

CARDINAL HEALTH INC  
Form DEF 14A  
October 03, 2006  
Table of Contents

**UNITED STATES**  
**SECURITIES AND EXCHANGE COMMISSION**

Washington, D.C. 20549

**SCHEDULE 14A**

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

**Securities Exchange Act of 1934**

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

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

Check the appropriate box:

Preliminary Proxy Statement

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

Definitive Proxy Statement

Definitive Additional Materials

Soliciting Material Pursuant to §240.14a-12

**Cardinal Health, Inc.**

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(Name of Registrant as Specified In Its Charter)

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(Name of Person(s) Filing Proxy Statement, if other than the Registrant)

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Table of Contents

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NOTICE OF ANNUAL MEETING OF SHAREHOLDERS

TO BE HELD NOVEMBER 8, 2006

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Notice is hereby given that the Annual Meeting of Shareholders of Cardinal Health, Inc., an Ohio corporation (the Company), will be held at the Company's corporate offices at 7000 Cardinal Place, Dublin, Ohio, on November 8, 2006 at 2:00 p.m., local time, for the following purposes:

1. To elect three Directors, each to serve for a term of one year and until his successor is duly elected and qualified;
2. To ratify the selection of Ernst & Young LLP as the Company's independent registered public accounting firm for the fiscal year ending June 30, 2007;
3. To consider three shareholder proposals, if properly presented at the meeting; and
4. To transact such other business as may properly come before the meeting or any adjournment or postponement thereof.

**The Board of Directors recommends that you vote FOR the election of the three Directors listed in Proposal 1, FOR Proposal 2 and AGAINST the shareholder proposals.**

Only shareholders of record at the close of business on September 11, 2006 are entitled to notice of and to vote at the meeting or any adjournment or postponement thereof.

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

By Order of the Board of Directors.

/s/ Ivan K. Fong

IVAN K. FONG, *Secretary*

October 3, 2006

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

**Table of Contents**

**TABLE OF CONTENTS**

	<b>Page</b>
<b><u>PROXY STATEMENT</u></b>	1
<b><u>ELECTION OF DIRECTORS</u></b>	1
<u>Nominees for Election at the Annual Meeting</u>	2
<u>Directors Whose Terms Will Continue after the Annual Meeting</u>	3
<u>Board of Directors and Committees of the Board</u>	5
<b><u>CORPORATE GOVERNANCE</u></b>	6
<u>Shareholder Recommendations for Director Nominees</u>	6
<u>Director Qualification Standards</u>	6
<u>Communicating with the Board</u>	6
<u>Corporate Governance Guidelines</u>	6
<u>Director Independence</u>	7
<u>Presiding Director</u>	7
<u>Policies on Business Ethics; Chief Ethics and Compliance Officer</u>	8
<u>Resignation for Majority Withhold Vote</u>	8
<u>Recent Governance Changes</u>	9
<b><u>CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS</u></b>	10
<b><u>SECTION 16(a) BENEFICIAL OWNERSHIP REPORTING COMPLIANCE</u></b>	11
<b><u>SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT</u></b>	12
<b><u>EXECUTIVE COMPENSATION</u></b>	15
<u>Human Resources and Compensation Committee Report</u>	15
<u>Executive Compensation Tables</u>	23
<u>Summary Compensation Table</u>	23
<u>Option/SAR Grants in Last Fiscal Year</u>	26
<u>Aggregated Option/SAR Exercises in Last Fiscal Year and FY-End Option/SAR Values</u>	28
<u>Long-term Incentive Plans Awards in Last Fiscal Year</u>	28
<u>Shareholder Performance Graph</u>	30
<u>Employment Agreements and Other Arrangements</u>	31
<u>Compensation of Directors</u>	38
<b><u>AUDIT COMMITTEE REPORT</u></b>	40
<b><u>INDEPENDENT ACCOUNTANTS</u></b>	41
<u>Fees</u>	41
<u>Audit Committee Audit and Non-Audit Services Pre-Approval Policy</u>	41
<b><u>PROPOSAL 1 ELECTION OF DIRECTORS</u></b>	42
<b><u>PROPOSAL 2 RATIFICATION OF THE SELECTION OF THE COMPANY S INDEPENDENT PUBLIC REGISTERED ACCOUNTING FIRM</u></b>	42
<b><u>PROPOSAL 3 SHAREHOLDER PROPOSAL REGARDING SEVERANCE ARRANGEMENTS</u></b>	43
<b><u>PROPOSAL 4 SHAREHOLDER PROPOSAL REGARDING PERFORMANCE-BASED STOCK OPTIONS</u></b>	44
<b><u>PROPOSAL 5 SHAREHOLDER PROPOSAL REGARDING SUBMISSION OF THE HUMAN RESOURCES AND COMPENSATION COMMITTEE REPORT FOR AN ANNUAL SHAREHOLDER ADVISORY VOTE</u></b>	46
<b><u>FUTURE SHAREHOLDER PROPOSALS</u></b>	49
<b><u>OTHER MATTERS</u></b>	49
<u>Exhibit A Policy Regarding Shareholder Approval of Severance Agreements</u>	A-1

**Table of Contents**

**PROXY STATEMENT**

This Proxy Statement is being furnished in connection with the solicitation of proxies on behalf of the Board of Directors of Cardinal Health, Inc., an Ohio corporation ( Cardinal Health or the Company ), for use at the Annual Meeting of Shareholders of the Company (the Annual Meeting ) to be held on Wednesday, November 8, 2006, at the Company s corporate offices located at 7000 Cardinal Place, Dublin, Ohio 43017, at 2:00 p.m., local time, and at any adjournment or postponement thereof. This Proxy Statement and the accompanying proxy, together with the Company s Annual Report on Form 10-K for the fiscal year ended June 30, 2006, except for any exhibits thereto, and additional information are first being sent to shareholders of the Company on or about October 4, 2006. Exhibits will be provided to any shareholder upon request to the Company s Investor Relations department.

The close of business on September 11, 2006 has been fixed as the record date for the determination of shareholders of the Company entitled to notice of and to vote at the Annual Meeting. On that date, the Company had outstanding 405,460,815 common shares, without par value ( Common Shares ). Except as set forth below, holders of Common Shares at the record date are entitled to one vote per share for the election of Directors and upon all matters on which shareholders are entitled to vote.

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

**ELECTION OF DIRECTORS**

The Company s Board of Directors currently consists of fourteen members, who were previously divided into three classes. At the 2005 Annual Meeting of Shareholders, the shareholders voted to amend the Company s Code of Regulations to eliminate the classification of the Board, effective with the election of directors to occur at this Annual Meeting. Directors elected at the 2005 and 2004 Annual Meetings of Shareholders will serve out the remainder of their three-year terms before standing for re-election. Directors nominated for election at this Annual Meeting and at subsequent meetings will be elected for a one-year term. In addition, a director elected by the Board of Directors to fill a vacancy caused by the resignation, retirement or death of a director will serve until the expiration of the term of office of the director whom he or she replaced and a director elected to fill a vacancy caused by the creation of a new directorship will serve until the Annual Meeting of Shareholders held in the year of expiration of his or her term of office.

At the Annual Meeting, the Company s shareholders will be asked to vote for the election of the three nominees named below, each to serve for a term of one year and until his successor is duly elected and qualified. As the Company has previously announced, John F. Havens, a director of the Company since 1979 whose director term expires at this Annual Meeting, does not intend to stand for election at the Annual Meeting, and no person is being nominated at the Annual Meeting to fill the vacancy on the Board of Directors created by his departure. Instead, the Directors expect to reduce the size of the Board, effective when Mr. Havens ceases to be a Director.

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

**Table of Contents**

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

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

Set forth below is the following information regarding those persons nominated for election as Directors of the Company (each is currently a Director of the Company) and of those persons serving as Directors of the Company whose terms of office will continue after the Annual Meeting: their names, ages, principal occupations, and positions held during the past five years (unless otherwise stated, the positions listed have been held during the entire past five years); certain other board memberships (which are shown parenthetically); the year in which they first became a Director of the Company; and the year in which their term as a Director is scheduled to expire (information is provided as of September 11, 2006).

