CARDINAL HEALTH INC
Form 10-K
August 26, 2010
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

Form 10-K

þ **ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the fiscal year ended June 30, 2010

or

¨ **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

Commission File Number: 1-11373

CARDINAL HEALTH, INC.

(Exact name of registrant as specified in its charter)

OHIO	**31-0958666**
(State or other jurisdiction of	***(I.R.S. Employer***
incorporation or organization)	***Identification No.)***
7000 CARDINAL PLACE,	
DUBLIN, OHIO	**43017**
(Address of principal executive offices)	***(Zip Code)***

(614) 757-5000

Registrant s telephone number, including area code

Securities registered pursuant to Section 12(b) of the Act:

Title of Class	**Name of Each Exchange on Which Registered**
COMMON SHARES (WITHOUT PAR VALUE)	NEW YORK STOCK EXCHANGE

Securities registered pursuant to Section 12(g) of the Act:

None.

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes þ No ¨

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes ¨ No þ

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes þ No ¨

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes þ No ¨

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant s knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. ¨

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of large accelerated filer, accelerated filer and smaller reporting company in Rule 12b-2 of the Exchange Act.

Large accelerated filer þ	Accelerated filer ¨
Non-accelerated filer ¨ (Do not check if a smaller reporting company)	Smaller reporting company ¨

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Act). Yes ¨ No þ

The aggregate market value of voting stock held by non-affiliates of the registrant on December 31, 2009, based on the closing price on December 31, 2009, was $11,647,605,557.

The number of registrant s Common Shares outstanding as of August 18, 2010, was as follows: Common Shares, without par value: 351,163,010.

Documents Incorporated by Reference:

Portions of the registrant s Definitive Proxy Statement to be filed for its 2010 Annual Meeting of Shareholders are incorporated by reference into Part III of this Annual Report on Form 10-K.

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Important Information Regarding Forward-Looking Statements

Portions of this Form 10-K (including information incorporated by reference) include forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995, as amended. Many forward-looking statements appear in Item 7 Management s Discussion and Analysis of Financial Condition and Results of Operations, but there are others throughout this document, which may be identified by words such as expect, anticipate, intend, plan, believe, will, should, could, would, project, continue, and similar expressions, and reflecting future results or guidance, statements of outlook and tax accruals. These matters are subject to risks and uncertainties that could cause actual results to differ materially from those projected, anticipated or implied. The most significant of these risks and uncertainties are described below in Item 1A Risk Factors and in Exhibit 99.1 to this Form 10-K. Forward-looking statements in this document speak only as of the date of this document. Except to the extent required by applicable law, we undertake no obligation to update or revise any forward-looking statement.

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PART I

Item 1: ***Business***
General

Cardinal Health, Inc. is an Ohio corporation formed in 1979. As used in this report, we, our, us and similar pronouns refer to Cardinal Health, Inc. and its subsidiaries, unless the context requires otherwise. We are a global healthcare solutions company providing products and services that help hospitals, physician offices and pharmacies reduce costs, improve safety and productivity, and deliver better care to patients. Except as otherwise specified, information in this Annual Report on Form 10-K is provided as of June 30, 2010, which is the end of our 2010 fiscal year.

Spin-Off of CareFusion Corporation

On August 31, 2009, we separated the clinical and medical products businesses from our other businesses through a pro rata distribution to shareholders of 81% of the then outstanding common stock of a wholly-owned subsidiary, CareFusion Corporation (CareFusion). We refer to this transaction as the Spin-Off. CareFusion s product lines are in the areas of intravenous, infusion, medication and supply dispensing, respiratory care, infection prevention and surgical instruments. We retained 19% of CareFusion common stock, which we are required to dispose of before August 31, 2014, pursuant to the private letter ruling we received from the Internal Revenue Service (the IRS) in connection with the Spin-Off. As of June 30, 2010, we owned approximately 30.5 million CareFusion shares. As part of the Spin-Off, Cardinal Health and CareFusion entered into a separation agreement and various other agreements relating to the separation, including a transition services agreement, a tax matters agreement, an employee matters agreement, intellectual property agreements and certain other commercial agreements.

Business Segments

For fiscal 2009, we reported financial information in three segments: Healthcare Supply Chain Services, Clinical and Medical Products, and All Other. From July 1, 2009 to August 31, 2009, we reported financial information in three different segments: Pharmaceutical, Medical and CareFusion. The Pharmaceutical segment included the businesses that were previously within the Healthcare Supply Chain Services segment that distributed pharmaceutical, radiopharmaceutical and over-the-counter healthcare products, as well as the businesses previously within the All Other segment. The Medical segment included the remaining businesses within the Healthcare Supply Chain Services segment and certain surgical and exam gloves, surgical drapes and apparel and fluid management businesses that were previously within the Clinical and Medical Products segment. The CareFusion segment included the businesses previously within the Clinical and Medical Products segment but not the above-referenced surgical and exam gloves, surgical drapes and apparel and fluid management businesses. All businesses in the CareFusion segment were part of the Spin-Off.

Once the Spin-Off was completed, our remaining businesses were organized into our current two segments: Pharmaceutical and Medical. The following business discussion is based on the two segments as they were structured for fiscal 2010.

Pharmaceutical Segment

The Pharmaceutical segment:

- distributes branded and generic pharmaceutical, over-the-counter healthcare, and consumer products through its pharmaceutical distribution business;
- operates nuclear pharmacies and cyclotron facilities that prepare and deliver radiopharmaceuticals for use in nuclear imaging and other procedures in hospitals and clinics;

distributes specialty pharmaceutical products and provides third-party logistics support services to manufacturers; and

franchises retail pharmacies under the Medicine Shoppe® and Medicap® brands, and provides pharmacy services to hospitals and other healthcare facilities.

The pharmaceutical distribution business is a full-service wholesale distributor to retail customers (including chain and independent drug stores and pharmacy departments of supermarkets and mass merchandisers), hospitals, and alternate care providers (including mail order pharmacies) located throughout the United States and in Puerto Rico. Pharmaceutical distribution maintains prime vendor relationships that streamline the purchasing process resulting in greater efficiency and lower costs for our customers. Pharmaceutical distribution also helps pharmaceutical manufacturers with services including distribution, inventory management, data/reporting, new product launch support, and contract and chargeback administration.

The pharmaceutical distribution business generates gross margin primarily when the aggregate selling price to our customers exceeds the aggregate cost of products sold, net of manufacturer cash discount, branded manufacturer margin, and generic manufacturer margin.

Manufacturer cash discounts are price reductions that manufacturers may offer to us for prompt payment of purchased products.

Branded manufacturer margin (also referred to as branded margin) refers to compensation amounts under distribution service agreements with manufacturers and to pharmaceutical price appreciation. Compensation under the distribution service agreements may be a fee based on volume with or without pharmaceutical price appreciation. A manufacturer may increase its published price for a product after we have purchased that product for inventory. Our contract price for branded pharmaceutical products to customers is based on the manufacturer s published price at the time of sale. As such, inventory sold following a manufacturer price increase will be based on the higher manufacturer price. **Pharmaceutical price appreciation** refers to amounts we earn from selling inventory at these increased prices.

Generic manufacturer margin (also referred to as generic margin) refers to price discounts, rebates and other incentives we receive from manufacturers of generic pharmaceuticals. Our earnings on generic pharmaceuticals generally are highest during the period immediately following the initial launch of a generic product because generic pharmaceutical selling prices tend to decline over time, although this may vary.

Bulk and Non-bulk Customers. The Pharmaceutical segment differentiates between bulk and non-bulk customers. Bulk customers consist of retail chain customers centralized warehouse operations and customers mail order businesses. All other customers are classified as non-bulk customers. A retail chain pharmacy customer may be both a bulk customer with respect to its warehouse operations and a non-bulk customer with respect to its retail stores.

Bulk customers can process large quantities of products in central locations. Substantially all deliveries to bulk customers consist of products shipped in the same form that we receive them from the manufacturer; a small portion of deliveries to bulk customers are broken down into smaller units prior to shipping. In contrast, non-bulk customers require more complex servicing. For non-bulk customers, we may receive inventory in large or full case quantities and break it down into smaller quantities, warehouse the product for a longer period of time, pick individual products specific to a customer s order, and deliver that smaller order to a customer location.

Bulk customers generate significantly lower segment profit as a percentage of revenue than non-bulk customers. Bulk customers receive lower pricing on sales of the same products than non-bulk customers due to volume pricing in a competitive market and due to lower costs related to the fewer services we provide. In

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addition, sales to bulk customers in aggregate generate higher segment cost of products sold as a percentage of revenue than sales to non-bulk customers, because bulk customers orders consist almost entirely of higher cost branded products. The higher segment cost of products sold as a percentage of revenue for bulk customers is also driven by the impact of branded manufacturer margin and manufacturer cash discounts. Branded manufacturer margin is lower due to the shorter time that products sold to bulk customers are held in inventory by us, allowing less opportunity for pharmaceutical price appreciation. Segment distribution, selling, general and administrative (SG&A) expenses as a percentage of revenue from bulk customers are substantially lower than from non-bulk customers because deliveries to bulk customers require substantially fewer services to be rendered by us than deliveries to non-bulk customers.

The following table shows the revenues, segment expenses, segment profit and segment profit as a percentage of revenue for bulk and non-bulk customers for fiscal 2010, 2009 and 2008.

(in millions)	**2010**	**2009 (2)**	**2008 (2)**
Non-bulk customers:			
Revenue from non-bulk customers	$ 45,795.4	$ 44,134.7	$ 42,199.7
Segment expenses allocated to non-bulk customers (1)	44,908.4	43,272.9	41,335.6
Segment profit from non-bulk customers (1)	887.0	861.8	864.1
Segment profit from non-bulk customers as a percentage of revenue from non-bulk customers (1)	1.94%	1.95%	2.05%
Bulk customers:			
Revenue from bulk customers	$ 43,994.5	$ 43,728.2	$ 37,298.6
Segment expenses allocated to bulk customers (1)	43,879.7	43,554.3	37,140.3
Segment profit from bulk customers (1)	114.8	173.9	158.3
Segment profit from bulk customers as a percentage of revenue from bulk customers (1)	0.26%	0.40%	0.42%

(1) Segment expenses and profit required complex and subjective estimates and allocations based upon assumptions, past experience and judgment that we believe are reasonable. In addition, amounts do not include the impact of last-in, first-out (LIFO) provisions, if any. We had no LIFO provisions in fiscal 2010, 2009 and 2008.

(2) During fiscal 2010, we revised some of the estimates used when allocating expenses between non-bulk customers and bulk customers. Prior period information has been adjusted to reflect this change.

See Note 16 to the Notes Consolidated Financial Statements for Pharmaceutical segment revenue, profit and assets for fiscal 2010, 2009 and 2008.

Medical Segment

The Medical segment distributes a broad range of medical, surgical and laboratory products to hospitals, surgery centers, laboratories, physician offices and other healthcare providers. This segment also develops, manufactures and sources our own line of medical and surgical products. These products include: sterile and non-sterile procedure kits; single-use surgical drapes, gowns and apparel; exam and surgical gloves; and fluid suction and collection systems. Our medical and surgical products are sold directly or through third-party distributors in the United States, Canada, Europe, South America and the Asia/Pacific region.

See Note 16 to the Notes Consolidated Financial Statements for Medical segment revenue, profit and assets for fiscal 2010, 2009 and 2008.

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Acquisitions and Divestitures

In the past five fiscal years, we completed the following two significant acquisitions, both of which were transferred to CareFusion as part of the Spin-Off.

				Consideration Paid	
Date (1)	Company	Location	Line of Business	Cash	Stock Options Converted (2)
				(Amounts in millions)	
June 21, 2007	VIASYS Healthcare Inc. (VIASYS)	Conshohocken, Pennsylvania	Respiratory, neurology, medical disposable and orthopedic products	$ 1,526(3)	0.1
May 12, 2008	Enturia Inc. (Enturia)	Leawood, Kansas	Infection prevention products	$ 490(4)	0.0

(1) Represents the date we became the majority shareholder.
(2) As a result of the acquisition, the outstanding stock options of the acquired company were converted into options to purchase Common Shares issued by us. This column represents the number of our Common Shares subject to converted stock options immediately following conversion.
(3) Includes the assumption of approximately $54 million in debt; also includes approximately $88 million of shares under equity compensation plans in July 2007.
(4) Includes the assumption of approximately $5 million in debt.

We also completed several smaller acquisitions during the last five fiscal years, including:

- during fiscal 2006, purchasing the wholesale pharmaceutical, health and beauty and related drugstore products distribution business of The F. Dohmen Co. and certain of its subsidiaries, and the remaining shares of Source Medical Corporation, our Canadian joint venture;
- during fiscal 2007, purchasing SpecialtyScripts, LLC; and
- during fiscal 2009, purchasing Borschow Hospital & Medical Supplies, Inc.

On June 9, 2010, we entered into an agreement to acquire Healthcare Solutions Holding, LLC, which provides specialty healthcare services. On July 15, 2010, we completed that acquisition for a $517 million cash payment. The acquisition agreement also includes earn-out payments of up to $150 million over the next three years.

We completed several divestiture transactions during the past five fiscal years, including:

- during fiscal 2007, selling our former Pharmaceutical Technologies and Services segment, other than certain generic-focused businesses, for approximately $3.2 billion in cash; our healthcare marketing services business; and our United Kingdom-based Intercare pharmaceutical distribution business.

during fiscal 2010, consummating the Spin-Off of CareFusion Corporation; and selling SpecialtyScripts, LLC and our United Kingdom-based Martindale injectable manufacturing business.

Customers

Our largest customers, Walgreen Co. (Walgreens) and CVS Caremark Corporation (CVS), accounted for approximately 24% and 22%, respectively, of our revenue for fiscal 2010. The aggregate of our five largest customers, including Walgreens and CVS, accounted for approximately 57% of our revenue for fiscal 2010.

We have agreements with group purchasing organizations (GPOs) that act as agents to negotiate vendor contracts on behalf of their members. Our two largest GPO relationships in terms of member revenue are with

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Novation, LLC, and Premier Purchasing Partners, L.P. Arrangements with these two GPOs accounted for approximately 15% of our revenue for fiscal 2010. Although GPO vendor selections may influence member sourcing decisions, GPO members generally are not required to comply with those vendor selections. Accordingly, we believe that the loss of an agreement with a GPO would not cause the loss of sales to all members of the GPO.

Suppliers

We rely on many different suppliers. Products obtained from our five largest suppliers accounted for an aggregate of approximately 20% of our revenue during fiscal 2010, but no single supplier s products accounted for more than 6% of that revenue. Overall, we believe our relationships with our suppliers are good. The loss of some suppliers could adversely affect our results of operations and financial condition if alternative sources were unavailable at reasonable prices.

The Pharmaceutical distribution business is a party to distribution service agreements with pharmaceutical manufacturers. These agreements generally have terms ranging from one year with an automatic renewal feature to five years. Generally, these agreements are terminable before they expire only if the parties mutually agree, if there is an uncured breach of the agreement, or if one party is the subject of a bankruptcy filing or similar insolvency event. Some agreements allow the manufacturer to terminate the agreement without cause within a defined notice period.

Our Pharmaceutical segment s nuclear pharmacy services business dispenses several products prepared using a particular radioisotope. At the present time, it is difficult to acquire sufficient quantities of that radioisotope from third party suppliers because of a continued and prolonged shortage of a critical raw material used to derive that radioisotope from two nuclear reactors, which are experiencing prolonged downtimes. Based on information obtained from parties involved with the two affected nuclear reactors, we anticipate the supply of raw material to normalize in the first half of fiscal 2011.

Competition

We operate in a highly competitive environment in the distribution of pharmaceuticals and related healthcare services. We also operate in a highly competitive environment in the development, manufacturing and distribution of medical and surgical products. We compete on many levels, including service offerings, support services, breadth of product lines, and price.

In the Pharmaceutical segment, we compete with two other national, full-line wholesale distributors (McKesson Corporation and AmerisourceBergen Corporation) and a number of regional wholesale distributors, self-warehousing chains, direct selling manufacturers, specialty distributors, third-party logistics companies, and nuclear pharmacies, among others. In addition, the Pharmaceutical segment has experienced competition from a number of organizations offering generic pharmaceuticals, including telemarketers.

In the Medical segment, we compete with many different distributors, including Owens & Minor, Inc., Thermo Fisher Scientific Inc., PSS World Medical, Inc., Henry Schein, Inc., and Medline Industries, Inc. In addition, we compete with a number of regional medical products distributors and with third-party logistics companies. Competitors of the Medical segment s development and manufacturing business include Kimberly-Clark Corporation, Ansell Limited, DeRoyal Industries Inc., Medline Industries, Inc., and Mölnlycke Health Care.

Employees

As of June 30, 2010, we had approximately 22,600 employees in the United States and approximately 8,600 employees outside of the United States. Overall, we consider our employee relations to be good.

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Intellectual Property

We rely on a combination of trade secret, patent, copyright and trademark laws, nondisclosure and other contractual provisions, and technical measures to protect our products, services and intangible assets. We also operate under licenses for certain proprietary technologies, and in certain instances we license our technologies to third parties. All of these proprietary rights are important to our ongoing operations. We enforce our intellectual property rights when they are infringed by others, and will continue to do so, where appropriate.

We have applied in the United States and other countries for registration of a number of trademarks and service marks. Some of our marks are registered, but our applications may not always be granted. We also hold common law rights in various trademarks and service marks.

We hold patents relating to aspects of our distribution operations, including our nuclear pharmacy products and service offerings. We also hold patents relating to medical and surgical products and devices, such as fluid suction and irrigation devices; surgical waste management systems; surgical and medical examination gloves; surgical drapes, gowns and facial protection products; and patient temperature management products.

We have a number of pending patent applications in the United States and other countries, and we intend to pursue additional patents as appropriate. We may not always obtain the patents for which we apply. We do not consider any particular patent, trademark, license, franchise or concession to be material to our overall business.

Regulatory Matters

Our business is highly regulated in the United States at both the federal and state level and in foreign countries. Depending upon their specific business and where they distribute, manufacture and sell their products, our subsidiaries may be subject to regulation by government entities including:

- the U.S. Drug Enforcement Administration (the DEA),
- the U.S. Food and Drug Administration (the FDA),
- the U.S. Nuclear Regulatory Commission (the NRC),
- the U.S. Department of Health and Human Services (HHS),
- state boards of pharmacy,
- state controlled substance agencies,
- state health departments, insurance departments or other comparable state agencies, and
- foreign agencies that are comparable to those listed above.

These regulatory agencies have a variety of civil, administrative and criminal sanctions at their disposal. They can require us to suspend distribution of products and controlled substances or initiate product recalls; they can seize products or impose significant criminal, civil and administrative sanctions; and they can seek injunctions to halt the manufacture and distribution of products.

Distribution. The DEA, FDA and various state authorities regulate the marketing, purchase, storage and distribution of pharmaceutical products and controlled substances under various state and federal statutes including the Prescription Drug Marketing Act of 1987. Wholesale distributors of controlled substances must hold valid DEA registrations and state-level licenses, meet various security and operating standards, and comply with the Controlled Substances Act and its accompanying regulations governing the sale, marketing, packaging, storage and distribution of controlled substances.

Manufacturing and marketing. Our subsidiaries that manufacture medical devices are subject to regulation by the FDA and comparable foreign agencies including regulations regarding compliance with good manufacturing practices and quality systems. In addition, our Medical segment s international manufacturing operations may be subject to local certification requirements.

The FDA and other domestic and foreign governmental agencies administer requirements covering the design, testing, safety, effectiveness, manufacture, labeling, promotion and advertising, distribution and post-market surveillance of certain of our manufactured products. We need specific approval or clearance from regulatory authorities before we can market and sell many of our products in particular countries. Even after we obtain approval or clearance to market a product, the product and our manufacturing processes are subject to continued regulatory review.

To assess and facilitate compliance with federal, state and foreign regulatory requirements, we routinely review our quality and compliance systems to evaluate their effectiveness and to identify areas for improvement or remediation. As part of our quality review, we assess the suppliers of raw materials, components and finished goods that are incorporated into the medical devices we manufacture. In addition, we conduct quality management reviews designed to highlight key issues that may affect the quality of our products and services. From time to time, we may determine that products we manufacture or market do not meet our specifications, regulatory requirements, or published standards. When we identify a quality or regulatory issue, we investigate and take appropriate corrective action, such as withdrawing the product from the market, correcting the product at the customer location, revising product labeling, and notifying customers.

Nuclear pharmacies and related businesses. Our nuclear pharmacies and cyclotron facilities require licenses or permits from the NRC, the radiologic health agency or department of health of each state in which we operate, and the state board of pharmacy. In addition, the FDA regulates cyclotron facilities. The FDA issued regulations, effective December 11, 2011, establishing current Good Manufacturing Practices for positron emission tomography (PET) drugs.

Prescription Drug Pedigree Tracking

State and federal agencies are concerned about preventing the introduction of counterfeit, diverted, adulterated or mislabeled pharmaceuticals into the pharmaceutical supply chain. Some states have adopted or are considering laws and regulations intended to protect the integrity of the pharmaceutical distribution system while other government agencies are currently evaluating their options. The FDA Amendments Act of 2007 requires the FDA to establish standards to identify and validate technologies for securing the pharmaceutical supply chain against counterfeit drugs. These standards may include track-and-trace or authentication technologies, such as radio frequency identification devices and other similar technologies. In March 2010, the FDA issued guidance establishing standardized numerical identifiers (SNI) for prescription pharmaceutical packages.

In December 2006, we entered into a settlement to resolve a civil investigation by the New York Attorney General s Office focusing on sales and purchases of prescription pharmaceuticals in the secondary market. Pursuant to the settlement, we implemented a number of reforms within the pharmaceutical distribution business, including requirements that customers who are wholesalers certify their compliance with our wholesaler safe product practices.

Healthcare Fraud and Abuse Laws

We are subject to extensive and frequently changing laws and regulations relating to healthcare fraud and abuse. Laws and regulations generally prohibit us (and others in our industry) from soliciting, offering, receiving or paying any compensation in order to induce someone to order or purchase items or services that are in any way paid for by Medicare, Medicaid or other government-sponsored healthcare programs. We also cannot submit or cause to be submitted any fraudulent claim for payment by the federal government. Certain of our subsidiaries also maintain contracts with the federal government and are subject to regulatory requirements relating to government contractors.

Health Information Practices

Services and products provided by some of our businesses involve access to patient identifiable healthcare information. In the past few years, federal and state officials have focused on the questions of how patient identifiable healthcare information should be handled, which entities should compile that information, and how that work should proceed. Changes in legislation such as the Health Insurance Portability and Accountability Act of 1996 (HIPAA) and its accompanying regulations may affect how some information services or products are provided. The Health Information Technology for Economic and Clinical Health Act, adopted in February 2009, augmented HIPAA by increasing existing healthcare privacy requirements, including expanding HIPAA s reach to cover additional entities, requiring certain notifications if there is a breach of patient information and increasing penalties associated with noncompliance. In addition, certain jurisdictions where we do business regulate personal data protection and how information services or products are provided.

Franchising Laws

Our franchising operations, through Medicine Shoppe International, Inc. and Medicap Pharmacies Incorporated (collectively, Medicine Shoppe), are subject to regulation by the Federal Trade Commission. In addition, many states have laws that regulate the franchisor-franchisee relationship.

Environmental Laws

We are subject to various federal, state and local environmental laws and we have made, and will continue to make, necessary expenditures to comply with applicable laws. At the present time, we are participating in cleaning up environmental contamination at several sites, none of which are material to us.

Health and Safety Laws

We are subject to various federal, state and local laws, regulations and recommendations, both in the United States and other countries, relating to safe working conditions, laboratory and manufacturing practices, and the use, transportation and disposal of hazardous or potentially hazardous substances.

Laws Relating to Foreign Trade

Various U.S. and international laws and regulations require us to abide by standards relating to the import and export of finished goods, raw materials and supplies and the handling of information. We also must comply with various export control and trade embargo laws and regulations, which may require licenses or other authorizations for transactions within some countries or with some counterparties.

Similarly, we are subject to laws and regulations concerning the conduct of our foreign operations, including the U.S. Foreign Corrupt Practices Act, foreign anti-bribery laws and laws pertaining to the accuracy of internal books and records. These laws generally prohibit companies and their intermediaries from making improper payments to non-U.S. government officials for the purpose of obtaining or retaining business. We operate in many parts of the world that have experienced some governmental corruption.

Other Information

Our distribution businesses generally are not required by our customers to maintain particular inventory levels other than as needed to meet service level requirements. Certain supply contracts with U.S. government entities require us to maintain sufficient inventory to meet emergency demands, but we do not believe those requirements materially affect inventory levels.

Our customer return policies generally require that the product be physically returned, subject to restocking fees. We only allow customers to return products that can be added back to inventory and resold at full value, or that can be returned to vendors for credit.

We offer market payment terms to our customers.

Revenue and Long-Lived Assets by Geographic Area

See Note 16 to the Notes Consolidated Financial Statements for revenue and long-lived assets by geographic area.

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Available Information and Exchange Certifications

Our Annual Report on Form 10-K, Quarterly Reports on Form 10-Q, Current Reports on Form 8-K, and amendments to those reports are available free of charge on our website (www.cardinalhealth.com), under the Investors Financials/SEC filings caption, as soon as reasonably practicable after we electronically file them with, or furnish them to, the Securities and Exchange Commission (the SEC).

You may read and copy any materials we file with the SEC at the SEC s Public Reference Room at 100 F Street, NE, Washington, DC 20549. You may obtain information on the operation of the Public Reference Room by calling the SEC at 1-800-SEC-0330. The SEC also maintains a website (www.sec.gov) where you can search for annual, quarterly and current reports, proxy and information statements, and other information regarding us and other public companies.

CareFusion filed a registration statement on Form 10 (File No. 001-34273) with the SEC that discloses information regarding the Spin-Off and CareFusion.

Item 1A: ***Risk Factors***

The risks described below could materially and adversely affect our results of operations, financial condition, liquidity and cash flows. These are not the only risks we face. Our businesses also could be affected by risks that we are not presently aware of or that we currently consider immaterial to our operations.

We could suffer the adverse effects of competitive pressures.

As described in greater detail in the discussion of our business in Item 1 above, we operate in markets that are highly competitive. Because of competition, our businesses face continued pricing pressure from our customers and suppliers. If we are unable to offset margin reductions caused by these pricing pressures through steps such as enhanced cost control measures, our results of operations and financial condition could be adversely affected.

In addition, in recent years, the healthcare industry has been subject to increasing consolidation. If this consolidation trend continues among our customers and suppliers, it could give the resulting enterprises greater bargaining power, which may adversely impact our results of operations.

We have a few large customers that generate a significant amount of our revenue.

As described in greater detail in the discussion of our business in Item 1 above, our sales and credit concentration is significant. For example, Walgreens and CVS accounted for approximately 24% and 22%, respectively, of our revenue for fiscal 2010. The aggregate of our five largest customers, including Walgreens and CVS, accounted for approximately 57% of our revenue for fiscal 2010. In addition, Walgreens and CVS accounted for 32% and 21%, respectively, of our gross trade receivable balance at June 30, 2010. If one or more of our large customers default in payment, terminate or do not renew contracts, or significantly reduce their purchases of our products, our results of operations and financial condition could suffer.

In addition, approximately 15% of our revenue for fiscal 2010 was derived through the contractual arrangements established with two GPOs, Novation and Premier. GPO members generally are not required to comply with GPO vendor selections. Still, the loss of an agreement with a GPO could cause us to lose customers, which may adversely affect our results of operations and financial condition.

Our Pharmaceutical segment s margin may be affected by prices established by manufacturers or market forces that are beyond our control.

As described in greater detail in the discussion of our business in Item 1, we generate a portion of our branded manufacturer margin from pharmaceutical price appreciation. If branded manufacturers increase prices less frequently or by smaller amounts, or restrict the amount of inventory available to us, we will earn less branded manufacturer margin.

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In addition, prices for generic pharmaceuticals distributed by our pharmaceutical distribution business tend to decline over time, which could have an adverse effect on our generic manufacturer margin.

The U.S. healthcare environment is changing in many ways, some of which may not be favorable to us, as a result of recent federal healthcare legislation.

Our products and services are primarily intended to function within the current structure of the healthcare industry in the United States. In recent years, the healthcare industry has undergone significant changes designed to control costs. The use of managed care has increased; Medicare and Medicaid reimbursement levels have declined; distributors, manufacturers, healthcare providers and pharmacy chains have consolidated; and large, sophisticated purchasing groups have become more prevalent.

In March 2010, Congress approved, and the President signed into law, the Patient Protection and Affordable Care Act and the Health Care and Education Reconciliation Act (collectively the Healthcare Reform Acts). Among other things, the Healthcare Reform Acts seek to expand health insurance coverage to approximately 32 million uninsured Americans. Many of the significant changes in the Healthcare Reform Acts do not take effect until 2014, including a requirement that most Americans carry health insurance. We expect expansion of access to health insurance to increase the demand for our products and services, but other provisions of the Healthcare Reform Acts could affect us adversely. The Healthcare Reform Acts contain many provisions designed to generate the revenues necessary to fund the coverage expansions and to reduce costs of Medicare and Medicaid. Beginning in 2013, each medical device manufacturer will have to pay a tax in an amount equal to 2.3% of the price for which the manufacturer sells its medical devices. We manufacture and sell devices that will be subject to this tax. Additionally, the Healthcare Reform Acts changed the federal upper payment limit for Medicaid reimbursement to no less than 175% of the average weighted manufacturer s price (AMP) from 250% of the lowest average manufacturer s price for generic pharmaceuticals. The AMP provision is expected to become effective in October 2010. We could be adversely affected by, among other things, changes in the delivery or pricing of or reimbursement for pharmaceuticals, medical devices, or healthcare services.

Our business requires consistent, diligent and rigorous compliance with regulatory and licensing requirements.

The healthcare industry is highly regulated. As described above in greater detail in the discussion of our business in Item 1, we are subject to regulation in the United States at both the federal and state level and in foreign countries. Many of our subsidiaries are required to register for permits or licenses with, and to comply with operating and security standards of, regulatory agencies. If we fail to comply with these regulatory requirements, or if allegations are made that we fail to comply, our results of operations and financial condition could suffer.

To lawfully operate our businesses, we are required to hold permits, licenses and other regulatory approvals from governmental bodies. Failure to maintain or renew, or obtain without significant delay, necessary permits, licenses or approvals could have an adverse effect on our results of operations and financial condition. For example, in fiscal 2008, the DEA suspended licenses to distribute controlled substances held by three of our distribution centers for almost a year because of alleged defects in our controlled substance anti-diversion controls.

Products that we manufacture, distribute or market are required to comply with regulatory requirements. Noncompliance or concerns over noncompliance could result in product corrective actions, recalls or seizures, warning letters, monetary sanctions, injunctions to halt manufacture and distribution of products, civil or criminal sanctions, governmental refusal to grant approvals, restrictions on operations, withdrawal of existing approvals and third party claims.

We are required to comply with laws and regulations relating to healthcare fraud and abuse. The scope and applicability of these laws is not always clear. If we fail to comply with them, we could be subject to federal or state government investigations and resulting civil and criminal penalties including the loss of licenses or the ability to participate in Medicare, Medicaid and other federal and state healthcare programs. The scope or requirements of these laws or regulations may be interpreted or applied by a regulator, prosecutor or judge in a manner that could negatively impact or require us to change our operations.

