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. The 7% growth in selling, general and administrative expenses experienced in the fiscal year 1998, compared to fiscal 1997 was due primarily to increases in personnel costs and depreciation expense, and compares favorably to the 13% growth in operating revenues during fiscal 1998.

Special Charges Merger-Related Charges. Costs of effecting mergers and subsequently integrating the operations of the various merged companies are recorded as merger-related costs when incurred. During fiscal 1999, merger-related costs totaling \$146.6 million (\$117.6 million, net of tax) were recorded. Of this amount, approximately \$95.4 million related to transaction and employee-related costs, and \$36.1 million related to business restructuring and asset impairment costs associated with the Company's merger transactions with Scherer and Allegiance. As part of the business restructuring, the Company is currently closing certain facilities. As such, the Company has incurred employee-related and asset impairment costs, as well as, exit costs, related to the termination of contracts and lease agreements. In addition, the Company recorded costs of \$4.0 million related to the write down of impaired inventory related to a previous merger and of \$1.1 million related to severance costs for restructuring associated with the change in management that resulted from the merger transaction with Owen. The Company also recorded costs of \$13.7 million related to integrating the operations of companies that previously engaged in merger transactions with the Company. Partially offsetting the charge recorded was a

\$3.7 million credit, to adjust the estimated transaction and termination costs previously recorded in connection with the canceled merger transaction with Bergen Brunswig Corporation ("Bergen") (see Note 17 of "Notes to Consolidated Financial Statements"). This adjustment relates primarily to services provided by third parties engaged by the Company in connection with the terminated Bergen transaction. The cost of such services was estimated and recorded in the prior periods when the services were performed. Actual billings were less than the estimate originally recorded, resulting in a reduction of the current period merger-related costs.

During fiscal 1998, the Company recorded merger-related charges associated with transaction costs incurred in connection with the MediQual merger transaction (\$2.3 million) and 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 merger-related charges associated with the PCI and Owen merger transactions (\$46.2 million) and additional integration costs related to the Pyxis and Medicine Shoppe mergers (\$4.7 million). See further discussion in Note 2 of "Notes to Consolidated Financial Statements." The Company classifies costs associated with a merger transaction as "merger-related costs." It should be noted that the amounts presented may not be comparable to similarly titled amounts reported by other companies.

Other Special Charges. During fiscal 1998, the Company recorded a special charge of \$8.6 million related to the rationalization of its pharmaceutical 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 pharmaceutical distribution facility, resulting in termination of the union relationship.

During fiscal 1998, Scherer, along with its joint venture partner, converted the legal ownership structure of Scherer's 51% owned subsidiary in Germany from a corporation to a partnership. As a result of this change in tax status, the Company's tax basis in the German subsidiary was adjusted, resulting in a one-time tax refund of approximately \$4.6 million, as well as a reduction in the cash taxes to be paid in the current and future years. Combined, these factors reduced fiscal 1998 income tax expense by \$11.7 million.

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

(In millions, except per share amounts)	Fiscal Year Ended June 30,		
	1999	1998	1997
Merger-Related Costs:			
Transaction and employee-related costs:			
Transaction costs	\$ (52.9)	\$ (35.7)	\$ (14.5)
PCI vested retirement benefits and incentive fees	-	-	(7.6)
Employee severance/termination	(39.5)	-	(4.4)
Other	(0.4)	-	(0.6)
Total transaction and employee-related costs	(92.8)	(35.7)	(27.1)
Other merger-related costs:			
Asset impairments	(16.8)	(3.8)	(13.2)
Exit and restructuring costs	(23.3)	-	(2.2)
Duplicate facilities elimination	-	-	(1.7)
Integration and efficiency implementation	(13.7)	(9.7)	(6.7)
Total other merger-related costs	(53.8)	(13.5)	(23.8)
Total merger-related costs	\$ (146.6)	\$ (49.2)	\$ (50.9)
Other Special Charges:			
Facilities closures	\$ -	\$ (6.1)	\$ -
Employee severance	-	(2.5)	-
Total other special charges	-	(8.6)	-
Total Special Charges	(146.6)	(57.8)	(50.9)
Tax effect of special charges	29.0	22.0	14.3
Tax benefit for change in tax status	-	11.7	-
Effect on net earnings	\$ (117.6)	\$ (24.1)	\$ (36.6)
Effect on diluted earnings per share	\$ (0.42)	\$ (0.09)	\$ (0.13)

The effects of the merger-related costs and other special charges are included in the reported net earnings of \$456.3 million in fiscal 1999, \$425.1 million in fiscal 1998 and \$334.8 million in fiscal 1997 and in the reported diluted earnings per Common Share of \$1.64 in fiscal 1999, \$1.53 in fiscal 1998 and \$1.23 in fiscal 1997.

The Company estimates that it will incur additional merger-related costs associated with the various merger transactions it has completed to date totaling approximately \$100.0 million (\$61.2 million, net of tax) in future periods in order to properly integrate operations, of which a portion represents facility rationalizations, 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.

The Company's trend with regard to acquisitions has been to expand its role as a provider of services to the health-care industry. This trend has resulted in expansion into 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 health-care industry continues to change, the Company is constantly evaluating merger or acquisition candidates in pharmaceutical distribution, as well as related sectors of the health-care 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, the Company would incur additional merger-related costs.

Interest Expense. The increase in interest expense of \$4.9 million during fiscal 1999 compared to fiscal 1998 is primarily due to the Company's issuance of \$150 million of 6.25% Notes due 2008, in a public offering in July 1998 (see "Liquidity and Capital Resources"). The effect of the issuance of the 6.25% Notes during fiscal 1999 has been partially offset by a decrease in other debt instruments with higher interest rates.

The \$12.7 million decrease in interest expense in fiscal 1998 compared to fiscal 1997 is primarily due to the paydown of the Company's \$100 million of 8% Notes on March 1, 1997 and a reduction in the overall interest rate on total debt outstanding during fiscal 1998 compared to fiscal 1997.

Provision for Income Taxes. The Company's provision for income taxes relative to pretax earnings was 39.9%, 35.6% and 38.0% for fiscal years 1999, 1998 and 1997, respectively. The fluctuation in the tax rate is primarily due to the impact of recording certain non-deductible merger-related costs during various periods as well as fluctuating state and foreign effective tax rates as a result of the Company's business mix for all three fiscal years. Also a change in tax status of a 51% owned German subsidiary resulted in a lower tax provision during fiscal 1998.

LIQUIDITY AND CAPITAL RESOURCES

Working capital increased to \$2.2 billion at June 30, 1999 from \$2.1 billion at June 30, 1998. This increase resulted from additional investments in inventories and trade receivables of \$323.3 million and \$154.0 million, respectively. Offsetting the increases in working capital was an increase in accounts payable of \$218.1 million and a decrease in cash of \$208.1 million. Increases in inventories reflect the higher level of business volume in pharmaceutical distribution

activities, especially in the fourth quarter of fiscal 1999 when distribution revenue grew 21% 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 and cash is due primarily 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 were used for working capital needs due to growth in the Company's business. The Company currently has the capacity to issue \$250 million of additional debt securities pursuant to a shelf registration statement filed with the Securities and Exchange Commission (see Note 5 of "Notes to Consolidated Financial Statements").

Property and equipment, at cost, increased by \$146.6 million at June 30, 1999 compared to June 30, 1998. The increase was primarily due to ongoing plant expansion and manufacturing equipment purchases and additional investments made for management information systems and upgrades to distribution facilities. The Company has several operating lease agreements for the construction of new facilities. See further discussion in Note 9 of "Notes to Consolidated Financial Statements."

Shareholders' equity increased to \$3.5 billion at June 30, 1999 from \$3.0 billion at June 30, 1998, primarily due to net earnings of \$456.3 million and the investment of \$131.6 million by employees of the Company through various stock incentive plans, offset by the retirement of \$40.1 million of Allegiance treasury shares.

The Company has line-of-credit agreements with various bank sources aggregating \$175.8 million. The Company had \$28.6 million outstanding under these lines at June 30, 1999. In addition, the Company has a commercial paper program, providing for the issuance of up to \$750 million in aggregate maturity value of commercial paper. The Company had \$49.2 million outstanding under this program at June 30, 1999. The Company has an unsecured bank credit facility, which provides for up to an aggregate of \$1.0 billion in borrowings of which \$150.0 million is part of a multi-currency allocation and \$250.0 million represents a 364-day facility. As of June 30, 1999, \$80.7 million of borrowings were outstanding under the multi-currency allocation portion of the facility.

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 Notes 1 and 6 to the consolidated financial statements for information regarding the use of financial instruments and derivatives thereof, including foreign currency hedging instruments. As a matter of policy, the Company does not engage in "speculative" transactions involving derivative financial instruments.

OTHER

Pending Business Combinations. On August 5, 1999, the Company announced that it had entered into a definitive merger agreement with Automatic Liquid Packaging, Inc. ("ALP"), pursuant to which ALP will become a wholly owned subsidiary of the Company in a stock-for-stock merger expected to be accounted for as a pooling-of-interests for financial reporting purposes. The merger is expected to be completed in the first quarter of fiscal 2000, subject to satisfaction of certain conditions, including regulatory clearances.

On July 12, 1999, the Company completed the purchase of MedSurg Industries, Inc., for \$31.8 million. The acquisition was accounted for as a purchase.

Termination Agreement. On August 24, 1997, the Company and Bergen announced that they had entered into a definitive merger agreement, as amended, pursuant to which a wholly owned subsidiary of the Company would be merged with and into Bergen (the "Bergen Merger Agreement"). On July 31, 1998, the United States District Court for the District of Columbia granted the Federal Trade Commission's request for a preliminary injunction to halt the proposed merger. On August 7, 1998, the Company and Bergen jointly terminated the Bergen Merger Agreement and, in accordance with the terms of the Bergen Merger Agreement, the Company reimbursed Bergen for \$7.0 million of transaction costs. Additionally, the termination of the Bergen Merger Agreement caused the costs incurred by the Company (that would not have been deductible had the merger been consummated) to become tax deductible for federal income tax purposes, resulting in a tax benefit of \$12.2 million. The obligation to reimburse Bergen and the additional tax benefit were recorded in the fourth quarter of the fiscal year ended June 30, 1998. (See Note 17 of "Notes to Consolidated Financial Statements").

Year 2000 Project. The Company utilizes computer technologies in each of its businesses 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 in the year 2000. The Company is utilizing a multi-phased concurrent approach to address this issue.

The first of two project segments, "Mitigation and Validation," included specific awareness, assessment, remediation, validation and implementation phases. The Company has substantially completed all of these phases of this project segment. The Company has corrected, replaced, mitigated, or retired the vast majority of those business critical systems which were 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 expects that all-remaining Mitigation and Validation issues will be fully completed on or before September 30, 1999. This process includes the multiple testing of critical systems to ensure that year 2000 readiness has been accomplished.

The second project segment, "Business Protection," also includes several phases – business dependency and risk assessment, contingency planning, and situation management planning. The Company has made significant and substantial progress with this segment and expects to substantially complete the business dependency and risk assessment phase by August 31, 1999 and the remaining two phases by September 30, 1999.

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 is 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 probability 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.

The Company estimates that the aggregate costs of its year 2000 project will be approximately \$27.0 million, including costs incurred to date. Significant portions of these costs were not incremental costs, but rather represented 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. Since the initiation of the year 2000 project, the Company estimates that it has incurred costs of approximately \$20.0 million of which approximately \$6.2 million represented incremental costs. 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 statements.