**Nominees for Election at the Annual Meeting**

Name	Age	Principal Occupation/Past Experience	Director	Term
			Since	Expires
John F. Finn	58	Chairman and Chief Executive Officer of Gardner, Inc., an outdoor power equipment distributor (director of J.P. Morgan Funds, a registered investment company).	1994	2006
David W. Raisbeck	56	Vice Chairman of Cargill, Incorporated, a marketer, processor and distributor of agricultural, food, financial and industrial products and services, November 1999 to present (director of Eastman Chemical Company, a plastics, chemicals and fibers manufacturer).	2002	2006
Robert D. Walter	61	Executive Chairman of the Board of Directors of the Company, April 2006 to present; Chairman and Chief Executive Officer of the Company, 1971 to April 2006 (director of American Express Company, a travel, financial and network services company). Mr. R. Walter is the father of Matthew D. Walter, a Director of the Company.	1971	2006

**Table of Contents****Directors Whose Terms Will Continue after the Annual Meeting**

<b>Name</b>	<b>Age</b>	<b>Principal Occupation/Past Experience</b>	<b>Director Since</b>	<b>Term Expires</b>
R. Kerry Clark	54	President and Chief Executive Officer of the Company, since April 2006; Vice Chairman of the Board P&G Family Health and a director of The Procter & Gamble Company, a marketer of consumer products ( Procter & Gamble ), July 2004 to April 2006; Vice Chairman of the Board and President Global Market Development and Business Operations of Procter & Gamble, 2002 to July 2004; President Global Market Development and Business Operations of Procter & Gamble, 2001 to 2002 (director of Textron Inc., an aircraft, automotive and industrial products manufacturer and financial services company).	April 2006	2007
George H. Conrades	67	Executive Chairman, Akamai Technologies, Inc., an e-business infrastructure provider, April 2005 to present; Chairman and Chief Executive Officer of Akamai Technologies, Inc., April 1999 to April 2005; Venture partner in Polaris Venture Partners, an early stage investment company, August 1998 to present (director of Akamai Technologies, Inc.; and Harley-Davidson, Inc., a motorcycle manufacturer).	1999	2007
Calvin Darden	56	Retired Senior Vice President, U.S. Operations of United Parcel Service, Inc., January 2000 to April 2005 (director of Target Corporation, an operator of large-format general merchandise discount stores; and Coca-Cola Enterprises, Inc., a marketer, seller, manufacturer and distributor of nonalcoholic beverages).	2005	2007
Robert L. Gerbig	61	Retired Chairman and Chief Executive Officer of Gerbig, Snell/Weisheimer & Associates, Inc., an advertising agency.	1975	2007
Richard C. Notebaert	59	Chairman and Chief Executive Officer of Qwest Communications International Inc., a telecommunications systems company, July 2002 to present; President and Chief Executive Officer of Tellabs, Inc., a communications equipment and services provider, September 2000 to July 2002 (director of Qwest Communications International Inc.; and Aon Corporation, an insurance brokerage, consulting and underwriting company ( Aon )).	1999	2007



**Table of Contents****Directors Whose Terms Will Continue after the Annual Meeting (continued)**

<b>Name</b>	<b>Age</b>	<b>Principal Occupation/Past Experience</b>	<b>Director Since</b>	<b>Term Expires</b>
J. Michael Losh	60	Former Chief Financial Officer of the Company (on an interim basis), July 2004 to May 2005; Chairman of Metaldyne Corporation, an automotive parts manufacturer, October 2000 to April 2002; Chief Financial Officer of General Motors Corporation, an automobile manufacturer, 1994 to August 2000 (director of AMB Property Corporation, an industrial real estate owner and operator; Aon; H.B. Fuller Company, a specialty chemicals and industrial adhesives manufacturer; Masco Corp., a manufacturer of home improvement and building products; Metaldyne Corporation; and TRW Automotive Holdings Corp., a supplier of automotive systems, modules and components).	1996	2008
John B. McCoy	63	Retired Non-Executive Chairman of Corillian Corporation, an online banking and software services company, June 2000 to January 2004; Chief Executive Officer of Bank One Corporation, a bank holding company, 1984 to December 1999 (director of AT&T, Inc., a telecommunications systems company; and ChoicePoint Inc., a provider of data management products and services).	1987	2008
Michael D. O Halleran	56	Senior Executive Vice President of Aon, September 2004 to present; President and Chief Operating Officer of Aon, April 1999 to September 2004.	1999	2008
Jean G. Spaulding, M.D.	59	Private medical practice in psychiatry, 1977 to present; Consultant, Duke University Health System, a non-profit academic health care system, January 2003 to present; Associate Clinical Professorships at Duke University Medical Center, a non-profit academic hospital, 1998 to present; Vice Chancellor for Health Affairs, Duke University Health System, 1998 to 2002; Trustee, The Duke Endowment, a charitable trust, January 2002 to present.	2002	2008
Matthew D. Walter	37	Chairman and Chief Executive Officer of BoundTree Medical Products, Inc., a provider of medical equipment to the emergency medical market, November 2000 to present; Managing Partner of Talisman Capital, a private investment company, June 2000 to present; Vice President and General Manager of National PharmPak, Inc., a subsidiary of Cardinal Health, Inc., July 1996 to September 2000 (director of Bancinsurance Corporation, an insurance holding company). Mr. M. Walter is the son of Robert D. Walter, the Company's Executive Chairman of the Board.	2002	2008

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**Table of Contents****Board of Directors and Committees of the Board**

The Company's Board of Directors held four regular meetings and one special meeting during the fiscal year ended June 30, 2006 (fiscal 2006). Each Director attended 75% or more of the meetings of the Board and Board Committees on which he or she served. All of the Company's Directors attended the Company's 2005 Annual Meeting of Shareholders. Absent unusual circumstances, each Director is expected to attend the Annual Meeting of Shareholders.

*The Audit Committee.* Messrs. Finn (Chairman), Conrades, O'Halleran and Raisbeck are the current members of the Board's Audit Committee, which represents and assists the Board with the oversight of the integrity of the Company's financial statements, compliance with legal and regulatory requirements, the qualifications, independence and performance of the Company's independent auditors, and the qualifications and performance of the Company's internal audit function. Prior to August 2, 2006, Mr. Gerbig was a member of the Audit Committee. The Audit Committee met 11 times during fiscal 2006.

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

*The Human Resources and Compensation Committee.* Messrs. McCoy (Chairman), Darden, Gerbig, Havens and Notebaert and Dr. Spaulding are the current members of the Board's Human Resources and Compensation Committee (the Compensation Committee), which was established to discharge the Board of Directors' responsibilities with respect to compensation of the Company's executives and grants of stock-based incentives to employees, including stock options, restricted shares and restricted share units (RSUs). The Compensation Committee also reviews and approves the Company goals and objectives relevant to the Chief Executive Officer's compensation and evaluates the Chief Executive Officer's performance in light of those goals and objectives. Mr. Gerbig was appointed to the Compensation Committee on August 2, 2006. During fiscal 2006, the Compensation Committee met seven times and acted five times by written action without a meeting. The Board of Directors has determined that each of the members of the Compensation Committee is independent, as defined by the rules of the New York Stock Exchange.

*The Nominating and Governance Committee.* Messrs. Conrades (Chairman), Finn, Havens and McCoy are the current members of the Board's Nominating and Governance Committee, which was established for the purpose of identifying individuals qualified to become Board members (consistent with criteria approved by the Board), recommending director candidates for the Board, developing and reviewing the Company's Corporate Governance Guidelines, and performing a leadership role in shaping the Company's corporate governance practices. The Nominating and Governance Committee will consider director nominees recommended by shareholders as described under Corporate Governance Shareholder Recommendations for Director Nominees below. During fiscal 2006, the Nominating and Governance Committee met five times. The Board of Directors has determined that each of the members of the Nominating and Governance Committee is independent, as defined by the rules of the New York Stock Exchange.

*The Executive Committee.* Messrs. R. Walter (Chairman), Clark, Conrades, Finn and McCoy are the current members of the Board's Executive Committee, which is empowered to exercise substantially all powers and perform all duties of the Board of Directors when the Board is not in session, other than the authority to fill vacancies on the Board or on any committee of the Board. Mr. Clark was appointed to the Executive Committee on April 17, 2006. During fiscal 2006, the Executive Committee met twice and acted three times by written action without a meeting.

The charters for each of the Audit, Compensation and Nominating and Governance Committees are available on the Company's website, at [www.cardinalhealth.com](http://www.cardinalhealth.com), under Investors Corporate Governance: Board committees/charters. This information also is available in print (free of charge) to any shareholder who requests it from the Company's Investor Relations department.

## **Table of Contents**

### **CORPORATE GOVERNANCE**

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

In nominating candidates for election as Director, the Nominating and Governance Committee will consider candidates recommended by shareholders. Shareholders who wish to recommend a candidate may do so by writing to the Nominating and Governance Committee in care of the Corporate Secretary, Cardinal Health, Inc., 7000 Cardinal Place, Dublin, Ohio 43017. Recommendations submitted for consideration by the committee in preparation for the 2007 Annual Meeting of Shareholders should be received no later than June 6, 2007, and must contain the following information: (i) the name and address of the shareholder; (ii) the name and address of the person to be nominated; (iii) a representation that the shareholder is a holder of the Company's Common Shares entitled to vote at the meeting; (iv) a statement in support of the shareholder's recommendation, including a description of the candidate's qualifications; (v) information regarding the candidate as would be required to be included in a proxy statement filed in accordance with SEC rules; and (vi) the candidate's written, signed consent to serve if elected.