We could be subject to adverse changes in the tax laws or challenges to our tax positions.

We are a large multinational corporation with operations in the United States and many foreign countries. As a result, we are subject to the tax laws and regulations of many jurisdictions. From time to time, legislative initiatives are proposed, including proposals to repeal LIFO (last-in, first-out) treatment of inventory, that could adversely affect our tax positions, effective tax rate or tax payments. Tax laws and regulations are extremely complex and subject to varying interpretations. Tax authorities have challenged some of our tax positions and it is possible that they will challenge others. We may not be able to defend these challenges successfully, which may adversely affect our effective tax rate or tax payments.

Our business and operations depend on the proper functioning of information systems and critical facilities.

We rely on information systems to obtain, rapidly process, analyze and manage data to:

- facilitate the purchase and distribution of thousands of inventory items from numerous distribution centers;
- receive, process and ship orders on a timely basis;
- manage the accurate billing and collections for thousands of customers;
- process payments to suppliers;
- facilitate the manufacturing and assembly of medical products; and
- generate financial transactions and information.

Our business also depends on the proper functioning of our critical facilities, including our national logistics center. Our results of operations could be adversely affected if these systems or facilities are interrupted, damaged by unforeseen events or actions of third parties, or fail for any extended period of time.

The Medical segment is working on a medical business transformation project, which includes a new information system for supply chain and manufacturing related processes. The Medical segment is planning to transition selected processes to the new system throughout fiscal 2012 and 2013. If the system is not effectively implemented or fails to operate as intended, it could adversely affect the Medical segment s supply chain and manufacturing operations and the effectiveness of our internal control over financial reporting.

Because of the nature of our business, we may become involved in legal proceedings that could adversely impact our cash flows or results of operations.

Due to the nature of our businesses, which includes the manufacture and distribution of healthcare products, we may from time to time become involved in legal proceedings. For instance, some of the products we manufacture or distribute may be alleged to cause personal injury or violate the intellectual property rights of another party, subjecting us to product liability or infringement claims. While we generally obtain indemnity rights from the manufacturers of products we distribute, and we carry product liability insurance, it is possible that liability from such claims could exceed those protections. Litigation is inherently unpredictable and the unfavorable resolution of one or more of these legal proceedings could harm our cash flows or results of operations.

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Acquisitions are not always as successful as we expect them to be.

Historically, an important element of our growth strategy has been to acquire other businesses that expand or complement our existing businesses. Acquisitions involve risks: we may overpay for a business or fail to realize the synergies and other benefits we expect from the acquisition; we may encounter unforeseen accounting or internal control over financial reporting issues; or the acquired business may have regulatory or compliance issues that we did not anticipate.

We depend on certain suppliers to make their raw materials and products available to us and are subject to fluctuations in costs of raw materials and products.

We depend on various components, compounds, raw materials and energy (including radioisotopes and oil, oil-related and other commodities) supplied by others for our operations. Any of our supplier relationships could be interrupted due to natural disasters or other events or could be terminated. A sustained interruption in the flow of adequate supplies could have an adverse effect on our business. In addition, while we have processes to minimize volatility in component and material pricing, we may not be able to successfully manage price fluctuations.

Our manufacturing businesses use oil, oil-related and other commodities as raw materials in many products. Prices of oil and gas also affect our distribution and transportation costs. Oil and gas prices are volatile and have fluctuated significantly in recent years, so our costs to produce and distribute our products also have fluctuated. Because the healthcare industry is highly competitive and many customers and third-party payors have instituted cost-containment initiatives, we may be unable to pass along cost increases through higher prices. If we cannot fully offset cost increases through other cost reductions, or recover these costs through price increases or fuel surcharges, our results of operations could be adversely affected.

Our global operations are subject to a number of economic, political and regulatory risks.

Our global operations are affected by local economic environments, including inflation, recession, currency volatility and competition. Political changes can disrupt our supply chain as well as our customers and operating activities in a particular location. We may not be able to enter into hedges or obtain insurance to protect us against these risks, and any hedges that we enter into or insurance that we are able to obtain may be expensive and may not successfully mitigate these risks.

In addition, our global operations are subject to risks arising from violations of U.S. laws such as the U.S. Foreign Corrupt Practices Act and similar anti-bribery laws in other jurisdictions, and various export control and trade embargo laws and regulations, including those that may require licenses or other authorizations for transactions within certain countries or with certain counterparties. If we fail to comply with applicable laws and regulations, we could suffer civil and criminal penalties.

Risks associated with the Spin-Off of CareFusion.

This section describes some of the risks that exist as a result of the Spin-Off of CareFusion, which is described in greater detail in the Management s Discussion and Analysis of Financial Condition and Results of Operations in this Form 10-K.

CareFusion may not satisfy all of its contractual obligations. We entered into a number of agreements with CareFusion that govern the rights and obligations of the parties following the Spin-Off. We have certain rights under those agreements, including indemnification against certain liabilities allocated to CareFusion. The failure of CareFusion to perform its obligations under the agreements could have an adverse effect on our financial condition and results of operations.

The transaction may have unexpected tax consequences. In connection with the Spin-Off, we received a private letter ruling from the IRS to the effect that the contribution by us of the assets of the clinical and medical products businesses to CareFusion and the distribution of CareFusion shares to our shareholders would qualify as a tax-free transaction under Sections 355 and 368(a)(1)(D) of the Internal Revenue Code (the Code). In addition, we received opinions of tax counsel to the effect that the Spin-Off would qualify as a transaction that is described in Sections 355(a) and 368(a)(1)(D) of the Code. The IRS private letter ruling and the opinions of counsel rely on certain facts, assumptions, representations and undertakings from us and CareFusion regarding the past and future conduct of the companies respective businesses and other matters. If any of these facts, assumptions, representations or undertakings are incorrect or not otherwise satisfied, we and our shareholders may not be able to rely on the IRS ruling or the opinions of tax counsel. Similarly, the IRS could determine on audit that the Spin-Off is taxable if it determines that any of the facts, assumptions, representations or undertakings are not correct or have been violated or if the IRS disagrees with the conclusions in the opinions of counsel that are not covered by the private letter ruling or for other reasons, including as a result of certain significant changes in stock ownership of either Cardinal Health or CareFusion. If the Spin-Off is determined to be taxable for U.S. federal income tax purposes, we and our shareholders that are subject to U.S. federal income tax could incur significant tax liabilities.

We may not be able to capture the full benefits from our minority investment in CareFusion. As of June 30, 2010, we owned approximately 30.5 million CareFusion shares. As with any investment in a publicly traded company, this investment is subject to risks and uncertainties relating to CareFusion s business, as disclosed in CareFusion s filings with the SEC. In addition, we entered into an agreement in connection with the Spin-Off under which we committed to vote all of our CareFusion shares in proportion to the votes cast by CareFusion s other shareholders and we do not have any representation on CareFusion s Board of Directors. As a result, we are not able to exert control or influence over CareFusion to act in a manner that we may believe best for protecting or enhancing the value of our investment.

Under the private letter ruling from the IRS relating to the Spin-Off, we must dispose of the CareFusion shares as soon as practicable after the Spin-Off and consistent with our reasons for retaining the shares, but no later than August 31, 2014. As a result, we may be required to sell some or all of the shares at a time when we might not otherwise choose to do so. Additionally, any disposition of CareFusion shares by us in the public market, or the perception that such dispositions could occur, could adversely affect prevailing market prices for CareFusion shares and adversely affect the value or the terms and conditions of such disposition.

Item 1B: ***Unresolved Staff Comments***
Not applicable.

Item 2: ***Properties***
In the United States, the Pharmaceutical segment operates 24 pharmaceutical distribution facilities and one national logistics center; four specialty distribution facilities; and 170 nuclear pharmacy laboratory, manufacturing and distribution facilities. The Medical segment operates 50 medical-surgical distribution, assembly, manufacturing, and research operation facilities. Our U.S. operating facilities are located in 45 states and in Puerto Rico.

Outside of the United States, through our Medical segment, we own or lease 16 manufacturing, distribution and research operating facilities in Canada, the Dominican Republic, Malaysia, Malta, Mexico, and Thailand.

We own 65 operating facilities and lease 200 operating facilities. We own two adjoining four-story buildings at 7000 and 7200 Cardinal Place in Dublin, Ohio, where our principal executive offices are headquartered.

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We consider our operating properties to be in satisfactory condition and adequate to meet our present needs. However, we regularly evaluate operating properties and may make further additions and improvements or consolidate locations as we seek opportunities to expand our business.

Item 3: ***Legal Proceedings***

We become involved from time-to-time in litigation and regulatory matters incidental to our business, including governmental investigations, enforcement actions, personal injury claims, employment matters, commercial disputes, intellectual property matters, disputes regarding environmental clean-up costs, litigation in connection with acquisitions and divestitures, and other matters arising out of the normal conduct of our business. We intend to vigorously defend ourselves in such litigation and regulatory matters. We do not believe that the outcome of any pending litigation will have a material adverse effect on the consolidated financial statements.

Item 4: ***Removed and Reserved***

Executive Officers of the Registrant

The following is a list of our executive officers as of August 18, 2010:

Name	Age	Position
George S. Barrett	55	Chairman and Chief Executive Officer
Jeffrey W. Henderson	45	Chief Financial Officer
Michael C. Kaufmann	47	Chief Executive Officer, Pharmaceutical segment
Michael A. Lynch	49	Chief Executive Officer, Medical segment
Craig S. Morford	51	Chief Legal and Compliance Officer
Carole S. Watkins	50	Chief Human Resources Officer
Mark R. Blake	39	Executive Vice President, Strategy and Corporate Development
Stephen T. Falk	45	Executive Vice President, General Counsel and Corporate Secretary

The business experience summaries provided below for our executive officers describe positions held during the last five years (unless otherwise indicated).

Mr. Barrett has served as Chairman and Chief Executive Officer since the Spin-Off on August 31, 2009. Prior to that, since January 2008, he served as Vice Chairman of Cardinal Health and Chief Executive Officer, Healthcare Supply Chain Services. Before he joined us, Mr. Barrett held several positions with Teva Pharmaceutical Industries Limited, a global pharmaceutical company. From November 2006 to January 2008, he was President and Chief Executive Officer of Teva North America and Executive Vice President Global Pharmaceutical Markets and a member of the Office of the Chief Executive Officer for Teva Pharmaceutical Industries. He was President and Chief Executive Officer of Teva North America and Group Vice President North America of Teva Pharmaceutical Industries from 2005 to 2006. Prior to that, Mr. Barrett served as President of Teva USA from 1998 to 2005.

Mr. Henderson has served as Chief Financial Officer since May 2005 and joined Cardinal Health as an Executive Vice President in April 2005.

Mr. Kaufmann has served as Chief Executive Officer, Pharmaceutical segment, since August 31, 2009. Prior to that, since April 2008, he served as Group President, Pharmaceutical Supply Chain. From April 2007 to April 2008, he was Group President of Healthcare Supply Chain Services Medical segment. From September 2005 April 2007, he was Chief Financial Officer of Healthcare Supply Chain Services. From May 2005 to September 2005, he was Executive Vice President, Sales, Marketing and Procurement.

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Mr. Lynch has served as Chief Executive Officer, Medical segment, since August 31, 2009. Prior to that, since September 2008, he served as Group President, Medical. From July 2004 to September 2008, he was Group President, Medical Products and Technologies.

Mr. Morford has served as Chief Legal and Compliance Officer since May 2009. From May 2008 to May 2009, he served as Chief Compliance Officer. Prior to joining us, from August 2007 to March 2008, he was the Acting Deputy Attorney General of the United States. From October 2006 to July 2007, he was United States Attorney in Nashville, Tennessee. From March 2005 to October 2006, he was First Assistant United States Attorney in the United States Attorney s office in Cleveland, Ohio.

Ms. Watkins has served as Chief Human Resources Officer and its predecessor position, Executive Vice President Human Resources, since August 2000.

Mr. Blake has served as Executive Vice President, Strategy and Corporate Development since October 2009. Prior to joining us, since October 2007, he was Vice President, Business Development of Medco Health Solutions, Inc. (Medco). From August 2006 to October 2007, he was Senior Director, Business Development, of Medco. From June 2005 to July 2006, he served as Director, Corporate Development, of Avaya, Inc.

Mr. Falk has served as Executive Vice President, General Counsel and Corporate Secretary since May 2009. From April 2007 to May 2009, he served as Executive Vice President and General Counsel of the Healthcare Supply Chain Services segment. From March 2005 to April 2007, he served as Vice President and General Counsel of the Pharmaceutical Technologies and Services segment.

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PART II

Item 5: ***Market for Registrant s Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities***

On August 31, 2009, each shareholder received 0.5 shares of CareFusion common stock for each of our Common Shares held on August 25, 2009, the record date for the Spin-Off. On August 31, 2010, the last trading day before the Spin-Off became effective, the closing price of our Common Shares, trading regular way (that is with an entitlement to shares of CareFusion common stock distributed in the Spin-Off), was $34.58. On September 1, 2009, the first trading day after the Spin-Off, the opening price of our Common Shares was $25.32 per share and the opening price of CareFusion stock was $19.65 per share. These stock prices were as reported on the New York Stock Exchange Composite Tape.

Our common shares are listed on the New York Stock Exchange under the symbol CAH. The following table reflects the range of the reported high and low closing prices of our common shares as reported on the New York Stock Exchange Composite Tape and the per share dividends declared for the fiscal years ended June 30, 2010 and 2009, and from July 1, 2010 through the period ended on August 18, 2010. The stock prices listed in the table below for quarter-end prices prior to August 31, 2009 have not been adjusted for the impact of the Spin-Off.

	High	Low	Dividends
Fiscal 2009			
Quarter Ended:			
September 30, 2008	$ 56.34	$ 48.54	$ 0.140
December 31, 2008	50.50	28.38	0.140
March 31, 2009	39.53	28.59	0.140
June 30, 2009	36.95	29.81	0.175
Fiscal 2010			
Quarter Ended:			
September 30, 2009	$ 35.63	$ 24.97	$ 0.175
December 31, 2009	32.95	26.22	0.175
March 31, 2010	36.45	31.31	0.175
June 30, 2010	36.45	32.80	0.195
Fiscal 2011			
Through August 18, 2010	$ 35.88	$ 30.94	$ 0.195

As of August 18, 2010 there were approximately 14,493 shareholders of record of the Common Shares.

We anticipate that we will continue to pay quarterly cash dividends in the future. The payment and amount of future dividends remain, however, within the discretion of our Board of Directors and will depend upon our future earnings, financial condition, capital requirements and other factors

Issuer Purchases of Equity Securities

Period	Total Number of Shares Purchased (1)	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Program (2)	Approximate Dollar Value of Shares That May Yet be Purchased Under the Program (2)
April 1 30, 2010	817	$ 35.68	0	$ 450,000,023
May 1 31, 2010	6,179	34.92	0	450,000,023
June 1 30, 2010	5,758,600	34.72	5,758,200	250,088,735
Total	5,765,596	$ 34.72	5,758,200	$ 250,088,735

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(1) Includes 129, 121 and 180 Common Shares purchased in April, May and June 2010, respectively, through a rabbi trust as investments of participants in our Deferred Compensation Plan. Also includes 688, 6,058 and 220 restricted shares surrendered in April, May and June 2010, respectively, by employees upon vesting to meet tax withholding.

(2) During the three months ended June 30, 2010, we repurchased approximately $200 million of our Common Shares under our existing $500 million share repurchase program announced on August 5, 2009. During July and August 2010, we repurchased an additional $250 million of our Common Shares completing the existing share repurchase program.

Performance Graph

The following line graph compares the cumulative total return of our Common Shares with the cumulative total return of the Standard & Poor s Composite 500 Stock Index and the Value Line Health Care Sector Index, an independently prepared index that includes more than 100 companies in the health care industry. The graph assumes, in each case, an initial investment of $100 on June 30, 2005, based on the market prices at the end of each fiscal year through and including June 30, 2010, and reinvestment of dividends (and taking into account the value of CareFusion shares distributed in the Spin-Off). The Value Line Health Care Index investment is weighted on the basis of market capitalization at the beginning of each fiscal year. The companies in the Value Line Health Care Index are referred to as the Peer Group in the line graph and accompanying chart.

June 30,	2005	2006	2007	2008	2009	2010
Cardinal Health, Inc.	100.00	112.18	123.89	91.28	55.00	86.17
Standard & Poors 500	100.00	108.63	131.00	113.81	83.98	96.10
Peer Group	100.00	104.00	116.53	105.89	91.08	100.30

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Item 6: ***Selected Financial Data***

The consolidated financial data include all business combinations as of the date of acquisition that occurred during these periods. The following selected consolidated financial data should be read in conjunction with our consolidated financial statements and related notes and Item 7 Management s Discussion and Analysis of Financial Condition and Results of Operations.

	At or for the Fiscal Year Ended June 30,				
	2010	2009	2008	2007	2006 (1)
	(In millions, except per common share amounts)				
Earnings Data:					
Revenue	$ 98,502.8	$ 95,991.5	$ 87,408.2	$ 84,220.4	$ 77,389.4
Earnings from continuing operations	587.0	758.2	847.2	532.1	825.7
Earnings from discontinued operations (2)	55.2	393.4	453.4	1,399.0	174.4
Net earnings	$ 642.2	$ 1,151.6	$ 1,300.6	$ 1,931.1	$ 1,000.1
Basic earnings per Common Share					
Continuing operations	$ 1.64	$ 2.12	$ 2.37	$ 1.35	$ 1.96
Discontinued operations (2)	0.15	1.10	1.26	3.54	0.42
Net basic earnings per Common Share	$ 1.79	$ 3.22	$ 3.63	$ 4.89	$ 2.38
Diluted earnings per Common Share					
Continuing operations	$ 1.62	$ 2.10	$ 2.33	$ 1.31	$ 1.93
Discontinued operations (2)	0.15	1.08	1.24	3.46	0.40
Net diluted earnings per Common Share	$ 1.77	$ 3.18	$ 3.57	$ 4.77	$ 2.33
Cash dividends declared per Common Share	0.720	0.595	0.500	0.390	0.270
Balance Sheet Data:					
Total assets	$ 19,990.2	$ 25,118.8	$ 23,448.2	$ 23,153.8	$ 23,433.3
Long-term obligations, less current portion and other short-term borrowings	1,896.1	3,271.6	3,681.7	3,447.3	2,503.4
Shareholders equity (3)	5,276.1	8,724.7	7,747.5	7,376.9	8,490.7

(1) During the first quarter of fiscal 2006, we adopted new accounting guidance regarding share-based compensation. Prior to this accounting guidance, we accounted for share-based awards under the intrinsic value method, and share-based compensation was included as pro forma disclosure within the notes to the financial statements.

(2) On August 31, 2009, we separated the clinical and medical products businesses from our other businesses through a pro rata distribution to shareholders of 81% of the then outstanding common stock of CareFusion and met the criteria for classification of these businesses as discontinued operations. During the fourth quarter of fiscal 2009, we committed to plans to sell our United Kingdom-based Martindale injectable manufacturing business within our Pharmaceutical segment, and met the criteria for classification of this business as discontinued operations. During the second quarter of fiscal 2007, we committed to plans to sell our former Pharmaceutical Technologies and Services segment, other than certain generic-focused businesses (the segment, excluding the certain generic-focused businesses that were not sold, is referred to as the PTS Business) and met the criteria for classification as discontinued operations. During the first quarter of fiscal 2006, we decided to discontinue our sterile pharmaceutical manufacturing business in Humacao, Puerto Rico, and met the criteria for classification as discontinued operations. For additional information regarding discontinued operations, see Note 5 of Notes to Consolidated Financial Statements.

(3) In the first quarter of fiscal 2008, we adopted new accounting guidance regarding the accounting for uncertainty in income taxes recognized in the financial statements. This accounting guidance provides that a tax benefit from an uncertain tax position may be recognized when it is more likely than not that the position will be sustained upon examination, including resolutions of any related appeals or litigation processes, based on the technical merits. The amount recognized is measured as the largest amount of tax benefit that is greater than 50% likely of being realized upon settlement. The cumulative effect of adopting this accounting guidance was a $139.3 million reduction of retained earnings.

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Item 7: ***Management s Discussion and Analysis of Financial Condition and Results of Operations***

The discussion and analysis presented below refers to and should be read in conjunction with the consolidated financial statements and related notes included in this Form 10-K. Unless otherwise indicated, throughout this Management s Discussion and Analysis of Financial Condition and Results of Operations, we are referring to our continuing operations.

Executive Overview

We are a $98.5 billion global company serving the healthcare industry with products and services that help hospitals, physician offices and pharmacies reduce costs, improve safety and productivity, and deliver better care to patients. We report our financial results in two segments: Pharmaceutical and Medical.

Our 2010 fiscal year was a significant transition year as we completed the spin-off of CareFusion, transitioned to a new management team, commenced a number of key programs to enhance and refocus our operations and responded to the challenging economic environment and uncertain healthcare industry landscape. During fiscal 2010, our Medical segment profit grew by 11 percent, while continuing to make key strategic investments. Our Pharmaceutical segment profit declined by 3 percent, primarily due to pricing changes on renewed customer contracts, the negative impact of actions we took to improve our strategic positioning, the negative impact from the year-over-year value of generic launches and a severe supply shortage in nuclear pharmacy. These items were largely offset by our execution on major programs and disciplined cost controls.

Our cash and equivalents balance was $2.8 billion at June 30, 2010, compared to $1.2 billion at June 30, 2009. The increase was primarily derived from net cash provided by operating activities of $2.0 billion as a result of earnings and very successful working capital management in fiscal 2010.

We plan to continue to execute a balanced deployment of available capital to position ourselves for sustainable competitive advantage and to create shareholder value. This includes reinvesting in the business; during fiscal 2010 we made capital expenditures totaling $260 million, with the majority being in the area of information technology projects. We may seek to complement our internal capabilities or scale with acquisitions, such as the acquisition of Healthcare Solutions Holding, LLC (P4 Healthcare) that we recently completed during early fiscal 2011. During fiscal 2010, we paid quarterly dividends of $0.175 per share, or $0.70 per share on an annualized basis. On May 5, 2010, the board of directors approved an 11 percent increase in the quarterly dividend beginning in July 2010. In fiscal 2010 we also repurchased $250 million of shares (of which $20 million cash settled in July 2010).

Trends

As we enter fiscal 2011, we expect low single-digit growth in the primary markets that we serve. Actual revenue growth realized in our two segments may vary from market trends based on customer gains and losses, product and customer sales mix shifts, and growth of the specific customers that we serve.

Our gross margin has been relatively flat over the past three years and decreased as a percentage of revenues primarily as a result of competitive pressures. We began a number of business programs to improve gross margin and increase the sales of higher margin products, which had some success in fiscal 2010. Going forward, our gross margin could be influenced by the rates of growth in our key markets, product and customer sales mix, competitive pricing intensity, sourcing activity, the rate and value of generic pharmaceutical launches, and price changes for our products, including generic and branded pharmaceutical price appreciation or deflation.

Our Pharmaceutical segment s nuclear pharmacy services business dispenses several products prepared using a particular radioisotope. At the present time, it is difficult to acquire sufficient quantities of that radioisotope from third party suppliers because of a continued and prolonged shortage of a critical raw material used to derive that radioisotope from two nuclear reactors, which are experiencing prolonged downtimes. Based on information obtained from parties involved with the two affected nuclear reactors, we anticipate the supply of raw material to normalize in the first half of fiscal 2011.

Within the Medical segment, variability in the cost of raw materials such as oil, oil-related and other commodities can have a significant impact on the cost of products sold. In fiscal 2011, we anticipate a negative year-over-year impact from higher commodity prices.

In March 2010, Congress approved, and the President signed into law, the Patient Protection and Affordable Care Act and the Health Care and Education Reconciliation Act (the Health Reform Acts). The Health Reform Acts seek to expand health insurance coverage to approximately 32 million uninsured Americans. Many of the significant changes in the Healthcare Reform Acts do not take effect until 2014, including a requirement that most Americans carry health insurance. Although we expect expansion of access to health insurance to increase the demand for our products and services, the overall effect of the provisions of the Health Reform Acts on us is uncertain and could be adverse. The Health Reform Acts contain many provisions designed to generate the revenues necessary to fund the coverage expansions and to reduce costs of Medicare and Medicaid. We could be adversely affected by, among other things, changes in the delivery or pricing of or reimbursement for pharmaceuticals, medical devices or healthcare services. In addition, beginning in 2013, each medical device manufacturer will have to pay a tax in an amount equal to 2.3% of the price for which the manufacturer sells its medical devices. We manufacture and sell medical devices that will be subject to this tax.

Acquisitions and Divestitures

In July 2010, subsequent to the end of fiscal 2010, we completed the acquisition of P4 Healthcare for a cash payment of $517 million. The acquisition agreement also includes earn-out payments of up to $150 million over the next three years. With this acquisition, we plan to expand our presence in specialty pharmaceutical services and distribution. P4 Healthcare s results will be reported within our Pharmaceutical segment.

We consider acquisitions to expand our role as a provider of services and innovative products to the healthcare industry, especially those that complement our existing operations and provide opportunities for us to develop synergies with, and strengthen, the acquired business. There can be no assurance, however, that we will be able to successfully take advantage of any such opportunity if and when it arises or consummate any such transaction, if pursued. As additional transactions are pursued or consummated, we would incur additional acquisition related charges, and may need to enter into funding arrangements for such acquisitions. There can be no assurance that the integration efforts associated with any such transaction will be successful.

During the fourth quarter of fiscal 2010, we sold our United Kingdom-based Martindale injectable manufacturing business (Martindale) for $141 million.

Spin-Off of CareFusion Corporation

On August 31, 2009, we separated the clinical and medical products businesses from our other businesses through a pro rata distribution to shareholders of approximately 81% of the then outstanding shares of CareFusion common stock (the Spin-Off). We retained certain surgical and exam gloves, surgical drapes and apparel and fluid management businesses that were previously part of our clinical and medical products business. As explained elsewhere in this Form 10-K, the Spin-Off had a significant impact on our results of operations and financial condition.

During fiscal 2010, we sold approximately 10.9 million shares of the 41.4 million shares of CareFusion common stock that we held immediately after the Spin-Off for $271 million, which resulted in a gross pre-tax realized gain of approximately $45 million. As of June 30, 2010, our ownership of approximately 30.5 million shares of CareFusion common stock had an estimated fair value of $692 million. Under the private letter ruling from the IRS relating to the Spin-Off, we must dispose of the CareFusion shares as soon as practicable after the Spin-Off and consistent with our reasons for retaining the shares, but no later than August 31, 2014. CareFusion has registered the CareFusion stock we own with the SEC, although we may sell the stock under an exemption from registration.

The net assets of CareFusion are presented separately as assets from businesses held for sale and discontinued operations and its operating results are presented within discontinued operations for all reporting periods through the date of the Spin-Off.

Our Continuing Relationship with CareFusion

On July 22, 2009, we entered into a separation agreement with CareFusion to effect the Spin-Off and provide a framework for our relationship with CareFusion after the Spin-Off. In addition, on August 31, 2009, we entered into a transition services agreement, a tax matters agreement, an employee matters agreement, intellectual property agreements and certain other commercial agreements with CareFusion. These agreements, including the separation agreement, provide for the allocation of assets, employees, liabilities and obligations (including investments, property and employee benefits and tax-related assets and liabilities) attributable to periods prior to, at and after the Spin-Off and govern certain relationships between CareFusion and us after the Spin-Off.

Pursuant to our transition services agreement with CareFusion, for fiscal 2010 we recognized approximately $99 million in transition service fee income which approximately offsets the costs associated with providing the transition services. Additionally, during fiscal 2010 we purchased $606 million of CareFusion trade receivables pursuant to an accounts receivable factoring arrangement between CareFusion and us.

Under the tax matters agreement in connection with the Spin-Off, CareFusion is obligated to indemnify us for certain tax exposures and transaction taxes prior to the Spin-Off. As of June 30, 2010, we have a $245 million indemnification receivable on our balance sheet related to this item.

Results of Operations

Revenue

	Change			Revenue	
	2010	2009	2010	2009	2008
Pharmaceutical	2%	11%	$ 89,789.9	$ 87,862.9	$ 79,498.3
Medical	7%	3%	8,750.1	8,159.3	7,916.7
Corporate	N.M.	N.M.	(37.2)	(30.7)	(6.8)
Consolidated revenue	3%	10%	$ 98,502.8	$ 95,991.5	$ 87,408.2

Fiscal 2010 Compared to Fiscal 2009

Pharmaceutical segment

Pharmaceutical segment revenue was positively impacted by pharmaceutical price appreciation and increased volume from existing customers (a combined impact of $3.4 billion), partially offset by losses of customers in excess of gains ($1.3 billion).

Revenue from non-bulk customers was $45.8 billion, $44.1 billion and $42.2 billion for fiscal 2010, 2009 and 2008, respectively. Revenue from bulk customers was $44.0 billion, $43.7 billion and $37.3 billion for fiscal 2010, 2009 and 2008, respectively. See Item 1: Business for more information about bulk and non-bulk customers.

Medical segment

Medical segment revenue was positively impacted by increased volume from existing hospital, laboratory and ambulatory care customers ($462 million), driven partially by strong demand for flu-related products. Also positively impacting revenue were new products ($74 million) and the favorable impact of foreign exchange ($55 million). In addition, in connection with the Spin-Off, we recognized previously deferred inter-company revenue for sales to CareFusion of $51 million (prior to the Spin-Off, we deferred revenue for products sold to CareFusion businesses until the products were sold to the end customers). Losses of existing customers in excess of gains from new customers reduced revenue by $200 million.

Fiscal 2009 Compared to Fiscal 2008

Pharmaceutical segment

Pharmaceutical segment revenue was positively impacted by pharmaceutical price appreciation and increased volume from existing customers (a combined impact of $7.8 billion). Revenue was negatively impacted by lost customer revenue from the DEA s suspensions of licenses to distribute controlled substances held by three of our distribution centers and because of enhanced controlled substance anti-diversion efforts that we undertook. We resumed controlled substance distributions from distribution centers that were impacted by the license suspensions during the second quarter of fiscal 2009.

Medical segment

Medical segment revenue was positively impacted by increased volume from existing hospital, laboratory and ambulatory care customers ($386 million). Revenue was negatively impacted by foreign exchange ($88 million).

Cost of Products Sold

Consistent with the increases in revenue, our cost of products sold increased $2.5 billion, or 3%, during fiscal 2010 and increased by $8.6 billion, or 10%, during fiscal 2009.

Gross Margin

	Change		Gross Margin		
	2010	**2009**	**2010**	**2009**	**2008**
Gross margin	1%	(1)%	$ 3,780.7	$ 3,747.5	$ 3,777.1

Fiscal 2010 Compared to Fiscal 2009

Pharmaceutical segment

Gross margin decreased $65 million as a result of the factors listed below.

Pricing changes on renewed customer contracts (exclusive of the related volume impact) decreased gross margin by $103 million.

In fiscal 2009, Medicine Shoppe offered an alternative franchise model to its franchisees to position the franchise system for future growth. This transformation adversely impacted gross margin by $65 million; however, this was partially offset by efficiencies gained within SG&A.