The Company has formally communicated 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 is in the process of developing appropriate contingency plans in the event that a significant exposure is identified relative to the dependencies on third-party systems. Although 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 or with which the Company interfaces will be converted in a timely manner, or that a failure to properly convert by a third party would not have a material adverse effect on the Company.

The potential risks associated with the year 2000 issues include, but are not limited to: temporary disruption of the Company's operations, loss of communication services and loss of other utility services. The Company believes that the most reasonably likely worst-case year 2000 scenario would be a loss of communication services which could result in problems with receiving, processing, tracking and billing customer orders; problems receiving, processing and tracking orders placed with suppliers; and problems with banks and other financial institutions. Currently, as part of the Company's normal business contingency planning, a plan has been developed for business disruptions due to natural disasters and power failures. The Company is in the process of enhancing these contingency plans to include provisions for year 2000 issues, although it will not be possible to develop contingency plans for all potential disruption. Although the Company anticipates that minimal business disruption will occur as a result of the year 2000 issues, based upon currently available information, incomplete or untimely resolution of year 2000 issues by either the Company or significant suppliers, customers and critical business partners could have a material adverse impact on the Company's consolidated financial statements.

The Euro Conversion. On January 1, 1999, certain member countries of the European Union irrevocably fixed the conversion rates between their national currencies and a common currency, the "Euro", which became their legal currency on that date. The participating countries' former national currencies will continue to exist as denominations of the Euro until January 1, 2002. The Company has addressed the business implications of conversion

to the Euro, including the need to adapt internal systems to accommodate Euro-denominated transactions, the competitive implications of cross-border price transparency, and other strategic implications. The Company does not expect the conversion to the Euro to have a material impact on its consolidated financial statements.

Recently Adopted Financial Accounting Standards. As of September 30, 1998, the Company adopted, on a retroactive basis, Statement of Financial Accounting Standards No. 130, "Reporting Comprehensive Income" ("SFAS 130"). SFAS 130 requires the presentation of comprehensive income and its components in a full set of general-purpose financial statements. The Company's comprehensive income consists of net earnings and foreign currency translation adjustments.

As of June 30, 1999, the Company adopted Statement of Financial Accounting Standards No. 131 ("SFAS 131") "Disclosures about Segments of an Enterprise and Related Information." 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 (See Note 13 of "Notes to Consolidated Financial Statements").

As of June 30, 1999, the Company adopted Statement of Financial Accounting Standards No. 132 ("SFAS 132"), "Employers' Disclosures about Pensions and Other Postretirement Benefits." SFAS 132 revises employers' disclosures about pension and other postretirement benefit plans. The new statement does not change the existing method of expense recognition. There was no effect on financial position or net income as a result of adopting SFAS 132. (See Note 8 of "Notes to Consolidated Financial Statements").

Recently Issued Financial Accounting Standards. In June 1998, the FASB issued Statement of Financial Accounting Standards No. 133 ("SFAS 133"), "Accounting for Derivative Instruments and Hedging Activities." 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. As amended by Statement of Financial Accounting Standards No. 137 ("SFAS 137"), "Accounting for Derivative Instruments and Hedging Activities – Deferral of the Effective Date of FASB Statement No. 133," the provisions of SFAS 133 will require adoption no later than the beginning of the Company's fiscal year ending June 30, 2001.

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, 2000. 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.

Quantitative and Qualitative Disclosures About Market Risk The Company is exposed to market risks, which include changes in U.S. interest rates, changes in foreign currency exchange rates as measured against the U.S. dollar and changes in commodity prices.

Interest Rates. The Company utilizes a mix of debt maturities along with both fixed-rate and variable-rate debt to manage its exposures to changes in interest rates. The Company does not expect changes in interest rates to have a material effect on income or cash flows in fiscal 2000, although there can be no assurances that interest rates will not significantly change.

As of June 30, 1999, the Company had total long-term obligations outstanding of \$1,235.5 million of which \$1,008.0 million represented Notes and Debentures with fixed interest rates and maturity dates beginning in fiscal 2004. As of June 30, 1998, the Company had total long-term obligations outstanding of \$1,337.3 million of which \$898.9 million represented Notes and Debentures with fixed interest rates and maturity dates beginning in fiscal 2004. The average interest rate related to these obligations was 6.8% and 7.0% as of June 30, 1999 and 1998, respectively. The majority of the remaining outstanding long-term obligations and credit facilities have variable interest rates that fluctuate with the LIBOR or prime rates. As of June 30, 1999 and 1998, the fair value of the total long-term obligations was \$1,233.3 million and \$1,365.3 million, respectively. Maturities of long-term obligations for future fiscal years are: 2000 – \$11.6 million; 2001 – \$117.6 million; 2002 – \$3.1 million; 2003 – \$ 2.1 million; 2004 – \$273.9 million and 2005 and thereafter – \$827.2 million.

The Company periodically enters into interest rate swap agreements when existing conditions and market situations dictate. The Company does not enter into interest rate swap agreements for trading or speculative purposes. The impact of interest rate swaps is not significant. See Note 6 of "Notes to Consolidated Financial Statements".

Foreign Exchange. The Company conducts business in several major international currencies. The Company periodically uses financial instruments, principally foreign currency options to attempt to manage the impact of foreign exchange rate changes on earnings. In addition, the Company periodically enters into forward foreign currency exchange contracts to hedge certain exposures related to

selected transactions that are relatively certain as to both timing and amount and to hedge a portion of the production costs expected to be denominated in foreign currency. The purpose of entering into these hedge transactions is to minimize the impact of foreign currency fluctuations on the results of operations and cash flows. Gains and losses on the hedging activities are recognized concurrently with the gains and losses from the underlying transactions. The Company does not enter into forward exchange contracts or foreign currency options for trading purposes.

In addition, the Company uses commodity contracts to hedge raw material costs expected to be denominated in foreign currency. These contracts generally cover a one-year period and all gains and losses are deferred and recognized in cost of goods sold with the underlying product costs.

As of June 30, 1999, the Company did not have any material foreign currency options or forward exchange contracts outstanding. As of June 30, 1998, the Company's foreign currency options consisted of the option to exchange German marks at a fixed exchange rate of 1.722 German marks per U.S. dollar and British pound sterling at a fixed exchanged rate of \$1.6242 per pound sterling. The notional principal amount under these foreign currency option contracts was approximately \$3 million and its related fair value was \$0.1 million at June 30, 1998. In addition, as of June 30, 1998, the Company's forward exchange contracts consisted of forward contracts to sell German marks and U.S. dollars for British pound sterling at a fixed exchange rate of 3.05679 German mark per British pound sterling and \$1.67 per sterling. The notional principal amount under these foreign exchange contracts was approximately \$35.6 million and its related fair value was \$(0.4) million at June 30, 1998. As of June 30, 1998, the notional amount of the commodity hedge contracts was \$14.2 million and the related fair market value of these contracts was \$(1.7) million. As of June 30, 1999, the notional amount of the commodity hedge contracts was \$9.6 million and the related fair market value of these contracts was \$(0.3) million. The unrealized gains or losses on these options or contracts represent hedges of foreign exchange gains and losses on a portion of the Company's foreign earnings, cash flows and selected transactions. As a result, the Company does not expect future gains and losses on these contracts to have a material impact on the Company's consolidated financial statements.

CONSOLIDATED STATEMENTS OF EARNINGS

(In millions, except per share amounts)	Fiscal Year Ended June 30,		
	1999	1998	1997
Revenue:			
Operating revenue	\$ 21,480.6	\$ 18,004.0	\$ 15,924.8
Bulk deliveries to customer warehouses	3,553.0	2,991.4	2,469.1
Total revenue	25,033.6	20,995.4	18,393.9
Cost of products sold:			
Operating cost of products sold	18,892.2	15,783.4	13,904.8
Cost of products sold – bulk deliveries	3,553.0	2,991.4	2,469.1
Merger-related costs	4.0	–	–
Total cost of products sold	22,449.2	18,774.8	16,373.9
Gross margin	2,584.4	2,220.6	2,020.0
Selling, general and administrative expenses	1,564.8	1,390.3	1,304.3
Special charges:			
Merger-related costs	(142.6)	(49.2)	(50.9)
Other special charges	–	(8.6)	–
Total special charges	(142.6)	(57.8)	(50.9)
Operating earnings	877.0	772.5	664.8
Other income (expense):			
Interest expense	(99.4)	(94.5)	(107.2)
Other, net (includes minority interests)	(18.4)	(18.3)	(17.9)
Earnings before income taxes	759.2	659.7	539.7
Provision for income taxes	302.9	234.6	204.9
Net earnings	\$ 456.3	\$ 425.1	\$ 334.8
Net earnings per Common Share:			
Basic	\$ 1.68	\$ 1.57	\$ 1.26
Diluted	\$ 1.64	\$ 1.53	\$ 1.23
Weighted average number of Common Shares outstanding:			
Basic	271.6	271.2	265.8
Diluted	279.0	277.9	272.0

The accompanying notes are an integral part of these statements.

CONSOLIDATED BALANCE SHEETS

(In millions)	June 30,	
	1999	1998
Assets		
Current assets:		
Cash and equivalents	\$ 165.2	\$ 373.3
Trade receivables, net	1,590.3	1,436.3
Current portion of net investment in sales-type leases	152.5	91.4
Inventories	2,931.4	2,608.1
Prepaid expenses and other	307.2	277.0
Total current assets	5,146.6	4,786.1
Property and equipment, at cost:		
Land, buildings and improvements	700.3	761.6
Machinery and equipment	1,970.3	1,735.7
Furniture and fixtures	77.7	104.4
Total	2,748.3	2,601.7
Accumulated depreciation and amortization	(1,207.8)	(1,134.0)
Property and equipment, net	1,540.5	1,467.7
Other assets:		
Net investment in sales-type leases, less current portion	454.3	233.1
Goodwill and other intangibles, net	942.1	850.5
Other	205.5	140.6
Total	\$ 8,289.0	\$ 7,478.0
Liabilities and Shareholders' Equity		
Current liabilities:		
Notes payable, banks	\$ 28.6	\$ 24.7
Current portion of long-term obligations	11.6	7.3
Accounts payable	2,360.8	2,142.7
Other accrued liabilities	558.0	550.7
Total current liabilities	2,959.0	2,725.4
Long-term obligations, less current portion	1,223.9	1,330.0
Deferred income taxes and other liabilities	643.1	467.7
Shareholders' equity:		
Common Shares, without par value	1,090.0	1,063.6
Retained earnings	2,439.1	2,006.9
Common Shares in treasury, at cost	(17.2)	(82.3)
Cumulative foreign currency adjustment	(44.0)	(27.9)
Other	(4.9)	(5.4)
Total shareholders' equity	3,463.0	2,954.9
Total	\$ 8,289.0	\$ 7,478.0

The accompanying notes are an integral part of these statements.

CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY

(In millions)	Common Shares		Retained Earnings	Treasury Shares		Cumulative Foreign Currency Adjustment	Other	Total Shareholders' Equity
	Shares Issued	Amount		Shares	Amount			
Balance, June 30, 1996	132.1	\$ 897.8	\$ 1,343.1	(1.1)	\$ (11.6)	\$ (3.8)	\$ (3.0)	\$ 2,222.5
Comprehensive income								
Net earnings			334.8					334.8
Foreign currency translation adjustments						(8.7)		(8.7)
Total comprehensive income								326.1
Employee stock plans activity,								
including tax benefits of \$21.0	3.5	123.4		(0.6)	10.6		(1.1)	132.9
Treasury shares acquired and shares retired	(0.7)	(7.1)		0.9	(30.7)			(37.8)
Dividends paid			(32.0)					(32.0)
Stock split effected as a stock dividend and cash paid in lieu of fractional shares	33.4							
Adjustment for change in fiscal year of an acquired subsidiary (see Note 1)		0.2	5.7	0.1	0.1			6.0
Stock issued for acquisitions and other	0.1	10.5					(1.2)	9.3
Balance, June 30, 1997	168.4	\$ 1,024.8	\$ 1,651.6	(0.7)	\$ (31.6)	\$ (12.5)	\$ (5.3)	\$ 2,627.0
Comprehensive income								
Net earnings			425.1					425.1
Foreign currency translation adjustments						(16.0)		(16.0)
Total comprehensive income								409.1
Employee stock plans activity,								
including tax benefits of \$35.2	2.0	65.0		(0.3)	29.0		(0.4)	93.6
Treasury shares acquired and shares retired	(0.4)	(25.4)		(0.8)	(104.9)			(130.3)
Dividends paid			(34.8)					(34.8)
Other adjustments							(0.5)	(0.5)
Adjustment for change in fiscal year of an acquired subsidiary (see Note 1)	(0.1)	(0.8)	(35.0)	0.4	25.2	0.6	0.8	(9.2)
Balance, June 30, 1998	169.9	\$ 1,063.6	\$ 2,006.9	(1.4)	\$ (82.3)	\$ (27.9)	\$ (5.4)	\$ 2,954.9
Comprehensive income								
Net earnings			456.3					456.3
Foreign currency translation adjustments						(17.0)		(17.0)
Total comprehensive income								439.3
Employee stock plans activity, including								
tax benefits of \$55.8	2.7	99.7		(0.7)	34.8		(2.9)	131.6
Treasury shares acquired and shares retired	(1.7)	(73.8)		1.7	30.3		3.4	(40.1)
Dividends paid			(31.9)					(31.9)
Stock split effected as a stock dividend and cash paid in lieu of fractional shares	103.1		(0.3)					(0.3)
Adjustment for change in fiscal year of an acquired subsidiary (see Note 1)	0.1	0.5	8.6			0.9		10.0
Stock issued for acquisitions and other	0.2		(0.5)					(0.5)
Balance, June 30, 1999	274.3	\$ 1,090.0	\$ 2,439.1	(0.4)	\$ (17.2)	\$ (44.0)	\$ (4.9)	\$ 3,463.0

The accompanying notes are an integral part of these statements.

CONSOLIDATED STATEMENTS OF CASH FLOWS

(In millions)	Fiscal Year Ended June 30,		
	1999	1998	1997
Cash Flows From Operating Activities:			
Net earnings	\$ 456.3	\$ 425.1	\$ 334.8
Adjustments to reconcile net earnings to net cash from operating activities:			
Depreciation and amortization	233.5	214.5	209.1
Provision for deferred income taxes	132.4	90.1	32.9
Provision for bad debts	29.5	15.5	8.6
Change in operating assets and liabilities, net of effects from acquisitions:			
Increase in trade receivables	(214.1)	(204.9)	(15.3)
Increase in inventories	(318.5)	(473.7)	(106.6)
Increase in net investment in sales-type leases	(282.3)	(103.3)	(5.1)
Increase (decrease) in accounts payable	230.5	523.3	(33.2)
Other operating items, net	78.4	65.5	63.8
Net cash provided by operating activities	345.7	552.1	489.0
Cash Flows From Investing Activities:			
Acquisition of subsidiaries, net of cash acquired	(147.5)	(45.8)	(43.7)
Proceeds from asset dispositions	57.8	10.7	21.0
Additions to property and equipment	(319.9)	(278.8)	(227.9)
Purchase of marketable securities available for sale	-	-	(3.4)
Proceeds from sale of marketable securities available for sale	-	-	57.7
Other	-	(4.7)	2.5
Net cash used in investing activities	(409.6)	(318.6)	(193.8)
Cash Flows From Financing Activities:			
Net short-term borrowing activity	(207.4)	(89.2)	(185.4)
Reduction of long-term obligations	(118.5)	(49.1)	(277.8)
Proceeds from long-term obligations, net of issuance costs	233.7	111.4	94.7
Proceeds from issuance of Common Shares	62.0	59.1	108.2
Dividends on common shares, minority interests and cash paid in lieu of fractional shares	(56.7)	(51.4)	(40.0)
Purchase of treasury shares	(40.1)	(130.7)	(37.7)
Other	(4.8)	(10.8)	(10.8)
Net cash used in financing activities	(141.8)	(160.7)	(348.8)
Effect of Currency Translation on Cash and Equivalents	(2.4)	(1.6)	(1.2)
Net Increase (Decrease) in Cash and Equivalents	(208.1)	71.2	(54.8)
Cash and Equivalents at Beginning of Year	373.3	302.1	356.9
Cash and Equivalents at End of Year	\$ 165.2	\$ 373.3	\$ 302.1

The accompanying notes are an integral part of these statements.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Cardinal Health, Inc., together with its subsidiaries (collectively the "Company"), is a provider of services to the health-care industry offering an array of value-added pharmaceutical and other health-care products distribution services and pharmaceutical-related products and services to a broad base of customers. The Company currently conducts its business within three business segments; Pharmaceutical Distribution, Pharmaceutical Services and Medical-Surgical Products.

The Pharmaceutical Distribution segment distributes a broad line of pharmaceuticals, therapeutic plasma and other specialty pharmaceutical products, health and beauty care products, and other items typically sold by hospitals, retail drug stores, and other health-care providers.

The Company, within the Pharmaceutical Services segment, operates a variety of related health-care service and manufacturing 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 health-care 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); the Cardinal Information Companies ("CIC") (a developer and provider of clinical information systems); and R.P. Scherer Corporation ("Scherer") (an international developer and manufacturer of drug delivery systems).

The Medical-Surgical Products segment primarily encompasses Allegiance Corporation ("Allegiance"). Allegiance is a distributor and manufacturer of medical, surgical and respiratory therapy products, and a provider of distribution and cost-saving services. See "Basis of Presentation" below.

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 PCI on October 11, 1996; Owen on March 18, 1997; MediQual Systems, Inc. ("MediQual") on February 18, 1998; Scherer on August 7, 1998; and Allegiance on February 3, 1999 (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, MediQual's, Scherer's and Allegiance's fiscal year ends were November 30, December 31, March 31, and December 31, respectively. 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) and with the financial results for MediQual's fiscal year ended December 31, 1996, Scherer's fiscal year ended March 31, 1997, and Allegiance's fiscal year ended December 31, 1997. For the fiscal year ended June 30, 1998, the consolidated financial statements combine the Company's fiscal year ended June 30, 1998 with Scherer's fiscal year ended March 31, 1998.

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 month of December 1996 are not included in the combined results of operations but are reflected as an adjustment in the Consolidated Statements of Shareholders' Equity. As a result of changing MediQual's fiscal year end from December 31 to June 30, the results of operations for the six months ended June 30, 1997 are not included in the combined results of operations but are reflected as an adjustment in the Consolidated Statements of Shareholders' Equity. MediQual's total revenue and net earnings for this period were \$6.0 million and \$1.7 million, respectively. MediQual's cash flows from operating activities for this period were \$1.2 million, while cash flows used in investing and financing activities were \$0.3 million and \$0.1 million, respectively. Due to the change in Scherer's fiscal year end from March 31 to conform with the Company's June 30 fiscal year end, Scherer's results of operations for the three months ended June 30, 1998 are not included in the combined results of operations but are reflected as an adjustment in the Consolidated Statements of Shareholders' Equity. Scherer's net revenue and net earnings for this period were \$161.6 million and \$8.6 million, respectively. Scherer's cash flows from operating and financing activities for this period were \$12.6 million and \$32.6 million, respectively, while cash flows used in investing activities were \$12.2 million. As a result of changing Allegiance's fiscal year end from December 31 to June 30, the results of operations for the six months ended December 31, 1997 are included in the combined results of operations for both the fiscal years ended June 30, 1997 and 1998 and are reflected as an adjustment in the Consolidated Statements of Shareholders' Equity. Allegiance's total revenue and net earnings for this period were \$2.2 billion and \$47.9 million, respectively. Allegiance's cash flows from operating activities for this period were \$147.2 million, while cash flows used in investing and financing activities were \$63.7 million and \$83.8 million, respectively.

On May 21, 1999, the Company completed a merger with Pacific Surgical Innovations, Inc. ("PSI"). The merger transaction with PSI was accounted for as a pooling-of-interests. Because the impact of the merger transaction with PSI was not significant on a historical basis, prior period financial statements have not been restated. PSI's financial information for all periods, beginning with May 21, 1999, has been included in the Company's consolidated financial results for fiscal 1999.

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. Cash payments for interest were \$105.5 million, \$97.4 million and \$111.4 million and cash payments for income taxes were \$79.5 million, \$146.9 million and \$116.8 million for fiscal 1999, 1998 and 1997, respectively. See Notes 2 and 5 for additional information regarding non-cash investing and financing activities.

Receivables.

Trade receivables are primarily comprised of amounts owed to the Company through its pharmaceutical and other health-care distribution activities and are presented net of an allowance for doubtful accounts of \$53.6 million and \$64.6 million at June 30, 1999 and 1998, 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 \$19.8 million and \$66.6 million at June 30, 1999 and 1998, respectively (the current portions are \$9.2 million and \$29.4 million, respectively), and are included in other assets. These amounts are reported net of an allowance for doubtful accounts of \$4.9 million and \$6.4 million at June 30, 1999 and 1998, respectively.

During fiscal 1999, the Company formed Medicine Shoppe Capital Corporation ("MSCC") and Pyxis Capital Corporation ("PCC"), as wholly owned subsidiaries of Medicine Shoppe and Pyxis, respectively. MSCC and PCC were incorporated for the sole purpose of buying receivables and selling those receivables to certain financial institutions or to other investors. They are designed to be special purpose, bankruptcy remote entities. Although consolidated to the

extent required by generally accepted accounting principles, MSCC and PCC are separate corporations from the Company, Medicine Shoppe and Pyxis, they each maintain separate financial statements, and their assets will be available first and foremost to satisfy the claims of their creditors.

Inventories.

A majority of inventories (approximately 60% in 1999 and 1998) are stated at lower of cost, using the last-in, first-out ("LIFO") method, or market and are primarily merchandise inventories. The remaining inventory is primarily stated at the lower of cost using the first-in, first-out ("FIFO") method or market. If the Company had used the FIFO method of inventory valuation, which approximates current replacement cost, inventories would have been higher than the LIFO method reported at June 30, 1999 and 1998 by \$50.4 million and \$54.4 million, respectively.

The Company continues to consolidate locations, automate selected distribution facilities and invest in management information systems to achieve efficiencies in inventory management processes. As a result of the facility and related inventory consolidations, and the operational efficiencies achieved in fiscal 1999 and 1998, the Company had partial inventory liquidations in certain LIFO pools which reduced the LIFO provision by approximately \$0.1 million and \$2.3 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 one to fifty 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. 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 that range from ten to forty years. Accumulated amortization was \$599.9 million and \$529.8 million at June 30, 1999 and 1998, 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 a review of projected undiscounted operating cash flows for each subsidiary, except Allegiance. Allegiance assesses goodwill impairment based upon a fair value approach.