#### **Director Qualification Standards**

The Nominating and Governance Committee reviews with the Board from time to time the appropriate skills and characteristics required of Board members in the context of the make up of the Board and in developing criteria for identifying and evaluating qualified candidates for the Board. Candidates recommended by shareholders are evaluated based on the same criteria as candidates from other sources. These criteria, as described in the Company's Corporate Governance Guidelines, include an individual's business experience and skills (including skills in core areas such as operations, management, technology, healthcare industry knowledge, accounting and finance, leadership, strategic planning and international markets), independence, judgment, integrity and ability to commit sufficient time and attention to the activities of the Board, as well as the absence of potential conflicts with the Company's interests. Director candidates should also possess a skill set regarding current issues and priorities important to the Company and its operations. The Nominating and Governance Committee considers these criteria in the context of an assessment of the perceived needs of the Board as a whole and seeks to achieve diversity of occupational and personal backgrounds on the Board. If the Nominating and Governance Committee believes that a potential candidate may be appropriate for recommendation to the Board, there is generally a mutual exploration process, during which the Committee seeks to learn more about the candidate's qualifications, background and interest in serving on the Board, and the candidate has the opportunity to learn more about the Company, the Board and its governance practices. The final selection of the Board's nominees is within the discretion of the Board of Directors. From time to time, the Nominating and Governance Committee engages a search firm to assist with identifying and screening potential candidates.

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

The Board of Directors has established procedures by which shareholders and other interested parties may communicate with the Board, any committee of the Board, any individual Director or the independent or non-management Directors as a group. Such parties can send communications by e-mail to [bod@cardinal.com](mailto:bod@cardinal.com) or by mail to the Board of Directors in care of the Corporate Secretary, Cardinal Health, Inc., 7000 Cardinal Place, Dublin, Ohio 43017. This centralized process will assist the Board in reviewing and responding to communications. The name of any specific intended Board recipient should be noted in the communication. Communications from shareholders are summarized for or provided to the Directors, and in all cases the actual communications are made available to the Directors upon request.

#### **Corporate Governance Guidelines**

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

## **Table of Contents**

### **Director Independence**

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

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

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

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

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

is not a current employee of, and whose immediate family member is not a current executive officer of, a company that has made payments to, or received payments from, the Company for property or services in an amount which, in any of the last three fiscal years, exceeds the greater of \$1 million, or 2% of such other company's consolidated gross revenues;

is not, and whose spouse is not, an executive officer of a non-profit organization to which the Company or the Company foundation has made contributions during the past three years that, in any single fiscal year, exceeded the greater of \$1 million or 2% of the non-profit organization's consolidated gross revenues (amounts that the Company contributes under matching gifts programs are not included in the contributions calculated for purposes of this standard); and

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

The Board of Directors has determined that each of Messrs. Conrades, Darden, Finn, Gerbig, Havens, Losh, McCoy, Notebaert, O'Halleran and Raisbeck and Dr. Spaulding is independent under these categorical standards.

### **Presiding Director**

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An independent Director selected by the remaining independent Directors will preside at meetings of the non-management Directors and independent Directors (held at least three times per year), and will serve as the Presiding Director in performing such other functions as the Board may direct, including advising on the selection of Committee Chairs and advising management on the agenda for Board meetings. Mr. McCoy is currently the Presiding Director.

## **Table of Contents**

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

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

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

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

### **Resignation for Majority Withhold Vote**

As provided in the Company's Corporate Governance Guidelines, any nominee for Director who receives a greater number of votes withheld from his or her election than votes for his or her election (a Majority Withheld Vote) must promptly tender his or her resignation. The Nominating and Governance Committee will recommend to the Board whether to accept or reject the tendered resignation no later than 60 days following the date of the shareholders' meeting at which the election occurred. In considering whether to accept or reject the tendered resignation, the Nominating and Governance Committee will consider factors deemed relevant by the Committee members including, without limitation, the Director's length of service, the Director's particular qualifications and contributions to the Company, the reasons underlying the Majority Withheld Vote (if known) and whether these reasons can be cured, and compliance with New York Stock Exchange listing standards and the Company's Corporate Governance Guidelines. The Board will act on the Nominating and Governance Committee's recommendation no later than 90 days following the date of the shareholders' meeting. The Company will promptly publicly disclose the Board's decision whether to accept the resignation as tendered (providing a full explanation of the process by which the decision was reached and, if applicable, the reasons for rejecting the tendered resignation).

If one or more Directors' resignations are accepted by the Board, the Nominating and Governance Committee will recommend to the Board whether to fill such vacancy or vacancies or to reduce the size of the Board. The Board will make the final determination whether to fill any vacancy or to reduce the size of the Board. The Majority Withheld Vote provision does not apply to contested elections or elections governed by cumulative voting.

## Table of Contents

### Recent Governance Changes

The Company's Board of Directors has recently implemented the following changes to enhance the Company's corporate governance:

the Board and the Company's shareholders approved an amendment to the Company's Code of Regulations that phases out the classification of the Board and corresponding three-year term for Directors, providing instead for the annual election of Directors beginning with this Annual Meeting (Directors who had been elected previously for three-year terms expiring beyond this Annual Meeting would serve the balance of their terms, so that, upon conclusion of the 2008 Annual Meeting of Shareholders, the declassification of the Board would be complete and all Directors would be subject to annual election);

the Board approved a resignation provision for Directors, discussed in more detail above under "Resignation for Majority Withhold Vote," that requires any Director in an uncontested election who receives a greater number of votes withheld than votes for to tender his or her resignation;

the Board determined that it would ask shareholders to ratify independent auditor selection annually, beginning with this Annual Meeting;

the Board adopted the new Standards of Business Conduct, as posted on the Company's website;

the Board adopted new guidelines limiting the number of directorships for board members, which guidelines provide that non-management Directors should not serve on more than four public company boards in addition to the Company's Board (current positions in excess of the limits may be maintained);

the Board adopted new guidelines requiring that when a Director's principal occupation or business association changes substantially during his or her tenure, that Director will tender his or her resignation for consideration by the Board;

the Board expanded its Board membership criteria, as described above under "Director Qualification Standards," and its description of the role of the Presiding Director, as discussed in more detail above under "Presiding Director";

the Board changed the membership of its Audit Committee such that each current member is an audit committee financial expert as determined by the Board;

the Board adopted a Policy Regarding Shareholder Approval of Severance Agreements (attached to this proxy statement as Exhibit A) requiring the Company to obtain shareholder approval before (or if not practicable, to seek shareholder ratification after) entering into new severance agreements or modifying existing severance agreements with covered executives that provide certain cash severance benefits that exceed 2.99 times base salary and bonus;

beginning with the equity awards for the fiscal year ending June 30, 2007 (fiscal 2007), the Compensation Committee requires that all persons serving as executive officers of the Company on the grant date agree to hold the equivalent of the after-tax benefit of such award in Common Shares until the earlier of (a) the first anniversary of the exercise or vesting of the award, as applicable, or (b) termination of employment;

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Directors are reimbursed by the Company for participation in certain director education programs; and

the Board formalized in its Corporate Governance Guidelines its existing practice of conducting individual Director evaluations. As noted above, the full text of the Company's Corporate Governance Guidelines, which include certain of these changes, is available on the Company's website, at [www.cardinalhealth.com](http://www.cardinalhealth.com), under Investors Corporate Governance: Corporate governance guidelines.



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**Table of Contents**

**CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS**

**inChord Communications, Inc.**

In October 2003, the Company and inChord Communications, Inc. ( inChord ) entered into a joint marketing program ( RxPedit e ) designed to promote a comprehensive package of product commercialization services to pharmaceutical manufacturers and provide a mechanism for the parties to share the joint costs of the RxPedit e marketing effort. Blane Walter, brother of Mr. M. Walter and son of Mr. R. Walter, is the Chief Executive Officer and was, prior to the October 2005 acquisition of inChord by inVentiv Health, Inc. ( inVentiv ), the majority equity owner of inChord. Prior to the acquisition, Mr. M. Walter and his other brother each served as a director and owned minority equity interests in inChord. Effective June 30, 2006, RxPedit e was terminated and dissolved by mutual agreement of the Company and inChord. During fiscal 2006, the Company s share of co-marketing expenses incurred in connection with the RxPedit e program was approximately \$250,000. During fiscal 2006, the Company also paid inChord approximately \$27,000 for marketing services rendered and out-of-pocket expenses incurred on behalf of the Company and its subsidiaries in the ordinary course of business.

**BoundTree Medical Products, Inc.**

Mr. M. Walter and his two brothers own a majority of BoundTree Medical Products, Inc. ( BMP ), a company engaged in the emergency medical supply business. Mr. M. Walter, son of Mr. R. Walter, is Chairman and Chief Executive Officer and a director of BMP. During fiscal 2006, BMP and its affiliates (i) purchased approximately \$3,500,000 (which amount represents less than 5% of BMP s consolidated gross revenues during such period) of product from the Company and its subsidiaries in the ordinary course of business, and (ii) sold products to the Company and its subsidiaries in the ordinary course of business totaling approximately \$150,000.