Increased branded margin (exclusive of the related volume impact) had a positive impact on gross margin of $38 million despite the adverse timing impact of the transition of a significant vendor relationship to a distribution service agreement. Several factors can influence branded margin, including: our service level performance under distribution service agreements; our inventory level and mix; and the magnitude and timing of pharmaceutical price appreciation.

Sales volume growth in pharmaceutical distribution had a positive impact of $22 million.

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Within nuclear pharmacy, for fiscal 2010, the negative impact of the isotope supply shortage was largely offset by the use of alternative isotopes and the favorable impact of cost of materials savings from conversion to generic products. However, there was a negative impact in the second half of the year due to the severe shortages we experienced during that period.

The favorable impact of various generic pharmaceutical product programs in pharmaceutical distribution was partially offset by lower generic margins due to timing and value of new generic launches.

Medical segment

Gross margin increased $95 million as a result of the factors listed below.

Increased sales volume resulted in a $67 million increase in gross margin.

Decreased cost of oil, oil-related and other commodities favorably impacted gross margin by $36 million.

Fiscal 2009 Compared to Fiscal 2008

Pharmaceutical segment

Gross margin increased by $48 million as a result of the factors listed below.

Pricing changes on renewed customer contracts (exclusive of the related volume impact) decreased gross margin by $132 million.

Higher sales volume, mainly as a result of growth in pharmaceutical distribution, increased gross margin by $122 million.

Timing of new generic pharmaceutical launches resulted in higher generic margins of $69 million.

Medical segment

Gross margin decreased $69 million as a result of the factors listed below.

The higher cost of oil, oil-related and other commodities decreased gross margin by $34 million.

The negative impact of foreign exchange impacted gross margin by $32 million.

Distribution, Selling, General and Administrative Expenses (SG&A   )

	Change		SG&A		
	2010	2009	2010	2009	2008
SG&A	3%	%	$ 2,408.0	$ 2,333.5	$ 2,340.6

Fiscal 2010 Compared to Fiscal 2009

Increased SG&A during fiscal 2010 was primarily due to an increase in our management incentive compensation. In fiscal 2010, we had incentive compensation accruals that were $46 million above plan due to better than expected consolidated performance compared with incentive compensation accruals that were $36 million below plan in fiscal 2009. In addition, we incurred increased spending on strategic projects ($51 million). SG&A expense growth was significantly mitigated by cost control measures instituted in fiscal 2009 and reduced bad debt expense ($25 million). Included within SG&A were $11 million and $5 million of costs related to the Spin-Off for fiscal 2010 and 2009, respectively.

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Fiscal 2009 Compared to Fiscal 2008

Cost control programs enabled us to decrease SG&A expenses in fiscal 2009 by $7 million even though we incurred higher bad debt expense ($38 million). The increased bad debt expense was due to poor economic conditions affecting certain customers and four regional chain customers of our Pharmaceutical segment filing for bankruptcy.

Segment Profit and Operating Earnings

	Change		Segment Profit and Operating Earnings		
	2010	2009	2010	2009	2008
Pharmaceutical	(3)%	1%	$ 1,001.8	$ 1,035.7	$ 1,022.4
Medical	11%	(6)%	427.7	384.9	411.3
Total Segment Profit	1%	(1)%	1,429.5	1,420.6	1,433.7
Corporate	N.M.	N.M.	(122.6)	(133.2)	(41.3)
Consolidated Operating Earnings	2%	(8)%	$ 1,306.9	$ 1,287.4	$ 1,392.4

Segment Profit

We evaluate the performance of the individual segments based upon, among other things, segment profit, which is segment revenue *less* segment cost of products sold *less* segment SG&A expenses. We do not allocate restructuring and employee severance, acquisition related costs, impairments and (gain)/loss on sale of assets, litigation (credits)/charges, net, certain investment and other spending to our segments. These costs are retained at Corporate. Investment spending generally includes the first year spend for certain projects which require incremental strategic investments in the form of additional operating expenses. We encourage our segments to identify investment projects which will promote innovation and provide future returns. As approval decisions for such projects are dependent upon executive management, the expenses for such projects are retained at Corporate. In addition, Spin-Off costs included within SG&A are not allocated to our segments.

Pharmaceutical segment

The principal drivers for the decrease during fiscal 2010 were pricing changes on renewed customer contracts, fewer significant generic pharmaceutical launches than the prior year and the Medicine Shoppe franchise transformation. The decline in segment profit was partially offset by contributions from our generic programs, disciplined cost controls and solid branded margin growth.

The principal drivers for the increase during fiscal 2009 were increased volume and contributions from new generic launches. The increase was partially offset by pricing changes on renewed customer contracts, the impact from anti-diversion activities and bad debt expense.

Segment profits from sales to bulk customers as a percentage of Pharmaceutical segment profit were 11%, 17% and 15% in fiscal 2010, 2009 and 2008. The decrease from fiscal 2009 to fiscal 2010 was due to pricing changes on renewed bulk customer contracts.

Medical segment

The principal drivers for the increase during fiscal 2010 were growth in sales to certain existing customers and decreased cost of raw materials associated with commodity price movements. Segment profit growth was partially dampened from increased spending on strategic projects.

The decrease during fiscal 2009 was primarily due to increased cost of raw materials associated with commodity price movements and the negative impact of foreign exchange.

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Consolidated Operating Earnings

In addition to revenue, gross margin and SG&A discussed above, operating earnings were impacted by the following:

	2010	2009	2008
Restructuring and Employee Severance	$ 90.7	$ 104.7	$ 55.3
Acquisition Related Costs	8.4	2.8	2.6
Impairments and (Gain)/Loss on Sale of Assets	29.1	13.9	(33.3)
Litigation (Credits)/Charges, Net	(62.4)	5.2	19.5

Fiscal 2010

Restructuring and employee severance: Fiscal 2010 restructuring and employee severance charges included $65 million of costs arising from the Spin-Off, including approximately $19 million of costs related to the retirement of our former Chairman and Chief Executive Officer. We expect to incur additional costs associated with existing restructuring activities primarily arising from the Spin-Off totaling approximately $15 million.

Impairments and (gain)/loss on sale of assets: We recognized an impairment charge of $18 million related to the write-down of SpecialtyScripts, a business within our Pharmaceutical segment. We completed the sale of SpecialtyScripts during the third quarter of fiscal 2010.

Litigation (credits)/charges, net: We received income of $41 million resulting from settlement of a class action antitrust claim alleging that a defendant branded pharmaceutical manufacturer took improper actions to delay the entry of a generic version of a branded pharmaceutical. In addition, we received $26 million of income for insurance proceeds released from escrow after litigation against certain directors and officers was resolved.

Fiscal 2009

Restructuring and employee severance: During fiscal 2009, restructuring and employee severance primarily related to the Spin-Off ($74 million) and realignment of our segment operating structure ($16 million).

Fiscal 2008

Restructuring and employee severance: During fiscal 2008, restructuring and employee severance primarily related to the relocation of our medical products distribution headquarters and certain corporate functions from Waukegan, Illinois to our corporate headquarters in Dublin ($28 million) and realignment of our business operations ($10 million).

Impairments and (gain)/loss on sale of assets: During fiscal 2008, we divested an investment within our Pharmaceutical segment and recognized a $23 million gain.

Litigation (credits)/charges, net: We recognized litigation charges totaling $74 million due to the resolution of the DEA license suspensions ($34 million) and other matters. These charges were offset by $58 million of income related to the settlement of several derivative actions against certain directors and officers.

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Earnings Before Income Taxes and Discontinued Operations

In addition to items discussed above, earnings before income taxes and discontinued operations were impacted by the following:

	Change		Earnings Before Income Taxes and Discontinued Operations		
	2010	2009	2010	2009	2008
Other (income)/expense, net	N.M.	N.M.	$ (13.5)	$ 13.2	$ (38.8)
Interest expense, net	(1)%	(16)%	113.5	114.4	136.1
Loss on extinguishment of debt	N.M.	N.M.	39.9	0.0	0.0
Gain on sale of CareFusion common stock	N.M.	N.M.	(44.6)	0.0	0.0

Fiscal 2010 Compared to Fiscal 2009

Other (income)/expense, net: Other (income)/expense, net is favorable compared to fiscal 2009 primarily due to income of $6 million related to the performance of our deferred compensation plan assets versus a $12 million expense in fiscal 2009. The income and expense related to the performance of the deferred compensation plan assets is offset within SG&A. Other (income)/expense, net was also favorably impacted by foreign exchange ($16 million).

Loss on extinguishment of debt: On September 24, 2009, we completed a debt tender for up to $1.2 billion of certain outstanding debt securities, ultimately purchasing more than $1.1 billion. The offer was funded by a $1.4 billion cash distribution received from CareFusion immediately prior to the Spin-Off. In connection with the debt tender, we incurred a pre-tax loss for the early retirement of debt of approximately $40 million, which included an early tender premium of $66 million, the write-off of $5 million of unamortized debt issuance costs, and an offsetting $32 million fair value adjustment to the debt related to previously terminated interest rate swaps.

Gain on sale of CareFusion common stock: We recognized $45 million of income related to realized gains from the sale of shares of CareFusion common stock.

Fiscal 2009 Compared to Fiscal 2008

Other (income)/expense, net: Other (income)/expense, net was unfavorable compared to fiscal 2008 primarily due to the impact of foreign exchange.

Interest expense, net: The decrease in interest expense, net was due to the favorable impact of interest rate swaps on fixed rate debt.

Provision for Income Taxes

Generally, fluctuations in the effective tax rate are due to changes within international and U.S. state effective tax rates resulting from our business mix and discrete items. A reconciliation of the provision based on the federal statutory income tax rate to our effective income tax rate from continuing operations is as follows for fiscal 2010, 2009 and 2008 (see Note 9 of Notes to Consolidated Financial Statements for a detailed disclosure of the effective tax rate reconciliation):

	Fiscal Year Ended June 30,		
	2010	**2009**	**2008**
Provision at Federal statutory rate	35.0%	35.0%	35.0%
State and local income taxes, net of federal benefit	4.7	1.8	4.4
Foreign tax rate differential	(2.0)	(3.8)	(7.2)
Unremitted foreign earnings and capital gain from repatriation	13.9	0.0	3.7
Valuation allowances	(2.3)	(3.1)	(3.7)
Other	2.3	4.7	2.4
Effective income tax rate	51.6%	34.6%	34.6%

Fiscal 2010 Compared to Fiscal 2009

The effective tax rate was unfavorably impacted by a charge of $168 million, or 13.9 percentage points, attributable to earnings no longer indefinitely invested offshore. The fiscal 2010 effective tax rate was also unfavorably impacted by 1.8 percentage points due to changes in our business mix which resulted in a higher percentage of our pretax income being generated in the U.S. than in lower tax rate international jurisdictions. A favorable audit settlement with a state taxing authority in fiscal 2009 (see below) also unfavorably impacted the year-over-year comparison of the effective tax rate.

Fiscal 2009 Compared to Fiscal 2008

The effective tax rate was unfavorably impacted by 3.4 percentage points due to changes in our business mix which resulted in a higher percentage of our pretax income being generated in the U.S than in lower tax rate international jurisdictions. The effective tax rate was favorably impacted by 1.4 percentage points due to an audit settlement with a state taxing authority. In addition, the effective tax rate was favorably impacted by 3.1 percentage points due to the release of a valuation allowance on a deferred tax asset established for a capital loss carryforward.

Ongoing Audits

The IRS currently has ongoing audits of fiscal years 2001 through 2007. We have received proposed adjustments from the IRS related to our transfer pricing arrangements between foreign and domestic subsidiaries and the transfer of intellectual property among subsidiaries of an acquired entity prior to its acquisition by us. The IRS proposed additional taxes of $598 million, excluding penalties and interest. If this tax ultimately must be paid, CareFusion is liable under the tax matters agreement for $462 million of the total amount. We disagree with these proposed adjustments and intend to vigorously contest them, but we believe our reserves for these matters are adequate.

Earnings from Discontinued Operations

Earnings from discontinued operations were $55 million for fiscal 2010. CareFusion operating results are included within earnings from discontinued operations for all periods through the date of the Spin-Off. Earnings from discontinued operations, net of tax, decreased by $60 million during fiscal 2009 primarily because CareFusion s earnings declined in large part because hospitals deferred capital spending. See Note 5 in the Notes to Consolidated Financial Statements for additional information on discontinued operations.

Liquidity and Capital Resources

We currently believe that, based upon available capital resources (cash on hand and ownership of shares of CareFusion common stock), projected operating cash flow, and access to committed credit facilities, we have adequate access to capital resources to fund working capital needs, currently anticipated capital expenditures, business growth and expansion, contractual obligations, current and projected debt service requirements, dividends and share repurchases. In the first quarter of fiscal 2011, we acquired P4 Healthcare using cash on hand. If we decide to engage in one or more additional acquisitions, depending on the size and timing of such transactions, we may need supplemental funding.

Capital Resources

Cash and Equivalents

Our cash and equivalents balance was $2.8 billion at June 30, 2010, compared to $1.2 billion at June 30, 2009. The increase was primarily derived from net cash provided by operating activities of $2.0 billion. Net cash provided by operating activities is primarily driven by net earnings and changes in working capital. Changes in working capital can vary significantly depending on factors such as the timing of inventory purchases, customer payments of accounts receivable, and payments to vendors during the regular course of business.

We use days sales outstanding (DSO), days inventory on hand (DIOH) and days payable outstanding (DPO) to evaluate our working capital performance. DSO is calculated as trade receivables, net divided by average daily revenue during the last month of the reporting period. DIOH is calculated as inventories divided by average daily cost of products sold and chargeback billings during the last quarter of the reporting period. DPO is calculated as accounts payable divided by average daily cost of products sold and chargeback billings during the last quarter of the reporting period. Chargeback billings are the difference between a product s wholesale acquisition cost and the contract price established between the vendors and the end customer.

	Fiscal Year Ended June 30,		
	2010	**2009**	**2008**
Days sales outstanding	18.6	19.1	19.6
Days inventory on hand	21.5	23.1	24.1
Days payable outstanding	32.1	30.5	31.1

Focused efforts to manage customer accounts and reduce delinquency rates have led to improved DSO. The significant improvement in DIOH was largely due to enhanced efficiency in our supply chain operations to reduce inventory requirements. The change in DPO during fiscal 2010 was largely driven by a change in payable terms with a supplier in our Pharmaceutical segment.

During fiscal 2010, we deployed $260 million on capital expenditures, $253 million on dividends and $230 million on share repurchases (an additional $20 million repurchased during fiscal 2010 settled during fiscal 2011) as part of our balanced capital deployment strategy. During fiscal 2010, we received $271 million in proceeds from sale of CareFusion common stock and $154 million from the divestitures of our Martindale business in the United Kingdom and SpecialtyScripts. In addition, we completed a debt tender resulting in the purchase of more than $1.1 billion debt securities using cash of $1.4 billion distributed to us from CareFusion in connection with the Spin-Off.

During fiscal 2009, we deployed $421 million on capital expenditures, $301 million on repayment of long-term obligations and $200 million on dividends. During fiscal 2008, we deployed $1.2 billion on share repurchases, $189 million on capital expenditures and $173 million on dividends. Also during fiscal 2008, we received $300 million from the issuance of long-term obligations and $228 million from shares issued under our share-based compensation plans.

The cash and equivalents balance at the end of fiscal 2010 included $398 million of cash held by subsidiaries outside of the United States. Although the vast majority of this cash is available for repatriation, bringing the money into the United States could trigger U.S. federal, state and local income tax obligations. As a U.S. parent company, we may temporarily access cash held by our foreign subsidiaries without becoming subject to U.S. federal income tax by taking intercompany loans. The previously disclosed cash held by our foreign subsidiaries does not include intercompany loans of $844 million and $237 million from our foreign entities which are currently planned to be repaid by fiscal 2013 and fiscal 2020, respectively.

The net cash provided by discontinued operations for fiscal 2010 of $1.4 billion primarily reflected permanent financing obtained by CareFusion prior to the Spin-Off offset by $90 million cash funding provided by us to CareFusion pursuant to the Spin-Off separation agreement. Net cash provided by/(used in) discontinued operations for fiscal 2009 and 2008 of $341 million and ($224) million, respectively, primarily related to the earnings and changes in working capital for CareFusion.

Ownership of Shares of CareFusion Common Stock

During fiscal 2010, we sold approximately 10.9 million shares of the 41.4 million shares of CareFusion common stock that we held immediately after the Spin-Off, which resulted in cash proceeds of $271 million. As of June 30, 2010, our remaining 30.5 million shares of CareFusion common stock had an estimated fair value of $692 million. Under the private letter ruling from the IRS relating to the Spin-Off, we must dispose of the CareFusion shares as soon as practicable after the Spin-Off and consistent with our reasons for retaining the shares, but no later than August 31, 2014. CareFusion has registered the CareFusion stock owned by us with the SEC, although we may sell the stock under an exemption from registration.

Credit Facilities and Commercial Paper

Our sources of liquidity include a $1.5 billion revolving credit facility and a $950 million committed receivables sales facility program. We also have a commercial paper program of up to $1.5 billion, backed by the revolving credit facility. We had no outstanding borrowings from the commercial paper program and no outstanding balance under the committed receivables sales facility program at June 30, 2010. Our ability to access the commercial paper market is limited based on our current credit rating from Moody s Investor Services.

Our revolving credit facility and receivables sales facility program require us to maintain a consolidated interest coverage ratio as of any fiscal quarter end of at least 4-to-1 and a consolidated leverage ratio of no more than 3.25-to-1. As of June 30, 2010, we were in compliance with these financial covenants.

Long-term Obligations

As of June 30, 2010, we had total long-term obligations of $2.1 billion compared to $3.6 billion at June 30, 2009. The decrease in long-term obligations was primarily driven by the debt tender completed in September 2009, resulting in the purchase of more than $1.1 billion debt securities. Additionally, in October 2009, we repaid our $350 million floating rate notes that had reached their maturity.

During fiscal 2009, we repaid $150 million of 6.25% notes that had reached their maturity and we also repaid $149 million for the preferred debt securities.

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Capital Expenditures

Capital expenditures during fiscal 2010, 2009 and 2008 of $260 million, $421 million and $189 million, respectively, primarily related to information technology projects and investments to improve the efficiency of our distribution facilities. Fiscal 2009 capital expenditures included $151 million to repurchase assets under an operating lease arrangement.

We expect capital expenditures in fiscal 2011 to be generally in line with the level of spending in fiscal 2010. We anticipate that we will be able to fund these expenditures through cash provided by operating activities. Fiscal 2011 capital expenditures will be largely focused on information technology projects.

Dividends

During fiscal 2010, we paid quarterly dividends of $0.175 per share, or $0.70 per share on an annualized basis. On May 5, 2010, our board of directors approved an 11 percent increase in the quarterly dividend to $0.195 per share, or $0.78 per share on an annualized basis, payable on July 15, 2010 to shareholders of record on July 1, 2010. On August 4, 2010, our board of directors approved our 104th consecutive regular quarterly dividend.

Share Repurchases

During fiscal 2010, we repurchased $250 million of our Common Shares, of which $20 million cash settled in July 2010. During July and August 2010, we repurchased an additional $250 million of our Common Shares which completes share repurchases under our current Board authorization. We funded the repurchases through available cash.

During fiscal 2009, we did not repurchase any of our Common Shares. During fiscal 2008, we repurchased approximately $1.1 billion of our Common Shares. A portion of the after-tax net proceeds of approximately $3.1 billion from the sale of our PTS Business were used to repurchase shares during the first quarter of fiscal 2008.

Interest Rate and Currency Risk Management

We use foreign currency forward contracts, interest rate swaps and commodity swaps to manage our exposure to cash flow variability. We also use foreign currency forward contracts to protect the value of our existing foreign currency assets and liabilities and interest rate swaps to protect the value of our debt. See Item 7A below as well as Notes 1 and 12 of Notes to Consolidated Financial Statements for information regarding the use of financial instruments and derivatives as well as foreign currency, interest rate and commodity exposures.

Contractual Obligations

As of June 30, 2010, our contractual obligations, including estimated payments due by period, are as follows:

(in millions)	**2011**	**2012-2013**	**2014-2015**	**Thereafter**	**Total**
On Balance Sheet:					
Long-term debt (1)	$ 232.4	$ 517.5	$ 530.9	$ 843.1	$ 2,123.9
Interest on long-term debt	103.0	185.7	160.4	183.4	632.5
Capital lease obligations (2)	1.6	3.3	1.2		6.1
Other long-term liabilities (3)	9.2	0.7	1.1		11.0
Unsettled share repurchases	19.8				19.8
Off-Balance Sheet:					
Operating leases (4)	65.8	93.5	35.9	26.2	221.4
Purchase obligations (5)	172.5	82.2	1.2	0.4	256.3
Total contractual obligations	$ 604.3	$ 882.9	$ 730.7	$ 1,053.1	$ 3,271.0

(1) Represents maturities of our long-term debt obligations excluding capital lease obligations described below. See Note 8 in Notes to Consolidated Financial Statements for further information.

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(2) Represents maturities of our capital lease obligations included within long-term debt on our consolidated balance sheet and the related estimated future interest payments.

(3) Represents cash outflows by period for certain of our long-term liabilities in which cash outflows could be reasonably estimated. Certain long-term liabilities, such as unrecognized tax benefits and deferred taxes, have been excluded from the table above because of the inherent uncertainty of the underlying tax positions or because of the inability to reasonably estimate the timing of any cash outflows. See Note 9 of Notes to Consolidated Financial Statements for further discussion of income taxes.

(4) Represents minimum rental payments and the related estimated future interest payments for operating leases having initial or remaining non-cancelable lease terms as described in Note 10 of Notes to Consolidated Financial Statements.

(5) Purchase obligations are defined as an agreement to purchase goods or services that is enforceable and legally binding and specifying all significant terms, including the following: fixed or minimum quantities to be purchased; fixed, minimum or variable price provisions; and approximate timing of the transaction. The purchase obligation amounts disclosed above represent estimates of the minimum for which we are obligated and the time period in which cash outflows will occur. Purchase orders and authorizations to purchase that involve no firm commitment from either party are excluded from the above table. In addition, contracts that can be unilaterally canceled with no termination fee or with proper notice are excluded from our total purchase obligations except for the amount of the termination fee or the minimum amount of goods that must be purchased during the requisite notice period.

Off-Balance Sheet Arrangements

See Liquidity and Capital Resources Capital Resources above and Note 18 in Notes to Consolidated Financial Statements, which is incorporated herein by reference, for a discussion of off-balance sheet arrangements.

Recent Financial Accounting Standards

See Note 1 in Notes to Consolidated Financial Statements for a discussion of recent financial accounting standards.

Critical Accounting Policies and Sensitive Accounting Estimates

Critical accounting policies are those accounting policies that (i) can have a significant impact on the presentation of our financial condition and results of operations for continuing operations and (ii) require use of complex and subjective estimates based upon past experience and management s judgment. Other companies applying reasonable judgment to the same facts and circumstances could develop different estimates. Because our estimates are inherently uncertain, actual results may differ. In this section, we describe the policies applied in preparing our consolidated financial statements that management believes are the most dependent on estimates and assumptions. For additional accounting policies, see Note 1 of Notes to Consolidated Financial Statements.

Allowance for Doubtful Accounts

Trade receivables amounts owed to us through our operating activities are presented net of an allowance for doubtful accounts. We also provide financing to various customers. Such financing arrangements range from 90 days to 10 years at interest rates that generally are subject to fluctuation. Financings may be collateralized, guaranteed by third parties or unsecured. Finance notes and accrued interest receivables are recorded net of an allowance for doubtful accounts and are included in other assets. We must use judgment when deciding whether to extend credit and when calculating the required allowance for doubtful accounts.

The allowance for doubtful accounts includes portfolio and specific reserves. We determine the appropriate allowance by reviewing accounts receivable aging, industry trends, customer financial strength and credit standing, historical write-off trends and payment history. We also regularly evaluate how changes in economic conditions may affect credit risks.

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Reserve methodologies are assessed annually based on historical losses and economic, business and market trends. In addition, reserves are reviewed quarterly and updated if appropriate. We may adjust the allowance for doubtful accounts if changes in customers financial condition or general economic conditions make defaults more frequent or severe.

The following table gives information regarding the allowance for doubtful accounts over the past three fiscal years.

Fiscal year ended June 30,	Allowance for doubtful accounts (in millions)	Allowance as a percentage of customer receivables	Allowance as a percentage of revenue	Reduction to allowance for customer deductions and write-offs (in millions)	Addition to Allowance (in millions)
2010	$ 140.1	2.6%	0.14%	$ 8.5	$ 26.8
2009	$ 117.6	2.2%	0.12%	$ 48.3	$ 51.4
2008	$ 113.9	2.5%	0.13%	$ 19.4	$ 19.9

A hypothetical 0.1% increase or decrease in the reserve as a percentage of trade receivables, sales-type leases and finance notes receivables at June 30, 2010, would result in an increase or decrease in bad debt expense of approximately $5.3 million.

We believe the reserve maintained and expenses recorded in fiscal 2010 are appropriate. At this time, we are not aware of any analytical findings or customer issues that might lead to a significant future increase in the allowance for doubtful accounts as a percentage of net revenue.

Inventories

A substantial portion of inventories (73% at June 30, 2010, and 74% at June 30, 2009) is stated at the lower of cost, using the LIFO (last in, first out) method, or market. These are primarily merchandise inventories at the core pharmaceutical distribution facilities within our Pharmaceutical segment. The LIFO impact on the consolidated statements of earnings in a given year depends on pharmaceutical price appreciation and the level of inventory. Prices for branded pharmaceuticals tend to rise, which results in an increase in cost of products sold, whereas prices for generic pharmaceuticals tend to decline, which results in a decrease in cost of products sold.

The LIFO method presumes that the most recent inventory purchases are the first items sold, so LIFO helps us better match current costs and revenue. Using LIFO, if branded pharmaceutical inventory levels decline, the result generally will be a decrease in future cost of products sold: prices for branded pharmaceuticals tend to rise over time, so our older inventory is held at a lower cost. Conversely, if generic pharmaceutical inventory levels decline, future cost of products sold generally will increase: prices for generic pharmaceuticals tend to decline over time, so our older inventory is held at a higher cost. We believe that the average cost method of inventory valuation reasonably approximates the current cost of replacing inventory within the Pharmaceutical distribution facilities. Accordingly, the LIFO reserve is the difference between (a) inventory at the lower of LIFO cost or market and (b) inventory at replacement cost determined using the average cost method of inventory valuation. In fiscal 2010 and 2009, we did not record any LIFO reserve reductions.

The remaining inventory is stated at the lower of cost, using the FIFO (first in, first out) method, or market.

If we had used the average cost method of inventory valuation for all inventory within the Pharmaceutical distribution facilities, the value of inventories would not have changed in fiscal 2010 or fiscal 2009. In fact, primarily because prices for our generic pharmaceutical inventories have continued to decline, inventories at LIFO were $37.7 million and $34.9 million higher than the average cost value as of June 30, 2010, and 2009, respectively. However, we do not record inventories in excess of current market value.

Inventories recorded on the consolidated balance sheets are net of reserves for excess and obsolete inventory, which were $34.4 million at June 30, 2010, and $39.5 million at June 30, 2009. We determine reserves for inventory obsolescence based on historical experiences, sales trends, specific categories of inventory and age of on-hand inventory. If actual conditions are less favorable than our assumptions, additional inventory reserves may be required. However, these reserves are unlikely to have a material adverse impact on the consolidated financial statements.

Goodwill and Other Intangibles

Purchased goodwill and intangible assets with indefinite lives are not amortized, but instead are tested for impairment annually or when indicators of impairment exist. Intangible assets with finite lives primarily customer relationships and patents and trademarks continue to be amortized over their useful lives. Impairment testing involves a comparison of estimated fair value to the respective carrying amount. If estimated fair value exceeds the carrying amount, then no impairment exists. If the carrying amount exceeds the estimated fair value, then a second step is performed to determine the amount of impairment which would be recorded as an expense to our results of operations.

Application of goodwill impairment testing involves judgment, including but not limited to, the identification of reporting units and estimating the fair value of each reporting unit. A reporting unit is defined as an operating segment or one level below an operating segment. In fiscal 2010, we identified three reporting units: Pharmaceutical segment excluding our nuclear and pharmacy services division, Medical segment and nuclear and pharmacy services division. Fair values can be determined using market, income or cost-based approaches. Our determination of estimated fair value of the reporting units is based on a combination of income-based and market-based approaches. Under the market-based approach we determine fair value by comparing our reporting units to similar businesses, or guideline companies whose securities are actively traded in public markets. Under the income-approach, we use a discounted cash flow model in which cash flows anticipated over several periods, plus a terminal value at the end of that time horizon, are discounted to their present value using an appropriate rate of return. To further confirm the fair value, we compare our aggregate fair value of our reporting units to our market capitalization. The use of alternate estimates and assumptions or changes in the industry or peer groups could materially affect the determination of fair value for each reporting unit and potentially result in goodwill impairment.

We performed annual impairment testing in fiscal 2010 and concluded that there were no impairments of goodwill as the fair value of each reporting unit exceeded its carrying value. Due to the Spin-Off and reorganization of the reporting units, goodwill was also tested for impairment in the first quarter of fiscal 2010. Based on this analysis there was no impairment. We also performed annual impairment testing in fiscal 2009 and 2008 using similar fair value approaches; however, our market-based approach historically included a review of the price/earnings ratio for publicly traded companies that were similar in nature, scope and size to our reporting units to the extent available. Based on this analysis there was no impairment. See Note 6 of Notes to Consolidated Financial Statements for additional information regarding goodwill and other intangible assets.

If we alter our impairment testing by increasing the discount rate in the discounted cash flow analysis by 1%, there still would not be any impairment indicated for any of our reporting units for fiscal 2010 or 2009.

Vendor Reserves

In the ordinary course of business, our vendors may dispute deductions or billings taken against payments otherwise due to them. These disputed transactions are researched and resolved based upon our policy and findings of the research performed. At any given time, there are outstanding items in various stages of research and resolution. In determining appropriate reserves for areas of exposure with our vendors, we assess historical experience and current outstanding claims. We have established various levels of reserves based on the type of claim and status of review. Though the transaction types are relatively consistent, we periodically refine our estimate methodology by updating the reserve estimate percentages to reflect actual historical experience. Changes to the estimate percentages affect the cost of products sold in the period in which the change was made.

Vendor reserves were $26.8 million at June 30, 2010, and $53.6 million at June 30, 2009. Approximately 57% of the vendor reserve at June 30, 2010, pertained to the Pharmaceutical segment, compared to 80% at the end of fiscal 2009. The reserve balance will fluctuate due to variations of outstanding claims from period to period, timing of settlements, and specific vendor issues, such as bankruptcies.

The ultimate outcome of certain claims may be different than our original estimate and may require adjustment. We believe, however, that reserves recorded for such disputes are adequate based upon current facts and circumstances.

Provision for Income Taxes

Our income tax expense, deferred tax assets and liabilities, and unrecognized tax benefits reflect management s assessment of estimated future taxes to be paid on items in the financial statements.