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 the drug distribution industry, the Company reports as revenue bulk deliveries made to customers' warehouses, whereby the Company acts as an intermediary in the ordering and subsequent delivery of pharmaceutical products. Fluctuations in bulk deliveries result largely from circumstances that are beyond the control of the Company, including consolidation within the customers' industry, decisions by customers to either begin or discontinue warehousing activities, and changes in policy by manufacturers related to selling directly to the customers. Due to the insignificant margins generated through bulk deliveries, fluctuations in their amount do not have a significant impact on 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 noncancellable. Unearned income on sales-type leases is recognized using the interest method. Sales of point-of-use pharmacy systems are recognized upon delivery and customer acceptance. 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.

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

Clinical information 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.

Drug delivery system revenue is recognized upon shipment of products to the customer. Non-product revenue related to option, milestone and exclusivity fees are recognized when earned and all obligations of performance have been completed.

Translation of Foreign Currencies.

The financial position and the results of operations of the Company's foreign operations, excluding the Company's Malaysian and Mexican manufacturing operations which are denominated in U.S. dollars, are measured using the local currencies of the countries in which they operate and are translated into U.S. dollars. Although the effects of foreign currency fluctuations are mitigated by the fact that expenses of foreign subsidiaries are generally incurred in the same currencies in which sales are generated, the reported results of operations of the Company's foreign subsidiaries are affected by changes in foreign currency exchange rates and, as compared to prior periods, will be higher or lower depending upon a weakening or strengthening of the U.S. dollar. In addition, the net assets of foreign subsidiaries are translated into U.S. dollars at the foreign currency exchange rates in effect at the end of each period. Accordingly, the Company's consolidated shareholders' equity will fluctuate depending upon the relative strengthening or weakening of the U.S. dollar versus relevant foreign currencies.

Derivative Financial Instrument Risk.

The Company uses derivative financial instruments to minimize the impact of foreign exchange rate changes on earnings and cash flows. The Company also periodically enters into foreign currency exchange contracts to hedge certain exposures related to selected transactions that are relatively certain as to both timing and amount. The Company does not use derivative financial instruments for trading or speculative purposes (see Note 6 for further discussion).

Research and Development Costs.

Costs incurred in connection with the development of new products and manufacturing methods are charged to expense as incurred. Research and development expenses, net of customer reimbursements, were \$49.7 million, \$45.7 million and \$35.4 million in fiscal 1999, 1998 and 1997, respectively. Customer reimbursements in the amount of \$11.8 million, \$13.0 million and \$8.0 million were received for the fiscal years ended June 30, 1999, 1998 and 1997, respectively.

Income Taxes.

No provision is made for U.S. income taxes on earnings of foreign subsidiary companies which the Company controls but does not include in the consolidated federal income tax return since it is management's practice and intent to permanently reinvest the earnings.

Earnings Per Common Share.

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.

Excluding dividends paid by all entities with which the Company has merged, the Company paid cash dividends per Common Share of \$0.095, \$0.070 and \$0.060 for the fiscal years ended June 30, 1999, 1998 and 1997, respectively.

Stock Splits.

On August 12, 1998, the Company declared a three-for-two stock split which was effected as a stock dividend and distributed on October 30, 1998 to shareholders of record on October 9, 1998. 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 these stock splits.

Allegiance Spin-off.

On September 30, 1996 (the "Distribution Date"), Baxter International Inc. ("Baxter") and its subsidiaries transferred to Allegiance and its subsidiaries their U.S. health-care distribution business, surgical and respiratory therapy business and health-care cost-saving business, as well as certain foreign operations (the "Allegiance Business") in connection with a spin-off of the Allegiance Business by Baxter. The spin-off occurred on the Distribution Date through a distribution of Allegiance common stock to Baxter stockholders (the "Distribution") based on a distribution ratio of one Allegiance share for each five Baxter shares held. The Distribution of approximately 68.4 million equivalent Company Common Shares of Allegiance common stock was made to Baxter stockholders of record on September 26, 1996.

2. BUSINESS COMBINATIONS, MERGER-RELATED COSTS AND OTHER SPECIAL ITEMS

Business Combinations and Merger-Related Costs.

On February 3, 1999, the Company completed a merger transaction with Allegiance that was accounted for as a pooling-of-interests transaction. The Company issued approximately 70.7 million Common Shares to Allegiance stockholders and Allegiance's outstanding stock options were converted into options to purchase approximately 10.3 million Company Common Shares. In addition, on August 7, 1998, the Company completed a merger transaction with Scherer that was accounted for as a pooling-of-interests. The Company issued approximately 34.2 million Common Shares to Scherer stockholders and Scherer's outstanding stock options were converted into options to purchase approximately 3.5 million

Common Shares. The Company recorded a merger-related charge to reflect transaction and other costs incurred as a result of these merger transactions in fiscal 1999. Additional merger-related costs associated with integrating the separate companies and instituting efficiencies are charged to expense in subsequent periods when incurred.

On May 21, 1999, the Company completed a merger transaction with PSI. The Company issued approximately 233,000 Common Shares to PSI shareholders. The historical cost of PSI's assets combined was approximately \$3.9 million and the total liabilities assumed were approximately \$3.0 million. The impact of the merger transaction with PSI, on a historical basis, is not significant. Accordingly, prior period historical financial statements have not been restated for the PSI Merger. PSI's financial results have been included in the consolidated financial results of the Company since May 21, 1999.

During the fiscal 1999, merger-related costs totaling \$146.6 million (\$117.6 million, net of tax) were recorded. Of this amount, approximately \$95.4 million related to transaction and employee-related costs, and \$36.1 million related to business restructuring and asset impairment costs associated with the Company's merger transactions with Scherer and Allegiance. As part of the business restructuring, the Company is currently closing certain facilities. As such, the Company has incurred employee-related costs associated with the elimination of approximately 360 positions, asset impairment costs, and exit costs, related to the termination of contracts and lease agreements. In addition, the Company recorded costs of \$4.0 million related to the write down of impaired inventory related to a previous merger and of \$1.1 million related to severance costs for a restructuring associated with the change in management that resulted from the merger with Owen. The Company recorded costs of \$13.7 million related to integrating the operations of companies that previously engaged in merger transactions with the Company. Partially offsetting the charge recorded was a \$3.7 million credit to adjust the estimated transaction and termination costs previously recorded in connection with the canceled merger transaction with Bergen Brunswick Corporation ("Bergen") (see Note 17). This adjustment relates primarily to services provided by third parties engaged by the Company in connection with the terminated Bergen transaction. The cost of such services was estimated and recorded in the prior periods when the services were performed. Actual billings were less than the estimate originally recorded, resulting in a reduction of the current period merger-related costs.

On February 18, 1998, the Company completed a merger transaction with MediQual (the "MediQual Merger") which was accounted for as a pooling-of-interests. The Company issued approximately 860,000 Common Shares to MediQual shareholders and MediQual's outstanding stock options were converted into options to purchase approximately 36,000 Common Shares of the Company.

The table below presents a reconciliation of total revenue and net earnings available for Common Shares as reported in the accompanying consolidated financial statements with those previously reported by the Company. The term "Cardinal Health" as used herein refers to Cardinal Health, Inc. and subsidiaries prior to the MediQual, Scherer and Allegiance mergers. See Note 1 for periods combined.

(In millions)	Cardinal Health	Scherer	MediQual	Allegiance	Combined
Fiscal year ended June 30, 1997					
Total revenue	\$ 13,437.2	\$ 588.7	\$ 11.0	\$ 4,357.0	\$ 18,393.9
Net earnings	\$ 184.6	\$ 57.0	\$ 2.3	\$ 90.9	\$ 334.8
Fiscal year ended June 30, 1998					
Total revenue	\$ 15,918.1	\$ 620.8	\$ 7.9	\$ 4,448.6	\$ 20,995.4
Net earnings	\$ 247.1	\$ 69.7	\$ 1.4	\$ 106.9	\$ 425.1

Adjustments affecting net earnings and shareholders' equity resulting from the MediQual, Scherer and Allegiance mergers to adopt the same accounting practices were not material for any periods presented herein. There were no material intercompany transactions.

In addition to the merger transactions described above, during fiscal 1999, the Company completed several individually immaterial acquisitions, which were accounted for under the purchase method of accounting. These business combinations were primarily related to the Company's med/surg distribution, point-of-use pharmacy systems and pharmaceutical-packaging services. The aggregate purchase price, which was paid primarily in cash, including fees and expenses, was approximately \$160.8 million. Liabilities of the operations assumed were approximately \$18.9 million, consisting of debt of \$3.2 million. Had the acquisitions taken place July 1, 1998, consolidated results would not have been materially different from reported results.

During fiscal 1998, the Company made a number of individually immaterial acquisitions for an aggregate purchase price of \$47.8 million and exchanged nonmonetary assets with a value of approximately \$10.5 million to acquire an interest in Source Medical Corporation, a new venture in Canada. All of these acquisitions were accounted for as purchase transactions. Had the acquisitions taken place July 1, 1997, consolidated results would not have been materially different from reported results.

During fiscal 1998, the Company recorded merger-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 June 30, 1998 (see Note 17). In accordance with the terms of the Agreement and Plan of Merger between the Company, a wholly owned subsidiary of the Company, and Bergen, as amended, its termination required the Company to reimburse Bergen for \$7.0 million of transaction costs upon termination of such Agreement (See Note 17).

Additional merger-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.

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 11.6 million Common Shares to Owen shareholders and Owen's outstanding stock options were converted into options to purchase approximately 1.0 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 4.7 million Common Shares to PCI shareholders and PCI's outstanding stock options were converted into options to purchase approximately 0.3 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.

During fiscal 1997, the Company made individually immaterial acquisitions, accounted for under the purchase method of accounting, totaling \$71.4 million. Had these acquisitions taken place July 1, 1996, consolidated results would not have been materially different from reported results.

In addition to the merger-related costs recorded in fiscal 1997 for the Owen Merger and the PCI Merger (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.

Other Special Items.

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 pharmaceutical 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 pharmaceutical distribution facility, resulting in termination of the union relationship.

During fiscal 1998, Scherer finalized part of its long-term tax planning strategy by converting, with its joint venture partner, the legal ownership structure of Scherer's 51% owned subsidiary in Germany from a corporation to a partnership. As a result of this change in tax status, the Company's tax basis in the German subsidiary was adjusted, resulting in a one-time tax refund of approximately \$4.6 million, as well as a reduction in cash taxes to be paid in the current and future years. Combined, these factors resulted in a one-time reduction of fiscal 1998 income tax expense by approximately \$11.7 million.

The net effect of the various merger-related costs and other special items recorded during fiscal 1999 was to reduce reported net earnings by \$117.6 million to \$456.3 million and to reduce reported diluted earnings per Common Share by \$0.42 per share to \$1.64 per share. The fiscal 1998 effect of various merger-related charges and other special items was to reduce reported net earnings by \$24.1 million to \$425.1 million and to reduce reported diluted earnings per Common Share by \$0.09 per share to \$1.53 per share.

The effect of the various merger-related costs recorded in fiscal 1997 was to reduce reported net earnings by \$36.6 million to \$334.8 million and to reduce reported diluted earnings per Common Share by \$0.13 per share to \$1.23 per share.

Certain merger-related costs are based upon estimates, and actual amounts paid may ultimately differ from these estimates. If additional costs are incurred, such items will be expensed as incurred.

Restructuring Program.

In fiscal 1993, Baxter (see Note 1) announced a restructuring plan designed in part to make Allegiance more efficient and responsive in addressing the changes in the U.S. health-care system. Charges totaling \$560.0 million were recorded to cover costs associated with these restructuring initiatives. During fiscal 1999, 1998 and 1997, the Company had cash outflows related to the restructuring program of \$6.6 million, \$15.8 million and \$15.6 million, respectively, and noncash charges against the restructuring program of \$7.4 million, \$9.1 million and \$0.9 million, respectively. Prior to fiscal 1997, the total cash outflows and noncash charges related to the restructuring program were \$242.4 million and \$251.5 million, respectively. During the fiscal year ended June 30, 1999, \$7.9 million of unnecessary restructuring reserves were reversed. The reversal of unnecessary reserves was principally the result of facility closures and consolidations being finalized at costs lower than originally anticipated.