**SureScripts, LLC**

In April 2005, Medicine Shoppe International, Inc., a wholly-owned subsidiary of the Company ( Medicine Shoppe ), on behalf of its franchised and owned pharmacies, became a Charter member of SureScripts, LLC ( SureScripts ). SureScripts was founded in 2001 by the National Association of Chain Drug Stores and the National Community Pharmacists Association to provide electronic exchange of prescription information. Other Charter members include chain and independent pharmacies. The sole voting rights of Charter members are to elect three of the seven directors. In addition, Charter members are entitled to specified distributions based upon the volume of certain SureScripts services consumed and to discounted services. Medicine Shoppe has approximately 11.5% of the voting rights of the SureScripts Charter members. In April 2005, Medicine Shoppe paid SureScripts membership dues in the amount of \$969,300 based on a five-year membership period. These dues were less than 5% of the funding received by SureScripts from all members (Charter, Founding and Affiliate) through June 30, 2006. In addition, the Medicine Shoppe s owned and franchised pharmacies are using the services of SureScripts and generated revenue for SureScripts from dues and fees of approximately \$184,000 in calendar year 2005, which was less than 5% of its total revenue for 2005. The son-in-law of Mr. Conrades, a Director of the Company, is the Chief Executive Officer of SureScripts.

**Employment of Family Members**

The sister-in-law of Carole S. Watkins, the Company s Chief Human Resources Officer, was employed as a senior vice president of the Company until March 3, 2006.

**Advancement of Legal Fees**

Pursuant to the Company s Code of Regulations and certain indemnification agreements, the Company is obligated to advance legal fees under certain circumstances to current and former employees, including executive

**Table of Contents**

officers and Directors, subject to limitations of the Ohio Revised Code. As part of that obligation, the Company has advanced legal fees relating to the representation of its executive officers and Directors by counsel in connection with various securities and derivative actions against the Company and its Directors, and relating to the representation of certain of its Directors and officers by counsel in connection with the SEC investigation and related investigations described under Item 3: Legal Proceedings of the Company's Annual Report on Form 10-K for the fiscal year ended June 30, 2006, under the headings Derivative Actions, Shareholder/ERISA Litigation against Cardinal Health and SEC Investigation and U.S. Attorney Inquiry, respectively. The Company advanced a total of approximately \$3.1 million relating to these matters during fiscal 2006.

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

Based solely upon a review of Forms 3, 4 and 5 and amendments thereto furnished to the Company during fiscal 2006 and written representations regarding the same, except as set forth below, all officers and Directors of the Company timely filed all reports required under Section 16(a) of the Securities Exchange Act of 1934, as amended (the Exchange Act), during fiscal 2006, except for the following: (a) George L. Fotiades, the Company's former President and Chief Operating Officer, was late in reporting the acquisition of an aggregate of 39 shares through the reinvestment of dividends; (b) Daniel J. Walsh, the Company's Executive Vice President and Chief Ethics and Compliance Officer, was late in reporting his fiscal 2006 annual equity grant due to an administrative error by the Company; and (c) Carole S. Watkins, the Company's Chief Human Resources Officer, was late in reporting a gift of 20 shares.

**Table of Contents**

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

The following table sets forth certain information regarding the beneficial ownership of the Company's Common Shares as of September 11, 2006 (unless otherwise indicated below) by: (a) the Company's Directors; (b) each person who is known by the Company to own beneficially more than 5% of the outstanding Common Shares; (c) the Company's Chief Executive Officer and the other executive officers named in the Summary Compensation Table; and (d) the Company's current executive officers and Directors as a group. Except as otherwise described in the notes below, the listed beneficial owners have sole voting and investment power with respect to all Common Shares set forth opposite their names:

Name of Beneficial Owner	Common Shares		Phantom Stock/ Restricted
	Number Beneficially Owned	Percent of Class	Share Units/SARs
FMR Corp. (1)	43,304,656	10.1%	
Dodge & Cox (2)	38,913,433	9.1%	
Capital Research and Management Company (3)	33,890,300	7.9%	
Wellington Management Company, LLP (4)	26,913,153	6.3%	
R. Kerry Clark (8)(9)(10)	0	*	110,600
George H. Conrades (5)(6)	30,702	*	2,792
Calvin Darden (5)(6)	3,883	*	948
John F. Finn (5)(6)(7)	66,610	*	5,958
George L. Fotiades (8)(9)(10)	597,454	*	25,739
Robert L. Gerbig (5)	98,948	*	
John F. Havens (5)(6)	64,176	*	4,785
Jeffrey W. Henderson (8)(9)(10)	15,787	*	39,571
Ronald K. Labrum (8)(9)(10)	206,583	*	28,056
J. Michael Losh (5)(6)(11)	33,767	*	3,575
John B. McCoy (5)(6)(12)	115,334	*	4,889
Richard C. Notebaert (5)(6)	43,302	*	4,934
Michael D. O'Halleran (5)	35,513	*	
David W. Raisbeck (5)(6)	24,638	*	3,493
David L. Schlotterbeck (8)(9)(10)	47,429	*	1,639
Jean G. Spaulding, M.D. (5)(6)	21,779	*	2,753
Matthew D. Walter (5)(13)	1,417,826	*	
Robert D. Walter (8)(9)(10)(14)	6,172,252	1.5%	1,206,043
All Executive Officers and Directors as a Group (21 Persons) (15)	8,854,406	2.2%	1,543,214

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

- (1) Based on information obtained from a Schedule 13G/A jointly filed with the SEC on February 14, 2006 by FMR Corp. ( FMR ) and Edward C. Johnson, III. The address of FMR is 82 Devonshire Street, Boston, Massachusetts 02109. FMR reported that, as of December 31, 2005, it had sole voting power with respect to 1,884,544 Common Shares and sole dispositive power with respect to all Common Shares shown in the table. The number of Common Shares held by FMR may have changed since the filing of the Schedule 13G/A.
- (2) Based on information obtained from a Schedule 13G/A filed with the SEC on February 3, 2006 by Dodge & Cox. The address of Dodge & Cox is 555 California Street, San Francisco, California 94104. Dodge & Cox reported that, as of December 31, 2005, it had sole voting power with respect to 38,913,433 Common Shares, shared voting power with respect to all Common Shares shown in the table and sole dispositive power with respect to all Common Shares shown in the table. The number of Common Shares held by Dodge & Cox may have changed since the filing of the Schedule 13G/A.



**Table of Contents**

- (3) Based on information obtained from a Schedule 13G/A filed with the SEC on February 10, 2006 by Capital Research and Management Company. The address of Capital Research and Management Company is 333 South Hope Street, Los Angeles, California 90071. Capital Research and Management Company reported that, as of December 30, 2005, it had sole voting power with respect to 7,710,300 Common Shares and sole dispositive power with respect to all Common Shares shown in the table. The number of Common Shares held by Capital Research and Management Company may have changed since the filing of the Schedule 13G/A.
- (4) Based on information obtained from a Schedule 13G filed with the SEC on February 14, 2006 by Wellington Management Company, LLP. The address of Wellington Management Company, LLP is 75 State Street, Boston, Massachusetts 02109. Wellington Management Company, LLP reported that, as of December 30, 2005, it had shared voting power with respect to 11,592,225 Common Shares and shared dispositive power with respect to 26,913,153 Common Shares. The number of Common Shares held by Wellington Management Company, LLP may have changed since the filing of the Schedule 13G.
- (5) Common Shares and the percent of class listed as being beneficially owned by the listed Company Directors (except for Mr. R. Walter and Mr. Clark, whose options are set forth in footnote (8) below) include (a) outstanding options to purchase Common Shares that are currently exercisable or will be exercisable within 60 days of September 11, 2006, as follows: Mr. Conrades 29,217 shares; Mr. Darden 3,398 shares; Mr. Finn 33,203 shares; Mr. Gerbig 33,203 shares; Mr. Havens 35,341 shares; Mr. Losh 24,663 shares; Mr. McCoy 33,203 shares; Mr. Notebaert 29,217 shares; Mr. O Halleran 27,528 shares; Mr. Raisbeck 21,153 shares; Dr. Spaulding 21,144 shares; and Mr. M. Walter 21,144 shares; and (b) outstanding RSUs that will be settled in Common Shares within 60 days of September 11, 2006 as follows: 485 shares for each of Messrs. Conrades, Darden, Finn, Gerbig, Havens, Losh, McCoy, Notebaert, O Halleran, Raisbeck and M. Walter and Dr. Spaulding.
- (6) Phantom Stock/Restricted Share Units/SARs include Phantom Stock held under the Company's Deferred Compensation Plan as of September 11, 2006, as follows: Mr. Conrades 2,792 shares; Mr. Darden 948 shares; Mr. Finn 5,958 shares; Mr. Havens 4,785 shares; Mr. Losh 3,575 shares; Mr. McCoy 4,889 shares; Mr. Notebaert 4,934 shares; Mr. Raisbeck 3,493 shares; and Dr. Spaulding 2,753 shares.
- (7) Includes 1,032 Common Shares held by Mr. Finn's spouse.
- (8) Common Shares and the percent of class listed as being beneficially owned by the Company's named executive officers include (a) outstanding options to purchase Common Shares that are currently exercisable or will be exercisable within 60 days of September 11, 2006, as follows: Mr. Clark 0 shares; Mr. Fotiades 542,915 shares; Mr. Henderson 15,000 shares; Mr. Labrum 189,867 shares; Mr. Schlotterbeck 0 shares; and Mr. R. Walter 2,420,672 shares; and (b) outstanding RSUs for 4,013 shares held by Mr. Labrum that will be settled in Common Shares within 60 days of September 11, 2006.
- (9) Phantom Stock/Restricted Share Units/SARs include (a) unvested RSUs and vested RSUs that will not be settled in Common Shares within 60 days of September 11, 2006, each as of September 11, 2006, as follows: Mr. Clark 110,600 shares; Mr. Fotiades 25,739 shares; Mr. Henderson 39,571 shares; Mr. Labrum 28,056 shares; Mr. Schlotterbeck 1,639 shares; and Mr. R. Walter 343,543 shares; and (b) a deferred payment stock appreciation right for 862,500 shares held by Mr. R. Walter that is currently exercisable.
- (10) Common Shares and the percent of class listed as being beneficially owned by the Company's named executive officers include Common Shares in the Company's Employee Stock Purchase Plan as of September 11, 2006, as follows: Mr. Clark 0 shares; Mr. Fotiades 0 shares; Mr. Henderson 787 shares; Mr. Labrum 2,816 shares; Mr. Schlotterbeck 702 shares; and Mr. R. Walter 3,183 shares.
- (11) Includes 1,500 Common Shares held in trust for the benefit of Mr. Losh's daughters.
- (12)