Deferred income taxes arise from temporary differences between financial reporting and tax reporting bases of assets and liabilities, as well as net operating loss and tax credit carryforwards for tax purposes. The following table presents information about our tax position:

Year ended June 30,	Net deferred income tax assets (in millions)	Net deferred income tax liabilities (in billions)	Net loss and credit carryforwards included in net deferred income tax assets (in millions)	Net valuation allowance (in millions) against deferred tax assets (1)
2010	$ 578	$ 1.2	$ 197	$ 183
2009	$ 622	$ 1.8	$ 193	$ 152

(1) This valuation allowance primarily relates to federal, state and international loss carryforwards for which the ultimate realization of future benefits is uncertain.

Expiring carryforwards and the required valuation allowances are adjusted annually. After applying the valuation allowances, we do not anticipate any limitations on our use of any of the other net deferred income tax assets described above.

We believe that our estimates for the valuation allowances against deferred tax assets and unrecognized tax benefits are appropriate based on current facts and circumstances. However, other companies applying reasonable judgment to the same facts and circumstances could develop different estimates. The amount we ultimately pay when matters are resolved may differ from the amounts accrued.

Tax benefits from uncertain tax positions are recognized when it is more likely than not that the position will be sustained upon examination, including resolutions of any related appeals or litigation processes, based on the technical merits. The amount recognized is measured as the largest amount of tax benefit that is greater than 50% likely of being realized upon settlement (see Note 1 of Notes to Consolidated Financial Statements for a detailed disclosure of the unrecognized tax benefits).

If any of our assumptions or estimates were to change, an increase or decrease in our effective tax rate by 1% on earnings before income taxes and discontinued operations would have caused income tax expense to increase or decrease by $12.1 million for fiscal 2010.

Share-based Compensation

All share-based payments to employees, including grants of options, are recognized in the consolidated statements of earnings based on the grant date fair value of the award. The fair value of stock options is

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determined using a lattice valuation model. We believe the lattice model provides for better estimates because it has the ability to take into account employee exercise patterns based on changes in our stock price and other variables and it provides for a range of input assumptions.

During 2010, we calculated separate option valuations for two separate groups of employees. During fiscal 2009 and 2008, we calculated separate option valuations for three separate groups of employees. The groups were determined using similar historical exercise behaviors. The expected life of the options granted was calculated from the option valuation model and represents the length of time in years that the options granted are expected to be outstanding. Expected volatilities are based on implied volatility from traded options on our Common Shares and historical volatility over a period of time commensurate with the contractual term of the option grant (7 years). As required, the forfeiture estimates will be adjusted to reflect actual forfeitures when an award vests. The actual forfeitures in future reporting periods could be higher or lower than our current estimates.

Item 7A: ***Quantitative and Qualitative Disclosures about Market Risk***

Our businesses are exposed to cash flow and earnings fluctuations as a result of certain market risks. These market risks primarily relate to foreign exchange, interest rate, and commodity related changes. We maintain a comprehensive hedging program to manage volatility related to these market exposures which employs operational, economic, and derivative financial instruments in order to mitigate risk. See Notes 1 and 12 of Notes to Consolidated Financial Statements for further discussion regarding our use of derivative instruments.

Foreign Exchange Rate Sensitivity

By nature of our global operations, our businesses are exposed to cash flow and earnings fluctuations resulting from foreign exchange rate variation. These exposures are transactional and translational in nature. Since we manufacture and sell products throughout the world, our foreign currency risk is diversified. Principal drivers of this diversified foreign exchange exposure include the Canadian dollar, European euro, Mexican peso, and Thai baht.

Transactional Exposure

Our businesses transactional exposure arises from the purchase and sale of goods and services in currencies other than our functional currency or the functional currency of our subsidiaries. As part of our risk management program, at the end of each fiscal year we perform a sensitivity analysis on our forecasted transactional exposure for the upcoming fiscal year. The fiscal 2010 and fiscal 2009 analyses utilize a currency portfolio model, encompassing both implied volatility and historical correlation to estimate the net potential gain or loss. These analyses included the estimated impact of our hedging program, which mitigates our businesses transactional exposure. At June 30, 2010 and 2009, we had hedged approximately 45% and 46%, respectively, of our businesses transactional exposures. The following table summarizes the analysis as it relates to our businesses transactional exposure (in millions):

	2010	2009
Net estimated transactional exposure	$ 318.9	$ 336.9
Sensitivity gain/loss	$ 35.3	$ 45.4
Estimated offsetting impact of hedges	(17.8)	(22.5)
Estimated net gain/loss	$ 17.5	$ 22.9

Translational Exposure

Our businesses also have exposure related to the translation of financial statements of our foreign divisions into U.S. dollars, our functional currency. We perform a similar analysis as described above related to this

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translational exposure. We do not typically hedge any of our translational exposure and no hedging impact was included in our analysis at June 30, 2010 and 2009. The following table summarizes our businesses translational exposure and the impact of a hypothetical 10% strengthening or weakening in the U.S. dollar (in millions):

	2010	2009
Net estimated translational exposure	$ 35.3	$ 63.3
Sensitivity gain/loss	$ 3.5	$ 6.3

Interest Rate Sensitivity

We are exposed to changes in interest rates primarily as a result of our borrowing and investing activities to maintain liquidity and fund business operations. The nature and amount of our long-term and short-term debt can be expected to fluctuate as a result of business requirements, market conditions and other factors. Our policy is to manage exposures to interest rates using a mix of fixed and floating rate debt as deemed appropriate by management. We utilize interest rate swap instruments to mitigate our exposure to interest rate movements.

As part of our risk management program, we annually perform a sensitivity analysis on our forecasted exposure to interest rates for the following fiscal year. This analysis assumes a hypothetical 10% change in interest rates. At June 30, 2010 and 2009, the potential increase or decrease in interest expense under this analysis as a result of this hypothetical change was $0.3 million and $0.1 million, respectively.

Commodity Price Sensitivity

We purchase certain commodities for use in our manufacturing and distribution processes, which include latex, nitrile, diesel fuel and polypropylene, among others. We typically purchase these commodities at market prices, and as a result, are affected by price fluctuations. As part of our risk management program, we perform sensitivity analysis on our forecasted commodity exposure for the following fiscal year. At June 30, 2010 and 2009, we had hedged a portion of these commodity exposures (see Note 12 of Notes to Consolidated Financial Statements for further discussion). The table below summarizes our analysis of these forecasted commodity exposures and a hypothetical 10% fluctuation in commodity prices as of June 30, 2010 and 2009 (in millions):

	2010	2009
Estimated commodity exposure	$ 240.4	$ 117.8
Sensitivity gain/loss	$ 24.0	$ 11.8
Estimated offsetting impact of hedges	(1.2)	(1.0)
Estimated net gain/loss	$ 22.8	$ 10.8

We also have exposure to certain energy related commodities, including natural gas and electricity through our normal course of business. These exposures result primarily from operating our distribution, manufacturing, and corporate facilities. In certain deregulated markets, we from time to time enter into long-term purchase contracts to supply these items at a specific price.

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Item 8: ***Financial Statements and Supplementary Data***

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Shareholders and the

Board of Directors of Cardinal Health, Inc.

We have audited the accompanying consolidated balance sheets of Cardinal Health, Inc. and subsidiaries (the Company) as of June 30, 2010 and 2009, and the related consolidated statements of earnings, shareholders equity, and cash flows for each of the three years in the period ended June 30, 2010. Our audits also included the financial statement schedule listed in the Index at Item 15(a)(2). These financial statements and schedule are the responsibility of the Company s management. Our responsibility is to express an opinion on these financial statements and the schedule based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of the Company as of June 30, 2010 and 2009, and the consolidated results of their operations and their cash flows for each of the three years in the period ended June 30, 2010, in conformity with the U.S. generally accepted accounting principles. Also, in our opinion, the related financial statement schedule, when considered in relation to the basic financial statements taken as a whole, presents fairly in all material respects the information set forth therein.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the Company s internal control over financial reporting as of June 30, 2010, based on criteria established in Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated August 26, 2010 expressed an unqualified opinion thereon.

/s/ Ernst & Young LLP
Ernst & Young LLP
Columbus, Ohio

August 26, 2010

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CARDINAL HEALTH, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF EARNINGS

	Fiscal Year Ended June 30, 2010	2009	2008
	(In millions, except per common share amounts)		
Revenue	$ 98,502.8	$ 95,991.5	$ 87,408.2
Cost of products sold	94,722.1	92,244.0	83,631.1
Gross margin	3,780.7	3,747.5	3,777.1
Operating expenses			
Distribution, selling, general and administrative expenses	2,408.0	2,333.5	2,340.6
Restructuring and employee severance	90.7	104.7	55.3
Acquisition related costs	8.4	2.8	2.6
Impairments and (gain)/loss on sale of assets	29.1	13.9	(33.3)
Litigation (credits)/charges, net	(62.4)	5.2	19.5
Operating earnings	1,306.9	1,287.4	1,392.4
Other (income)/expense, net	(13.5)	13.2	(38.8)
Interest expense, net	113.5	114.4	136.1
Loss on extinguishment of debt	39.9	0.0	0.0
Gain on sale of CareFusion common stock	(44.6)	0.0	0.0
Earnings before income taxes and discontinued operations	1,211.6	1,159.8	1,295.1
Provision for income taxes	624.6	401.6	447.9
Earnings from continuing operations	587.0	758.2	847.2
Earnings from discontinued operations, net of tax	55.2	393.4	453.4
Net earnings	$ 642.2	$ 1,151.6	$ 1,300.6
Basic earnings per Common Share:			
Continuing operations	$ 1.64	$ 2.12	$ 2.37
Discontinued operations	0.15	1.10	1.26
Net basic earnings per Common Share	$ 1.79	$ 3.22	$ 3.63
Diluted earnings per Common Share:			
Continuing operations	$ 1.62	$ 2.10	$ 2.33
Discontinued operations	0.15	1.08	1.24
Net diluted earnings per Common Share	$ 1.77	$ 3.18	$ 3.57
Weighted average number of Common Shares outstanding:			
Basic	358.8	357.6	358.2
Diluted	361.4	361.5	364.0

The accompanying notes are an integral part of these consolidated statements.

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CARDINAL HEALTH, INC. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

	June 30, 2010	June 30, 2009
	(In millions)	
ASSETS		
Current assets:		
Cash and equivalents	$ 2,755.3	$ 1,221.6
Trade receivables, net	5,170.6	5,214.9
Inventories	6,355.9	6,832.8
Prepaid expenses and other	637.1	523.0
Assets from businesses held for sale and discontinued operations	0.0	7,189.4
Total current assets	14,918.9	20,981.7
Property and equipment, at cost:		
Land, buildings and improvements	1,121.5	1,110.8
Machinery and equipment	1,868.8	1,777.8
Furniture and fixtures	103.4	112.7
Total property and equipment, at cost	3,093.7	3,001.3
Accumulated depreciation and amortization	(1,624.9)	(1,536.8)
Property and equipment, net	1,468.8	1,464.5
Other assets:		
Investment in CareFusion	691.5	0.0
Goodwill and other intangibles, net	2,253.2	2,266.9
Other	657.8	405.7
Total assets	$ 19,990.2	$ 25,118.8
LIABILITIES AND SHAREHOLDERS EQUITY		
Current liabilities:		
Current portion of long-term obligations and other short-term borrowings	$ 233.2	$ 366.2
Accounts payable	9,494.9	9,041.9
Other accrued liabilities	1,809.5	1,496.2
Liabilities from businesses held for sale and discontinued operations	0.0	1,370.9
Total current liabilities	11,537.6	12,275.2
Long-term obligations, less current portion	1,896.1	3,271.6
Deferred income taxes and other liabilities	1,280.4	847.3
Shareholders equity:		
Preferred Shares, without par value:		
Authorized 0.5 million shares, Issued none	0.0	0.0
Common Shares, without par value:		
Authorized 755.0 million shares, Issued 363.6 million shares and 363.7 million shares at June 30, 2010 and 2009, respectively	2,889.9	3,031.6
Retained earnings	2,647.2	5,953.9

Common Shares in treasury, at cost: 7.2 million shares and 3.7 million shares at June 30, 2010 and 2009, respectively	(331.0)	(343.0)
Accumulated other comprehensive income	70.0	82.2
Total shareholders equity	5,276.1	8,724.7
Total liabilities and shareholders equity	$ 19,990.2	$ 25,118.8

The accompanying notes are an integral part of these consolidated statements.

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CARDINAL HEALTH, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF SHAREHOLDERS EQUITY

	Common Shares			Treasury Shares		Accumulated	Total
	Shares Issued	Amount	Retained Earnings	Shares	Amount	Other Comprehensive Income/(Loss)	Shareholders Equity
				(In millions)			
BALANCE JUNE 30, 2007	493.0	$ 3,931.3	$ 11,539.9	(124.9)	$ (8,215.3)	$ 121.0	$ 7,376.9
Comprehensive income:							
Net earnings			1,300.6				1,300.6
Foreign currency translation adjustments						93.2	93.2
Unrealized loss on derivatives, net of tax						(5.3)	(5.3)
Net change in minimum pension liability, net of tax						1.9	1.9
Total comprehensive income							1,390.4
Impact of adopting income tax guidance (see Note 9)			(139.3)				(139.3)
Employee stock plans activity, including tax benefits of $42.1 million	(0.3)	97.8		6.1	293.2		391.0
Treasury shares acquired				(16.8)	(1,091.6)		(1,091.6)
Retirement of treasury shares	(128.0)	(1,027.9)	(7,505.1)	128.0	8,533.0		0.0
Dividends declared			(179.9)				(179.9)
BALANCE JUNE 30, 2008	364.7	3,001.2	5,016.2	(7.6)	(480.7)	210.8	7,747.5
Comprehensive income:							
Net earnings			1,151.6				1,151.6
Foreign currency translation adjustments						(122.5)	(122.5)
Unrealized loss on derivatives, net of tax						(0.8)	(0.8)
Net change in pension liability, net of tax						(5.3)	(5.3)
Total comprehensive income							1,023.0
Employee stock plans activity, including tax expense of $2.9 million	(1.0)	30.4		3.9	137.7		168.1
Dividends declared			(213.9)				(213.9)
BALANCE JUNE 30, 2009	363.7	3,031.6	5,953.9	(3.7)	(343.0)	82.2	8,724.7
Comprehensive income:							
Net earnings			642.2				642.2
Foreign currency translation adjustments						(97.2)	(97.2)
Unrealized gain on derivatives, net of tax						23.8	23.8
Unrealized gain on investment in CareFusion, net of tax						61.2	61.2
Total comprehensive income							630.0
Employee stock plans activity, including tax expense of $16.1 million	(0.1)	(141.7)		3.9	261.9		120.2
Treasury shares acquired				(7.4)	(249.9)		(249.9)
Dividends declared			(259.5)				(259.5)
Non-cash dividend issued in connection with Spin-off			(3,689.4)				(3,689.4)
BALANCE JUNE 30, 2010	363.6	$ 2,889.9	$ 2,647.2	(7.2)	$ (331.0)	$ 70.0	$ 5,276.1

The accompanying notes are an integral part of these consolidated statements.

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CARDINAL HEALTH INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

	Fiscal Year Ended June 30, 2010	2009	2008
		(In millions)	
CASH FLOWS FROM OPERATING ACTIVITIES:			
Net earnings	$ 642.2	$ 1,151.6	$ 1,300.6
Earnings from discontinued operations	(55.2)	(393.4)	(453.4)
Earnings from continuing operations	587.0	758.2	847.2
Adjustments to reconcile earnings from continuing operations to net cash from operations:			
Depreciation and amortization	254.4	225.8	220.0
Loss on extinguishment of debt	39.9	0.0	0.0
Gain on sale of CareFusion common stock	(44.6)	0.0	0.0
Impairments and (gain)/loss on sale of assets	29.1	13.9	(32.7)
Share-based compensation	99.5	109.9	107.9
Provision for deferred income taxes	120.2	149.4	(36.9)
Provision for bad debts	26.8	51.4	19.9
Change in operating assets and liabilities, net of effects from acquisitions:			
Decrease/(increase) in trade receivables	20.6	(713.6)	(296.1)
Decrease/(increase) in inventories	477.4	(431.2)	634.3
Increase/(decrease) in accounts payable	451.0	768.1	(848.2)
Other accrued liabilities and operating items, net	(74.6)	19.3	388.5
Net cash provided by operating activities continuing operations	1,986.7	951.2	1,003.9
Net cash provided by operating activities discontinued operations	147.4	472.7	537.8
Net cash provided by operating activities	2,134.1	1,423.9	1,541.7
CASH FLOWS FROM INVESTING ACTIVITIES:			
Proceeds from divestitures	154.1	123.3	49.1
Acquisition of subsidiaries, net of cash acquired	(32.0)	(128.6)	(4.7)
Net additions to property and equipment	(255.8)	(408.3)	(155.8)
Proceeds from sale of CareFusion common stock	270.7	0.0	0.0
Sale of investment securities available for sale	0.0	0.0	132.0
Net cash provided by/(used in) investing activities continuing operations	137.0	(413.6)	20.6
Net cash used in investing activities discontinued operations	(9.9)	(129.3)	(747.0)
Net cash provided by/(used in) investing activities	127.1	(542.9)	(726.4)
CASH FLOWS FROM FINANCING ACTIVITIES:			
Reduction of long-term obligations	(1,485.5)	(301.4)	(3.9)
Proceeds from long-term obligations, net of issuance costs	0.0	0.0	300.3
Proceeds from issuance of Common Shares	40.0	39.2	227.9
Tax proceeds/(disbursements) from exercises of stock options	(16.1)	(2.9)	42.1
Payment of premiums for debt extinguishment	(66.4)	0.0	0.0
Dividends on Common Shares	(253.1)	(200.4)	(173.1)
Purchase of treasury shares	(230.2)	0.0	(1,181.6)
Net cash used in financing activities continuing operations	(2,011.3)	(465.5)	(788.3)
Net cash provided by/(used in) financing activities discontinued operations	1,283.8	(2.7)	(14.9)

Net cash used in financing activities	(727.5)	(468.2)	(803.2)
NET INCREASE IN CASH AND EQUIVALENTS	1,533.7	412.8	12.1
CASH AND EQUIVALENTS AT BEGINNING OF YEAR	1,221.6	808.8	796.7
CASH AND EQUIVALENTS AT END OF YEAR	$ 2,755.3	$ 1,221.6	$ 808.8
SUPPLEMENTAL INFORMATION:			
Cash payments for:			
Interest	$ 158.4	$ 201.8	$ 239.8
Income taxes	$ 513.7	$ 429.3	$ 116.0
Non-cash investing and financing transactions for:			
Retained investment in CareFusion at date of Spin-Off	$ 863.1	$ 0.0	$ 0.0
Non-cash dividend in connection with Spin-Off	$ 3,689.4	$ 0.0	$ 0.0

The accompanying notes are an integral part of these consolidated statements.

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CARDINAL HEALTH, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. BASIS OF PRESENTATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Cardinal Health, Inc., an Ohio corporation formed in 1979, is a global healthcare solutions company providing products and services that help hospitals, physician offices, pharmacies and other healthcare providers reduce costs, improve safety and productivity, and deliver better care to patients. References to we , our and similar pronouns in these consolidated financial statements shall be deemed to be references to Cardinal Health, Inc. and its majority-owned subsidiaries unless the context otherwise requires.

Our fiscal year ends on June 30. References to fiscal 2010, 2009 and 2008 in these consolidated financial statements shall be deemed to be references to the fiscal years ended June 30, 2010, 2009 and 2008, respectively.

Spin-Off of CareFusion Corporation. Effective August 31, 2009, we completed the distribution to our shareholders of 81% of the then outstanding common stock of CareFusion Corporation (CareFusion) and retained the remaining 41.4 million shares of CareFusion common stock (the Spin-Off). Under the requirements of the Private Letter Ruling obtained from the Internal Revenue Service, we are required to dispose of the retained shares of CareFusion common stock within five years of the Spin-Off. During fiscal 2010, we disposed of 10.9 million shares of CareFusion common stock. Refer to Note 7 for additional information regarding our investment in CareFusion. While we are a party to a separation agreement and various other agreements relating to the separation, including a transition services agreement, a tax matters agreement, an employee matters agreement, intellectual property agreements and other commercial agreements, we have determined that we have no significant continuing involvement in the operations of CareFusion. Accordingly, the net assets of CareFusion are presented separately in these consolidated financial statements as assets from businesses held for sale and discontinued operations and the operating results of CareFusion are presented within discontinued operations for all periods presented through the date of the Spin-Off.

For fiscal 2009, we had three reportable segments Healthcare Supply Chain Services, Clinical and Medical Products and All Other. Effective July 1, 2009, we changed our reportable segments to: Pharmaceutical, Medical and CareFusion. The Pharmaceutical segment encompasses the businesses previously within the Healthcare Supply Chain Services segment that distributed pharmaceutical, radiopharmaceutical and over-the-counter healthcare products as well as the businesses previously within the All Other segment. The Medical segment encompasses the remaining businesses within the Healthcare Supply Chain Services segment as well as certain surgical and exam gloves, surgical drapes and apparel and fluid management businesses previously within the Clinical and Medical Products segment. The CareFusion segment encompasses the businesses previously within the Clinical and Medical Products segment excluding the above-referenced surgical and exam gloves, surgical drapes and apparel and fluid management businesses and includes all businesses included in the Spin-Off.

In connection with the Spin-Off, we reorganized our reportable segments into two segments: Pharmaceutical and Medical. See Note 16 for information about these segments.

Our Relationship with CareFusion. On July 22, 2009, we entered into a separation agreement with CareFusion to effect the Spin-Off and provide a framework for our relationship with CareFusion after the Spin-Off. In addition, on August 31, 2009, we entered into a transition services agreement, a tax matters agreement, an employee matters agreement, intellectual property agreements and certain other commercial agreements with CareFusion. These agreements, including the separation agreement, between CareFusion and us provide for allocation of assets, employees, liabilities and obligations (including investments, property and employee benefits and tax-related assets and liabilities) attributable to periods prior to, at and after the Spin-Off and govern certain relationships between CareFusion and us after the Spin-Off.

Pursuant to the transition services agreement, during fiscal 2010, we recognized $99.2 million in transition service fee income, which approximately offsets the costs associated with providing the transition services. Additionally, during fiscal 2010 we purchased $605.6 million of CareFusion trade receivables pursuant to an accounts receivable factoring arrangement between CareFusion and us.

Under the tax matters agreement, CareFusion is obligated to indemnify us for certain tax exposures and transaction taxes prior to the Spin-Off. As of June 30, 2010, we have a $244.6 million indemnification receivable on our balance sheet related to this item.

Basis of Presentation. Our consolidated financial statements include the accounts of all majority-owned subsidiaries, and all significant intercompany transactions and amounts have been eliminated. Certain prior year balances have been reclassified to conform to the current year presentation. The results of businesses acquired or disposed of are included in the consolidated financial statements from the effective date of the acquisition or up to the date of disposal.

Use of Estimates. The consolidated financial statements are prepared in accordance with accounting principles generally accepted in the United States (GAAP). The preparation of financial statements in accordance with GAAP requires us to make estimates, judgments and assumptions that affect the amounts reported in the consolidated financial statements and accompanying notes. Estimates, judgments and assumptions are used in the accounting and disclosure related to, among other items, allowance for doubtful accounts, inventory valuation, goodwill and intangible asset impairment, vendor reserves, share-based compensation, and income taxes. Actual amounts could ultimately differ from these estimated amounts.

Cash Equivalents. We consider all liquid investments purchased with a maturity of three months or less to be cash equivalents. The carrying value of cash equivalents approximates fair value.

Receivables. Trade receivables are primarily comprised of amounts owed to us through our distribution businesses and are presented net of an allowance for doubtful accounts of $131.4 million and $111.8 million at June 30, 2010 and 2009, respectively. An account is considered past due on the first day after its due date. In accordance with contract terms, we generally have the ability to charge customer s service fees or higher prices if an account is considered past due. We continuously monitor past due accounts and establish appropriate reserves to cover potential losses. We will write-off any amounts deemed uncollectible against the established allowance for doubtful accounts.

We provide financing to various customers. Such financing arrangements range from 90 days to 10 years, at interest rates that generally are subject to fluctuation. Interest income on these accounts is recognized as it is earned. The financings may be collateralized, guaranteed by third parties or unsecured. Finance notes and accrued interest receivables were $109.9 million (current portion $20.9 million) and $54.0 million (current portion $26.8 million) at June 30, 2010 and 2009, respectively, and are included in other assets (current portion is included in prepaid expenses and other). Finance notes receivable are reported net of an allowance for doubtful accounts of $8.3 million and $5.2 million at June 30, 2010 and 2009, respectively.

Concentrations of Credit Risk and Major Customers. We maintain cash depository accounts with major banks throughout the world and invest in high quality short-term liquid instruments. Such investments are made only in instruments issued or enhanced by high quality institutions. These investments mature within three months and we have not incurred any related losses.

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

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The following table summarizes all of our customers that individually account for at least 10% of revenue and their corresponding percent of gross trade receivables. The customers in the table below are serviced through our Pharmaceutical segment.

	Percent of Revenue			Percent of Gross Trade Receivables at June 30,	
	2010	2009	2008	2010	2009
Walgreen Co.	24%	24%	20%	32%	36%
CVS Caremark Corporation	22%	21%	23%	21%	21%

Certain of our businesses have entered into agreements with group purchasing organizations (GPOs) which act as purchasing agents that negotiate vendor contracts on behalf of their members.

The following table summarizes the revenue that was derived from GPO members through the contractual arrangements established with Novation, LLC and Premier Purchasing Partners, L.P., our two largest GPO relationships in terms of revenue:

	Percent of Revenue		
	2010	2009	2008
GPO members	15%	15%	15%

Our trade receivable balances are with individual members of the GPO and therefore no significant concentration of credit risk exists with these types of arrangements.

Inventories. A substantial portion of our inventories (73% at June 30, 2010 and 74% June 30, 2009) are valued at the lower of cost, using the LIFO method, or market. These inventories are included within the core pharmaceutical distribution facilities of our Pharmaceutical segment (Distribution facilities) and are primarily merchandise inventories. We believe that the average cost method of inventory valuation provides a reasonable approximation of the current cost of replacing inventory within the Distribution facilities. As such, the LIFO reserve is the difference between (a) inventory at the lower of LIFO cost or market and (b) inventory at replacement cost determined using the average cost method of inventory valuation. In fiscal 2010 and 2009, we did not record any LIFO reserve reductions.

If we had used the average cost method of inventory valuation for all inventory within the Distribution facilities, inventories would not have changed in fiscal 2010 or fiscal 2009. In fact, primarily due to continued generic pharmaceutical deflation, inventories valued at LIFO were $37.7 million and $34.9 million higher than the average cost value as of June 30, 2010 and 2009, respectively. Our policy, however, is not to record inventories in excess of replacement cost.

Our remaining inventory is primarily stated at the lower of cost, using the FIFO method, or market.

Inventories presented on the consolidated balance sheets are net of reserves for excess and obsolete inventory which were $34.4 million and $39.5 million at June 30, 2010 and 2009, respectively. We reserve for inventory obsolescence using estimates based on historical experiences, sales trends, specific categories of inventory and age of on-hand inventory.

Cash Discounts. Manufacturer cash discounts are recorded as a component of inventory cost and recognized as a reduction of cost of products sold when the related inventory is sold.

Property and Equipment. Property and equipment are carried at cost less accumulated depreciation. Property and equipment held for sale are recorded at the lower of cost or fair value less cost to sell. Depreciation expense is computed using the straight-line method over the estimated useful lives of the assets, including capital lease

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assets which are depreciated over the terms of their respective leases. We use the following range of useful lives for our property and equipment categories: buildings and improvements 1 to 50 years; machinery and equipment 2 to 20 years; furniture and fixtures 3 to 10 years.

The following table shows depreciation expense for fiscal 2010, 2009 and 2008:

	Fiscal Year Ended June 30,		
(in millions)	**2010**	**2009**	**2008**
Depreciation expense	$ 233.4	$ 206.9	$ 201.6

When certain events or changes in operating conditions occur, an impairment assessment may be performed on the recoverability of the carrying amounts. Repairs and maintenance expenditures are expensed as incurred. Interest on long-term projects is capitalized using a rate that approximates the weighted average interest rate on long-term obligations, which was 5.5% at June 30, 2010. The amount of capitalized interest was immaterial for all fiscal years presented.

Goodwill and Other Intangibles. Purchased goodwill and intangible assets with indefinite lives are not amortized, but instead are tested for impairment annually or when indicators of impairment exist. Intangible assets with finite lives primarily customer relationships and patents and trademarks continue to be amortized over their useful lives. Impairment testing involves a comparison of estimated fair value to the respective carrying amount. If estimated fair value exceeds the carrying amount, then no impairment exists. If the carrying amount exceeds the estimated fair value, then a second step is performed to determine the amount of impairment, which would be recorded as an expense to our results of operations.

Application of goodwill impairment testing involves judgment, including but not limited to, the identification of reporting units and estimating the fair value of each reporting unit. A reporting unit is defined as an operating segment or one level below an operating segment. In fiscal 2010, we identified three reporting units: Pharmaceutical segment excluding our nuclear and pharmacy services division, Medical segment and nuclear and pharmacy services division. Fair values can be determined using market, income or cost-based approaches. Our determination of estimated fair value of the reporting units is based on a combination of income-based and market-based approaches. Under the market-based approach we determine fair value by comparing our reporting units to similar businesses, or guideline companies whose securities are actively traded in public markets. Under the income-approach, we use a discounted cash flow model in which cash flows anticipated over several periods, plus a terminal value at the end of that time horizon, are discounted to their present value using an appropriate rate of return. To further confirm the fair value, we compare the aggregate fair value of our reporting units to our market capitalization. The use of alternate estimates and assumptions or changes in the industry or peer groups could materially affect the determination of fair value for each reporting unit and potentially result in goodwill impairment.

We performed annual impairment testing in fiscal 2010 and concluded that there were no impairments of goodwill as the fair value of each reporting unit exceeded its carrying value. Due to the Spin-Off and reorganization of the reporting units, goodwill was also tested for impairment in the first quarter of fiscal 2010. Based on this analysis there was no impairment. We also performed annual impairment testing in fiscal 2009 and 2008 and determined there was no impairment. See Note 6 for additional information regarding goodwill and other intangible assets.

Income Taxes. We account for income taxes using the asset and liability method. The asset and liability method requires recognition of deferred tax assets and liabilities for expected future tax consequences of temporary differences that currently exist between the tax bases and financial reporting bases of our assets and liabilities. Deferred tax assets and liabilities are measured using enacted tax rates in the respective jurisdictions in which we operate. Deferred taxes are not provided on the unremitted earnings of subsidiaries outside of the U.S. when it is expected that these earnings are permanently reinvested.

Tax benefits from uncertain tax positions are recognized when it is more likely than not that the position will be sustained upon examination, including resolutions of any related appeals or litigation processes, based on the technical merits. The amount recognized is measured as the largest amount of tax benefit that is greater than 50% likely of being realized upon settlement.