The cash outflows pertain primarily to employee-related costs for severance, outplacement assistance, relocation, implementation teams and facility consolidations. Since the inception of the restructuring program, approximately 2,500 positions have been eliminated. As of June 30, 1999 and 1998, the remaining restructuring reserve balance was \$2.8 million and \$24.7 million, respectively, both of which are classified as current liabilities. The remaining expenditures to be charged against the restructuring program are expected to occur in fiscal 2000, as implementation projects are completed as planned.

3. LEASES

Sales-Type Leases.

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

	June 30, 1999	June 30, 1998
Future minimum lease payments receivable	\$ 717.7	\$ 387.5
Unguaranteed residual values	1.0	1.3
Unearned income	(100.1)	(55.5)
Allowance for uncollectible minimum lease payments receivable	(11.8)	(8.8)
Net investment in sales-type leases	606.8	324.5
Less: current portion	152.5	91.4
Net investment in sales-type leases, less current portion	\$ 454.3	\$ 233.1

Future minimum lease payments to be received pursuant to sales-type leases during the next five years are: 2000 – \$169.5 million, 2001 – \$166.0 million, 2002 – \$151.5 million, 2003 – \$132.1 million, 2004 – \$83.7 million and 2005 and thereafter – \$14.9 million.

Lease Related Financing Arrangements.

Pyxis has previously financed its working capital needs through the sale of certain lease receivables to a non-bank financing company. As of June 30, 1999, \$68.9 million of lease receivables were owned by the financing company. In June 1998, the agreement with the financing company was amended to terminate Pyxis' obligation to sell lease receivables to the financing company. Due to Pyxis customers upgrading the Pyxis machines or expanding the number of units being leased under the original lease agreements that have been sold to the financing company, Pyxis has been converting the original lease agreements with customers to an updated lease agreement. Pyxis has been maintaining these revised leases and not selling them to the financing company to replace the original lease receivables. As such, during fiscal 1999, Pyxis has entered into an agreement with the financing company to pay the financing company the remaining portion of the original lease receivables outstanding at the time of revision over the original terms. The future minimum payments for these notes at June 30, 1999 are 2000 - \$39.5 million; 2001 - \$26.9 million; 2002 - \$14.0 million; and 2003- \$3.1 million.

4. NOTES PAYABLE, BANKS

The Company has entered into various unsecured, uncommitted line-of-credit arrangements that allow for borrowings up to \$177.8 million at June 30, 1999, at various money market rates. At June 30,

1999, \$28.6 million, at a weighted average interest rate of 6.4%, was outstanding under such arrangements and \$24.7 million, at a weighted average interest rate of 7.2% was outstanding at June 30, 1998. The total available but unused lines of credit at June 30, 1999 was \$149.2 million.

5. LONG-TERM OBLIGATIONS AND CREDIT FACILITIES

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

	June 30, 1999	June 30, 1998
6.0% Notes due 2006	\$ 150.0	\$ 150.0
6.25% Notes due 2008	150.0	–
6.5% Notes due 2004	100.0	100.0
6.75% Notes due 2004	99.7	100.0
7.3% Notes due 2006	183.2	199.6
7.8% Debentures due 2016	125.2	149.4
7.0% Debentures due 2026 (7 year put option in 2003)	199.9	199.9
Borrowings under credit facilities	132.2	248.8
Commercial paper	49.2	142.0
Other obligations; interest averaging 6.7% in 1999 and 6.1% in 1998, due in varying installments through 2020	46.1	47.6
Total	1,235.5	1,337.3
Less: current portion	11.6	7.3
Long-term obligations, less current portion	\$ 1,223.9	\$ 1,330.0

The 6%, 6.25% and 6.5% Notes represent unsecured obligations of the Company, and the 6.75% Notes represent unsecured obligations of Scherer which are guaranteed by the Company. The 7.3% Notes and the 7.8% and 7.0% Debentures represent unsecured obligations of Allegiance which are guaranteed by the Company. These obligations are not redeemable prior to maturity and are not subject to a sinking fund.

During fiscal 1999, the Company established an unsecured bank credit facility, which expires in March 2004. The credit facility provides for up to an aggregate of \$1.0 billion in borrowings of which \$150.0 million is part of a multi-currency allocation and \$250.0 million represents a 364-day facility. Interest rates on outstanding borrowings are at LIBOR plus 0.25%. As of June 30, 1999, \$80.7 million of borrowings were outstanding under the multi-currency allocation portion of the facility. The amounts outstanding under the short-term portion of the credit facility will be classified as long-term debt, as amounts are supported by a long-term credit facility, and will be refinanced. The agreement requires the Company to maintain a minimum net worth of \$2.55 billion.

The Company has a commercial paper program, providing for the issuance of up to \$750.0 million in aggregate maturity value of commercial paper. Commercial paper with an aggregate maturity value of \$49.2 million and \$142.0 million was outstanding as of June 30, 1999 and 1998, respectively with an effective interest rate of 4.82%.

During fiscal 1999, the Company terminated its unsecured revolving credit agreement (originally expiring 2001) and its unsecured bank credit facility (originally expiring 2002) which provided up to an aggregate of \$900.0 million and \$175.0 million in borrowings, respectively. As of June 30, 1998, \$51.3 million was outstanding under the \$175.0 million facility and no amounts were outstanding under the \$900.0 million facility.

The Company maintains other short-term credit facilities. At June 30, 1999 and 1998, \$51.5 million and \$197.5 million, respectively, was outstanding under these uncommitted facilities. The effective interest rate as of June 30, 1999 was 6.00%. The amounts outstanding under the commercial paper program and short-term credit facilities have been classified as long-term debt, as amounts are supported by a long-term credit facility and will continue to be refinanced.

Certain long-term obligations are collateralized by property and equipment of the Company with an aggregate book value of approximately \$28.7 million at June 30, 1999. Maturities of long-term obligations for future fiscal years are 2000 – \$11.6 million; 2001 – \$111.7 million; 2002 – \$3.1 million; 2003 – \$ 2.2 million; 2004 – \$278.8 million and 2005 and thereafter – \$828.1 million.

At June 30, 1999, 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.

6. FINANCIAL INSTRUMENTS

Interest Rate Management.

The Company has entered into an interest rate swap agreement that matures November 2002 to hedge against variable interest rates. The Company exchanged its variable rate position related to a lease agreement for a fixed rate of 7.08%. The Company recognizes in income the periodic net cash settlements under the swap agreement as it accrues.

Foreign Exchange Risk Management.

The Company in fiscal 1998 purchased various foreign currency options which expired as of June 30, 1999 to partially protect the

Company from the risk that fluctuations in the foreign currency rates that could have an adverse effect on foreign subsidiaries' earnings. In addition during fiscal 1998, the Company had foreign currency forward and option contracts that hedged a portion of anticipated production costs expected to be denominated in foreign currency. When the dollar strengthens against foreign currencies, the decline in the value of the foreign currency cash flows is partially offset by the recognition of gains in value of purchased currency options. Conversely, when the dollar weakens against foreign currencies, the increase in the value of foreign currency cash flows is reduced only by the recognition of the premium paid to acquire the options. Market value gains, losses and premiums on these contracts are recognized as income upon occurrence. The fair value is based upon the estimated amount the Company would receive to terminate the options. Net expense during fiscal 1999 was not material. Net expense during fiscal 1998 was \$11.6 million related to these foreign currency forward contracts and options.

In addition, the Company periodically enters into forward foreign currency exchange contracts to hedge certain exposures related to identifiable foreign currency transactions that are relatively certain as to both timing and amount. Gains and losses on the forward contracts are recognized concurrently with the gains and losses from the underlying transactions.

The Company also uses commodity contracts to hedge raw material costs expected to be denominated in foreign currency. These contracts generally cover a one-year period and all gains and losses are deferred and recognized in cost of goods sold with the underlying product costs. The contracts qualify as hedges for accounting purposes in accordance with the criteria established in SFAS No. 80 "Accounting for Futures Contracts." Cash flows resulting from these commodity contracts are classified in the same category as the items being hedged.

The counterparties to these contracts are major financial institutions and the Company does not have significant exposure to any one counterparty. Management believes the risk of loss is remote and in any event would not be material.

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, 1999 and 1998, 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 \$1,240.0 million and \$1,365.3 million as compared to the carrying amounts of \$1,235.5 million and \$1,337.3 million at June 30, 1999

and 1998, respectively. The fair value of long-term insurance receivables and long-term litigation liabilities at June 30, 1999 were \$52.2 million and \$31.7 million compared to the carrying amounts of \$57.3 million and \$34.1 million, respectively. At June 30, 1998, the Company did not have balances related to these long-term receivables and long-term liabilities. The fair value of the Company's long-term obligations and other items is estimated based on either the quoted market prices for the same or similar issues and the current interest rates offered for debt of the same remaining maturities or estimated discounted cash flows.

The following is a summary of the fair value of the Company's derivative instruments, based upon the estimated amount that the Company would receive or (pay) to terminate the contracts at the reporting date. The fair values are based on quoted market prices for the same or similar instruments.

(In millions)	Fiscal Year ended June 30,			
	1999		1998	
	Notional Amount	Fair Value (Loss)	Notional Amount	Fair Value (Loss)
Foreign currency exchange contract	\$ -	\$ -	\$ 35.6	\$ (0.4)
Foreign currency options	-	-	3.0	0.1
Commodity contracts	9.6	(0.3)	14.2	(1.7)
Interest Rate Swaps	20.0	(0.7)	8.3	(1.0)

7. INCOME TAXES

Consolidated income before taxes (in millions):

	Fiscal Year Ended June 30,		
	1999	1998	1997
U.S. Based Operations	\$ 684.8	\$ 550.6	\$ 437.4
Non-U.S. Based Operations	74.4	109.1	102.3
Total	759.2	659.7	539.7

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

	Fiscal Year Ended June 30,		
	1999	1998	1997
Current:			
Federal	\$ 122.5	\$ 106.1	\$ 131.9
State	26.3	22.6	21.3
Foreign	21.7	15.8	18.8
Total	170.5	144.5	172.0
Deferred	132.4	90.1	32.9
Total provision	\$ 302.9	\$ 234.6	\$ 204.9

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,		
	1999	1998	1997
Provision at Federal statutory rate	35.0%	35.0%	35.0%
State income taxes, net of Federal benefit	3.9	4.1	3.9
Foreign tax rates	(3.0)	(4.8)	(3.8)
Nondeductible expenses	4.5	1.5	2.5
Other	(0.5)	(0.2)	0.4
Effective income tax rate	39.9%	35.6%	38.0%

Provision has not been made for U.S. or additional foreign taxes on \$343.2 million of undistributed earnings of foreign subsidiaries because those earnings are considered to be permanently reinvested in the operations of those subsidiaries. It is not practicable to estimate the amount of tax that might be payable on the eventual remittance of such earnings.