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Includes 39,407 Common Shares held in trust for the benefit of Mr. McCoy, 6,436 Common Shares held in trust for the benefit of Mr. McCoy's son and a total of 35,803 Common Shares held in two grantor retained annuity trusts of which Mr. McCoy is the trustee.

**Table of Contents**

- (13) Includes 24,100 Common Shares held in trust for the benefit of Mr. M. Walter, 1,112,663 Common Shares beneficially owned by Mr. M. Walter through a limited liability company he controls, 34,502 Common Shares held in a trust in which Mr. M. Walter holds a one-third economic interest and of which he is a co-trustee, 41,661 Common Shares held in trusts for the benefit of Mr. M. Walter's children, and 1,430 Common Shares held by Mr. M. Walter's spouse.
- (14) Includes a total of 2,212,900 Common Shares held in four grantor retained annuity trusts of which Mr. R. Walter is the trustee, and 1,027,000 Common Shares beneficially owned by Mr. R. Walter through three limited liability companies in which Mr. R. Walter holds the controlling interest and is the sole manager.
- (15) Common Shares and percent of class listed as being beneficially owned by all executive officers and Directors as a group include (a) outstanding options to purchase an aggregate of 3,308,323 Common Shares that are currently exercisable or will be exercisable within 60 days of September 11, 2006; and (b) outstanding RSUs for 18,299 shares that will be settled in Common Shares within 60 days of September 11, 2006. Such totals do not include any Common Shares beneficially owned by Mr. Fotiades, whose employment with the Company terminated on May 19, 2006.

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**Table of Contents**

**EXECUTIVE COMPENSATION**

**Human Resources and Compensation Committee Report**

The Company's executive compensation program is administered by the Human Resources and Compensation Committee (the Compensation Committee) of the Company's Board of Directors, which is responsible for reviewing all aspects of compensation for the Company's executive officers. The Compensation Committee is currently comprised of the following independent directors: Messrs. Darden<sup>1</sup>, Gerbig<sup>2</sup>, Havens, McCoy and Notebaert and Dr. Spaulding, with Mr. McCoy serving as Chairman.

The Compensation Committee's primary objective with respect to the Company's executive compensation practices is to establish and maintain programs that attract, motivate and retain key executives and align their compensation with the Company's overall business strategies, core values adopted by the Company as part of its performance culture (the EPPIC Core Values<sup>3</sup>) and the Company's performance. To this end, the Compensation Committee has established, and the Board of Directors has endorsed, an executive compensation philosophy that includes the following considerations:

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

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

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

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

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

The primary components of the Company's executive compensation program for fiscal 2006 were (a) base salaries, (b) annual cash incentive opportunities and (c) long-term incentive opportunities in the form of stock options, restricted share units and a long-term incentive cash opportunity. The program does not include defined benefit retirement plans, but includes Company contributions in the Company's 401(k) and Deferred Compensation Plans. The program is intended to enable the Company to meet the requirements of the highly competitive environment for executive talent in which the Company operates while ensuring that executive officers are compensated in a way that aligns with the Company's pay-for-performance philosophy and that advances both the short- and long-term economic interests of shareholders.

The executive officers' and CEO's base salary, annual bonus target and award, and long-term incentives are reviewed by the Compensation Committee at least annually to ensure market competitiveness and to assure satisfaction of the Company's objective of providing total executive pay that achieves an appropriate balance of variable pay-for-performance and at-risk equity compensation. The Compensation Committee has retained and is advised directly by an executive compensation consulting firm in its review of executive officer compensation. In

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<sup>1</sup> Mr. Darden was appointed to serve on the Compensation Committee on November 2, 2005 when he joined the Board of Directors.

<sup>2</sup> Mr. Gerbig was appointed to serve on the Compensation Committee on August 2, 2006.

<sup>3</sup> EPPIC Core Values are Ethical, People-Driven, Performance-Driven, Innovative and Collaborative.





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**Table of Contents**

making its recommendations to the Compensation Committee, the consulting firm considered a comparator group of companies for the Company that was developed in 2004. The comparator group includes some, but not all, of the companies included in the Value Line Health Care Index utilized for the Shareholder Performance Graph set forth below. The comparator group currently consists of 37 companies that represent a broad spectrum of wholesale, retail and manufacturing companies that the consulting firm and the Compensation Committee believe to be a more representative measure of the size, scope, performance and complexity of the competitive market for executive talent than the Value Line Health Care Index.

In reviewing the compensation of the Company's current and former CEO and other executive officers for fiscal 2006, the Compensation Committee considered multiple factors, including the Company's earnings and earnings growth, the Company's size and complexity, overall quality of earnings performance, balance sheet and cash flow performance, foreign operations, individual business results and total shareholder return. The Compensation Committee also considered each executive officer's individual performance (including demonstration of core leadership competencies and promotion of the Company's EPPIC Core Values), retention and contribution toward positioning the Company for future success.

In April 2006, the Board selected R. Kerry Clark to be President and Chief Executive Officer of the Company and elected Robert D. Walter, who at that time was Chairman and Chief Executive Officer, to be Executive Chairman of the Board. The compensation arrangements for each of them are discussed below. In setting the compensation for Mr. Clark, the Compensation Committee considered, among other factors, Mr. Clark's experience and skills, including his prior responsibilities as Vice Chairman of the Board-P&G Family Health and a director of The Procter & Gamble Company, his international and other experience in his 32 years at Procter & Gamble, his then-current compensation at Procter & Gamble and incentive and other compensation he would forfeit by joining the Company, and recent compensation packages for new chief executive officers of other large public companies.

In setting compensation for Mr. R. Walter as Executive Chairman of the Board in April 2006, the Compensation Committee considered, among other factors, Mr. R. Walter's three decades of unique experience and long-term performance as founder and Chief Executive Officer of the Company, his skills, and his new responsibilities as Executive Chairman of the Board. The Committee also considered Mr. R. Walter's skills in strategic business development and entrepreneurial leadership as demonstrated through the Company's 35 years of growth while Mr. R. Walter was Chief Executive Officer. In addition, the Committee recognized his important role in the transition of Mr. Clark as new Chief Executive Officer and the continuing transition of other new executive officers.

*Base Salaries.* Base salaries for Company executives are generally subject to annual review and adjustment on the basis of the following: individual and Company performance; level of responsibility; market and competitive data; internal equity considerations; and terms of the executive's employment agreement. Salary increases for fiscal 2006 for executive officers who were employed by the Company in fiscal 2006 ranged from approximately 0% to 6% over such officers' fiscal 2005 salaries, except for those of Messrs. Labrum and Schlotterbeck, who received base salary increases of 18% and 25%, respectively, in connection with their assumption of broader responsibilities as Chairman and Chief Executive Officer of Healthcare Supply Chain Services and Chief Executive Officer of Pharmaceutical and Medical Products.