Accounting for Vendor Reserves. In the ordinary course of business, our vendors may dispute deductions or billings taken against payments otherwise due to them. These disputed transactions are researched and resolved based upon our policy and findings of the research performed. At any given time, there are outstanding items in various stages of research and resolution. In determining appropriate reserves for areas of exposure with our vendors, we assess historical experience and current outstanding claims. We have established various levels of reserves based on the type of claim and status of review. Though the transaction types are relatively consistent, we periodically refine our estimate methodology by updating the reserve estimate percentages to reflect actual historical experience. The ultimate outcome of certain claims may be different than our original estimate and may require adjustment. All adjustments to vendor reserves are included in cost of products sold. In addition, the reserve balance will fluctuate due to variations of outstanding claims from period to period, timing of settlements, and specific vendor issues, such as bankruptcies. The following table summarizes vendor reserves at June 30, 2010 and 2009:

	June 30,	
(in millions)	**2010**	**2009**
Vendor reserves	$ 26.8	$ 53.6

Accounting for Vendor Incentives. Fees for services and other incentives received from vendors, relating to the purchase or distribution of inventory, are generally reported as a reduction of cost of products sold in the consolidated statements of earnings. We consider these fees and other incentives to represent product discounts and, as a result, the amounts are recorded as a reduction of product cost and are recognized through cost of products sold upon sale of the related inventory.

Other Accrued Liabilities. Other accrued liabilities represent various current obligations including certain accrued operating expenses and taxes payable.

Share-Based Compensation. All share-based compensation to employees, including grants of stock options, is recognized in the consolidated statement of earnings based on the grant date fair value of the award. The fair value of stock options is determined using a lattice valuation model. We believe the lattice model provides for better estimates because it has the ability to take into account employee exercise patterns based on changes in our stock price and other variables and it provides for a range of input assumptions.

The compensation expense recognized for all share-based awards is net of estimated forfeitures and is recognized ratably over the service period of the award. We classify share-based compensation expense within distribution, selling, general and administrative (SG&A) expenses to correspond with the same line item as the majority of the cash compensation paid to employees. However, certain share-based compensation incurred in connection with the Spin-Off is classified within restructuring and employee severance. See Note 17 for additional information regarding share-based compensation.

Dividends. The following table summarizes the cash dividends per Common Share that we paid for fiscal 2010, 2009 and 2008:

	Fiscal Year Ended June 30,		
(in millions)	**2010**	**2009**	**2008**
Cash dividends per Common Share	$ 0.70	$ 0.56	$ 0.48

Revenue Recognition. We recognize revenue when persuasive evidence of an arrangement exists, product delivery has occurred or the services have been rendered, the price is fixed or determinable and collectability is reasonably assured. Revenue is recognized net of sales returns and allowances.

Pharmaceutical. This segment recognizes distribution revenue when title transfers to its customers and the business has no further obligation to provide services related to such merchandise.

Revenue within this segment includes revenue from bulk customers. Substantially all deliveries to bulk customers consist of product shipped in the same form that we received from the manufacturer. Bulk customers have the ability to process large quantities of products in central locations and distribute these products to their individual retail stores or facilities. Revenue from bulk customers is recognized when title transfers to the customer and we have no further obligation to provide services related to such merchandise.

Revenue for deliveries that are directly shipped to customer warehouses from the manufacturer whereby we act as an intermediary in the ordering and delivery of products is recorded gross in accordance with accounting standards addressing reporting revenue on a gross basis as a principal versus on a net basis as an agent. This revenue is recorded on a gross basis since we incur credit risk from the customer, bear the risk of loss for incomplete shipments and do not receive a separate fee or commission for the transaction and, as such, are the primary obligor.

Radiopharmaceutical revenue is recognized upon delivery of the product to the customer. Service-related revenue, including fees received for analytical services or sales and marketing services, is recognized upon the completion of such services.

Pharmacy management, third-party logistics and other service revenue is recognized as the services are rendered according to the contracts established. A fee is charged under such contracts through a capitation fee, a dispensing fee, a monthly management fee or an actual costs-incurred arrangement. Under certain contracts, fees for services are guaranteed by us not to exceed stipulated amounts or have other risk-sharing provisions. Revenue is adjusted to reflect the estimated effects of such contractual guarantees and risk-sharing provisions.

Medicine Shoppe International, Inc. and Medicap Pharmacies Incorporated earn franchise and origination fees. Franchise fees represent monthly fees that are either fixed or based upon franchisees sales and are recognized as revenue when they are earned.

Medical. This segment recognizes distribution revenue when title transfers to its customers and the business has no further obligation to provide services related to such merchandise. Revenue from the sale of medical products and supplies is recognized when title and risk of loss transfers to its customers, which is typically upon delivery.

Multiple Segments or Business Units. Arrangements involving multiple segments or business units containing no software or software that is incidental to the functionality of the product or service are accounted for as revenue arrangements with multiple deliverables. If the deliverable meets the criterion of a separate unit of accounting, revenue is allocated to each element based upon its relative fair value and recognized in accordance with the applicable revenue recognition criteria for each element.

Sales Returns and Allowances. Revenue is recorded net of sales returns and allowances. We recognize sales returns as a reduction of revenue and cost of products sold for the sales price and cost, respectively, when products are returned. Our customer return policies generally require that the product be physically returned, subject to restocking fees, and only allow customers to return products that can be added back to inventory and resold at full value, or that can be returned to vendors for credit (merchantable product). Product returns are generally consistent throughout the year, and typically are not specific to any particular product or customer. Amounts recorded in revenue and cost of products sold under this accounting policy closely approximate what would have been recorded had we accrued for sales returns and allowances at the time of the sale transaction.

The following table summarizes sales returns and allowances for the fiscal years ended June 30, 2010, 2009 and 2008:

	Fiscal Year Ended June 30,		
(in millions)	**2010**	**2009**	**2008**
Sales returns and allowances	$ 1,516.2	$ 1,391.4	$ 1,191.5

Since we generally do not accept non-merchantable product returns from our customers, many of our customers return non-merchantable pharmaceutical products to our vendors via third-parties. Generally, our customers do not have a direct relationship with our vendors and, as such, our vendors pass the value of the returns to us (usually in the form of an accounts payable deduction). We in turn pass the value received, less an administrative fee, to our customer. In certain instances, we pass the estimated value of the return to our customer prior to processing the deduction with our vendors. Although in general we believe we have satisfactory contractual protections, we could be subject to allegations of liability from customers or vendors if our administration of this overall process was deficient in some significant respect. In certain situations, we have maintained reserves for such allegations based on their nature and our historical experience with their resolution. Those reserves were not significant in fiscal 2010, 2009 or 2008.

Distribution Service Agreement and Other Vendor Fees. Our Pharmaceutical segment recognizes fees received from its distribution service agreements and other fees received from vendors related to the purchase or distribution of the vendor s inventory when those fees have been earned and we are entitled to payment. We recognize the fees as a reduction in the carrying value of the inventory that generated the fees and, as such, the fees are recognized as a reduction of cost of products sold in our statements of earnings when that inventory is sold.

Shipping and Handling. Shipping and handling costs are included in SG&A expenses in our consolidated statements of earnings. Shipping and handling costs include all delivery expenses as well as all costs to prepare the product for shipment to the end customer.

The following table summarizes shipping and handling costs for fiscal 2010, 2009 and 2008:

	Fiscal Year Ended June 30,		
(in millions)	**2010**	**2009**	**2008**
Shipping and handling costs	$ 293.5	$ 289.7	$ 270.0

Shipping and handling revenue received was immaterial for all periods presented.

Translation of Foreign Currencies. Financial statements of our subsidiaries outside the U.S. generally are measured using the local currency as the functional currency. Adjustments to translate the assets and liabilities of these foreign subsidiaries into U.S. dollars are accumulated in shareholders equity through other comprehensive income utilizing period-end exchange rates. Revenues and expenses of these foreign subsidiaries are translated using average exchange rates during the year.

The following table summarizes the foreign currency translation gains/(losses) recognized in accumulated other comprehensive income at June 30, 2010 and 2009:

	June 30,	
(in millions)	**2010**	**2009**
Foreign currency translation (gains)/losses	$ (1.0)	$ 96.2

Foreign currency transaction gains and losses, calculated by utilizing weighted average exchange rates for the period, are included in the consolidated statements of earnings in other (income)/expense, net, and were immaterial for fiscal 2010, 2009 and 2008, respectively.

Interest Rate and Currency Risk Management. All derivative instruments are recognized at fair value on the balance sheet and all changes in fair value are recognized in net earnings or shareholders equity through other comprehensive income, net of tax.

We use forward currency exchange contracts and interest rate swaps to manage our exposures to the variability of cash flows primarily related to the foreign exchange rate changes of future foreign currency transaction costs and to the interest rate changes on borrowing costs. These contracts are designated as cash flow hedges.

We also use interest rate swaps to hedge changes in the value of fixed rate debt due to variations in interest rates. Both the derivative instruments and underlying debt are adjusted to fair value through interest expense at the end of each period. We use foreign currency forward contracts to protect the value of existing foreign currency assets and liabilities. The remeasurement adjustments for any foreign currency denominated assets or liabilities are included in other (income)/expense, net. The remeasurement adjustment is offset by the foreign currency forward contract settlements which are also classified in other (income)/expense, net. These interest rate swaps are designated as fair value hedges. The foreign currency forward contracts are designated as economic hedges.

Certain derivative contracts are adjusted to current market values each period and qualify for hedge accounting. Periodic gains and losses of contracts designated as cash flow hedges are deferred in accumulated other comprehensive income until the underlying transactions are recognized. Upon recognition, such gains and losses are recorded in net earnings as an adjustment to the carrying amounts of underlying transactions in the period in which these transactions are recognized. For those contracts designated as fair value hedges, resulting gains or losses are recognized in net earnings offsetting the exposures of underlying transactions.

Our policy requires that contracts used as hedges must be effective at reducing the risk associated with the exposure being hedged and must be designated as a hedge at the inception of the contract. Hedging effectiveness is assessed periodically. Any contract not designated as a hedge, or so designated but ineffective, is adjusted to fair value and recognized in net earnings immediately. If a fair value or cash flow hedge ceases to qualify for hedge accounting or is terminated, the contract would continue to be carried on the balance sheet at fair value until settled and future adjustments to the contract s fair value would be recognized in earnings immediately. If a forecasted transaction was no longer probable to occur, amounts previously deferred in accumulated other comprehensive income would be recognized immediately in earnings. Additional disclosure related to our hedging contracts is provided in Note 12.

Earnings per Common Share. Basic earnings per Common Share (Basic EPS) is computed by dividing net earnings (the numerator) by the weighted average number of Common Shares outstanding during each period (the denominator). Diluted earnings per Common Share (Diluted EPS) is similar to the computation for Basic EPS, except that the denominator is increased by the dilutive effect of vested and unvested stock options, restricted shares and restricted share units computed using the treasury stock method.

Recent Financial Accounting Standards. In June 2009, the Financial Accounting Standards Board (FASB) issued new accounting guidance on the accounting for transfers of financial assets. This guidance improves the relevance, representational faithfulness and comparability of information provided about a transfer of financial assets, the effects of a transfer of financial assets on an entity s financial statements, and a transferor s continuing involvement, if any, in financial assets transferred. This guidance is effective for fiscal years beginning after November 15, 2009. As a result of this new guidance, we have determined that our committed receivables sales facility will not qualify as an off-balance sheet arrangement beginning in fiscal 2011. At June 30, 2010, we had no amounts outstanding under this facility.

In June 2009, the FASB issued new accounting guidance regarding the consolidation of variable interest entities. This guidance improves the financial reporting by enterprises involved with variable interest entities. This guidance is effective for fiscal years beginning after November 15, 2009. We do not expect the adoption of this new accounting guidance to have a material impact on our financial position or results of operations.

In January 2010, the FASB issued new disclosure guidance regarding fair value measurements. This guidance improves the transparency of disclosures about the use of fair value measurements in financial statements. This guidance is effective for interim and annual reporting periods beginning after December 15, 2009, with the exception of certain disclosure requirements regarding gross changes in Level 3 measurements, which are not effective until fiscal years beginning after December 15, 2010. We adopted this new disclosure guidance in the third quarter of fiscal 2010 and have included the required additional disclosures in this Form 10-K.

2. ACQUISITIONS

Fiscal 2010. During fiscal 2010, we completed an acquisition that individually was not significant. The aggregate purchase price of this acquisition, which was paid in cash, was $32.0 million, including the assumption of $1.9 million of liabilities. The consolidated financial statements include the results of operations from this business combination from the date of the acquisition. Had the transaction occurred at the beginning of fiscal 2009, consolidated results of operations would not have differed materially from reported results.

Fiscal 2009. During fiscal 2009, we completed an acquisition that individually was not significant. The aggregate purchase price of this acquisition, which was paid in cash, was $128.6 million including potential maximum contingent payments of $14.0 million. Assumed liabilities of this acquired business were $102.1 million. The consolidated financial statements include the results of operations from this business combination from the date of acquisition. Had the transaction occurred at the beginning of fiscal 2008, consolidated results of operations would not have differed materially from reported results.

Fiscal 2008. On May 12, 2008, we completed the acquisition of assets of privately held Enturia Inc. (Enturia), a Leawood, Kansas-based manufacturer of products and services directed at the infection prevention markets. The purchase price of the acquisition, which was paid in cash, was $490.0 million, including the assumption of $14.2 million of liabilities, which included $5.1 million of debt.

The valuation of the acquired assets and liabilities resulted in goodwill of $327.8 million and identifiable intangible assets of $129.4 million. We identified and valued intangible assets related to trade names and trademarks, developed technology and customer relationships. The detail by category is as follows.

Category	Amount (in millions)	Average Life (Years)
Trade names and trademarks	$ 19.1	10
Developed technology	25.3	10
Customer relationships	85.0	10
Total intangible assets acquired	$ 129.4	

During fiscal 2008, we recorded a charge of $17.7 million related to the write-off of estimated in-process research and development costs (IPR&D) associated with the Enturia acquisition. The portion of the purchase price allocated to IPR&D in fiscal 2008 represented our preliminary estimate of the fair value of the research and development projects in-process at the time of the acquisition. These projects had not yet reached technological feasibility, were deemed to have no alternative use and, accordingly, were immediately expensed as acquisition related costs at the acquisition date.

In connection with the Spin-Off, Enturia was transferred to CareFusion and has been reclassified to discontinued operations for all periods through the date of the Spin-Off.

In addition, during fiscal 2008, we completed other acquisitions that individually were not significant. The aggregate purchase price of these acquisitions, which was paid in cash, was $35.3 million, including the assumption of $5.6 million of liabilities. In connection with the Spin-Off, $30.6 million of the total cash paid has been reclassified to net cash used in investing activities discontinued operations. The consolidated financial statements include the results of operations from each of these business combinations from the date of acquisition. Had the transactions occurred at the beginning of fiscal 2007, consolidated results of operations would not have differed materially from reported results. In connection with the Spin-Off, some of these businesses have also been reclassified to discontinued operations for all periods through the date of the Spin-Off.

Acquisition Related Costs

We classify costs incurred in connection with acquisitions as acquisition related costs. These costs consist primarily of transaction costs, integration costs and changes in the fair value of contingent payments (earn-outs). Acquisition transaction costs are incurred during the initial evaluation of a potential targeted acquisition and primarily relate to costs to analyze, negotiate and consummate the transaction as well as financial and legal due diligence activities. Integration activities are costs incurred to combine the operations of an acquired enterprise into our operations.

3. RESTRUCTURING AND EMPLOYEE SEVERANCE

Restructuring Policy

We consider restructuring activities as programs whereby we fundamentally change our operations such as closing facilities, moving manufacturing of a product to another location or outsourcing the production of a product. Restructuring activities may also involve substantial re-alignment of the management structure of a business unit in response to changing market conditions. A liability for a cost associated with an exit or disposal activity is recognized and measured initially at its fair value in the period in which it is incurred except for a liability for a one-time termination benefit, which is recognized over its future service period.

Restructuring and Employee Severance

The following table summarizes activity related to our restructuring and employee severance costs during fiscal 2010, 2009 and 2008:

	Fiscal Year Ended June 30,		
(in millions)	**2010**	**2009**	**2008**
Employee related costs (1)	$ 32.9	$ 33.8	$ 30.0
Facility exit and other costs (2)	57.8	70.9	25.3
Total restructuring and employee severance	$ 90.7	$ 104.7	$ 55.3

(1) *Employee-Related Costs*. These costs primarily consist of one-time termination benefits provided to employees who have been involuntarily terminated and duplicate payroll costs during transition periods.

(2) *Facility Exit and Other Costs*. Facility exit and other costs consist of accelerated depreciation, equipment relocation costs, project consulting fees and costs associated with restructuring our delivery of information technology infrastructure services.

Restructuring and employee severance for fiscal 2010, 2009 and 2008 included costs related to the following significant projects:

	Fiscal Year Ended June 30,		
(in millions)	**2010**	**2009**	**2008**
Spin-Off (1)	$ 64.5	$ 73.8	$ 0.0
Segment Realignment (2)	2.0	15.7	0.2
Medical Headquarters Relocation (3)	0.1	1.0	28.3

(1) During fiscal 2009 and fiscal 2010, we incurred restructuring expenses related to the Spin-Off consisting of employee-related costs, share-based compensation, costs to evaluate and execute the transaction, costs to

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separate certain functions and information technology systems and other one-time transaction related costs. See Note 17 for further information regarding share-based compensation incurred in connection with the Spin-Off. Also included within these costs is $18.6 million of costs related to the retirement of our former Chairman and Chief Executive Officer upon completion of the Spin-Off.

(2) During fiscal 2009, we consolidated our businesses into two primary operating and reportable segments to reduce costs and align resources with the needs of each segment (Segment Realignment). In connection with the Spin-Off, these reportable segments have since been reorganized. Refer to Notes 1 and 16 for additional information regarding our current reportable segments.

(3) In April 2007, we announced a plan to move our medical products distribution headquarters and certain corporate functions from Waukegan, Illinois to our corporate headquarters in Dublin, Ohio.

In addition to the significant restructuring programs discussed above, from time to time we incur costs to implement smaller restructuring efforts for specific operations within our segments. These restructuring plans focus on various aspects of operations, including closing and consolidating certain manufacturing and distribution operations, rationalizing headcount and aligning operations in the most strategic and cost-efficient structure.

We estimate that we will incur additional costs in future periods associated with currently anticipated restructuring activities totaling $14.5 million. These additional costs are primarily associated with the Spin-Off.

Restructuring and Employee Severance Accrual Rollforward

The following table summarizes activity related to liabilities associated with our restructuring and employee severance activities during fiscal 2010, 2009 and 2008:

(in millions)	Employee Related Costs	Facility Exit and Other Costs	Total
Balance at June 30, 2007	$ 14.1	$ 1.8	$ 15.9
Additions	30.0	25.3	55.3
Payments and other adjustments	(21.6)	(26.7)	(48.3)
Balance at June 30, 2008	22.5	0.4	22.9
Additions	33.8	70.9	104.7
Payments and other adjustments	(43.1)	(59.0)	(102.1)
Balance at June 30, 2009	13.2	12.3	25.5
Additions	32.9	57.8	90.7
Payments and other adjustments	(36.9)	(62.7)	(99.6)
Balance at June 30, 2010	$ 9.2	$ 7.4	$ 16.6

4. IMPAIRMENTS AND (GAIN)/LOSS ON SALE OF ASSETS

During fiscal 2010, we recognized an $18.1 million impairment charge related to the write-down of SpecialtyScripts, LLC (SpecialtyScripts), a business within the Pharmaceutical segment, to net expected fair value less costs to sell. See Note 5 for further information regarding the sale of SpecialtyScripts.

During fiscal 2008, we recognized a $23.3 million gain from a divestiture within the Pharmaceutical segment.

5. DISCONTINUED OPERATIONS AND ASSETS HELD FOR SALE

CareFusion

Effective August 31, 2009, we completed the distribution to our shareholders of 81% of the then outstanding common stock of CareFusion. Our retained investment in CareFusion common stock does not provide us the

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ability to influence the operating or financial policies of CareFusion and accordingly does not constitute significant continuing involvement. We are required under the separation agreement to vote all of our CareFusion shares in proportion to the votes cast by CareFusion s other shareholders. Furthermore, while we are a party to a separation agreement and various other agreements relating to the separation, including a transition services agreement, a tax matters agreement, an employee matters agreement, intellectual property agreements and certain other commercial agreements, we have determined that the continuing cash flows generated by these agreements, which are expected to be eliminated within five years of the Spin-Off, and our investment in CareFusion common stock, do not constitute significant continuing involvement in the operations of CareFusion. Accordingly, the net assets of CareFusion are presented separately as discontinued operations and the operating results are presented within discontinued operations for all periods presented through the date of the Spin-Off.

The results of CareFusion included in discontinued operations for fiscal 2010, 2009 and 2008 are summarized as follows:

	Fiscal Year Ended June 30,		
(in millions)	**2010 (1)**	**2009**	**2008**
Revenue	$ 592.1	$ 3,520.9	$ 3,567.3
Earnings before income taxes	43.7	507.2	627.0
Income tax expense	(28.7)	(122.6)	(178.2)
Earnings from discontinued operations	15.0	384.6	448.8

(1) Reflects the results of CareFusion through August 31, 2009, the effective date of the Spin-Off.

Interest expense was allocated to historical periods considering the debt issued by CareFusion in connection with the Spin-Off and our overall debt balance. In addition, a portion of the corporate costs previously allocated to CareFusion have been reclassified to the remaining two segments.

The following table summarizes the interest expense allocated to discontinued operations for CareFusion during fiscal 2010, 2009 and 2008:

	Fiscal Year Ended June 30,		
(in millions)	**2010**	**2009**	**2008**
Interest expense allocated to CareFusion	$ 12.8	$ 75.2	$ 84.1

There were no assets and liabilities from businesses held for sale for CareFusion at June 30, 2010. At June 30, 2009, the major components of assets and liabilities from businesses held for sale for CareFusion were as follows:

(in millions)	**June 30, 2009**
Current assets	$ 1,832.0
Property and equipment	408.5
Other assets	4,774.2
Total assets	$ 7,014.7
Current liabilities	$ 469.2
Long-term debt and other	875.4
Total liabilities	$ 1,344.6

Cash flows from discontinued operations are presented separately on the consolidated statements of cash flows.

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Other

During the fourth quarter of fiscal 2007, we sold our businesses within the former Pharmaceutical Technologies and Services segment, other than certain generic-focused businesses (the PTS Business). See Note 7 of the Notes to Consolidated Financial Statements from the Annual Report on Form 10-K for the fiscal year ended June 30, 2009 (the 2009 Form 10-K) for information regarding the sale of the PTS Business. We incurred minor amounts of activity related to the PTS Business during fiscal 2009 as a result of changes in certain estimates made at the time of the sale, activity under a transition services agreement and other adjustments.

During the fourth quarter of fiscal 2009, we committed to plans to sell the United Kingdom-based Martindale injectable manufacturing business (Martindale) within our Pharmaceutical segment, and Martindale met the criteria for classification as discontinued operations in the financial statements. During the fourth quarter of fiscal 2010, we completed the sale of Martindale resulting in a pre-tax gain of $36.3 million. Accordingly, the net assets of Martindale are presented separately as discontinued operations and the operating results of Martindale are presented within discontinued operations for all periods presented through the date of sale.

During the fourth quarter of fiscal 2009, we also committed to plans to sell SpecialtyScripts within our Pharmaceutical segment, and SpecialtyScripts met the criteria for classification as held for sale in our financial statements. During the third quarter of fiscal 2010, we completed the sale of SpecialtyScripts. Accordingly, the net assets of this business are presented separately as assets held for sale on our consolidated balance sheet through the date of sale. The results of SpecialtyScripts are reported within earnings from continuing operations on our consolidated statements of earnings through the date of sale because it did not satisfy the criteria for classification as discontinued operations. Additionally, the net assets held for sale of SpecialtyScripts were recorded at the net expected fair value less costs to sell, as this amount was lower than its net carrying value.

The results of the PTS Business and Martindale included in discontinued operations for fiscal 2010, 2009 and 2008 are summarized as follows:

	Fiscal Year Ended June 30,		
(in millions)	**2010**	**2009**	**2008**
Revenue	$ 99.1	$ 100.5	$ 115.9
Earnings before income taxes	47.0	17.4	44.3
Income tax expense	(6.8)	(8.6)	(39.7)
Earnings from discontinued operations	40.2	8.8	4.6

There were no assets and liabilities from businesses held for sale for PTS Business, Martindale or SpecialtyScripts at June 30, 2010. At June 30, 2009, the major components of assets and liabilities from businesses held for sale related to the PTS Business, Martindale and SpecialtyScripts were as follows:

(in millions)	**June 30, 2009**
Current assets	$ 74.2
Property and equipment	19.3
Other assets	81.2
Total assets	$ 174.7
Current liabilities	$ 16.5
Long-term debt and other	9.8
Total liabilities	$ 26.3

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6. GOODWILL AND OTHER INTANGIBLE ASSETS

Goodwill

The following table summarizes the changes in the carrying amount of goodwill, in total and by segment, for the two years ended June 30, 2010:

(in millions)	Pharmaceutical	Medical	Total
Balance at June 30, 2008	$ 1,258.1	$ 971.2	$ 2,229.3
Goodwill acquired, net of purchase price adjustments, foreign currency translation adjustments and other	(15.8)	(7.5)	(23.3)
Goodwill related to the divestiture or closure of businesses and assets held for sale	(9.5)	0.0	(9.5)
Balance at June 30, 2009	1,232.8	963.7	2,196.5
Goodwill acquired, net of purchase price adjustments, foreign currency translation adjustments and other	17.4	(6.7)	10.7
Goodwill related to the divestiture or closure of businesses and assets held for sale	(1.8)	0.0	(1.8)
Balance at June 30, 2010	$ 1,248.4	$ 957.0	$ 2,205.4

The allocations of the purchase price related to certain small acquisitions are not yet finalized and are subject to adjustment as we complete the valuation analyses for these acquisitions.

Intangible Assets

Intangible assets with definite lives are amortized over their useful lives which range from three to twenty years. The detail of other intangible assets by class for the two years ended June 30, 2010 is as follows:

(in millions)	Gross Intangible	Accumulated Amortization	Net Intangible
June 30, 2009			
Unamortized intangibles:			
Trademarks and patents	$ 11.4	$ 0.0	$ 11.4
Total unamortized intangibles	11.4	0.0	11.4
Amortized intangibles:			
Trademarks and patents	30.2	12.9	17.3
Non-compete agreements	3.9	2.5	1.4
Customer relationships	46.6	35.1	11.5
Other	66.2	37.4	28.8
Total amortized intangibles	146.9	87.9	59.0
Total intangibles	$ 158.3	$ 87.9	$ 70.4
June 30, 2010			
Unamortized intangibles:			
Trademarks and patents	$ 10.2	$ 0.0	$ 10.2
Total unamortized intangibles	10.2	0.0	10.2
Amortized intangibles:			
Trademarks and patents	20.3	14.1	6.2
Non-compete agreements	3.8	2.8	1.0

Customer relationships	48.4	41.1	7.3
Other	47.2	24.1	23.1
Total amortized intangibles	119.7	82.1	37.6
Total intangibles	$ 129.9	$ 82.1	$ 47.8

There were no significant acquisitions of other intangible assets during the periods presented.

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The following table summarizes amortization expense during fiscal 2010, 2009 and 2008:

(in millions)	Fiscal Year Ended June 30, 2010	2009	2008
Amortization expense	$ 11.2	$ 15.0	$ 12.0

Amortization expense for each of the next five fiscal years is estimated to be:

(in millions)	2011	2012	2013	2014	2015
Amortization expense	$ 10.8	$ 5.7	$ 3.3	$ 2.9	$ 2.6

7. INVESTMENT IN CAREFUSION

The following table provides a summary of our investment in CareFusion, which is classified as available-for-sale, as of June 30, 2010:

	Available-for-Sale Securities			
(in millions)	Cost (2)	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
Equity securities (1)	$ 630.3	$ 61.2	$ 0.0	$ 691.5
Total	$ 630.3	$ 61.2	$ 0.0	$ 691.5

(1) Equity securities consist of our remaining ownership of 30.5 million shares of the 41.4 million shares of CareFusion common stock that we held immediately after the Spin-Off. These securities are stated at fair value with unrealized gains and losses reported in other comprehensive income. Realized gains and losses and declines in fair value deemed to be other-than-temporary are recognized in net earnings immediately. During fiscal 2010, we disposed of 10.9 million shares of CareFusion common stock, resulting in cash proceeds of $270.7 million and a pre-tax realized gain of $44.6 million.

(2) Represents our cost investment in the net book value of CareFusion s assets immediately following the Spin-Off adjusted for the sale of securities during fiscal 2010.

8. LONG-TERM OBLIGATIONS AND OTHER SHORT-TERM BORROWINGS

Long-term obligations and other short-term borrowings consist of the following as of June 30, 2010 and 2009:

(in millions)	June 30, 2010	2009
4.00% Notes due 2015	$ 534.7	$ 523.8
5.50% Notes due 2013	305.1	300.0
5.65% Notes due 2012	216.1	317.1
5.80% Notes due 2016	308.9	526.4
5.85% Notes due 2017	158.0	500.0
6.00% Notes due 2017	213.1	350.4
6.75% Notes due 2011	218.7	494.6
7.80% Debentures due 2016	44.1	75.7

7.00% Debentures due 2026	124.5	192.0
Floating Rate Notes due 2009	0.0	350.0
Other obligations	6.1	7.8
Total	$ 2,129.3	$ 3,637.8
Less: current portion and other short-term borrowings	233.2	366.2
Long-term obligations, less current portion	$ 1,896.1	$ 3,271.6

The 4.00%, 5.50% 5.65%, 5.80%, 5.85%, 6.00% and 6.75% Notes and the Floating Rate Notes due 2009 represent unsecured obligations. The 7.80% and 7.00% Debentures represent unsecured obligations of Allegiance Corporation (a wholly-owned subsidiary), which Cardinal Health, Inc. has guaranteed. None of these obligations are subject to a sinking fund and the Allegiance obligations are not redeemable prior to maturity. Interest is paid pursuant to the terms of the obligations. These notes are effectively subordinated to the liabilities of our subsidiaries, including trade payables of $9.5 billion.

On September 24, 2009, we completed a debt tender announced on August 27, 2009 for an aggregate purchase price, including an early tender premium but excluding accrued interest, fees and expenses, of $1.1 billion of the following series of debt securities: (i) 7.80% Debentures due October 15, 2016 of Allegiance Corporation; (ii) our 6.75% Notes due February 15, 2011; (iii) our 6.00% Notes due June 15, 2017; (iv) 7.00% Debentures due October 15, 2026 of Allegiance Corporation; (v) our 5.85% Notes due December 15, 2017; (vi) our 5.80% Notes due October 15, 2016; (vii) our 5.65% Notes due June 15, 2012; (viii) our 5.50% Notes due June 15, 2013; and (ix) our 4.00% Notes due June 15, 2015. In connection with the debt tender, we incurred a pre-tax loss for the early extinguishment of debt of approximately $39.9 million, which included an early tender premium of $66.4 million, the write-off of $5.3 million of unamortized debt issuance costs, and an offsetting $31.8 million fair value adjustment to the respective debt related to previously terminated interest rate swaps. The debt tender was completed using a portion of the $1.4 billion of cash distributed to us from CareFusion in connection with the Spin-Off.