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 (in millions):

	June 30, 1999	June 30, 1998
Deferred income tax assets:		
Receivable basis difference	\$ 27.8	\$ 21.6
Accrued liabilities	101.0	156.7
Net operating loss carryforwards	9.1	48.7
Foreign tax and other credit carryforwards	16.5	-
Other	35.0	26.5
Total deferred income tax assets	189.4	253.5
Valuation allowance for deferred income tax assets	(7.0)	(21.7)
Net deferred income tax assets	182.4	231.8
Deferred income tax liabilities:		
Inventory basis differences	(138.9)	(90.0)
Property-related	(218.9)	(237.0)
Revenues on lease contracts	(165.9)	(111.0)
Other	2.7	-
Total deferred income tax liabilities	(521.0)	(438.0)
Net deferred income tax liabilities	\$ (338.6)	\$ (206.2)

The amounts in the previous table are classified in the consolidated balance sheets as follows (in millions):

	June 30, 1999	June 30, 1998
Other current assets	\$ 82.5	\$ 133.3
Deferred income taxes and other liabilities	(421.1)	(339.5)
Net deferred income tax liabilities	\$ (338.6)	\$ (206.2)

The Company had Federal net operating loss carryforwards of \$3.3 million and state net operating loss carryforwards of \$186.3 million as of June 30, 1999. At June 30, 1999, the Company did not have any foreign tax credit and capital loss carryforwards. A valuation allowance of \$7.0 million at June 30, 1999 has been provided for the state net operating loss, foreign tax credit and capital 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 carryforward begins expiring in 2000 and the state net operating loss carryforward expires through 2013. Expiring state net operating loss carryforwards and the required valuation allowances have been adjusted annually.

Under a tax-sharing agreement with Baxter, Allegiance will pay for increases and be reimbursed for decreases to the net deferred tax assets transferred on the Distribution Date. Such increases or decreases may result from audit adjustments to Baxter's prior period tax returns.

8. EMPLOYEE RETIREMENT BENEFIT PLANS

The Company sponsors various retirement and pension plans, including defined benefit and defined contribution plans. Substantially all of the Company's domestic 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 domestic union employees are covered by multi-employer 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. Certain Allegiance employees who participated in Baxter-sponsored defined benefit plans prior to the Distribution (see Note 1) are eligible to receive a contribution to their qualified 401(k) account in an amount ranging from 2 to 8 percent of their annual compensation, depending on years of service. This transitional benefit will be provided to eligible employees through 2003.

The total expense for employee retirement benefit plans (excluding defined benefit plans (see below)) was as follows (in millions):

	Fiscal Year Ended June 30,		
	1999	1998	1997
Defined contribution plans	\$ 44.3	\$ 37.9	\$ 34.4
Multi-employer plans	0.5	0.5	0.9
Total	\$ 44.8	\$ 38.4	\$ 35.3

Defined Benefit Plans.

The Company has several defined benefit plans covering substantially all salaried and hourly Scherer employees. The Company's domestic defined benefit plans provide defined benefits based on years of service and level of compensation. Foreign subsidiaries provide for pension benefits in accordance with local customs or law. The Company funds its pension plans at amounts required by the applicable regulations.

Effective July 1, 1998, the Company adopted SFAS No. 132, "Employers Disclosures about Pensions and Other Postretirement Benefits".

In accordance with SFAS 132, the following tables provide a reconciliation of the change in benefit obligation, the change in plan assets and the net amount recognized in the consolidated balance sheets (based on measurement date of March 31, in millions):

	June 30,	
	1999	1998
Change in benefit obligation:		
Benefit obligation at beginning of year	\$ 86.7	\$ 73.0
Service cost	6.5	4.9
Interest cost	6.7	5.4
Plan participant contributions	0.7	–
Amendments	0.2	–
Actuarial loss	4.6	7.7
Benefits paid	(3.7)	(2.1)
Translation adjustment	(3.0)	(2.2)
Benefit obligation at end of year	\$ 98.7	\$ 86.7
Change in plan assets:		
Fair value of plan assets at beginning of year	\$ 42.2	\$ 34.5
Actual return on plan assets	12.2	4.4
Employer contributions	4.9	4.3
Plan participant contributions	0.7	–
Benefits paid	(2.6)	(1.3)
Translation adjustment	(1.7)	0.3
Fair value of plan assets at end of year	\$ 55.7	\$ 42.2
Funded status	\$ (43.0)	\$ (44.5)
Unrecognized net actuarial loss	7.5	12.7
Unrecognized net transition (asset) obligation	(2.0)	0.3
Unrecognized prior service cost	0.2	(0.1)
Net amount recognized	\$ (37.3)	\$ (31.6)
Amounts recognized in the Consolidated Balance Sheet:		
Prepaid benefit cost	\$ 1.6	\$ 1.8
Accrued benefit liability	(38.9)	(33.4)
Net amount recognized	\$ (37.3)	\$ (31.6)

The projected benefit obligation, accumulated benefit obligation and fair value of plan assets for the pension plans with accumulated benefit obligations in excess of plan assets were \$89.4 million, \$85.1 million and \$47.8 million, respectively, as of June 30, 1999 and \$85.4 million, \$75.8 million and \$40.6 million, respectively, as of June 30, 1998.

Components of the Company's net periodic benefit costs are as follows (in millions):

	For the Fiscal Year Ended June 30,		
	1999	1998	1997
Components of net periodic			
Benefit cost:			
Service cost	\$ 6.5	\$ 4.9	\$ 4.5
Interest cost	6.7	5.4	5.2
Expected return on plan assets	(6.9)	(5.1)	(4.1)
Amortization of actuarial loss	1.9	1.0	1.2
Amortization of transition (asset)/obligation	–	0.1	(0.2)
Amortization of prior service cost	0.3	–	–
Net amount recognized	\$ 8.5	\$ 6.3	\$ 6.6

For fiscal 1999 and 1998, the weighted-average actuarial assumptions used in determining the funded status information and net periodic benefit cost information were: discount rate of 6.4% and 7.5%, expected return on plan assets of 6.2% and 10.1% and rate of compensation increase of 3.7% and 4.6%, respectively.

9. COMMITMENTS AND CONTINGENT LIABILITIES

The future minimum rental payments for operating leases having initial or remaining non-cancelable lease terms in excess of one year at June 30, 1999 are: 2000 – \$42.8 million; 2001 – \$27.3 million; 2002 – \$18.5 million; 2003 – \$15.3 million; 2004 – \$13.0 million and 2005 and thereafter – \$32.8 million. Rental expense relating to operating leases was approximately \$69.6 million, \$64.8 million and \$68.2 million in fiscal 1999, 1998, and 1997, 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 May 2004, 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 \$286.2 million, which is the total estimated cost of the construction projects. As of June 30, 1999, the amount expended was \$176.8 million. Currently, the Company's minimum annual lease payments under the agreements are approximately \$11.5 million.

As of June 30, 1999, the Company has capital expenditure commitments related primarily to plant expansions and facility acquisitions of approximately \$119.3 million.

As of June 30, 1999, amounts outstanding on customer notes receivable sold with full recourse to a commercial bank totaled approximately \$9.6 million. The Company also has outstanding guarantees of indebtedness and financial assistance commitments that totaled approximately \$3.0 million at June 30, 1999.

The Company becomes involved from time-to-time in litigation incidental to its business. In November 1993, Cardinal, five other pharmaceutical wholesalers, and twenty-four pharmaceutical manufacturers were named as defendants in a series of purported class action antitrust lawsuits alleging violations of various antitrust laws associated with the chargeback pricing system. The trial of this matter began on September 23, 1998. On November 19, 1998, after the close of plaintiffs' case-in-chief, both the wholesaler defendants and the manufacturer defendants moved for a judgment as a matter of law in their favor. On November 30, 1998, the Court granted both of these motions and ordered judgment as a matter of law in favor of both the wholesaler and the manufacturer defendants. On January 25, 1999, the class plaintiffs filed a notice of appeal of the District Court's decision with the Court of Appeals for the Seventh Circuit. On July 13, 1999, the Court of Appeals for the Seventh Circuit issued its decision, which, in part, affirmed the dismissal of the wholesaler defendants, including the Company. On July 27, 1999, the class plaintiffs filed a Petition for Rehearing with the Court of Appeals for the Seventh Circuit. The Company believes that the allegations set forth against Cardinal in these lawsuits are without merit.

Alliance assumed the defense of litigation involving claims related to the Allegiance Business from Baxter (see Note 1), including certain claims of alleged personal injuries as a result of exposure to natural rubber latex gloves. Since none of the cases involving natural rubber latex gloves has proceeded to a hearing on merits, the Company is unable to evaluate the extent of any potential liability, and unable to estimate any potential loss. The Company believes a substantial portion of any potential liability and defense costs, excluding defense costs already reserved, related to natural latex gloves cases and claims will be covered by insurance, subject to self-insurance retentions, exclusions, conditions, coverage gaps, policy limits and insurer solvency.

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, 1999, the Company's authorized capital shares consisted of (a) 500,000,000 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, 1998, the Company's authorized capital shares consisted of (a) 300,000,000 Class A common shares, without par value; (b) 5,000,000 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, 1999 and 1998.

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 health-care sectors. Credit risk can be affected by changes in reimbursement and other economic pressures impacting the acute care portion of the health-care 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 1999, the Company's two largest customers individually accounted for 11% and 13% of operating revenue, respectively. During fiscal 1998, the same two customers individually accounted for 14% and 11% of operating revenue, respectively. During fiscal 1997, the same two customers individually accounted for 13% and 10% of operating revenue, respectively. These two customers are serviced primarily through the Pharmaceutical Distribution and

Medical-Surgical Products segments. During fiscal 1999, one customer accounted for 57% of bulk deliveries. During fiscal years 1998 and 1997, one customer accounted for 62% of bulk deliveries.

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 two or 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 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 \$83.1 million and \$0.30 per share, respectively, for fiscal 1999, \$33.6 million and \$0.12 per share, respectively, for fiscal 1998, and \$19.2 million and \$0.07 per share, respectively, for fiscal 1997. During fiscal 1999, stock option grants under the previous Allegiance and Scherer plans vested immediately

on the merger date. These accelerated grants increased the fiscal 1999 pro forma effect on net income and diluted earnings per Common Share by \$32.9 million and by \$0.12 per share, respectively. 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.

Giving retroactive effect to conversion of stock options related to mergers and stock splits, the weighted average fair value of options granted during fiscal 1999, 1998 and 1997 was \$22.55, \$14.19 and \$9.57, respectively.

The fair values of the options granted to Company employees and directors were estimated on the date of grant using the Black-Scholes option-pricing model with the following assumptions for grants in the respective periods:

	As of June 30,		
	1999	1998	1997
Risk-free interest rate	5.72%	5.53%	6.23%
Expected life	4 years	3 years	3 years
Expected volatility	30%	27%	25%
Dividend yield	0.18%	0.16%	0.17%

The following summarizes all stock option transactions for the Company under the plans from July 1, 1996 through June 30, 1999, giving retroactive effect to conversions of options in connection with merger transactions and stock splits (in millions, except per share amounts):

	Fiscal 1999		Fiscal 1998		Fiscal 1997	
	Options	Weighted avg. exercise price	Options	Weighted avg. exercise price	Options	Weighted avg. exercise price
Outstanding, beginning of year	21.1	\$ 23.96	20.1	\$ 19.25	21.7	\$ 16.50
Granted	3.4	69.61	6.3	43.70	6.2	24.84
Exercised	(3.6)	16.80	(3.7)	14.62	(6.7)	15.81
Canceled	(0.6)	45.60	(0.9)	21.46	(1.1)	17.07
Change in fiscal year	-	-	(0.7)	28.26	-	-
Outstanding, end of year	20.3	\$ 34.51	21.1	\$ 23.96	20.1	\$ 19.25
Exercisable, end of year	14.3	\$ 23.84	6.6	\$ 15.45	8.7	\$ 13.98

Information relative to stock options outstanding as of June 30, 1999:

Range of exercise prices	Options Outstanding			Options Exercisable	
	Options (in millions)	Weighted avg. remaining contractual life in years	Weighted avg. exercise price	Options (in millions)	Weighted avg. exercise price
\$ 0.05 - \$17.15	5.6	6.21	\$ 14.20	5.5	\$ 14.21
\$17.22 - \$37.79	5.5	6.31	24.18	5.3	23.71
\$38.06 - \$54.46	5.2	8.18	41.98	3.5	39.13
\$55.67 - \$79.56	4.0	8.98	67.68	-	-
	20.3	7.28	\$ 34.51	14.3	\$ 23.84

As of June 30, 1999, there remained approximately 0.8 million additional shares available to be issued pursuant to the Plans.