*Annual Cash Incentives.* As part of the Company's executive compensation program, Company executives are eligible to receive annual cash incentive awards pursuant to the Company's annual cash incentive program. Targeted cash incentive amounts, which range from 65% to 160% of annual base salary for executive officers (excluding Mr. R. Walter's target annual cash incentive prior to becoming Executive Chairman in April 2006), are designed to provide competitive incentive pay and reflect the Company's pay-for-performance philosophy. These targets are reviewed periodically, but are generally not modified annually, and they may be subject to the terms of an executive's employment agreement. Targeted cash incentive amounts generally represent a greater portion of an executive's overall potential cash compensation as levels of responsibility and function increase.

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**Table of Contents**

Performance objectives intended to focus attention on achieving key goals are established for the Company, for each segment and for each business unit within each segment at the beginning of each fiscal year. In addition, individual performance objectives, which include both specific performance goals and other, more qualitative and developmental criteria, are established individually for each executive.

Certain of the executive officers' bonuses are paid under the Company's Management Incentive Plan (the "MIP"). Section 162(m) of the Internal Revenue Code of 1986, as amended (the "Code"), prohibits a deduction to any publicly held corporation for non-performance-based compensation paid to a covered employee in excess of \$1 million per year. Messrs. Clark, R. Walter, Schlotterbeck, Henderson and Labrum were the Company's covered employees for fiscal 2006. Under the terms of the MIP, and in accordance with Section 162(m), a maximum bonus potential level was set for each covered employee (other than Mr. Clark, whose annual cash incentive award for 2006 was guaranteed) if the performance goal established by the Compensation Committee was fully satisfied. The performance goal established by the Compensation Committee under the MIP for covered employees for fiscal 2006 was the achievement by the Company over a one-year performance period ending June 30, 2006 of a previously specified level of return on shareholders' equity (determined in accordance with generally accepted accounting principles). This performance goal was fully satisfied for fiscal 2006.

The Compensation Committee also considered other factors in determining the amount of bonus paid to each executive officer for fiscal 2006, including, without limitation:

**Other Company Performance Metrics** The Committee noted that the Company had diluted earnings per Common Share from continuing operations of \$2.90, an increase of 14% from diluted earnings per Common Share from continuing operations for fiscal 2005. The Company's performance for the fiscal year was in line with its internal performance goals for net operating profit after tax, excluding equity compensation expense and special items, impairment, nonrecurring and other items. The Company's return on equity, excluding equity compensation and special items, was in line with its goal, and net cash provided by operating activities and stock repurchases were above the Company's target. In addition, the Company's total shareholder return for fiscal 2006 was 12%.

**Results of the business unit or function** The Pharmaceutical Distribution and Provider Services and Medical Products and Services segments performed in line with their goals. The Pharmaceutical Technologies and Services segment performed well below its goal, and the Clinical Technologies and Services segment performed well above its goal.

**Individual performance of the executive.**

**Long-Term Stock-Based Incentives.** The Compensation Committee approved significant changes to the Company's approach to long-term stock-based incentives beginning with fiscal 2006. Consistent with market trends and investor expectations regarding shareholder dilution and in light of the expected impact of new equity award accounting rules, the Company significantly reduced the number of participants receiving equity through its equity compensation program in fiscal 2006. In addition, the Compensation Committee changed the annual equity grant to a mix of stock options and restricted shares or restricted share units from a grant solely of stock options in prior fiscal years. It also significantly reduced the use of stock options by delivering in most cases 70% of total grant value in stock options (vesting 25% annually over four years) and 30% in restricted shares or share units (vesting 33 1/3% annually over three years). Approximately 1,720 employees received grants of equity awards, utilizing approximately 5.2 million shares, in the fiscal 2006 annual grant as compared to approximately 5,280 employees receiving stock options, utilizing approximately 12.7 million shares, in the fiscal 2005 annual grant.

This annual equity grant program has been designed (and with the recent changes, continues to be designed) to provide Company managers, over a number of years, with multiple equity awards. The Committee believes stock options, restricted shares and restricted share units are performance-based, because they provide no realizable value to a recipient until the vesting requirements have been met and because they increase in value only as the trading price of the Company's Common Shares increases. Vesting periods are intended to require long-term focus on Company performance for the executive to realize any value from the exercise of stock

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**Table of Contents**

options. Stock option awards also are granted with an exercise price equal to the market price for Common Shares on the date of the grant, and provide no cash benefit if the price of the stock does not exceed the grant price during the option's term. Therefore, for any value to be derived from an option grant, the Company's performance needs to be at a level that, in comparison to the industry and the overall stock market, continues to drive increased stock price performance and shareholder value over a multi-year period.

Individual equity awards historically have been determined by the Compensation Committee based on a manager's current performance, potential for future contribution and responsibility, market competitiveness (based on data provided by the Committee's executive compensation consulting firm) and salary multiples designed to increase the portion of the total compensation opportunity represented by stock-based incentives as a manager's level of responsibility increases. Because a primary purpose of granting equity awards has been to encourage positive future performance, when granting them in fiscal 2006, the Compensation Committee did not consider the equity awards granted to an individual in previous years or the amount of stock then owned by the executive. In order to protect the interests of the Company, the Company's current standard equity award agreements contain provisions providing for forfeiture of the award or value received in the event the holder engages in certain behavior in competition with or contrary to the interests of the Company. The Compensation Committee has historically placed a relatively heavy emphasis on stock-based incentives, consistent with its philosophy that these incentives more closely align the interests of Company managers with the long-term interests of shareholders.

*Long-Term Incentive Cash Program for Fiscal Years 2006-2008.* In August 2005, the Compensation Committee recommended and the Board approved, under the 2005 Long-Term Incentive Plan, a long-term incentive cash program covering the period from July 1, 2005 through June 30, 2008. Board approval of the program was subject to shareholder approval of the 2005 Long-Term Incentive Plan, which was obtained in November 2005.

The primary objective of this long-term cash incentive program is to build additional momentum and focus on attaining the goals of the Company's One Cardinal Health strategy and accelerating earnings growth. Any payout as a result of meeting the internal performance goals established for the 3-year performance period will reward management for attaining aggressive compound growth in annual net operating profit after tax. This performance goal is set at levels above the net operating profit after tax goal in the current annual cash incentive plan, and is expected to remain above the annual goal during each year of the 3-year performance period. Awards to certain executives under the program also must satisfy performance criteria related to the achievement over the three-year performance period of a specified average level of the Company's annual return on equity. Measurement of performance under the program will include the cost of the long-term cash incentive, making the program essentially self-funded.

All of the Company's executive officers (other than Mr. R. Walter) and certain managers participate in the program. Participants are eligible to earn up to 200% of their target annual incentive compensation over the three-year period of the plan. At this time, the Compensation Committee has not established a program for additional three-year periods and has no plans to do so.

*Compensation of Current Chief Executive Officer.* In connection with the appointment of Mr. Clark as President and Chief Executive Officer, the Company and Mr. Clark entered into an Employment Agreement (the "Clark Employment Agreement"). The Clark Employment Agreement has an employment term from April 17, 2006 through June 30, 2009 and provides generally for annualized salary, target incentive and equity compensation of not less than:

annual base salary of not less than \$1,400,000;

target annual cash incentive of 160% of his annual base salary;

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**Table of Contents**

annual equity incentive grants with an expected value on the grant date of 600% of his annual salary; and

target cash incentive equal to his actual annual cash incentive for each year in the Long-Term Incentive Cash Program for Fiscal Years 2006-2008.

The structure of Mr. Clark's annual compensation program is heavily weighted toward performance-contingent compensation. Approximately 10% of his total compensation is base salary, and the remaining 90% of his annualized compensation depends on performance.

As provided by the Clark Employment Agreement, the Compensation Committee approved the payment of \$460,274 for his pro-rated target annual incentive for the period from April 17, 2006 to June 30, 2006. Mr. Clark is entitled to a minimum annual cash incentive of \$1,120,000 for fiscal 2007.

On April 17, 2006, the Compensation Committee awarded Mr. Clark an initial grant of 110,600 restricted share units (vesting equally over three years) and an option to purchase 665,000 Common Shares at an exercise price of \$70.00 per share (vesting equally over four years and expiring on April 17, 2013). Approximately 45,000 restricted share units and 270,000 Common Shares subject to options relate to his annual equity incentive grant for the 15-month period from April 2006 until the fiscal 2008 equity grant expected in August 2007. The remaining grants are one-time awards related to his hiring. In addition to providing Mr. Clark an immediate ownership stake in the Company, the one-time award also replaces a significant portion of equity and other compensation forfeited upon his termination of employment from Procter & Gamble. In determining the size and make-up of this one-time award, the Compensation Committee considered, among other things, the Company's executive pay philosophy and principles for determining equity grants, hiring packages recently provided to new chief executive officers of major U.S. publicly-traded companies, the total compensation package being offered to Mr. Clark and advice from the Committee's outside executive compensation consulting firm, including its estimate of the value of compensation being forfeited to Procter & Gamble by Mr. Clark. The Compensation Committee's determination was that the one-time award was reasonable and appropriate in light of all of these considerations.