In June 2008, we sold $300 million aggregate principal amount of fixed rate notes due 2013 (the 2013 Notes) in a registered offering. The 2013 Notes mature on June 15, 2013. Interest on the 2013 Notes accrues at 5.50% per year payable semi-annually. If we experience specific types of change of control and the notes are rated below investment grade by S&P, Moody s, and Fitch, we will be required to offer to purchase the 2013 Notes at 101% of the principal amount thereof, plus accrued and unpaid interest, if any, to the date of repurchase. We used the proceeds to repay $150.0 million of 6.25% Notes due 2008 on July 15, 2008 and to repay $149.0 million of preferred debt securities on October 3, 2008.

In addition to cash and equivalents, at June 30, 2010 and 2009, our sources of liquidity included a $1.5 billion commercial paper program backed by a $1.5 billion revolving credit facility. The revolving credit facility exists largely to support issuances of commercial paper as well as other short-term borrowings for general corporate purposes and remained unused at June 30, 2010 and 2009, except for $48.2 million and $70.2 million, respectively, of standby letters of credit. On April 16, 2009, in connection with the Spin-Off, we amended our $1.5 billion revolving credit facility to, among other things, replace a minimum net worth covenant with covenants that require us to maintain a consolidated interest coverage ratio as of the end of any fiscal quarter of at least 4-to-1 and to maintain a consolidated leverage ratio of no more than 3.25-to-1. The new covenants became effective upon Spin-Off. As of June 30, 2010, we were in compliance with these financial covenants.

We also maintain other short-term credit facilities and an unsecured line of credit that allowed for borrowings up to $4.8 million and $48.9 million at June 30, 2010 and 2009, respectively. At June 30, 2009, $15.7 million was outstanding under uncommitted facilities, all of which related to CareFusion; there was no amount outstanding at June 30, 2010. The $6.1 million and $7.8 million balance of other obligations at June 30, 2010, and 2009, respectively, consisted primarily of additional notes, loans and capital leases.

Maturities of long-term obligations and other short-term borrowings for the next five fiscal years and thereafter are as follows:

(in millions)	**2011**	**2012**	**2013**	**2014**	**2015**	**Thereafter**	**Total**
Maturities of long-term obligations and other short-term borrowings	$ 233.2	$ 214.1	$ 306.8	$ 1.2	$ 530.9	$ 843.1	$ 2,129.3

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9. INCOME TAXES

Earnings before income taxes and discontinued operations are as follows for fiscal 2010, 2009 and 2008:

	Fiscal Year Ended June 30,		
(in millions)	2010	2009	2008
U.S. Operations	$ 979.6	$ 959.2	$ 894.0
Non-U.S. Operations	232.0	200.6	401.1
	$ 1,211.6	$ 1,159.8	$ 1,295.1

The provision for income taxes from continuing operations consists of the following for fiscal 2010, 2009 and 2008:

	Fiscal Year Ended June 30,		
(in millions)	2010	2009	2008
Current:			
Federal	$ 429.4	$ 192.2	$ 374.8
State and local	63.3	45.6	91.4
Non-U.S.	11.7	14.4	18.6
Total	504.4	252.2	484.8
Deferred:			
Federal	103.0	125.0	(64.3)
State and local	18.2	23.0	36.0
Non-U.S.	(1.0)	1.4	(8.6)
Total	120.2	149.4	(36.9)
Total provision	$ 624.6	$ 401.6	$ 447.9

A reconciliation of the provision based on the federal statutory income tax rate to our effective income tax rate from continuing operations is as follows for fiscal 2010, 2009 and 2008:

	Fiscal Year Ended June 30,		
	2010	2009	2008
Provision at Federal statutory rate	35.0%	35.0%	35.0%
State and local income taxes, net of federal benefit	4.7	1.8	4.4
Foreign tax rate differential	(2.0)	(3.8)	(7.2)
Nondeductible/nontaxable items	0.2	1.6	1.6
Deferred state tax rate adjustment	(0.5)	1.5	2.0
Capital gain from repatriation	0.0	0.0	3.7
Valuation allowances	(2.3)	(3.1)	(3.7)
Unremitted foreign earnings	13.9	0.0	0.0
Other	2.6	1.6	(1.2)
Effective income tax rate	51.6%	34.6%	34.6%

As of June 30, 2010 we had $2.0 billion of total undistributed earnings from non-U.S. subsidiaries of which $1.3 billion are intended to be permanently reinvested in non-U.S. operations. We recorded a charge of $168 million during fiscal 2010 to reflect the anticipated repatriation of certain foreign earnings. With respect to the earnings that are considered permanently reinvested, no U.S. tax provision has been accrued related to the repatriation of these earnings. It is not practicable to estimate the amount of U.S. tax that might be payable on the eventual remittance of such earnings.

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During fiscal 2008, we repatriated cash of $307.5 million from non-U.S. subsidiaries. As a result, we incurred taxable dividends of $14.4 million, nontaxable return of capital/currency gain of $161.3 million and taxable capital gain of $131.8 million. The taxable capital gain amount of $131.8 million was fully offset with a previously unrecognized capital loss carryforward, and foreign tax credits of $14.1 million were recognized related to the taxable dividends resulting in a net tax benefit of $4.1 million.

Deferred income taxes arise from temporary differences between financial reporting and tax reporting bases of assets and liabilities, and operating loss and tax credit carryforwards for tax purposes. The components of the deferred income tax assets and liabilities as of June 30, 2010 and 2009 are as follows (in millions):

	June 30,	
(in millions)	**2010**	**2009**
Deferred income tax assets:		
Receivable basis difference	$ 43.5	$ 41.6
Accrued liabilities	132.1	174.2
Share-based compensation	112.6	118.2
Loss and tax credit carryforwards	206.1	202.4
Deferred tax assets related to uncertain tax positions	152.7	161.9
Other	113.2	75.3
Total deferred income tax assets	760.2	773.6
Valuation allowance for deferred income tax assets	(182.6)	(151.9)
Net deferred income tax assets	577.6	621.7
Deferred income tax liabilities:		
Inventory basis differences	(878.7)	(824.2)
Property-related	(156.8)	(73.6)
Goodwill and other intangibles	(66.1)	(368.2)
Revenues on lease contracts	(2.5)	(497.1)
Unremitted foreign earnings	(142.0)	0.0
Other	(1.2)	(3.3)
Total deferred income tax liabilities	(1,247.3)	(1,766.4)
Net deferred income tax liabilities	$ (669.7)	$ (1,144.7)

Deferred tax assets and liabilities in the preceding table, after netting by taxing jurisdiction, are in the following captions in the consolidated balance sheet at June 30, 2010 and 2009 (in millions):

	June 30,	
	2010	**2009**
Current deferred tax asset (1)	$ 42.5	$ 6.6
Non current deferred tax asset (2)	3.5	15.3
Discontinued operations net deferred tax asset (3)	0.0	24.8
Current deferred tax liability (4)	(616.8)	(641.8)
Non current deferred tax asset (liability) (5)	(98.9)	16.4
Discontinued Operations net deferred tax liability (6)	(0.0)	(566.0)
Net deferred tax liability	$ (669.7)	$ (1,144.7)

(1)	Included in	Prepaid Expenses and Other.
(2)	Included in	Other Assets.
(3)	Included in	Assets from Business Held for Sale and Discontinued Operations.
(4)	Included in	Other Accrued Liabilities.
(5)	Included in	Deferred Income Taxes and Other Liabilities.
(6)	Included in	Liabilities from Business Held for Sale and Discontinued Operations.

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At June 30, 2010, we had gross federal, state and international loss and credit carryforwards of $159.1 million, $538.9 million and $168.6 million, respectively, the tax effect of which is an aggregate deferred tax asset of $197.1 million. Substantially all of these carryforwards are available for at least three years or have an indefinite carryforward period. Approximately $142.7 million of the valuation allowance at June 30, 2010 applies to certain federal, state and international loss carryforwards that, in our opinion, are more likely than not to expire unutilized. However, to the extent that tax benefits related to these carryforwards are realized in the future, the reduction in the valuation allowance would reduce income tax expense.

Effective July 1, 2007, we adopted new accounting guidance regarding the accounting for tax benefits from uncertain tax positions, resulting in a $139.3 million reduction of retained earnings. This accounting guidance provides that a tax benefit from an uncertain tax position may be recognized when it is more likely than not that the position will be sustained upon examination, including resolutions of any related appeals or litigation processes, based on the technical merits. The amount recognized is measured as the largest amount of tax benefit that is greater than 50% likely of being realized upon settlement. This interpretation also provides guidance on measurement, derecognition, classification, interest and penalties, accounting in interim periods, disclosure and transition.

We had $730.6 million and $848.8 million of unrecognized tax benefits at June 30, 2010 and June 30, 2009, respectively. Included in the June 30, 2010 and June 30, 2009 balances are $311.3 million and $610.9 million, respectively, of unrecognized tax benefits that, if recognized, would have an impact on the effective tax rate. The remaining unrecognized tax benefits relate to tax positions for which ultimate deductibility is highly certain but for which there is uncertainty as to the timing of such deductibility. Recognition of these tax benefits would not affect our effective tax rate. We include the full amount of unrecognized tax benefits in deferred income taxes and other liabilities in the consolidated balance sheets. A reconciliation of the beginning and ending amounts of unrecognized tax benefits for fiscal 2010 and 2009 is as follows:

		June 30,	
(in millions)	**2010**	**2009**	**2008**
Balance at beginning of fiscal year	$ 848.8	$ 762.9	$ 596.6
Additions for tax positions of the current year	43.1	64.5	83.3
Additions for tax positions of prior years	90.0	118.7	189.4
Reductions for tax positions of prior years	(240.0)	(54.3)	(75.6)
Settlements with tax authorities	(10.7)	(37.8)	(7.8)
Expiration of the statute of limitations	(0.6)	(5.2)	(23.0)
Balance at end of fiscal year	$ 730.6	$ 848.8	$ 762.9

We recognize accrued interest and penalties related to unrecognized tax benefits in income tax expense. As of June 30, 2010 and June 30, 2009, we had $233.0 million and $246.8 million, respectively, accrued for the payment of interest and penalties. These balances are gross amounts before any tax benefits and are included in deferred income taxes and other liabilities in the consolidated balance sheets. For the year ended June 30, 2010, we recognized $34.5 million of interest and penalties in income tax expense.

We file income tax returns in the U.S. federal jurisdiction, various U.S. state jurisdictions and various foreign jurisdictions. With few exceptions, we are subject to audit by taxing authorities for fiscal 2001 through the current fiscal year.

The Internal Revenue Service (IRS) currently has ongoing audits of fiscal 2001 through 2007. During fiscal 2008, we were notified that the IRS has transferred jurisdiction over fiscal years 2001 and 2002 from the Office of Appeals back to the Examinations level to reconsider previously-unadjusted specific issues. During fiscal 2008, we received Notices of Proposed Adjustment (NPA s) from the IRS related to fiscal years 2001 through 2005 challenging deductions arising from the sale of trade receivables to a special purpose accounts receivable and financing entity. The amount of additional tax, excluding penalties and interest, proposed by the IRS in these notices was $178.9 million. We anticipate that this transaction could be the subject of proposed adjustments by the IRS in tax audits of fiscal years 2006 to 2009. Due to the anticipated repatriation of the earnings, the tax associated with the transaction, including the tax assessed by the IRS, no longer represented an uncertain tax benefit during fiscal 2010 and, as such, was classified as deferred taxes and other liabilities or current taxes payable in the balance sheet.

During fiscal 2009, we received a Revenue Agent s Report for tax years 2003 through 2005, which included new NPA s related to our transfer pricing arrangements between foreign and domestic subsidiaries and the transfer of intellectual property among subsidiaries of an acquired entity prior to its acquisition by us. The amount of additional tax proposed by the IRS in the new notices total $598.1 million, excluding penalties and interest, but including $462.1 million related to issues for which CareFusion is liable under the tax matters agreement in the event the amount must be paid to the taxing authority. We disagree with these proposed adjustments and intend to vigorously contest them. We believe that we are adequately reserved for the uncertain tax position relating to these matters.

It is reasonably possible that there could be a change in the amount of unrecognized tax benefits within the next 12 months due to activities of the IRS or other taxing authorities, including proposed assessments of additional tax, possible settlement of audit issues, or the expiration of applicable statutes of limitations. We estimate that the range of the possible change in unrecognized tax benefits within the next 12 months is a decrease of approximately zero to $45 million exclusive of penalties and interest.

10. COMMITMENTS, CONTINGENT LIABILITIES AND LITIGATION

Commitments

The future minimum rental payments for operating leases having initial or remaining non-cancelable lease terms in excess of one year at June 30, 2010 are:

(in millions)	2011	2012	2013	2014	2015	Thereafter	Total
Minimum rental payments	$ 65.8	$ 53.3	$ 40.2	$ 21.7	$ 14.2	$ 26.2	$ 221.4

Rental expense relating to operating leases was $80.3 million, $84.7 million and $55.7 million in fiscal 2010, 2009 and 2008, respectively. Sublease rental income was not material for any period presented herein.

Legal Proceedings

We become involved from time-to-time in litigation and regulatory matters incidental to our business, including governmental investigations, enforcement actions, personal injury claims, employment matters, commercial disputes, intellectual property matters, disputes regarding environmental clean-up costs, litigation in connection with acquisitions and divestitures, and other matters arising out of the normal conduct of the business. We intend to vigorously defend ourselves against such litigation. We do not believe that the outcome of any pending litigation will have a material adverse effect on the consolidated financial statements.

Occasionally, we may suspect that products we manufacture, market or distribute do not meet our specifications, published standards or regulatory requirements. In such circumstances, we will investigate and take appropriate corrective action. Such actions can lead to costs to repair or replace affected products, temporary interruptions in product sales, and action by regulators.

We accrue for contingencies related to litigation and regulatory matters. We will accrue an estimated loss contingency in our consolidated financial statements if it is probable that a liability has been incurred and the amount of the loss can be reasonably estimated. Because litigation is inherently unpredictable and unfavorable

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resolutions can occur, assessing contingencies is highly subjective and requires judgments about future events. We regularly review contingencies to determine whether our accruals are adequate. The amount of ultimate loss may differ from these estimates.

We recognize income from the favorable outcome of litigation when we receive the associated cash or assets.

We recognize estimated loss contingencies for litigation and regulatory matters and income from favorable resolution of litigation in litigation (credits)/charges, net in our consolidated statements of earnings.

Insurance Proceeds

In fiscal 2010, we recognized $27.2 million of income related to insurance proceeds released from escrow following the resolution of securities and derivative litigation against certain of our directors and officers. This amount is comprised of $25.7 million received from directors and officers insurance policies recognized in litigation (credits)/charges, net and $1.5 million of accrued interest income recognized in interest expense, net. In fiscal 2008, we recognized $58.0 million of income related to settlement of several derivative actions against directors and officers. This amount is comprised of $70.0 million received from the directors and officers insurance policies less $12.0 million paid for the plaintiffs attorneys fees and costs. These amounts are recognized in litigation (credits)/charges, net. For more information about this matter, see our Annual Reports on Form 10-K for fiscal 2008 and 2007.

Antitrust Litigation Proceeds

In fiscal 2010, we recognized $40.8 million of income resulting from settlement of a class action antitrust claim alleging that a defendant branded pharmaceutical manufacturer took improper actions to delay the entry of a generic version of a branded pharmaceutical. This amount is recognized in litigation (credits)/charges, net.

Income Taxes

See Note 9 for discussion of contingencies related to our income taxes.

11. GUARANTEES

In the ordinary course of business, we agree to indemnify certain other parties under acquisition and disposition agreements, customer agreements, intellectual property licensing agreements and other agreements. Such indemnification obligations vary in scope and, when defined, in duration. In many cases, a maximum obligation is not explicitly stated and therefore the overall maximum amount of the liability under such indemnification obligations cannot be reasonably estimated. Where appropriate, such indemnification obligations are recorded as a liability. Historically, we have not, individually or in the aggregate, made payments under these indemnification obligations in any material amounts. In certain circumstances, we believe that existing insurance arrangements, subject to the general deduction and exclusion provisions, would cover portions of the liability that may arise from these indemnification obligations. In addition, we believe that the likelihood of a material liability being triggered under these indemnification obligations is not significant.

We enter into agreements that obligate us to make fixed payments upon the occurrence of certain events. Such obligations primarily relate to obligations arising under acquisition transactions, where we have agreed to make payments based upon the achievement of certain financial performance measures by the acquired business. Generally, the obligation is capped at an explicit amount. As of June 30, 2010, our aggregate exposure for these obligations, assuming the achievement of all financial performance measures, was not material. However, in connection with our purchase of Healthcare Solutions Holding, LLC in July 2010, we are obligated to pay up to $150.0 million in contingent consideration.

We also extend loans to our customers which are subsequently sold to a bank. The bank services and administers these loans as well as any new loans we may direct. In order for the bank to purchase such loans, it requires the absolute and unconditional obligation that we repurchase such loans upon the occurrence of certain events described in the agreement including, but not limited to, borrower payment default that exceeds 90 days, insolvency and bankruptcy. At June 30, 2010 and 2009, notes in the program subject to our guaranty totaled $41.4 million and $39.9 million, respectively. These loans are reported in our consolidated balance sheets.

12. FINANCIAL INSTRUMENTS

We utilize derivative financial instruments to manage exposure to certain risks related to our ongoing operations. The primary risks managed through the use of derivative instruments include interest rate risk, currency exchange risk and commodity price risk. We do not use derivative instruments for trading or speculative purposes. While the majority of our derivative instruments are designated as hedging instruments, we also enter into derivative instruments that are designed to hedge a risk, but are not designated as hedging instruments. These derivative instruments are adjusted to current fair value through earnings at the end of each period.

Interest Rate Risk Management. We are exposed to the impact of interest rate changes. Our objective is to manage the impact of interest rate changes on cash flows and the market value of our borrowings. We utilize a mix of debt maturities along with both fixed-rate and variable-rate debt to manage changes in interest rates. In addition, we enter into interest rate swaps to further manage our exposure to interest rate variations related to our borrowings and to lower our overall borrowing costs.

Currency Risk Management. We conduct business in several major international currencies and are subject to risks associated with changing foreign exchange rates. Our objective is to reduce earnings and cash flow volatility associated with foreign exchange rate changes to allow management to focus its attention on business operations. Accordingly, we enter into various contracts that change in value as foreign exchange rates change to protect the value of existing foreign currency assets and liabilities, commitments and anticipated foreign currency revenue and expenses.

Commodity Price Risk Management. We are exposed to changes in the price of certain commodities. Our objective is to reduce earnings and cash flow volatility associated with forecasted purchases of these commodities to allow management to focus its attention on business operations. Accordingly, we enter into derivative contracts to manage the price risk associated with these forecasted purchases.

We are exposed to counterparty credit risk on all of our derivative instruments. Accordingly, we have established and maintain strict counterparty credit guidelines and enter into derivative instruments only with major financial institutions that are investment grade or better. We do not have significant exposure to any one counterparty and management believes the risk of loss is remote and, in any event, would not be material. Additionally, we do not require collateral under these agreements.

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The following table summarizes the fair value of our assets and liabilities related to derivative financial instruments, and the respective line items in which they were recorded in the consolidated balance sheets as of June 30, 2010 and 2009:

(in millions)	Balance Sheet Location	June 30, 2010	June 30, 2009
Assets:			
Derivatives designated as hedging instruments:			
Pay-floating interest rate swaps	Prepaid expenses and other	$ 23.4	$ 0.0
Foreign currency contracts	Prepaid expenses and other	3.9	0.4
Commodity contracts	Prepaid expenses and other	0.0	1.2
Total		27.3	1.6
Derivatives not designated as hedging instruments:			
Foreign currency contracts	Other long-term assets	0.0	64.5
Total assets		$ 27.3	$ 66.1
Liabilities:			
Derivatives designated as hedging instruments:			
Pay-fixed interest rate swaps	Other accrued liabilities	$ 0.0	$ 3.7
Foreign currency contracts	Deferred income taxes and other liabilities	1.1	2.9
Total liabilities		$ 1.1	$ 6.6

Fair Value Hedges

We enter into pay-floating interest rate swaps to hedge the changes in the fair value of fixed-rate debt resulting from fluctuations in interest rates. These contracts are designated and qualify as fair value hedges. Accordingly, the gain or loss recorded on the pay-floating interest rate swaps is directly offset by the change in fair value of the underlying debt. Both the derivative instrument and the underlying debt are adjusted to market value at the end of each period with any resulting gain or loss recorded in interest expense, net in the consolidated statements of earnings.

During fiscal 2010, we entered into pay-floating interest rate swaps with a total notional value of $1,006.0 million. The fair value of these pay-floating interest rate swaps is included in the consolidated balance sheet as of June 30, 2010.

On March 20, 2009, we terminated all of our then existing pay-floating interest rate swaps and received net settlement proceeds totaling $123.1 million. These proceeds are classified as cash provided by operating activities in the consolidated statements of cash flows. There was no immediate impact to the statements of earnings; however, the fair value adjustment to debt will be amortized over the life of the underlying debt as a reduction to interest expense in conjunction with the occurrence of the originally forecasted transactions.

The following table summarizes the interest rate swaps designated as fair value hedges outstanding as of June 30, 2010 and June 30, 2009:

	June 30, 2010		June 30, 2009	
(in millions)	Notional Amount	Maturity Date	Notional Amount	Maturity Date
Pay-floating interest rate swaps	$ 1,006.0	June 2012 June 2015	$ 0.0	

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The following table summarizes the gain/(loss) recognized in earnings for interest rate swaps designated as fair value hedges for fiscal 2010, 2009 and 2008:

(in millions)	Statements of Earnings Location	Fiscal Year Ended June 30, 2010	2009	2008
Pay-floating interest rate swaps	Interest expense, net	$ 47.3	$ 21.6	$ 4.2
Fixed-rate debt	Interest expense, net	(47.3)	(21.6)	(4.2)

There was no ineffectiveness associated with these derivative instruments.

Cash Flow Hedges

We enter into derivative instruments to hedge our exposure to changes in cash flows attributable to currency, interest rate and commodity price fluctuations associated with certain forecasted transactions. These derivative instruments are designated and qualify as cash flow hedges. Accordingly, the effective portion of the gain or loss on the derivative instrument is reported as a component of other comprehensive income (OCI) and reclassified into earnings in the same line item associated with the forecasted transaction and in the same period during which the hedged transaction affects earnings. The ineffective portion of the gain or loss on the derivative instrument is recognized in earnings immediately.

We enter into pay-fixed interest rate swaps to hedge the variability of cash flows relating to interest rate payments on our variable rate debt. At June 30, 2009, we held pay-fixed interest rate swaps to hedge the variability of cash flows relating to these forecasted transactions. On October 2, 2009, these pay-fixed interest rate swaps matured with the underlying floating-rate debt. The maturation of the pay-fixed interest rate swaps led to a zero balance for fiscal 2010.

We enter into foreign currency contracts to protect the value of anticipated foreign currency revenues and expenses. At June 30, 2010 and 2009, we held contracts to hedge probable, but not firmly committed, revenue and expenses. The principal currencies hedged are the Canadian dollar, European euro, Mexican peso and Thai baht.

We enter into derivative contracts to manage the price risk associated with forecasted purchases of certain commodities used in our Medical segment.

The following table summarizes the outstanding cash flow hedges as of June 30, 2010 and 2009:

	June 30, 2010			June 30, 2009		
(in millions)	Notional Amount	Maturity Date		Notional Amount	Maturity Date	
Pay-fixed interest rate swaps	$ 0.0			$ 350.0	October 2009	
Foreign currency contracts	145.7	July 2010	June 2011	156.7	July 2009	June 2010
Commodity contracts	24.2	July 2010	June 2013	14.5	July 2009	December 2011

The following table summarizes the accumulated gain/(loss) recognized in OCI for derivative instruments designated as cash flow hedges as of June 30, 2010 and 2009:

(in millions)	June 30, 2010	2009
Pay-fixed interest rate swaps	$ 0.0	$ (3.7)
Foreign currency contracts (1)	2.6	(6.9)
Commodity contracts	0.0	1.2

(1) Includes gain/(loss) recognized in OCI related to CareFusion of $(4.1) million and $0.2 million for fiscal 2009 and 2008, respectively.

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The following table summarizes the gain/(loss) reclassified from accumulated OCI into earnings for derivative instruments designated as cash flow hedges for fiscal 2010, 2009 and 2008:

		Fiscal Year Ended June 30,		
(in millions)	**Statements of Earnings Location**	**2010**	**2009**	**2008**
Pay-fixed interest rate swaps	Interest expense, net	$ (2.1)	$ (7.6)	$ (3.0)
Foreign currency contracts	Cost of products sold	(10.5)	10.9	(15.2)
Foreign currency contracts	SG&A expenses	1.4	(4.0)	2.3
Commodity contracts	SG&A expenses	0.2	(0.6)	0.0

The amount of ineffectiveness associated with these derivative instruments was not material.

Economic (Non-designated) Hedges

We enter into foreign currency contracts to manage our foreign exchange exposure related to intercompany financing transactions and other balance sheet items subject to revaluation that do not meet the requirements for hedge accounting treatment. Accordingly, these derivative instruments are adjusted to current market value at the end of each period through earnings. The gain or loss recorded on these instruments is substantially offset by the remeasurement adjustment on the foreign currency denominated asset or liability. The settlement of the derivative instrument and the remeasurement adjustment on the foreign currency denominated asset or liability are both recorded in other (income)/expense, net at the end of each period. During fiscal 2010, we received cash receipts from a cross currency swap settlement totaling $42.5 million. These proceeds are classified as cash provided by operating activities in the consolidated statement of cash flows.

The following table summarizes the economic (non-designated) derivative instruments outstanding as of June 30, 2010 and 2009:

	June 30, 2010		June 30, 2009	
(in millions)	**Notional Amount**	**Maturity Date**	**Notional Amount**	**Maturity Date**
Foreign currency contracts	$ 472.6	July 2010	$ 531.3	July 2009 December 2013

The following table summarizes the gain/(loss) recognized in earnings for economic (non-designated) derivative instruments for fiscal 2010, 2009 and 2008:

		Fiscal Year Ended June 30,		
(in millions)	**Statements of Earnings Location**	**2010**	**2009**	**2008**
Foreign currency contracts	Other income/expense, net	$ 23.7	$ (8.6)	$ 5.1

Fair Value of Financial Instruments

The carrying amounts of cash and equivalents, trade receivables, accounts payable, other short-term borrowings and other accrued liabilities at June 30, 2010 and 2009 approximate their fair value because of the short-term maturities of these items.

Cash balances are invested in accordance with our investment policy. These investments are exposed to market risk from interest rate fluctuations and credit risk from the underlying issuers, although this is mitigated through diversification.

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The following table summarizes the estimated fair value of our long-term obligations and other short-term borrowings compared to the respective carrying amounts at June 30, 2010 and 2009:

	June 30, 2010	June 30, 2009
Long-term obligations and other short-term borrowings	$ 2,310.4	$ 3,428.8
Carrying amount	2,129.3	3,637.8

The fair value of our long-term obligations and other short-term borrowings is estimated based on either the quoted market prices for the same or similar issues or other inputs derived from available market information.

The following is a summary of the fair value gain/(loss) of our derivative instruments, based upon the estimated amount that we would receive (or pay) to terminate the contracts as of June 30, 2010 and 2009. The fair values are based on quoted market prices for the same or similar instruments.

	June 30, 2010		June 30, 2009	
(in millions)	**Notional Amount**	**Fair Value Gain/(Loss)**	**Notional Amount**	**Fair Value Gain/(Loss)**
Interest rate swaps	$ 1,006.0	$ 23.4	$ 350.0	$ (3.7)
Foreign currency contracts	618.3	2.8	688.0	62.0
Commodity contracts	24.2	0.0	14.5	1.2

See Note 13 for further information regarding fair value measurements.

13. FAIR VALUE MEASUREMENTS

Fair value is defined as the price that would be received upon selling an asset or the price paid to transfer a liability on the measurement date. It focuses on the exit price in the principal or most advantageous market for the asset or liability in an orderly transaction between willing market participants. A three-tier fair value hierarchy is established as a basis for considering such assumptions and for inputs used in the valuation methodologies in measuring fair value. This hierarchy requires entities to maximize the use of observable inputs and minimize the use of unobservable inputs. The three levels of inputs used to measure fair values are as follows:

Level 1	Observable prices in active markets for identical assets and liabilities.
Level 2	Observable inputs other than quoted prices in active markets for identical assets and liabilities.
Level 3	Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets and liabilities.

Recurring Fair Value Measurements

The following table presents the fair values for those assets and (liabilities) measured on a recurring basis as of June 30, 2010:

	Fair Value Measurements			
(in millions)	**Level 1**	**Level 2**	**Level 3**	**Total**
Cash Equivalents (1)	$ 2,019.0	$ 0.0	$ 0.0	$ 2,019.0
Investment in CareFusion (2)	691.5	0.0	0.0	691.5
Foreign Currency Contracts (3)	0.0	2.8	0.0	2.8
Interest Rate Swaps (3)	0.0	23.4	0.0	23.4
Other Investments (4)	71.3	0.0	0.0	71.3

Total	$ 2,781.8	$ 26.2	$ 0.0	$ 2,808.0

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The following table presents the fair values for those assets and (liabilities) measured on a recurring basis as of June 30, 2009:

	Fair Value Measurements					
(in millions)	**Level 1**	**Level 2**	**Level 3**	**Total**		
Cash Equivalents (1)	$ 628.3	$ 0.0	$ 0.0	$ 628.3		
Foreign Currency Contracts (3)	0.0					
Employee stock options, restricted stock and employee stock purchase plan	12	1,088	-	-	(402)	698
Stock-based compensation expense	-	7,103	-	-	-	7,103
Income tax effect, net, of employee stock related activity	-	(433)	-	-	-	(433)
Treasury shares purchased at cost	-	-			(50,145)	(50,145)
Foreign currency translation	-	-	(1,523)	-	-	(1,523)
Balance at December 31, 2012	957	484,962	(734)	95,015	(66,622)	513,578
Net income	-	-	-	65,323	-	65,323
Employee stock options, restricted stock and employee stock purchase plan	23	8,284	-	-	(2,120)	6,187
Stock-based compensation expense	-	9,699	-	-	-	9,699
Income tax effect, net, of employee stock related activity	-	1,730	-	-	-	1,730
Treasury shares purchased at cost	-	-	-	-	(6,713)	(6,713)
Foreign currency translation	-	-	(8,750)	-	-	(8,750)
Balance at December 31, 2013	$980	$ 504,675	$ (9,484)	$160,338	$(75,455)	$581,054

See Accompanying Notes to Consolidated Financial Statements

Newpark Resources, Inc.