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, 1999, approximately 0.3 million shares remained restricted and subject to forfeiture.

Prior to the Allegiance Merger, Allegiance had an employee stock purchase plan under which the sale of 4.0 million of Allegiance's common stock had been authorized. The purchase price was the lower of 85 percent of the closing market price on the date of subscription or 85 percent of the closing market price on the date of purchase. Under this plan, Allegiance sold to its employees 0.6 million shares at an average price per share of \$23.33 in fiscal 1999 and 1.2 million shares at an average price per share of \$10.88 in fiscal 1998. At June 30, 1998, subscriptions of 0.7 million were outstanding. The weighted average fair value of the purchase rights was \$3.32. Subsequent to the Allegiance Merger, all outstanding subscriptions were canceled.

On May 2, 1997, Allegiance received \$54.8 million in cash from 141 members of its management who purchased approximately 3.0 million equivalent Cardinal Common Shares. Allegiance granted one-day options for the shares, which were immediately exercised. This Shared Investment Plan was designed to align management and stockholders interests.

13. SEGMENT INFORMATION

As of June 30, 1999, the Company adopted Statement of Financial Accounting Standards No. 131 ("SFAS 131"), "Disclosures about Segments of an Enterprise and Related Information". SFAS 131 requires companies to define and report financial and descriptive information about its operating segments. The Company is organized based on the products and services it offers. Under this organizational structure, the Company operates in three business segments: Pharmaceutical Distribution, Pharmaceutical Services and Medical-Surgical Products.

The Pharmaceutical Distribution segment involves the distribution of a broad line of pharmaceuticals, health and beauty care products, therapeutic plasma and other specialty pharmaceutical products and other items typically sold by hospitals, retail drug stores and other health-care providers.

The Pharmaceutical Services segment provides services to the health-care industry through the design of unique drug delivery systems, comprehensive packaging services, integrated pharmacy management, reimbursement services, clinical information system services and pharmacy automation equipment.

The Medical-Surgical Products segment involves the manufacture of medical, surgical and laboratory products and the distribution of these products to hospitals, physician offices, surgery centers and other health-care providers.

The Company evaluates the performance of the segments based on operating earnings after the corporate allocation of administrative expenses. Information about interest income and expense, and income taxes is not provided on a segment level. In addition, special charges are not allocated to the segments. The accounting policies of the segments are the same as described in the summary of significant accounting policies. The following table includes revenue, operating earnings, capital expenditures, and depreciation and amortization expense for the fiscal years ended June 30, 1999, 1998 and 1997 and assets as of June 30, 1999, 1998 and 1997 for each segment and reconciling items necessary to total to amounts reported in the consolidated financial statements:

(In millions)	Net Revenue		
	1999	1998	1997
Operating revenue:			
Pharmaceutical Distribution	\$ 14,977.0	\$ 11,938.7	\$ 10,019.2
Pharmaceutical Services	2,081.5	1,812.4	1,558.7
Medical-Surgical Products	4,719.5	4,448.7	4,357.1
Inter-segment (1)	(297.4)	(195.8)	(10.2)
Total operating revenue	\$ 21,480.6	\$ 18,004.0	\$ 15,924.8
Bulk Deliveries to Customer Warehouses:			
Pharmaceutical Distribution	3,553.0	2,991.4	2,469.1
Total Net Revenue	\$ 25,033.6	\$ 20,995.4	\$ 18,393.9
	Operating Earnings		
	1999	1998	1997
Pharmaceutical Distribution	\$ 398.4	\$ 315.5	\$ 252.5
Pharmaceutical Services	347.7	286.4	236.1
Medical-Surgical Products	303.4	246.8	224.5
Corporate (2)	(172.5)	(76.2)	(48.3)
Total operating earnings	\$ 877.0	\$ 772.5	\$ 664.8
	Depreciation and Amortization		
	1999	1998	1997
Pharmaceutical Distribution	\$ 28.0	\$ 23.2	\$ 20.5
Pharmaceutical Services	71.9	55.4	56.3
Medical-Surgical Products	119.9	122.8	126.0
Corporate (2)	13.7	13.1	6.3
Total depreciation and amortization	\$ 233.5	\$ 214.5	\$ 209.1
	Capital Expenditures		
	1999	1998	1997
Pharmaceutical Distribution	\$ 61.9	\$ 54.7	\$ 44.8
Pharmaceutical Services	150.0	143.9	98.8
Medical-Surgical Products	108.0	80.2	84.3
Total capital expenditures	\$ 319.9	\$ 278.8	\$ 227.9
	Assets		
	1999	1998	1997
Pharmaceutical Distribution	\$ 3,223.6	\$ 2,698.3	\$ 2,172.5
Pharmaceutical Services	2,176.2	1,684.7	1,358.1
Medical-Surgical Products	2,823.7	2,694.9	2,696.6
Corporate (3)	65.5	400.1	294.6
Total assets	\$ 8,289.0	\$ 7,478.0	\$ 6,521.8

(1) Inter-segment – revenue consists primarily of the elimination of inter-segment activity – primarily sales from Pharmaceutical Distribution to Pharmaceutical Services. Sales from one segment to another are priced at the equivalent external customer selling prices.

(2) Corporate – operating earnings primarily consists of special charges of \$146.6 million, \$57.8 million and \$50.9 million for fiscal 1999, 1998 and 1997 and unallocated corporate depreciation and amortization and administrative expenses.

(3) Corporate – assets include primarily corporate cash and cash equivalents, corporate property, plant and equipment, net, unallocated deferred taxes and the elimination of investment in subsidiaries.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

The following table presents revenue and long-lived assets by geographic area (in millions):

	Revenue			Long-Lived Assets	
	For The Fiscal Year Ended June 30,			As of June 30,	
	1999	1998	1997	1999	1998
United States	\$ 24,121.6	\$ 20,255.7	\$ 17,646.1	\$ 1,080.7	\$ 1,010.3
International	912.0	739.7	747.8	459.8	457.4
Total	\$ 25,033.6	\$ 20,995.4	\$ 18,393.9	\$ 1,540.5	\$ 1,467.7

Long-lived assets include property, plant and equipment, net of accumulated depreciation.

14. SELECTED QUARTERLY FINANCIAL DATA (UNAUDITED)

The following selected quarterly financial data (in millions, except per share amounts) for fiscal 1999 and 1998 has been restated to reflect the pooling-of-interests business combinations as discussed in Note 2.

	First Quarter	Second Quarter	Third Quarter	Fourth Quarter
Fiscal 1999				
Revenue:				
Operating revenue	\$ 4,999.2	\$ 5,269.4	\$ 5,558.7	\$ 5,653.3
Bulk deliveries to customer warehouses	781.7	999.8	874.7	896.8
Total revenue	\$ 5,780.9	\$ 6,269.2	\$ 6,433.4	\$ 6,550.1
Gross margin	\$ 583.0	\$ 644.1	\$ 667.3	\$ 690.0
Selling, general and administrative expenses	\$ 368.6	\$ 398.0	\$ 393.2	\$ 405.0
Net earnings	\$ 90.8	\$ 134.1	\$ 81.9	\$ 149.5
Comprehensive income	\$ 89.0	\$ 138.2	\$ 62.1	\$ 150.0
Net earnings per Common Share:				
Basic	\$ 0.34	\$ 0.50	\$ 0.30	\$ 0.54
Diluted	\$ 0.33	\$ 0.48	\$ 0.29	\$ 0.53
Fiscal 1998				
Revenue:				
Operating revenue	\$ 4,107.3	\$ 4,416.0	\$ 4,643.6	\$ 4,837.1
Bulk deliveries to customer warehouses	681.2	750.6	720.1	839.5
Total revenue	\$ 4,788.5	\$ 5,166.6	\$ 5,363.7	\$ 5,676.6
Gross margin	\$ 505.7	\$ 539.2	\$ 572.7	\$ 603.0
Selling, general and administrative expenses	\$ 331.4	\$ 341.4	\$ 348.2	\$ 369.3
Net earnings	\$ 92.3	\$ 105.3	\$ 109.2	\$ 118.3
Comprehensive income	\$ 90.7	\$ 99.7	\$ 102.7	\$ 116.0
Net earnings per Common Share:				
Basic	\$ 0.34	\$ 0.39	\$ 0.40	\$ 0.44
Diluted	\$ 0.33	\$ 0.38	\$ 0.39	\$ 0.43

As more fully discussed in Note 2, merger-related costs and other special charges were recorded in various quarters in fiscal 1999 and 1998.

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 (in millions, except per share amounts):

	First Quarter	Second Quarter	Third Quarter	Fourth Quarter
Fiscal 1999				
Net earnings	\$ (27.8)	\$ (1.9)	\$ (74.2)	\$ (13.7)
Diluted net earnings per Common Share	\$ (0.10)	\$ (0.01)	\$ (0.27)	\$ (0.05)
Fiscal 1998				
Net earnings	\$ (1.3)	\$ (1.9)	\$ (12.0)	\$ (8.9)
Diluted net earnings per Common Share	\$ (0.01)	\$ (0.01)	\$ (0.05)	\$ (0.03)

15. RELATED PARTY TRANSACTIONS

Certain foreign subsidiaries purchase gelatin materials and the Company's German subsidiary leases plant facilities, purchases other services and receives loans from time-to-time from a German company which is also the minority partner of the Company's German and certain other European subsidiaries. Gelatin purchases, at prices comparable to estimated market prices, amounted to \$28.0 million, \$25.0 million and \$24.6 million for the fiscal years ended June 30, 1999, 1998 and 1997, respectively. Rental payments amounted to \$8.4 million, \$4.8 million and \$5.4 million and purchased services amounted to \$9.4 million, \$5.2 million and \$5.5 million for each of the respective fiscal years.

16. RECENTLY ISSUED FINANCIAL ACCOUNTING STANDARDS

In June 1998, the FASB issued Statement of Financial Accounting Standards No. 133 ("SFAS 133"), "Accounting for Derivative Instruments and Hedging Activities". 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. As amended by Statement of Financial Accounting Standards No. 137 ("SFAS 137"), "Accounting for Derivative Instruments and Hedging Activities – Deferral of the Effective Date of FASB Statement No. 133," the provisions of SFAS 133 will require adoption no later than the beginning of the Company's fiscal year ending June 30, 2001.

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, 2000. 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.

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"). 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, the Company was required to reimburse Bergen for \$7.0 million of transaction costs upon termination of the Bergen Merger Agreement. 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.

18. SUBSEQUENT EVENTS

On August 5, 1999, the Company announced that it had entered into a definitive merger agreement with Automatic Liquid Packaging, Inc. ("ALP"), pursuant to which ALP will become a wholly owned subsidiary of the Company in a stock-for-stock merger expected to be accounted for as a pooling-of-interests for financial reporting purposes. Upon consummation of the merger, the Company will record a merger-related charge to reflect transaction and other costs incurred as a result of the merger. The merger is expected to be completed in the first quarter of fiscal 2000, subject to satisfaction of certain conditions, including regulatory clearances.