The Compensation Committee determined to use \$70.00 per share as the fair market value and exercise price for the stock option issued to Mr. Clark. It was the closing price on Thursday, April 13, 2006, the last trading day before the Compensation Committee meeting at which the Committee approved the grant of the options. The Compensation Committee met before the market opened on April 17, 2006. The closing market price of the Company's Common Shares on April 17, 2006 was \$69.85 per share.

Mr. Clark also will receive other benefits and perquisites on a basis that is commensurate with his position as the Company's Chief Executive Officer, including personal use of corporate aircraft and a temporary housing allowance. If (i) Mr. Clark terminates his own employment for good reason, or (ii) the Company terminates Mr. Clark's employment other than for cause, death or disability, Mr. Clark will receive his salary and target bonus through June 30, 2009, but no less than 1.5 times his annual salary and target bonus (payable over 24 months) and immediate vesting of his initial stock option and restricted share unit grants and the ability to exercise all vested stock options until the end of their terms. See *Employment Agreements and Other Arrangements* below.

*Compensation of Executive Chairman and Former Chief Executive Officer.* On April 17, 2006, the Company appointed Mr. R. Walter, who until that date had been serving as the Company's Chief Executive Officer, as the Executive Chairman of the Board of the Company. In connection with that appointment, the Company and Mr. R. Walter entered into the Second Amended and Restated Employment Agreement (the *Walter Employment Agreement*). This Agreement replaces the First Amended and Restated Employment Agreement, dated February 1, 2004 (the *Prior Walter Agreement*), which governed Mr. R. Walter's compensation for the portion of fiscal 2006 during which he served as Chief Executive Officer. The *Prior Walter Agreement* provided for an annual base salary of not less than \$1,000,000, eligibility for an annual cash bonus

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**Table of Contents**

target of at least 250% of his annual base salary and an annual stock option award with a value of no less than 3,000% of annual base salary in terms of dollars at work. See Employment Agreements and Other Arrangements below.

The Walter Employment Agreement provides that Mr. R. Walter, in his role as Executive Chairman of the Board, will receive annualized salary, target incentive and equity compensation of not less than:

an annual base salary of \$900,000;

a target annual cash incentive of 150% of his annual base salary; and

annual stock incentive grants with an expected value on the grant date of 700% of his annual base salary in each of fiscal 2007 and fiscal 2008.

Mr. R. Walter is not eligible to participate in the long-term incentive cash program. The Walter Employment Agreement also requires that Mr. R. Walter provide certain consulting services to the Company for five years after he ceases to be Executive Chairman of the Board and that the Company pay him \$1 million per year as compensation, which will be the only compensation he is entitled to receive from the Company for such services.

The Walter Employment Agreement provides for a blended target cash incentive award amount for fiscal 2006 based on targets of: (a) 300% of his higher annual base salary from July 1, 2005 to April 17, 2006; and (b) 150% of his new annual base salary from April 17, 2006 to June 30, 2006. The Compensation Committee awarded Mr. R. Walter an annual cash incentive of 100% of the target award amount (or \$2,911,527) for fiscal 2006. In determining Mr. R. Walter's actual cash incentive award for fiscal 2006, the Compensation Committee reviewed the Company's achievement of the performance goal established under the MIP and overall financial results for fiscal 2006 as set forth above and noted the performance of Mr. Walter in the hiring of and initial transition of Mr. Clark as the new Chief Executive Officer for the Company, as well as the recent hiring and on-boarding of new Chief Financial, Chief Ethics and Compliance, and Chief Legal Officers.

In September 2005, the Compensation Committee granted Mr. R. Walter an option to purchase 379,759 Common Shares with an exercise price of \$58.88 per share (the closing market price on the date of grant) and 54,251 restricted share units. These grants constituted his fiscal 2006 annual equity grant made to Company executives under the Company's Amended and Restated Equity Incentive Plan, as amended (the Equity Incentive Plan), and in satisfaction of the Company's contractual obligation to Mr. R. Walter under the Prior Walter Agreement. The stock option vests 25% annually over four years and has a term of seven years and the restricted share units vest 33 1/3% annually over three years. The agreements for these awards granted to Mr. R. Walter during the fiscal year also contain provisions for forfeiture of the award or value received in the event that Mr. R. Walter engages in certain behavior in competition with or contrary to the interests of the Company.

In its 2004 and 2005 Proxy Statements, the Company disclosed that it had discovered in 2004 that a portion of an option to purchase 1,425,000 Common Shares (giving effect to stock splits occurring after the date of grant) that had been granted in November 1999 to Mr. R. Walter was in excess of that permitted to be granted to a single individual during any fiscal year under the Equity Incentive Plan. The maximum number of Common Shares as to which option awards could be granted pursuant to the terms of the Equity Incentive Plan was 562,500 Common Shares (although the Company would have been permitted at the time to make a larger grant outside of the Equity Incentive Plan). Prior to the Company's 2004 discovery of this administrative error, neither the Company nor Mr. R. Walter was aware that the November 1999 option exceeded the plan limitation.

To satisfy the original intent and understanding of the Company with respect to the 1999 option award and to remedy the error described above, after consulting with its outside executive compensation consulting firm, on August 2, 2005, the Compensation Committee approved a grant to Mr. R. Walter, in lieu of the portion of the

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**Table of Contents**

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

*Retirement Plans.* The Company generally expects executives to plan for and fund their own retirement. It maintains a 401(k) Savings Plan and a Deferred Compensation Plan that permit certain management employees of the Company to defer a limited portion of salary and bonus into any of several investment alternatives. In addition, the Company may, in its discretion, make additional matching or fixed contributions to the deferred balances of employees, including participating executives. Matching contributions made with respect to the Company's most-highly compensated executive officers are set forth in footnote (3) to the Summary Compensation Table on page 23 of this Proxy Statement. The Company does not maintain defined benefit retirement or senior executive retirement plans, or provide post-retirement medical benefits, for its executive officers.

*Other Benefits and Perquisites.* The Company's executive compensation program also includes other benefits and perquisites. Perquisites for the Company's most senior executives include an executive relocation program and the personal use of Company-owned aircraft. These benefits include, in some cases, reimbursement for income taxes on taxable benefits. Executive officers are also covered under the Company's directors and officers' liability insurance policy and have entered into indemnification agreements with the Company.

For security reasons, the Company's Board-approved policy has required Mr. R. Walter, the former Chairman and Chief Executive Officer, to use Company aircraft for personal travel. In addition, the Company reimbursed him for taxes on income imputed to him based on this personal usage of aircraft. In June 2006, the Compensation Committee revised its policy on personal usage of Company aircraft. Both the Chief Executive Officer and the Executive Chairman of the Board and their immediate families, when they accompany the officer on business or personal flights, may use the corporate aircraft. The Company will reimburse the officer for taxes imputed based on usage by the officer, but not by family members.

For more detailed information regarding benefits and perquisites provided to the Company's executive officers, see the section of this Proxy Statement entitled "Executive Compensation" Summary Compensation Table.

*Policy Regarding Shareholder Approval of Severance Agreements.* In August 2006, the Company's Board of Directors adopted a policy requiring the Company to obtain shareholder approval before entering into severance agreements with covered executives that provide certain cash severance benefits that exceed 2.99 times base salary and bonus. If the Board determines that it is not practical to obtain shareholder approval in advance, the Board may seek shareholder approval after entering into a severance agreement covered by this policy. The policy covers new severance agreements entered into after the effective date of the policy and existing severance agreements if severance benefits are materially modified after the effective date.

*Guidelines for Share Ownership.* In an effort to directly link executive officers' and Directors' financial interests with those of shareholders, the Compensation Committee has implemented Guidelines for Share Ownership for executive officers and non-management Directors. The guidelines specify a dollar value of shares that executive officers and non-management Directors must accumulate and hold by the later of (i) three years after joining the Company or the Board, or (ii) July 2006. The specific share requirements for executive officers

**Table of Contents**

are based on a multiple of base salary ranging from three to five times base salary, with the higher multiples applicable to the Company's executive officers having the greater level of responsibility. The specific share requirement for each non-management Director is four times his or her annual cash retainer. The Company has determined that, as of June 30, 2006, all named executives and non-management directors were in compliance with the Guidelines for Share Ownership.

*Holding Periods for Equity Awards of Executives.*  Beginning with the fiscal 2007 equity awards (granted on August 15, 2006), all executive officers of the Company on the grant date must hold (a) in the case of stock options, his or her after-tax net profit in Common Shares until the earlier of (i) the first anniversary of the option exercise or (ii) termination of employment and (b) in the case of restricted share units, the after-tax Common Shares received at settlement until the earlier of (i) the first anniversary of vesting or (ii) termination of employment.