Consolidated Statements of Cash Flows
Years Ended December 31,

(In thousands)	**2013**	**2012**	**2011**
Cash flows from operating activities:			
Net income	$65,323	$60,032	$80,017
Adjustments to reconcile net income to net cash provided by operations:			
Impairment charges	176	443	-
Depreciation and amortization	44,198	32,821	28,971
Stock-based compensation expense	9,699	7,103	4,535
Provision for deferred income taxes	(7,832)	1,358	26,623
Net provision for doubtful accounts	416	1,709	2,400
(Gain) loss on sale of assets	(3,178)	724	630
Excess tax benefit from stock-based compensation	(2,146)	-	-
Change in assets and liabilities:			
Decrease (increase) in receivables	32,172	23,565	(135,303)
Decrease (increase) in inventories	16,431	(28,758)	(48,129)
Decrease (increase) in other assets	4,574	(641)	(434)
(Decrease) increase in accounts payable	(17,733)	13,702	30,425
Increase (decrease) in accrued liabilities and other	9,803	(1,813)	(3,293)
Net cash provided by (used in) operating activities	151,903	110,245	(13,558)
Cash flows from investing activities:			
Capital expenditures	(67,929)	(43,955)	(36,897)
Proceeds from sale of property, plant and equipment	1,313	863	522
Proceeds from sale of a business	13,329	-	-
Business acquisitions, net of cash acquired	(6,776)	(53,075)	(26,775)
Net cash used in investing activities	(60,063)	(96,167)	(63,150)
Cash flows from financing activities:			
Borrowings on lines of credit	254,390	364,426	27,619
Payments on lines of credit	(328,086)	(296,944)	(9,951)
Principal payments on notes payable and long-term debt	(25)	(40)	(219)
Proceeds from employee stock plans	8,328	1,059	3,588
Post-closing payment for business acquisition	-	(11,892)	(2,055)
Purchase of treasury stock	(9,281)	(50,756)	(644)
Excess tax benefit from stock-based compensation	2,146	-	-
Net cash (used in) provided by financing activities	(72,528)	5,853	18,338
Effect of exchange rate changes on cash	(318)	1,668	607

Net increase (decrease) in cash and cash equivalents	18,994	21,599	(57,763)
Cash and cash equivalents at beginning of year	46,846	25,247	83,010
Cash and cash equivalents at end of year	$65,840	$46,846	$25,247
Cash paid for:			
Income taxes (net of refunds)	$31,101	$24,508	$29,675
Interest	$10,189	$8,355	$7,794

See Accompanying Notes to Consolidated Financial Statements

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Note 1 — Summary of Significant Accounting Policies

Organization and Principles of Consolidation. Newpark Resources, Inc. was organized in 1932 as a Nevada corporation. In 1991, we changed our state of incorporation to Delaware. We are a diversified oil and gas industry supplier providing products and services primarily to the oil and gas exploration and production ("E&P") industry serving customers in North America, Europe, the Middle East and Africa ("EMEA"), Latin America and Asia Pacific regions. The consolidated financial statements include our company and our wholly-owned subsidiaries ("we", "our" or "us"). All intercompany transactions are eliminated in consolidation.

Use of Estimates and Market Risks. The preparation of financial statements in conformity with accounting principles generally accepted in the United States ("US GAAP") requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. Estimates used in preparing our consolidated financial statements include, but are not limited to the following: allowances for product returns, allowances for doubtful accounts, reserves for self-insured retentions under insurance programs, reserves for incentive compensation programs, fair values used for goodwill impairment testing, undiscounted future cash flows used for impairment testing of long-lived assets, depreciation using the unit-of-production method and valuation allowances for deferred tax assets.

Our operating results depend primarily on oil and gas drilling activity levels in the markets we serve. Drilling activity, in turn, depends on oil and gas commodities pricing, inventory levels and product demand. Oil and gas prices and activity are cyclical and volatile. This market volatility has a significant impact on our operating results.

Cash Equivalents. All highly liquid investments with a remaining maturity of three months or less at the date of acquisition are classified as cash equivalents.

Allowance for Doubtful Accounts. Reserves for uncollectible accounts receivable are determined on a specific identification basis when we believe that the required payment of specific amounts owed to us is not probable.

The majority of our revenues are from mid-sized and international oil companies and government-owned or government-controlled oil companies, and we have receivables in several foreign jurisdictions. Changes in the financial condition of our customers or political changes in foreign jurisdictions could cause our customers to be unable to repay these receivables, resulting in additional allowances.

Allowance for Product Returns. We maintain reserves for estimated customer returns of unused materials in our Fluids Systems segment. The reserves are established based upon historical customer return levels and estimated gross profit levels attributable to product sales.

Inventories. Inventories are stated at the lower of cost (principally average cost) or market. Certain conversion costs associated with the acquisition, production, blending and storage of inventory in our Fluids Systems segment as well as in the manufacturing operations in the Mats and Integrated Services segment are capitalized as a component of the carrying value of the inventory and expensed as a component of cost of revenues as the products are sold. Reserves for inventory obsolescence are determined based on the fair value of the inventory using factors such as our historical usage of inventory on-hand, future expectations related to our customers needs, market conditions and the development of new products.

Property, Plant and Equipment. Property, plant and equipment are recorded at cost. Additions and improvements that extend the useful life of the assets are capitalized. Maintenance and repairs are charged to expense as incurred. The cost of property, plant and equipment sold or otherwise disposed of and the accumulated depreciation thereon are eliminated from the property and related accumulated depreciation accounts, and any gain or loss is credited or charged to income.

NEWPARK RESOURCES, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

For financial reporting purposes, except as described below, depreciation is provided on property, plant and equipment, including assets held under capital leases, by utilizing the straight-line method over the following estimated useful service lives or lease term:

Computer hardware and office equipment (years)	3	-	5
Computer software (years)	3	-	10
Autos & light trucks (years)	5	-	7
Furniture, fixtures & trailers (years)	7	-	10
Composite mats (years)	7	-	12
Machinery and heavy equipment (years)	5	-	15
Owned buildings (years)	20	-	39
Leasehold improvements	Lease terms, including reasonably assured renewal periods		

We compute the provision for depreciation on certain of our environmental disposal assets and our barite grinding mills using the unit-of-production method. In applying this method, we have considered certain factors which affect the expected production units (lives) of these assets. These factors include periods of non-use for normal maintenance and economic slowdowns.

Goodwill and Other Intangible Assets. Goodwill represents the excess of the purchase price of acquisitions over the fair value of the net identifiable assets acquired. Goodwill and other intangible assets with indefinite lives are not amortized. Intangible assets with finite useful lives are amortized either on a straight-line basis over the asset's estimated useful life or on a basis that reflects the pattern in which the economic benefits of the asset are realized. Any period costs of maintaining intangible assets are expensed as incurred.

Impairment of Long-Lived Assets. Goodwill and other indefinite-lived intangible assets are tested for impairment annually as of November 1, or more frequently, if an indication of impairment exists. The impairment test includes a comparison of the carrying value of net assets of our reporting units, including goodwill, with their estimated fair values, which we determine using a combination of a market multiple and discounted cash flow approach. If the carrying value exceeds the estimated fair value, an impairment charge is recorded in the period in which such review is performed. We identify our reporting units based on our analysis of several factors, including our operating segment structure, evaluation of the economic characteristics of our geographic regions within each of our operating segments, and the extent to which our business units share assets and other resources.

We review property, plant and equipment, finite-lived intangible assets and certain other assets for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. We assess recoverability based on expected undiscounted future net cash flows. In estimating expected cash flows, we use a probability-weighted approach. Should the review indicate that the carrying value is not fully recoverable, the amount of impairment loss is determined by comparing the carrying value to the estimated fair value.

Insurance. We maintain reserves for estimated future payments associated with our self-insured employee healthcare programs, as well as the self-insured retention exposures under our general liability, auto liability and workers compensation insurance policies. Our reserves are determined based on historical cost experience under these programs, including estimated development of known claims and estimated incurred-but-not-reported claims.

Revenue Recognition. The Fluids Systems segment recognizes sack and bulk material additive revenues upon shipment of materials and passage of title. Formulated liquid systems revenues are recognized when utilized or lost downhole while drilling. An allowance for product returns is maintained, reflecting estimated future customer product returns. Engineering and related services are provided to customers as an integral component of the fluid system delivery, at agreed upon hourly or daily rates, and revenues are recognized when the services are performed.

NEWPARK RESOURCES, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

For the Mats and Integrated Services segment, revenues from the sale of mats are recognized when title passes to the customer, which is upon shipment or delivery, depending upon the terms of the underlying sales contract. Revenues for services and rentals provided by this segment are generated from both fixed-price and unit-priced contracts, which are short-term in duration. The activities under these contracts include site preparation, pit design, construction, drilling waste management, and the installation and rental of mat systems for a period of time generally not to exceed 60 days. Revenues from services provided under these contracts are recognized as the specified services are completed. Revenues from any subsequent extensions to the rental agreements are recognized over the extension period.

Shipping and handling costs are reflected in cost of revenues, and all reimbursements by customers of shipping and handling costs are included in revenues.

Income Taxes. We provide for deferred taxes using an asset and liability approach by measuring deferred tax assets and liabilities due to temporary differences existing at year end using currently enacted tax rates and laws that will be in effect when the differences are expected to reverse. We reduce deferred tax assets by a valuation allowance when, based on our estimates, it is more likely than not that a portion of those assets will not be realized in a future period. The estimates utilized in recognition of deferred tax assets are subject to revision, either up or down, in future periods based on new facts or circumstances. We evaluate uncertain tax positions and record a liability as circumstances warrant. We have a $2.2 million and $2.8 million liability for uncertain tax positions recorded as of December 31, 2013 and 2012, respectively.

Stock-Based Compensation. All share-based payments to employees, including grants of employee stock options, are recognized in the income statement based on their fair values. We use the Black-Scholes option-pricing model for measuring the fair value of stock options granted and recognize stock-based compensation based on the grant date fair value, net of an estimated forfeiture rate, for all share-based awards, on a straight-line basis over the vesting term.

Foreign Currency Transactions. The majority of our transactions are in U.S. dollars; however, our foreign subsidiaries maintain their accounting records in the respective local currency. These currencies are converted to U.S. dollars with the effect of the foreign currency translation reflected in “accumulated other comprehensive income (loss),” a component of stockholders’ equity. Foreign currency transaction gains and losses, if any, are credited or charged to income. We recorded a net transaction loss totaling $1.8 million, $0.7 million and $0.5 million in 2013, 2012 and 2011, respectively. At December 31, 2013 and 2012, accumulated other comprehensive loss related to foreign subsidiaries reflected in stockholders' equity amounted to $9.5 million and $0.7 million, respectively.

Derivative Financial Instruments. We monitor our exposure to various business risks including interest rates and foreign currency exchange rates and occasionally use derivative financial instruments to manage the impact of certain of these risks. At the inception of a new derivative, we designate the derivative as a cash flow or fair value hedge or we determine the derivative to be undesignated as a hedging instrument based on the underlying facts. We do not enter into derivative instruments for trading purposes.

New Accounting Standards. In February 2013, the Financial Accounting Standards Board issued additional guidance on disclosure requirements for items reclassified out of accumulated other comprehensive income which was effective for us beginning in the first quarter of 2013. This new guidance requires entities to present (either on the face of the income statement or in the notes) the effects on the line items of the income statement for amounts reclassified out of accumulated other comprehensive income. During the year-ended December 31, 2013, we had no reclassifications out of accumulated other comprehensive income, as the only changes relate to foreign currency translation adjustments.

In July 2012, the Financial Accounting Standards Board ("FASB") issued an update to previous guidance regarding testing indefinite-lived intangible assets for impairment. The revised guidance permits an entity first to assess qualitative factors to determine whether it is more likely than not that an indefinite-lived intangible asset is impaired as a basis for determining whether it is necessary to perform the quantitative impairment test. The update is effective for impairment tests performed for fiscal years beginning after September 15, 2012. The adoption of this additional guidance did not have a material effect on our consolidated financial statements.

NEWPARK RESOURCES, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

Note 2 — Discontinued Operations

In May 2013, our Board of Directors approved commencement of a process to sell our Environmental Services business so that we can focus our efforts on expanding into new markets and developing new technologies in our core Fluids Systems and Mats and Integrated Services segments. In February 2014, we entered into a definitive agreement to sell this business, which is subject to regulatory approval and customary closing conditions. Under the terms of the agreement, Newpark will receive $100 million in cash, subject to adjustment based on actual working capital conveyed at closing. While containing representations, warranties and indemnities which are customary for transactions of this nature, the agreement significantly limits our post-closing environmental obligations, including those related to the waste transfer and disposal facilities. The agreement provides for a $5 million reverse-termination fee which will be payable to Newpark if the agreement is terminated under certain circumstances. The sale is expected to close in the first quarter of 2014, subject to customary conditions, including regulatory approval. As a result, we have reclassified all assets, liabilities and results of operations for this business to discontinued operations for all periods presented.

Summarized results of operations from discontinued operations are as follows:

	Year-ended December 31,		
(In thousands)	**2013**	**2012**	**2011**
Revenues	$65,002	$54,066	$48,812
Income from discontinued operations before income taxes	17,773	13,609	11,909
Income from discontinued operations, net of tax	12,701	9,579	8,784

Assets and liabilities of discontinued operations as of December 31, 2013 and December 31, 2012 are as follows:

	December 31,	
(In thousands)	**2013**	**2012**
Receivables, net	$11,915	$11,147
Prepaid expenses and other current assets	1,188	925

Property, plant and equipment	62,333	63,588
Other assets	3,584	3,616
Assets of discontinued operations	$79,020	$79,276
Accounts payable	$4,415	$5,259
Other Accrued liabilities	1,542	488
Deferred tax liability	12,449	12,129
Other noncurrent liabilities	10,291	8,126
Liabilities of discontinued operations	$28,697	$26,002

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NEWPARK RESOURCES, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

Note 3 — Inventories

Inventories consisted of the following items at December 31:

(In thousands)	2013	2012
Raw materials:		
Drilling fluids	$153,901	$174,365
Mats	790	754
Total raw materials	154,691	175,119
Blended drilling fluids components	34,075	34,215
Finished goods- mats	914	400
Total	$189,680	$209,734

Raw materials consist primarily of barite, chemicals, and other additives that are consumed in the production of our drilling fluid systems. Our blended drilling fluids components consist of base drilling fluid systems that have been either mixed internally at our mixing plants or purchased from third party vendors. These base systems require raw materials to be added, as required to meet specified customer requirements.

The decline in inventory during 2013 reflects the $20.8 million decrease in U.S. barite ore inventories, as the 2012 levels were unusually high.

Note 4 — Property, Plant and Equipment

Our investment in property, plant and equipment consisted of the following at December 31:

(In thousands)	**2013**	**2012**
Land	$10,085	$6,789
Buildings and improvements	86,660	63,465
Machinery and equipment	209,874	221,730
Construction in progress	12,667	14,489
	319,286	306,473
Less accumulated depreciation	(137,702)	(139,438)
	181,584	167,035
Mats (rental fleet)	60,332	44,811
Less accumulated depreciation-mats	(24,906)	(21,444)
	35,426	23,367
Property, plant and equipment, net	$217,010	$190,402

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NEWPARK RESOURCES, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

Depreciation expense was $29.4 million, $25.7 million and $22.6 million in 2013, 2012 and 2011, respectively.

In October 2013, we announced plans to expand our mat manufacturing facility, located in Carencro, Louisiana. The $40 million expansion project is expected to be completed in early 2015.

Note 5 — Goodwill, Other Intangibles and Impairments of Long-Lived Assets

Changes in the carrying amount of goodwill by reportable segment are as follows:

(In thousands)	**Fluids Systems**	**Mats and Integrated Services**	**Total**
Balance at December 31, 2011	$57,041	$ 14,929	$71,970
Acquisition	15,060	-	15,060
Effects of foreign currency	358	-	358
Balance at December 31, 2012	72,459	14,929	87,388
Acquisition	-	4,544	4,544
Purchase price adjustments	2,692	-	2,692
Effects of foreign currency	(560)	-	(560)
Balance at December 31, 2013	$74,591	$ 19,473	$94,064

We have evaluated the carrying values of our goodwill and other indefinite-lived intangible assets as of November 1, 2013. We determine any impairment of goodwill by comparing the carrying amounts of our reporting units with fair values, which we estimate using a combination of a market multiple and discounted cash flow approach. In completing this evaluation, we determined that no reporting unit has a fair value below its net carrying value and therefore, no impairment was required.

Other intangible assets consist of the following:

(In thousands)	December 31, 2013 Gross Carrying Amount	Accumulated Amortization	Intangible assets, net	December 31, 2012 Gross Carrying Amount	Accumulated Amortization	Intangible assets, net
Technology related	$5,318	$ (3,065)	$ 2,253	$5,222	$ (2,724)	$ 2,498
Customer related	38,684	(17,892)	20,792	42,540	(10,559)	31,981
Employment related	2,238	(934)	1,304	2,327	(593)	1,734
Total amortizing intangible assets	46,240	(21,891)	24,349	50,089	(13,876)	36,213
Permits and licenses	622	-	622	597	-	597
Trademarks	929	-	929	851	-	851
Total indefinite-lived intangible assets	1,551	-	1,551	1,448	-	1,448
Total intangible assets	$47,791	$ (21,891)	$ 25,900	$51,537	$ (13,876)	$ 37,661

NEWPARK RESOURCES, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

Total amortization expense in 2013, 2012 and 2011 related to other intangible assets was $10.4 million, $3.3 million and $3.3 million, respectively. The increase in amortization expense in 2013 relates to the acquisition of Alliance Drilling Fluids, LLC in December 2012. See Note 6 Acquisitions in these Notes to Consolidated Financial Statements for additional details.

Estimated future amortization expense for the years ended December 31 is as follows (in thousands):

(In thousands)	**2014**	**2015**	**2016**	**2017**	**2018**	**Thereafter**	**Total**
Technology related	$400	$387	$341	$341	$341	$ 442	$2,252
Customer related	6,882	3,792	2,667	2,006	1,431	4,015	20,793
Employment related	329	325	325	325	-	-	1,304
Total future amortization expense	$7,611	$4,504	$3,333	$2,672	$1,772	$ 4,457	$24,349

The average amortization period for technology related, customer related and employment related intangible assets is 14 years, 8 years and 5 years, respectively.

Note 6 — Acquisitions

In December 2012, we completed the acquisition of substantially all assets and operations of Alliance Drilling Fluids, LLC (“Alliance”), a provider of drilling fluids, proppant distribution, and related services headquartered in Midland, Texas. Total cash consideration at closing was $53.1 million, which was funded through borrowings on our revolving credit facility. Additional consideration up to $4.3 million may be payable based on the profitability of the proppant distribution business over the two year period following the acquisition.

The transaction has been recorded using the acquisition method of accounting and accordingly, assets acquired and liabilities assumed were recorded at their fair values as of the acquisition date. The excess of the total consideration, including projected additional consideration, was recorded as goodwill and includes the value of the assembled workforce. The following table summarizes the amounts recognized for assets acquired and liabilities assumed as of the December 31, 2012 acquisition date, including final adjustments to the purchase price allocation:

NEWPARK RESOURCES, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

(In thousands)	
Receivables, net	$22,822
Inventories	5,779
Property, plant and equipment, net	4,932
Goodwill	14,220
Customer relationships	13,652
Tradename	2,020
Employment contracts	1,625
Deferred tax asset	181
Total assets acquired	$65,231
Accounts payable	$7,002
Accrued liabilities	4,149
Other noncurrent liabilities	1,005
Total liabilities assumed	$12,156
Total cash conveyed at closing	$53,075

The other non-current liabilities balance above includes $1.0 million of estimated post-closing payments due to the seller for the 2013 fiscal year, reflecting the expected contingent consideration described above.

In December 2013, we completed the acquisition of Terrafirma Roadways ("Terrafirma"), a provider of temporary roadways and worksites based in the United Kingdom, for total cash consideration of $6.8 million, net of cash acquired. Additional consideration up to $1.6 million may be payable based on earnings of business over the 18 month period following the acquisition. Prior to the acquisition, Terrafirma had been operating as a partner to the Company since 2008, developing a rental business with DURA-BASE® composite mats, primarily focused in the utility industry in the U.K.

The transaction has been recorded using the acquisition method of accounting and accordingly, assets acquired and liabilities assumed were recorded at their fair values as of the acquisition date. The excess of the total consideration, including projected additional consideration, was recorded as goodwill and includes the value of the assembled workforce. While the initial purchase price allocation has been completed, the allocation of the purchase price is subject to change for a period of one year following the acquisition. The following table summarizes the amounts recognized for assets acquired and liabilities assumed as of the December 2013 acquisition date:

NEWPARK RESOURCES, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

(In thousands)	
Receivables, net	$2,155
Property, plant and equipment, net	2,160
Goodwill	4,544
Other intangibles, net	4,528
Total assets acquired	$13,387
Accounts payable	$3,350
Short-term debt	284
Accrued liabilities	285
Deferred tax liability	1,092
Other noncurrent liabilities	1,600
Total liabilities assumed	$6,611
Total cash conveyed at closing	$6,776

Pro forma results of operation for the acquired businesses have not been presented as the effect of these acquisitions are not material to our consolidated financial statements.

Note 7 — Financing arrangements

Financing arrangements consisted of the following at December 31, 2013 and 2012:

(In thousands)	**2013**	**2012**
Senior Notes	$172,500	$172,500
Revolving credit facility	-	84,000

Other	13,153	2,931
Total debt	$185,653	$259,431
Less: current portion	(12,867)	(2,599)
Long-term portion	$172,786	$256,832

Our financing arrangements include $172.5 million of unsecured convertible senior notes (“Senior Notes”) and a $125.0 million revolving credit facility (the “Credit Agreement”) which can be increased by $75.0 million for a maximum $200.0 million of capacity. The Senior Notes bear interest at a rate of 4.0% per year, payable semi-annually in arrears on April 1 and October 1 of each year. Holders may convert the Senior Notes at their option at any time prior to the close of business on the business day immediately preceding the October 1, 2017 maturity date. The conversion rate is initially 90.8893 shares of our common stock per $1,000 principal amount of Senior Notes (equivalent to an initial conversion price of $11.00 per share of common stock), subject to adjustment in certain circumstances. Upon conversion, the Senior Notes will be settled in shares of our common stock. We may not redeem the Senior Notes prior to their maturity date.

The Credit Agreement provides a $125.0 million revolving loan facility available for borrowings and letters of credit and expires in November 2016. Under the terms of the Credit Agreement, we can elect to borrow at an interest rate either based on LIBOR plus a margin based on our consolidated leverage ratio, ranging from 175 to 300 basis points, or at an interest rate based on the greatest of: (a) prime rate, (b) the federal funds rate in effect plus 50 basis points, or (c) the Eurodollar rate for a Eurodollar Loan with a one-month interest period plus 100 basis points, in each case plus a margin ranging from 75 to 200 basis points. The applicable margin on LIBOR borrowings on December 31, 2013 was 200 basis points. In addition, we are required to pay a commitment fee on the unused portion of the Credit Agreement of 37.5 basis points. The Credit Agreement contains customary financial and operating covenants, including a consolidated leverage ratio, a senior secured leverage ratio and an interest coverage ratio. We were in compliance with these covenants as of December 31, 2013.

NEWPARK RESOURCES, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

At December 31, 2013, we had letters of credit issued and outstanding under the Credit Agreement which totaled $25.7 million leaving $99.3 million of availability at December 31, 2013. Additionally, our foreign operations had $13.2 million outstanding under lines of credit and other borrowings, as well as $0.8 million outstanding in letters of credit.

The Credit Agreement is a senior secured obligation, secured by first liens on all of our U.S. tangible and intangible assets, including our accounts receivable and inventory. Additionally, a portion of the capital stock of our non-U.S. subsidiaries has also been pledged as collateral.

Our foreign subsidiaries, primarily those in Italy and Brazil, maintain local credit arrangements consisting primarily of lines of credit with several banks, which are renewed on an annual basis. We utilize local financing arrangements in our foreign operations in order to provide short-term local liquidity needs, as well as to reduce the net investment in foreign operations subject to foreign currency risk. Advances under these short-term credit arrangements are typically based on a percentage of the subsidiary's accounts receivable or firm contracts with certain customers. The weighted average interest rate under these arrangements was 14.11% and 2.81% on total outstanding balances of $13.2 million and $2.5 million at December 31, 2013 and 2012, respectively.

We incurred net interest expense of $11.3 million, $9.7 million and $9.2 million for the years ended December 31, 2013, 2012 and 2011, respectively. Scheduled maturities of all long-term debt are as follows (in thousands):

2015	$286
2016	-
2017	172,500
2018	-
Thereafter	-
Total	$172,786

Note 8 — Fair Value of Financial Instruments and Concentrations of Credit Risk

Fair Value of Financial Instruments

Our financial instruments include cash and cash equivalents, receivables, payables and debt. We believe the carrying values of these instruments, with the exception of our Senior Notes, approximated their fair values at December 31, 2013 and December 31, 2012. The estimated fair value of our Senior Notes is $231.2 million at December 31, 2013 and $176.0 million at December 31, 2012, based on quoted market prices at these respective dates.

Concentrations of Credit Risk

Financial instruments that potentially subject us to significant concentrations of credit risk consist principally of cash, trade accounts and notes receivable. At December 31, 2013, substantially all of our cash deposits are held in accounts at numerous financial institutions across the various regions that we operate in. A majority of the cash is held in accounts that maintain deposit ratings of P-1 by Moody’s, A-1 by Standard and Poor’s, and F1 by Fitch. As part of our investment strategy, we perform periodic evaluations of the relative credit standing of these financial institutions.

NEWPARK RESOURCES, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

Accounts Receivable

Accounts receivable at December 31, 2013 and 2012 include the following:

(In thousands)	**2013**	**2012**
Gross trade receivables	$252,168	$296,117
Allowance for doubtful accounts	(4,142)	(3,950)
Net trade receivables	248,026	292,167
Other receivables	20,503	20,125
Total receivables, net	$268,529	$312,292

Other receivables includes $15.6 million and $17.7 million for value-added and goods and service taxes related to foreign jurisdictions, as well as other tax related receivables as of December 31, 2013 and 2012, respectively.

We derive a significant portion of our revenues from companies in the E&P industry, and our customer base is highly concentrated in major and independent oil and gas E&P companies operating in the markets that we serve. In 2013, approximately 50% of our consolidated revenues from continuing operations were derived from our 20 largest customers. We maintain an allowance for losses based upon the expected collectability of accounts receivable. Changes in this allowance for 2013, 2012 and 2011 are as follows:

(In thousands)	**2013**	**2012**	**2011**
Balance at beginning of year	$3,950	$3,149	$5,571
Provision for uncollectible accounts	309	1,614	2,403
Write-offs, net of recoveries	(117)	(813)	(4,825)

Balance at end of year	$4,142	$3,950	$3,149

The Consolidated Statements of Cash Flows included in this Item 8 of these Financial Statements and Supplementary Data include a provision for uncollectible accounts related to operations that are classified as discontinued operations as of December 31, 2013, 2012 and 2011. However, these amounts were minimal for the periods presented.

During 2011, $5.2 million of fully reserved trade receivables were written off against the allowance for doubtful accounts. During the years ended December 31, 2013, 2012 and 2011, no single customer accounted for more than 10% of total sales.

NEWPARK RESOURCES, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

Note 9 — Income Taxes

The provision for income taxes charged to continuing operations was as follows:

	Year Ended December 31,		
(In thousands)	2013	2012	2011
Current tax expense (benefit):			
U.S. Federal	$24,275	$19,020	$7,067
State	1,595	1,602	2,724
Foreign	7,085	8,682	7,234
Total current	32,955	29,304	17,025
Deferred tax expense (benefit):			
U.S. Federal	(2,057)	(1,082)	22,280
State	(598)	(1,219)	384
Foreign	(1,575)	4,343	185
Total deferred	(4,230)	2,042	22,849
Total provision	$28,725	$31,346	$39,874

The total provision was allocated to the following components of income:

	Year Ended December 31,		
(In thousands)	2013	2012	2011

Income from continuing operations	$28,725	$31,346	$39,874
Income from discontinued operations	5,072	4,030	3,125
Total provision	$33,797	$35,376	$42,999

Income from continuing operations before income taxes was as follows:

	Year Ended December 31,		
(In thousands)	**2013**	**2012**	**2011**
U.S.	$65,310	$54,603	$83,358
Foreign	16,037	27,196	27,749
Income from continuing operations before income taxes	$81,347	$81,799	$111,107

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NEWPARK RESOURCES, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

The effective income tax rate is reconciled to the statutory federal income tax rate as follows:

	Year Ended December 31,		
	2013	**2012**	**2011**
Income tax expense at federal statutory rate	35.0%	35.0%	35.0%
Nondeductible expenses	4.3%	1.9%	2.1%
Manufacturing deduction	(2.5%)	(2.2%)	(0.8%)
Different rates on earnings of foreign operations	(4.6%)	(3.4%)	(2.6%)
Change in valuation allowance	3.0%	(2.1%)	(1.2%)
Uncertain tax positions	(0.8%)	1.9%	(0.3%)
Foreign tax withholdings	0.2%	5.2%	0.8%
State tax expense, net	0.5%	1.5%	1.9%
Other	0.2%	0.5%	1.0%
Total income tax expense	35.3%	38.3%	35.9%

The Company’s effective tax rate has been positively impacted by lower tax rates in certain foreign jurisdictions such as Romania and Algeria. The 2012 provision for income taxes included a $3.9 million charge associated with a tax assessment and related increase in tax rate for the period of 2006 through 2012 in a foreign subsidiary.

NEWPARK RESOURCES, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

Temporary differences and carryforwards which give rise to deferred tax assets and liabilities at December 31, 2013 and 2012 are as follows:

(In thousands)	**2013**	**2012**
Deferred tax assets:		
Net operating losses	$16,064	$14,965
Accruals not currently deductible	12,901	11,020
Bad debts	1,166	1,123
Foreign tax credits	1,653	1,653
Other	4,135	4,745
Total deferred tax assets	35,919	33,506
Valuation allowance	(15,024)	(13,834)
Total deferred tax assets, net of allowances	20,895	19,672
Deferred tax liabilities:		
Accelerated depreciation and amortization	(29,530)	(30,407)
Other	(7,776)	(12,477)
Total deferred tax liabilities	(37,306)	(42,884)
Total net deferred tax liability	$(16,411)	$(23,212)
Current portion of deferred tax assets	$11,272	$11,251
Non current portion of deferred tax assets	119	274
Current portion of deferred tax liabilities	(742)	(518)
Non current portion of deferred tax liabilities	(27,060)	(34,219)
Net deferred tax liabilities	$(16,411)	$(23,212)

For state income tax purposes, we have net operating loss carryforwards (“NOLs”) of approximately $209 million available to reduce future state taxable income. These NOLs expire in varying amounts beginning in year 2014 through 2030. Foreign NOLs of approximately $15.9 million are available to reduce future taxable income, some of which expire beginning in 2015.

The realization of our net deferred tax assets is dependent on our ability to generate taxable income in future periods. At December 31, 2013 and December 31, 2012, we have recorded a valuation allowance in the amount of $15.0 million and $13.6 million, respectively, related to state and foreign NOL carryforwards.

Unremitted foreign earnings permanently reinvested abroad upon which deferred income taxes have not been provided aggregated approximately $112.6 million and $95.0 million at December 31, 2013 and 2012, respectively. We have the ability and intent to leave these foreign earnings permanently reinvested abroad.

We file an income tax return in the U.S. federal jurisdiction, and various state and foreign jurisdictions and are subject to tax examinations in the various jurisdictions in which we file. We are no longer subject to income tax examinations for substantially all tax jurisdictions for years prior to 2000.