On July 12, 1999, the Company completed the purchase of MedSurg Industries, Inc., for \$31.8 million. The acquisition was accounted for as a purchase.

COMMON SHARE INFORMATION

	High	Low	Dividends
Fiscal 1998			
Quarter Ended:			
September 30, 1997	\$ 47.38	\$ 36.42	\$ 0.0167
December 31, 1997	51.88	45.75	0.0167
March 31, 1998	58.80	46.67	0.0200
June 30, 1998	64.17	57.08	0.0200
Fiscal 1999			
Quarter Ended:			
September 30, 1998	\$ 71.00	\$ 55.67	\$ 0.0250
December 31, 1998	75.88	54.83	0.0250
March 31, 1999	80.50	66.00	0.0250
June 30, 1999	71.88	56.88	0.0250
Through August 23, 1999	\$ 69.94	\$ 60.88	\$ 0.0250

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
Corporate Vice President
and Chief Financial Officer

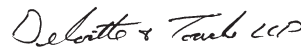
INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying consolidated balance sheets of Cardinal Health, Inc. and subsidiaries as of June 30, 1999 and 1998, and the related consolidated statements of earnings, shareholders' equity, and cash flows for each of the three years in the period ended June 30, 1999. 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 Allegiance Corporation ("Allegiance"), a wholly owned subsidiary of Cardinal Health, Inc., as of June 30, 1999 and 1998, and for the years ended June 30, 1999 and 1998 and December 31, 1997. We also did not audit the financial statements of R.P. Scherer Corporation ("Scherer"), a wholly owned subsidiary of Cardinal Health, Inc., as of June 30, 1999 and March 31, 1998, and for the years ended June 30, 1999 and March 31, 1998 and 1997. The combined financial statements of Allegiance and Scherer represent approximately 45% and 47% of consolidated total assets at June 30, 1999 and 1998, respectively, and represent combined revenues and net income of approximately 25%, 28% and 31% and 37%, 42% and 44%, respectively, of consolidated amounts for each of the three years in the period ended June 30, 1999. 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 Allegiance and Scherer, 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, 1999 and 1998, and the results of their operations and their cash flows for each of the three years in the period ended June 30, 1999 in conformity with generally accepted accounting principles.



Deloitte & Touche LLP
Columbus, Ohio
August 10, 1999

SELECTED CONSOLIDATED FINANCIAL DATA (1)

(In millions, except per share amounts)	Fiscal Years Ended June 30,				
	1999	1998	1997	1996	1995
Earnings Statement Data:					
Revenue:					
Operating revenue	\$ 21,480.6	\$ 18,004.0	\$ 15,924.8	\$ 14,383.9	\$ 13,943.0
Bulk deliveries to customer warehouses	3,553.0	2,991.4	2,469.1	2,178.5	1,779.5
Total revenue	25,033.6	20,995.4	18,393.9	16,562.4	15,722.5
Gross margin	2,584.4	2,220.6	2,020.0	1,929.3	1,943.3
Selling, general and administrative expenses	1,564.8	1,390.3	1,304.3	1,333.0	1,324.2
Merger-related costs and special charges	(142.6)	(57.8)	(50.9)	(728.5)	-
Operating earnings (loss) (2)	877.0	772.5	664.8	(132.2)	619.1
Net earnings (loss) (2)	\$ 456.3	\$ 425.1	\$ 334.8	\$ (321.2)	\$ 464.3
Net earnings (loss) per Common Share: (2) (3)					
Basic	\$ 1.68	\$ 1.57	\$ 1.26	\$ (1.24)	\$ 1.84
Diluted	\$ 1.64	\$ 1.53	\$ 1.23	\$ (1.24)	\$ 1.78
Weighted average number of Common Shares outstanding:					
Basic	271.6	271.2	265.8	258.1	252.7
Diluted	279.0	277.9	272.0	258.1	261.0
Balance Sheet Data:					
Cash and marketable securities	\$ 165.2	\$ 373.3	\$ 302.1	\$ 411.2	\$ 210.8
Trade receivables	1,590.3	1,436.3	1,291.3	1,251.6	1,149.1
Inventories	2,931.4	2,608.1	2,082.4	1,960.3	1,864.0
Property and equipments, net	1,540.5	1,467.7	1,392.3	1,376.1	1,336.4
Total asstets	\$ 8,289.0	\$ 7,478.0	\$ 6,521.8	\$ 6,469.8	\$ 6,517.3
Short-term obligations	\$ 40.2	\$ 32.0	\$ 29.9	\$ 119.9	\$ 18.4
Accounts payable	2,360.8	2,142.7	1,620.4	1,641.7	1,736.0
Long-term obligations	1,223.9	1,330.0	1,320.9	1,592.8	451.5
Shareholders' equity	3,463.0	2,954.9	2,627.0	2,222.5	3,718.1
Total liabilities and shareholders' equity	\$ 8,289.0	\$ 7,478.0	\$ 6,521.8	\$ 6,469.8	\$ 6,517.3
Cash dividends declared per Common Share (3)	\$ 0.10	\$ 0.07	\$ 0.06	\$ 0.05	\$ 0.05

(1) Restated to reflect business combinations in fiscal 1999, 1997, and 1996.

(2) Merger-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.

(3) Net earnings (loss) and cash dividends per Common Share have been adjusted to retroactively reflect all stock dividends and stock splits through June 30, 1999.

INVESTOR INFORMATION

Fiscal 1999 Cash Dividend Data

Fiscal Quarter	Record Date	Payment Date	Per Common Share Amount
I	October 1, 1998	October 15, 1998	\$ 0.025
II	January 1, 1999	January 15, 1999	\$ 0.025
III	April 1, 1999	April 15, 1999	\$ 0.025
IV	July 1, 1999	July 15, 1999	\$ 0.025

As adjusted for stock dividends and stock splits.

Common Stock Price History

(Twelve Months Ended June 30)

	1999	1998	1997	1996	1995
High	\$ 80.500	\$ 64.172	\$ 42.750	\$ 33.438	\$ 22.609
Low	\$ 54.828	\$ 36.422	\$ 29.781	\$ 19.438	\$ 16.281
Close	\$ 64.125	\$ 62.500	\$ 38.172	\$ 32.063	\$ 21.000

As adjusted for stock dividends and stock splits.

Dividend History

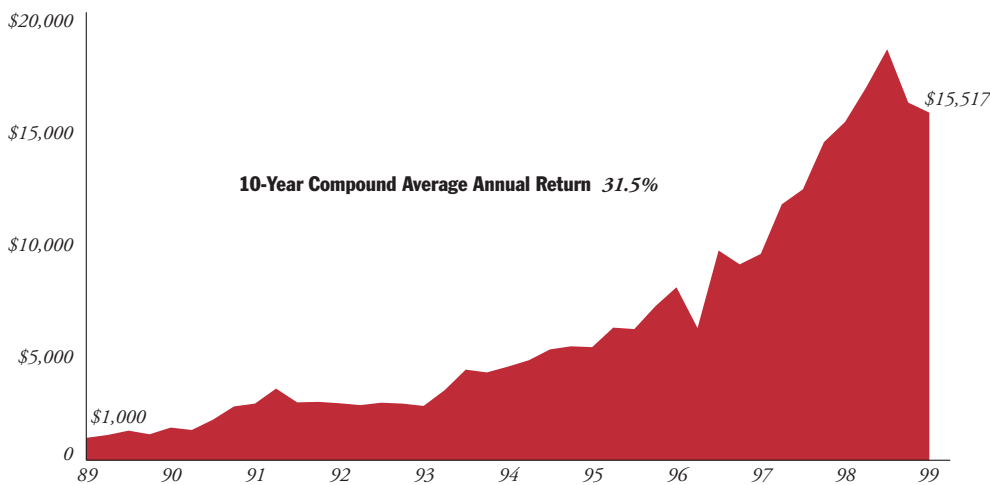
(Twelve Months Ended June 30)

Year	Cash Dividends Declared	Stock Dividends/Splits	Distribution Date of Dividend/Split
1989	\$ 0.015	10% Stock Dividend	September 30, 1988
1990	\$ 0.018	5/4 Stock Split	September 30, 1989
1991	\$ 0.023	5/4 Stock Split	September 30, 1990
1992	\$ 0.028	5/4 Stock Split	September 30, 1991
1993	\$ 0.034		
1994	\$ 0.044	5/4 Stock Split	June 30, 1994
1995	\$ 0.053		
1996	\$ 0.053		
1997	\$ 0.063	3/2 Stock Split	December 16, 1996
1998	\$ 0.073		
1999	\$ 0.100	3/2 Stock Split	October 30, 1998

As adjusted for stock dividends and stock splits.

Ten-Year Total Return to Investors

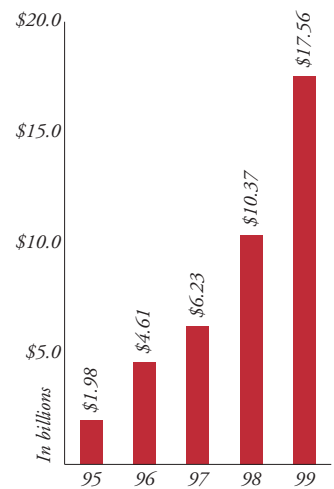
(June 30, 1989 to June 30, 1999)



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

Market Valuation

(As of June 30)



As originally reported.

Corporate Office

Cardinal Health, Inc.
7000 Cardinal Place
Dublin, Ohio 43017
(614) 757-5000
www.cardinal.com

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 23, 1999, Cardinal had approximately 26,000 shareholders of record.

Transfer Agent & Registrar

Shareholders with inquiries about address corrections, dividend payments, lost certificates, or changes in registered ownership should contact Cardinal Health's stock transfer agent, by mail, telephone or via the Internet:

EquiServe Trust Company
P.O. Box 2500
Jersey City, New Jersey 07303-2500
(800) 446-2617
(201) 324-0498
www.equiserve.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) 757-5222.

Copies of the company's most recent news 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 also can be obtained by visiting our web site at www.cardinal.com

For other inquiries, the Investor Relations department can be reached directly at (614) 757-7489.

Annual Meeting

The 1999 Annual Meeting of Shareholders is scheduled to be held at 8:00 a.m. Wednesday, November 3, 1999 at Cardinal Health's corporate office in Dublin, Ohio. All shareholders are invited to attend.

Research Coverage

A.G. Edwards & Sons, Inc.
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CIBC World Markets Corp.
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Warburg Dillon Read LLC
William Blair & Company, L.L.C.

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Chairman and Chief Executive Officer, Gardner, Inc.

Robert L. Gerbig

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

John F. Havens

Retired Chairman and Director Emeritus, Bank One Corporation

Regina E. Herzlinger, Ph.D.

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

President and Chief Executive Officer, Bank One Corporation

Michael D. O'Halleran

President and Chief Operating Officer, Aon Corporation

Jerry E. Robertson, Ph.D.

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

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Chairman and Chief Executive Officer, Cardinal Health, Inc.

Melburn G. Whitmire

Retired Vice Chairman, Cardinal Health, Inc.

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Executive Vice President, General Counsel and Secretary

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Brendan A. Ford

Corporate Vice President
Corporate Development

George L. Fotiades

Group President
R.P. Scherer Corporation

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Corporate Vice President
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Robert D. Walter

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Kathy Brittain White

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Connie R. Woodburn

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Professional and Government Relations





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