*Impact of Internal Revenue Code Section 162(m).*  As discussed above, Section 162(m) of the Code prohibits a deduction to any publicly held corporation for non-performance-based compensation paid to a covered employee in excess of \$1 million per year. It is the Compensation Committee's general policy to endeavor to minimize the adverse effect of Section 162(m) on the deductibility of the Company's compensation expense. The Compensation Committee reserves the authority to award non-deductible compensation in such circumstances as it deems appropriate. In fiscal 2006, only Mr. R. Walter received compensation that was non-deductible.

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

John B. McCoy, Chairman

Calvin Darden

John F. Havens

Robert L. Gerbig

Richard C. Notebaert

Jean G. Spaulding



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

The following information is set forth with respect to the persons serving as the Company's Chief Executive Officer during fiscal 2006, each of the Company's four other most highly compensated executive officers at June 30, 2006 and an additional executive officer who would have been among the most highly compensated executive officers if he had continued to serve in such position at June 30, 2006.

**Summary Compensation Table**

Name and Principal Position	Fiscal Year	Annual Compensation			Long-Term Compensation			All Other Compensation
		Salary (\$)	Bonus (\$)	Other Annual Compensation (\$)(1)	Awards		All Other Compensation (\$)(3)	
					Restricted Stock Awards \$(2)	Underlying Options/ SARs #		
R. Kerry Clark <i>President and Chief Executive Officer</i> (5)	2006	\$ 296,154	\$ 460,274	\$ 81,998	\$ 7,725,410(4)	665,000(4)	\$ 17,189	
Robert D. Walter <i>Executive Chairman of the Board and Former Chief Executive Officer</i> (7)	2006	\$ 1,065,116	\$ 2,911,527	\$ 470,250	\$ 3,194,299	1,242,259(6)	\$ 102,223	
	2005	\$ 1,066,578	\$ 1,585,851	\$ 263,302		704,983	\$ 32,132	
	2004	\$ 1,037,500		\$ 178,265		507,086	\$ 12,349	
David L. Schlotterbeck <i>Chief Executive Officer - Pharmaceutical and Medical Products</i> (8)	2006	\$ 578,692	\$ 778,118				(8) \$ 2,343,922	
	2005	\$ 560,000	\$ 539,269			244,621(8)	\$ 22,200	
Jeffrey W. Henderson <i>Chief Financial Officer</i> (9)	2006	\$ 552,115	\$ 742,500	\$ 50,586		(9)	(9) \$ 50,756	
	2005	\$ 114,231	\$ 323,306(9)	\$ 33,971	\$ 1,137,990(9)	108,077(9)	\$ 4,492	
Ronald K. Labrum <i>Chairman and Chief Executive Officer - Healthcare Supply Chain Services</i> (10)	2006	\$ 632,500	\$ 671,710	\$ 23,395	\$ 1,460,092	168,576	\$ 2,851,708	
	2005	\$ 545,019	\$ 392,861		\$ 308,070	105,000	\$ 30,305	
	2004	\$ 490,387			\$ 306,900	85,280	\$ 7,321	
George L. Fotiadis <i>Former President and Chief Operating Officer</i> (11)	2006	\$ 701,885	\$ 400,000	\$ 168,466			\$ 3,876,433	
	2005	\$ 751,149	\$ 683,839	\$ 162,323			\$ 36,132	
	2004	\$ 627,710		\$ 90,617		225,000	\$ 11,278	

(1) With respect to amounts for the fiscal year ended June 30, 2005 ( fiscal 2005 ) and the fiscal year ended June 30, 2004 ( fiscal 2004 ), indicates that the aggregate amount of perquisites and other personal benefits, securities or property in the aggregate did not exceed \$50,000, and the executive had no other compensation reportable under this category.



**Table of Contents**

Amounts shown for fiscal 2006 include (a) the incremental cost to the Company relating to personal use by the executive of corporate aircraft; (b) amounts paid by the Company for relocation; (c) amounts paid by the Company for legal services for the executive officer's benefit; and (d) the related tax reimbursements due to income attributed to the executive officer arising out of such benefits, as follows:

Name	Personal Use of Aircraft	Relocation Expenses	Legal Services	Aggregate Amount of Related Tax Reimbursements
R. Kerry Clark		\$ 12,615	\$ 34,488	\$ 34,895
Robert D. Walter	\$ 198,283		\$ 129,141	\$ 142,826
Jeffrey W. Henderson		\$ 39,440		\$ 11,146
Ronald K. Labrum	\$ 22,998			\$ 397
George L. Fotiades	\$ 154,786			\$ 13,680

Amounts shown for fiscal 2005 include, among other things, (a) the incremental cost to the Company relating to personal use by the executive of corporate aircraft; and (b) related tax reimbursements due to income attributed to the executive officer arising out of such benefit, as follows:

Name	Personal Use of Aircraft	Aggregate Amount of Related Tax Reimbursements
Robert D. Walter	\$ 175,010(a)	\$ 34,895
Jeffrey W. Henderson	\$ 29,052	\$ 4,919
George L. Fotiades	\$ 82,316(a)	\$ 12,714

- (a) Messrs. Walter's and Fotiades' fiscal 2005 personal use of aircraft were reported in last year's Proxy Statement as \$151,069 and \$139,963, respectively, due to administrative error.

Amounts shown for fiscal 2004 include, among other things, (a) the incremental cost to the Company relating to personal use by the executive of corporate aircraft; (b) the incremental cost to the Company relating to an automobile allowance; and (c) the related tax reimbursements, due to income attributed to the executive officer arising out of such benefits, as follows:

Name	Personal Use of Aircraft	Automobile Allowance	Aggregate Amount of Related Tax Reimbursements
Robert D. Walter	\$ 124,514		\$ 53,751
George L. Fotiades	\$ 43,085	\$ 24,752	\$ 2,612

The Company owns and operates its own aircraft to facilitate business travel of senior executives in as safe a manner as possible and with the best use of their time. Incremental cost is calculated based on variable operating cost, which includes fuel per flight hour, engine reserves per flight hour (engine reserves are an accrued expense for future maintenance on the aircraft engines), average repair and maintenance costs, travel expenses for flight crew and temporary pilot costs, and actual per flight hangar and parking ramp fees, landing fees, catering and miscellaneous handling charges. Fixed costs, such as flight crew salaries, wages and other employment costs, employee seminars and training, depreciation, building/hangar rent, aircraft lease expense, utilities, general liability insurance and other insurance costs, are not included in the calculation of incremental cost because these expenses are incurred by the Company regardless of the personal use of the corporate aircraft by the executives.

Mr. R. Walter was required by the Company to use corporate aircraft for all air travel through fiscal 2006. Mr. Henderson's personal use of corporate aircraft primarily relates to relocation and commuting from his residence in Toronto, Ontario, Canada to the Company's corporate offices in Dublin, Ohio after his hiring as Executive Vice President and Chief Financial Officer in April 2005. Mr. Fotiades' personal use of corporate aircraft primarily relates to relocation and commuting from his residence in New Jersey to the Company's corporate offices in Dublin, Ohio after his promotion to President and Chief Operating Officer in February 2004.

**Table of Contents**

(2) Awards are RSUs valued as of the grant date by multiplying the closing price of the Common Shares on the New York Stock Exchange on that date times the number of RSUs awarded. Dividend equivalents are paid in cash on vested and unvested RSUs until settlement.

The RSUs awarded in fiscal 2006 vest in three equal annual installments beginning on the first anniversary of the grant date. The RSUs awarded to Mr. Henderson in fiscal 2005 consist of the following two awards: (a) 9,000 RSUs, which vest ratably over three years; and (b) 12,000 RSUs, which vest on the third anniversary of the grant date. The RSUs awarded to Mr. Labrum in fiscal 2005 were scheduled to vest on August 6, 2007, and the RSUs awarded in fiscal 2004 were scheduled to vest on November 17, 2006.

Aggregate RSU holdings and values on June 30, 2006 (calculated by multiplying the closing price of the Common Shares on the New York Stock Exchange on that date times the number of RSUs held) for the named executive officers are as follows: Mr. Clark 110,600 unvested shares, \$7,114,898 and 0 vested shares, \$0; Mr. R. Walter 54,251 unvested shares, \$3,489,967 and 260,802 vested shares, \$16,777,393; Mr. Schlotterbeck 0 unvested shares, \$0 and 0 vested shares, \$0; Mr. Henderson 18,000 unvested shares, \$1,157,940 and 2,938 vested shares, \$189,002; Mr. Labrum 36,082 unvested shares, \$2,321,155 and 0 vested shares, \$0; and Mr. Fotiades 0 unvested shares, \$0 and 25,739 vested shares, \$1,655,790. Mr. Labrum has forfeited ownership of 28,056 unvested RSUs due to the termination of his employment by the Company prior to the applicable vesting date.

(3) Amounts shown for fiscal 2006 include (a) Company contributions to the executive's account under each of the Company's 401(k) Savings