NEWPARK RESOURCES, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

A reconciliation of the beginning and ending provision for uncertain tax positions is as follows:

(In thousands)	**2013**	**2012**	**2011**
Balance at January 1	$2,753	$1,218	$1,568
Additions (reductions) for tax positions of prior years	(650)	1,350	(350)
Additions for tax positions of current year	72	185	-
Balance at December 31	$2,175	$2,753	$1,218

The provision for uncertain tax positions, if recognized, would affect the annual effective tax rate. The Company recognizes accrued interest and penalties related to uncertain tax positions in operating expenses. During the year ended December 31, 2012, the Company recognized approximately $0.4 million in interest and penalties. The Company had approximately $0.2 million and $0.4 million for the payment of interest and penalties accrued at December 31, 2013 and 2012, respectively.

Note 10 — Capital Stock

Common stock

Changes in outstanding Common Stock for the years ended December 31, 2013, 2012 and 2011 were as follows:

(In thousands of shares)	**2013**	**2012**	**2011**

Outstanding, beginning of year	95,734	94,498	93,143
Shares issued upon exercise of options	1,386	286	671
Shares issued for grants of time vested restricted stock	911	950	684
Outstanding, end of year	98,031	95,734	94,498

Preferred stock

We are authorized to issue up to 1,000,000 shares of Preferred Stock, $0.01 par value. There was no outstanding preferred stock at December 31, 2013, 2012 or 2011.

Treasury stock

During 2013, 2012 and 2011, 222,175, 104,995 and 72,721 shares were repurchased, respectively, for an aggregate price of $2.6 million, $0.6 million and $0.6 million, respectively, representing employee shares surrendered in lieu of taxes under vesting of restricted stock awards. All of the shares repurchased are held as treasury stock. We record treasury stock purchases under the cost method whereby the entire cost of the acquired stock is recorded as treasury stock.

During 2013, 2012 and 2011, 67,622, 34,724 and 35,646 shares of treasury stock were re-issued, respectively, pursuant to our employee stock purchase plan.

Share repurchase program

In February 2012, our Board of Directors approved a share repurchase program that authorized the repurchase of up to $50.0 million of our outstanding shares of common stock. During 2012, we executed the full $50.0 million of repurchases authorized, purchasing 7,241,693 shares for an aggregate price of approximately $6.92 per share, including commissions.

NEWPARK RESOURCES, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

In April 2013, our Board of Directors approved a share repurchase program that authorizes the Company to purchase up to $50.0 million of its outstanding shares of common stock. These purchases are funded with a combination of cash generated from operations and borrowings under the Company's revolving credit facility, and the repurchase program has no specific term. The Company may repurchase shares in the open market or as otherwise determined by management, subject to market conditions, business opportunities and other factors. As part of the share repurchase program, the Company's management has been authorized to establish trading plans under Rule 10b5-1 of the Securities Exchange Act of 1934. During 2013, 562,341 shares were repurchased for an average price of approximately $11.94 per share, including commissions. All of the shares repurchased are held as treasury stock. We record treasury stock purchases under the cost method whereby the entire cost of the acquired stock is recorded as treasury stock.

In February 2014, our Board of Directors authorized an amendment to the $50.0 million repurchase program to increase the amount authorized to $100.0 million, subject to completion of the Environmental Services divesture.

Note 11 — Earnings per Share

The following table presents the reconciliation of the numerator and denominator for calculating earnings per share from continuing operations:

	Year Ended December 31,		
(In thousands, except per share data)	**2013**	**2012**	**2011**
Basic EPS:			
Income from continuing operations	$52,622	$50,453	$71,233
Weighted average number of common shares outstanding	85,095	87,522	90,022
Basic income from continuing operations per common share	$0.62	$0.58	$0.79

Diluted EPS:			
Income from continuing operations	$52,622	$50,453	$71,233
Assumed conversions of Senior Notes	5,005	4,771	4,898
Adjusted income from continuing operations	$57,627	$55,224	$76,131
Weighted average number of common shares outstanding-basic	85,095	87,522	90,022
Add: Dilutive effect of stock options and restricted stock awards	1,767	876	965
Dilutive effect of Senior Notes	15,682	15,682	15,682
Diluted weighted average number of common shares outstanding	102,544	104,080	106,669
Diluted income from continuing operations per common share	$0.56	$0.53	$0.71
Stock options and warrants excluded from calculation of diluted earnings per share because anti-dilutive for the period	415	2,671	2,907

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NEWPARK RESOURCES, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

Note 12 — Stock Based Compensation and Other Benefit Plans

The following describes stockholder approved plans utilized by the Company for the issuance of stock based awards.

2004 Non-Employee Directors' Incentive Compensation Plan

In June 2004, our stockholders approved the 2004 Non-Employee Directors' Stock Option Plan ("2004 Plan"). During 2007, stockholders approved the amended and restated 2004 Plan (renamed the 2004 Non-Employee Directors' Incentive Compensation Plan) which authorizes grants of restricted stock to non-employee directors instead of stock options. In 2013, non-employee directors received shares of restricted stock totaling 67,365 shares with a grant date fair value of $11.43 per share (valued as of the date of the annual stockholder's meeting), upon their election or re-election. At December 31, 2013, 180,608 shares remained available for award under the amended 2004 Plan.

2006 Equity Incentive Plan

In December 2006, our stockholders approved the 2006 Equity Incentive Plan ("2006 Plan"), pursuant to which the Compensation Committee of our Board of Directors ("Compensation Committee") may grant to key employees, including executive officers and other corporate and divisional officers, a variety of forms of equity-based compensation, including options to purchase shares of common stock, shares of restricted common stock, restricted stock units, stock appreciation rights, other stock-based awards, and performance-based awards. During 2011, the 2006 Plan was amended to increase the number of shares available for issuance from 5,000,000 to 8,000,000. In 2013, the 2006 Plan was further amended to increase the number of shares available for issuance from 8,000,000 to 12,250,000 shares. At December 31, 2013, 3,737,772 shares remained available for award under the 2006 Plan, as amended.

The Compensation Committee approves the granting of all stock based compensation to employees, utilizing shares available under the 2006 Plan. Stock based awards are granted in a variety of forms, including stock options, restricted stock awards and performance-based restricted stock units. Activity under each of these programs is described below.

Stock Options & Cash-Settled Stock Appreciation Rights

Stock options granted by the Compensation Committee are generally granted with a three year vesting period and a term of ten years. During 2013, 497,658 options were granted with a three year vesting period and a ten year term. The exercise price of each stock option granted was equal to the fair market value on the date of grant.

NEWPARK RESOURCES, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

The following table summarizes activity for our outstanding stock options for the year ended December 31, 2013:

	Shares	**Weighted-Average Exercise Price**	**Weighted-Average Remaining Contractual Life (Years)**	**Aggregate Intrinsic Value**
Outstanding at beginning of period	4,480,026	$ 6.13		
Granted	497,658	11.43		
Exercised	(1,386,431)	6.01		
Expired or cancelled	(141,886)	6.33		
Outstanding at end of period	3,449,367	$ 6.94	6.97	$18,455,618
Vested or expected to vest at end of period	3,386,579	$ 6.91	6.94	$18,236,435
Options exercisable at end of period	1,898,195	$ 6.23	5.66	$11,502,128

We estimated the fair value of options granted on the date of grant using the Black-Scholes option-pricing model, with the following weighted average assumptions:

	Year Ended December 31, 2013	2012	2011
Risk-free interest rate	1.02%	0.68%	1.59%
Expected life of the option in years	5.22	5.22	5.22
Expected volatility	53.7%	60.3%	63.1%

Dividend yield	-	-	-

The risk-free interest rate is based on the implied yield on a U.S. Treasury zero-coupon issue with a remaining term equal to the expected term of the option. The expected life of the option is based on observed historical patterns. The expected volatility is based on historical volatility of the price of our common stock. The dividend yield is based on the projected annual dividend payment per share divided by the stock price at the date of grant, which is zero because we have not paid dividends for several years and do not expect to pay dividends in the foreseeable future.

The following table summarizes information about the weighted-average exercise price and the weighted-average grant date fair value of stock options granted:

	Year Ended December 31,		
	2013	2012	2011
Weighted-average exercise price of the stock on the date of grant	$11.43	$5.57	$9.13
Weighted-average grant date fair value on the date of grant	$5.42	$2.89	$5.00

All stock options granted for the years ended December 31, 2013, 2012 and 2011 reflected an exercise price equal to the market value of the stock on the date of grant.

NEWPARK RESOURCES, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

The total intrinsic value of options exercised was $6.1 million, $1.0 million and $2.5 million for the years ended December 31, 2013, 2012 and 2011, while cash from option exercises totaled $8.3 million, $1.1 million and $3.6 million, respectively.

The following table summarizes activity for outstanding cash-settled stock appreciation rights for the year-ended December 31, 2013:

	Rights
Outstanding at the beginning of the period	271,566
Exercised	(130,733)
Expired or cancelled	(6,000)
Outstanding at the end of the period	134,833
Exercisable at end of period	134,833

During 2013, there were no additional grants of cash-settled stock appreciation rights. The remaining outstanding cash-settled stock appreciation rights, if exercised, will ultimately be settled in cash for the difference between market value of our outstanding shares at the date of exercise, and $7.89. As such, the projected cash settlement is adjusted each period based upon the ending fair market value of the underlying stock. At December 31, 2013, the fair market value of each cash-settled stock appreciation right was $4.58, resulting in a liability of $0.6 million.

Total compensation cost recognized for stock options and cash-settled stock appreciation rights during the years ended December 31, 2013, 2012 and 2011 was $3.3 million, $2.3 million and $2.1 million, respectively. For the years ended December 31, 2013, 2012 and 2011, we recognized tax benefits resulting from the exercise of stock options totaling $1.9 million, $0.3 million and $0.8 million, respectively.

Performance-Based Restricted Stock Units & Cash-Settled Performance-Based Restricted Stock Units

The Compensation Committee may use various business criteria to set the performance objectives for awards of performance-based restricted stock units. During 2013, performance-based awards were awarded to executive officers. The performance-based restricted stock units will be settled in shares of common stock and will be based on the relative ranking of the Company's total shareholder return ("TSR") as compared to the TSR of the Company's designated peer group for 2013. The performance period began May 3, 2013 and ends June 1, 2016, with the ending TSR price being equal to the average closing price of our shares over the 30-calendar days ending June 1, 2016. A total of 149,532 performance restricted stock units were granted with the payout of shares for each executive ranging from 0%-150% of target. The estimated fair value of each restricted stock unit at the date of grant using the Monte Carlo valuation model was $13.11. The valuation was determined as of June 3, 2013, which included a risk free interest rate of 0.52%, the average closing price of our shares over the 30-calendar days ending June 3, 2013 of $11.33 and expected volatility of 53.58%. No performance-based awards were granted during 2012 or 2011.

NEWPARK RESOURCES, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

The following table summarizes activity for outstanding performance-based restricted stock units for the year-ended December 31, 2013:

Nonvested Shares (Performance-Based)	**Shares**	**Weighted-Average Grant Date Fair Value**
Outstanding at beginning of the period	-	$ -
Granted	149,532	13.11
Outstanding at the end of the period	149,532	$ 13.11

During 2013, $0.4 million was recognized in compensation cost for performance-based restricted stock units, while no compensation cost was recognized during the years ended 2012 or 2011.

Restricted Stock Awards and Units

Time-vested restricted stock awards and restricted stock units are periodically granted to key employees, including grants for employment inducements, as well as to members of our Board of Directors. Employee awards provide for vesting periods ranging from three to four years. Non-employee director grants fully vest at the one year anniversary from the date of grant. Upon vesting of these grants, shares are issued to award recipients. The following tables summarize our activity for our outstanding time-vesting restricted stock awards and restricted stock units for the year-ended December 31, 2013:

Nonvested Shares (Time-Vesting)	**Shares**	**Weighted-Average Grant Date Fair Value**
Nonvested at January 1, 2013	1,686,981	$ 6.85
Granted	960,129	11.78
Vested	(770,270)	6.71
Forfeited	(103,986)	7.78
Nonvested at December 31, 2013	1,772,854	$ 9.52

Nonvested Share Units (Time-Vesting)	**Shares**	**Weighted-Average Grant Date Fair Value**
Nonvested at January 1, 2013	131,741	$ 7.14
Granted	72,115	11.43
Vested	(49,097)	11.40
Forfeited	(3,771)	5.57
Nonvested at December 31, 2013	150,988	$ 7.84

Total compensation cost recognized for restricted stock awards and restricted stock units was $6.7 million, $4.6 million and $2.8 million for the years ended December 31, 2013, 2012 and 2011 respectively. Total unrecognized compensation cost at December 31, 2013 related to restricted stock awards and restricted stock units is approximately $14.0 million which is expected to be recognized over the next 3.0 years. During the years ended December 31, 2013, 2012 and 2011, the total fair value of shares vested was $9.5 million, $2.5 million and $3.2 million, respectively.

NEWPARK RESOURCES, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

For the years ended December 31, 2013, 2012 and 2011, we recognized tax benefits resulting from the vesting of share awards totaling $3.0 million, $0.9 million and $1.1 million, respectively.

Defined Contribution Plan

Substantially all of our U.S. employees are covered by a defined contribution plan ("401(k) Plan"). Employees may voluntarily contribute up to 50% of compensation, as defined in the 401(k) Plan. Participants' contributions, up to 3% of compensation, are matched 100% by us, and the participants' contributions, from 3% to 6% of compensation, are matched 50% by us. Under the 401(k) Plan, our cash contributions were $3.4 million, $3.3 million and $2.8 million in 2013, 2012 and 2011, respectively.

Note 13 — Segment and Related Information

Our Company consists of two reportable segments, which offer different products and services to a relatively homogenous customer base. The reportable segments include: Fluids Systems and Mats and Integrated Services. In February 2014, we entered into an agreement to sell our Environmental Services business, which was previously reported as a third operating segment. This business is now reported within discontinued operations, as the sale is expected to be completed in the first quarter of 2014. Intersegment revenues are generally recorded at cost for items which are included in inventory of the purchasing segment, and at standard markups for items which are included in cost of revenues of the purchasing segment. All intersegment revenues and related profits have been eliminated.

Fluids Systems — Our Fluids Systems business offers customized solutions including highly technical drilling projects involving complex subsurface conditions, such as horizontal directional, geologically deep or deep water drilling. These projects require increased monitoring and critical engineering support of the fluids system during the drilling process. We provide drilling fluids products and technical services to markets in North America, EMEA, Latin America, and the Asia Pacific region. Additionally, following our December 2012 purchase of Alliance Drilling Fluids we provide stimulation products (proppants), and other specialty chemicals and fluids and related services.

We have industrial mineral grinding operations for barite, a critical raw material in drilling fluids products, which serve to support our activity in the drilling fluids market. We grind barite and other industrial minerals at facilities in Houston and Corpus Christi, Texas, New Iberia, Louisiana and Dyersburg, Tennessee. We use the resulting products in our drilling fluids business, and also sell them to third party users, including other drilling fluids companies. We also sell a variety of other minerals, principally to third party industrial (non oil and gas) markets, from our main plant in Houston, Texas and from the plant in Dyersburg, Tennessee.

Mats and Integrated Services — This segment provides mat rentals, location construction and related site services to oil and gas customers at well, production, transportation and refinery locations in the Northeast U.S. region, onshore U.S. Gulf Coast, and Rocky Mountain regions, and mat rentals to the petrochemical industry in the U.S. and utility industry in the U.K. These mats provide environmental protection and ensure all-weather access to sites with unstable soil conditions.

We manufacture our DURA-BASE® composite mat system for sales as well as for use in our domestic and international rental operations. Our marketing efforts for this product remain focused in principal oil and gas industry markets which include the U.S., Asia Pacific, Latin America, EMEA, as well as markets outside the E&P sector in the U.S. and Europe. We believe these mats have worldwide applications outside our traditional oilfield market, primarily in infrastructure construction, maintenance and upgrades of electric utility transmission lines, military logistics and as temporary roads for movement of oversized or unusually heavy loads.

NEWPARK RESOURCES, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

Summarized financial information concerning our reportable segments is shown in the following tables:

	Year Ended December 31,		
(In thousands)	**2013**	**2012**	**2011**
Revenues			
Fluids Systems	$926,392	$861,670	$798,957
Mats & Integrated Services	115,964	122,283	110,411
Total Revenues	$1,042,356	$983,953	$909,368
Depreciation and Amortization			
Fluids Systems	$26,679	$18,419	$17,126
Mats & Integrated Services	10,501	7,952	7,581
Corporate Office	2,584	2,575	1,248
Total Depreciation and Amortization	$39,764	$28,946	$25,955
Operating Income (loss)			
Fluids Systems	$72,604	$59,987	$90,683
Mats & Integrated Services	49,394	54,251	52,678
Corporate Office	(27,553)	(21,963)	(22,506)
Operating Income	$94,445	$92,275	$120,855
Segment Assets			
Fluids Systems	$733,340	$790,147	$673,794
Mats & Integrated Services	112,619	81,252	93,078
Assets of discontinued operations	79,020	79,276	70,644
Corporate	43,438	43,866	49,321
Total Assets	$968,417	$994,541	$886,837
Capital Expenditures			
Fluids Systems	$39,316	$27,916	$16,033
Mats & Integrated Services	26,455	8,174	7,629
Corporate	464	6,307	11,542
Total Capital Expenditures	$66,235	$42,397	$35,204

The Consolidated Statements of Cash Flows included in this Item 8 of these Financial Statements and Supplementary Data include $4.4 million, $3.9 million and $3.0 million in depreciation and amortization expense and capital expenditures of $1.7 million, $1.6 million and $1.7 million related to operations that are classified as discontinued operations as of December 31, 2013, 2012 and 2011, respectively.

NEWPARK RESOURCES, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

The following table sets forth information about our operations by geographic area. Revenues by geographic location are determined based on the operating location from which services are rendered or products are sold.

	Year Ended December 31,		
(In thousands)	**2013**	**2012**	**2011**
Revenue			
United States	$717,263	$684,084	$641,393
Canada	47,559	48,643	51,713
EMEA	141,535	121,175	115,319
Latin America and Mexico	99,587	88,157	76,355
Asia Pacific	36,412	41,894	24,588
Total Revenue	$1,042,356	$983,953	$909,368
Long-Lived Assets			
United States	$250,724	$237,751	$192,391
Canada	10,862	11,830	11,730
EMEA	44,262	30,729	25,814
Latin America and Mexico	9,852	11,158	12,920
Asia Pacific	27,241	31,539	29,463
Total Long-Lived Assets	$342,941	$323,007	$272,318

No single customer accounted for more than 10% of our consolidated revenues for years ended December 31, 2013, 2012 or 2011.

Note 14 — Supplemental Cash Flow and Other Information

Included in accounts payable and accrued liabilities at December 31, 2013, 2012, and 2011, were capital expenditures of $1.5 million, $1.0 million, and $3.7 million, respectively. Amounts related to discontinued operations were insignificant in all three years.

Accrued liabilities at December 31, 2013 and 2012 were $46.3 million and $42.1 million respectively. The balance at December 31, 2013 and December 31, 2012 included $17.4 million and $14.0 million for employee incentives and other compensation related expenses, respectively.

During the years ended December 31, 2013, 2012 and 2011, we did not finance the acquisition of property, plant and equipment with capital leases.

Note 15 — Commitments and Contingencies

In the ordinary course of conducting our business, we become involved in litigation and other claims from private party actions, as well as judicial and administrative proceedings involving governmental authorities at the federal, state and local levels. In the opinion of management, any liability in these matters should not have a material effect on our consolidated financial statements.

Leases

We lease various manufacturing facilities, warehouses, office space, machinery and equipment, including transportation equipment, under operating leases with remaining terms ranging from one to six years, with various renewal options. Substantially all leases require payment of taxes, insurance and maintenance costs in addition to rental payments. Total rental expenses for all operating leases were approximately $30.2 million, $26.5 million and $24.2 million for the years ending 2013, 2012 and 2011, respectively. Total rental expense includes $5.7 million, $5.2 million and $4.8 million for our Environmental Services business classified as discontinued operations for the years ending 2013, 2012 and 2011 respectively.

NEWPARK RESOURCES, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

Future minimum payments under non-cancelable operating leases, with initial or remaining terms in excess of one year are included in the table below. Future minimum payments under capital leases are not significant.

(In thousands)	
2014	$13,832
2015	7,992
2016	5,589
2017	3,824
2018	2,367
Thereafter	2,043
	$35,647

(1) The table includes $3.7 million in future minimum payments related to our Environmental Services business classified as discontinued operations.

Other

In conjunction with our insurance programs, we had established letters of credit in favor of certain insurance companies in the amount of $4.0 million and $3.9 million at December 31, 2013 and 2012. We also had $9.9 million and $8.6 million in guarantee obligations in connection with facility closure bonds and other performance bonds issued by insurance companies outstanding as of December 31, 2013 and 2012, of which $9.3 million and $7.0 million in obligations related to operations that are classified as discontinued operations as of December 31, 2013 and 2012, respectively. The definitive agreement for the sale of our Environmental Services business requires the purchaser to replace these facility closure bonds and performance bonds following the closing of such sale.

Other than normal operating leases for office and warehouse space, barges, rolling stock and other pieces of operating equipment, we do not have any off-balance sheet financing arrangements or special purpose entities. As such, we are not materially exposed to any financing, liquidity, market or credit risk that could arise if we had engaged in such financing arrangements.

We are self-insured for health claims, subject to certain “stop loss” insurance policies. Claims in excess of $225,000 per incident are insured by third-party insurers. We had accrued liabilities of $1.2 million for unpaid claims incurred, based on historical experience at December 31, 2013 and 2012. Substantially all of these estimated claims are expected to be paid within six months of their occurrence.

We are self-insured for certain workers’ compensation, auto and general liability claims up to a certain policy limit. Claims in excess of $750,000 are insured by third-party reinsurers. At December 31, 2013 and 2012, we had accrued a liability of $2.5 million and $3.1 million, respectively, for the uninsured portion of claims.

We maintain accrued liabilities for asset retirement obligations, which represent obligations associated with the retirement of tangible long-lived assets that result from the normal operation of the long-lived asset. Our asset retirement obligations primarily relate to repair cost obligations associated with the return of leased barges as well as required expenditures associated with owned and leased facilities. Upon settlement of the liability, a gain or loss for any difference between the settlement amount and the liability recorded is recognized. As of December 31, 2013 and 2012, we had accrued asset retirement obligations of $3.3 million and $2.7 million, including $2.9 million and $2.3 million, respectively, reflecting obligations within discontinued operations.

NEWPARK RESOURCES, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

Note 16 — Supplemental Selected Quarterly Financial Data (Unaudited)

(In thousands, except per share amounts)	**Quarter Ended** First Quarter	**Second Quarter**	**Third Quarter**	**Fourth Quarter**
Fiscal Year 2013				
Revenues	$267,923	$259,376	$268,132	$246,925
Operating income	24,861	21,596	25,645	22,343
Income from continuing operations	14,867	11,859	15,431	10,465
Net income	17,375	15,664	18,760	13,524
Income per common share -basic:				
Income from continuing operations	0.18	0.14	0.18	0.12
Net income	0.21	0.19	0.22	0.16
Income per common share -diluted:				
Income from continuing operations	0.16	0.13	0.16	0.12
Net income	0.18	0.17	0.20	0.14
Fiscal Year 2012				
Revenues	$249,029	$232,459	$246,524	$255,941
Operating income	22,560	21,241	25,667	22,807
Income from continuing operations	13,117	11,989	16,567	8,780
Net income	15,634	14,463	18,742	11,193
Income per common share -basic:				
Income from continuing operations	0.14	0.14	0.19	0.10
Net income	0.17	0.16	0.22	0.13
Income per common share -diluted:				
Income from continuing operations	0.13	0.13	0.18	0.10

Net income	0.16	0.15	0.20	0.12

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ITEM 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure

None.

ITEM 9A. Controls and Procedures

Evaluation of disclosure controls and procedures

Based on their evaluation of the Company's disclosure controls and procedures as of the end of the period covered by this report, the Chief Executive Officer and Chief Financial Officer of the Company have concluded that the Company's disclosure controls and procedures are effective as of December 31, 2013.

Changes in internal control over financial reporting

The SEC allows companies to exclude acquisitions from their assessment of internal control over financial reporting during the first year of an acquisition. In December 2013, we acquired Terrafirma Roadways ("Terrafirma"), a provider of temporary roadway and worksite solutions headquartered in the United Kingdom. For purposes of determining the effectiveness of our internal control over financial reporting, management has excluded Terrafirma from its evaluation of these matters.

There have been no other changes in the Company's internal controls over financial reporting during the quarter ended December 31, 2013 that has materially affected, or is reasonably likely to materially affect, the Company's internal controls over financial reporting.

Management's Report on Internal Control Over Financial Reporting

We are responsible for establishing and maintaining adequate internal control over financial reporting, as such term is defined in Securities and Exchange Act Rule 13(a)-15(f). Our internal control system over financial reporting is designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles.

Internal control over financial reporting has inherent limitations and may not prevent or detect misstatements. Therefore, even those systems determined to be effective can provide only reasonable assurance, not absolute assurance with respect to the financial statement preparation and presentation. Further, because of changes in conditions, the effectiveness of internal control over financial reporting may vary over time.

Under the supervision and with the participation of our Chief Executive Officer and Chief Financial Officer, we have evaluated the effectiveness of our internal control over financial reporting as of December 31, 2013 as required by the Securities and Exchange Act of 1934 Rule 13a-15(c). In making its assessment, we have utilized the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) in a report entitled “Internal Control — Integrated Framework.” We concluded that based on our evaluation, our internal control over financial reporting was effective as of December 31, 2013.

The effectiveness of our internal control over financial reporting as of December 31, 2013 has been audited by Deloitte & Touche LLP, an independent registered public accounting firm, as stated in their report which is included herein.

The SEC allows companies to exclude acquisitions from their assessment of internal control over financial reporting during the first year of an acquisition. In December 2013, we acquired Terrafirma Roadways ("Terrafirma"), a provider of temporary roadway and worksite solutions headquartered in the United Kingdom. For purposes of determining the effectiveness of our internal control over financial reporting, management has excluded Terrafirma from its evaluation of these matters.

/s/ Paul L. Howes

Paul L. Howes

President, Chief Executive Officer

/s/ Gregg S. Piontek

Gregg S. Piontek

Vice President and Chief Financial Officer

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Stockholders of

Newpark Resources, Inc.

The Woodlands, Texas

We have audited the internal control over financial reporting of Newpark Resources, Inc. and subsidiaries (the “Company”) as of December 31, 2013, based on criteria established in *Internal Control — Integrated Framework (1992)* issued by the Committee of Sponsoring Organizations of the Treadway Commission. Management’s Report on Internal Control Over Financial Reporting, in December 2013, excluded management’s assessment of the internal control over financial reporting at Terrafirma Roadways, a provider of temporary roadway and worksite solutions headquartered in the United Kingdom (“Terrafirma”), which was acquired on December 11, 2013 and whose financial statements constitute 1% of consolidated total assets and less than 1% of revenues and net income from continuing operations of the consolidated financial statement amounts as of and for the year ended December 31, 2013. Accordingly, our audit did not include the internal control over financial reporting at Terrafirma. The Company’s management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Management’s Report on Internal Control Over Financial Reporting. Our responsibility is to express an opinion on the Company’s internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, testing and evaluating the design and operating effectiveness of internal control based on the assessed risk, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company's internal control over financial reporting is a process designed by, or under the supervision of, the company's principal executive and principal financial officers, or persons performing similar functions, and effected by the company's board of directors, management, and other personnel to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of the inherent limitations of internal control over financial reporting, including the possibility of collusion or improper management override of controls, material misstatements due to error or fraud may not be prevented or detected on a timely basis. Also, projections of any evaluation of the effectiveness of the internal control over financial reporting to future periods are subject to the risk that the controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2013, based on the criteria established in *Internal Control — Integrated Framework (1992)* issued by the Committee of Sponsoring Organizations of the Treadway Commission.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated financial statements as of and for the year ended December 31, 2013, of the company and our report dated February 28, 2014 expressed an unqualified opinion on those financial statements.

/s/ DELOITTE & TOUCHE LLP

Houston, Texas

February 28, 2014

ITEM 9B. ***Other Information***

None.

PART III

ITEM 10. ***Directors, Executive Officers and Corporate Governance***

Executive Officers and Directors

The information required by this Item is incorporated by reference to the “Executive Officers” and “Election of Directors” sections of the definitive Proxy Statement relating to our 2014 Annual Meeting of Stockholders.

Compliance with Section 16(a) of the Exchange Act

The information required by this Item is incorporated by reference to the “Section 16(a) Beneficial Ownership Reporting Compliance” section of the definitive Proxy Statement relating to our 2014 Annual Meeting of Stockholders.

Code of Conduct and Ethics

We have adopted a Code of Ethics that applies to all of our directors and senior officers, and a Corporate Compliance and Business Ethics Manual (“Ethics Manual”) that applies to all officers and employees. The Code of Ethics and Ethics Manual are publicly available in the investor relations area of our website at www.newpark.com. This Code of Ethics is incorporated in this report by reference. Copies of our Code of Ethics may also be requested in print by writing to Newpark Resources, Inc., 2700 Research Forest Drive, Suite 100, The Woodlands, Texas, 77381.

ITEM 11. ***Executive Compensation***

The information required by this Item is incorporated by reference to the “Executive Compensation” section of the definitive Proxy Statement relating to our 2014 Annual Meeting of Stockholders.

ITEM 12.*Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters*

The information required by this Item is incorporated by reference to the “Ownership of Common Stock” section of the definitive Proxy Statement relating to our 2014 Annual Meeting of Stockholders.

ITEM 13.*Certain Relationships and Related Transactions, and Director Independence*

The information required by this Item is incorporated by reference to the “Related Person Transactions” and “Director Independence” sections of the definitive Proxy Statement relating to our 2014 Annual Meeting of Stockholders.

ITEM 14.*Principal Accounting Fees and Services*

The information required by this Item is incorporated by reference to the “Independent Auditor” section of the definitive Proxy Statement relating to our 2014 Annual Meeting of Stockholders.

PART IV

ITEM 15.*Exhibits and Financial Statement Schedules*

(a) List of documents filed as part of this report or incorporated herein by reference.

1. ***Financial Statements***

The following financial statements of the Registrant as set forth under Part II, Item 8 of this report on Form 10-K on the pages indicated.

2. ***Financial Statement Schedules***

All schedules for which provision is made in the applicable accounting regulations of the Securities and Exchange Commission are not required under the related instructions or are inapplicable and, therefore, have been omitted.

3. ***Exhibits***

The exhibits listed are filed as part of, or incorporated by reference into, this Annual Report on Form 10-K.

3.1	Restated Certificate of Incorporation of Newpark Resources, Inc., incorporated by reference to Exhibit 3.1 to the Company’s Form 10-K405 for the year ended December 31, 1998 filed on March 31, 1999 (SEC File No. 001-02960).
3.2	Certificate of Designation of Series A Cumulative Perpetual Preferred Stock of Newpark Resources, Inc. incorporated by reference to Exhibit 99.1 to the Company’s Current Report on Form 8-K filed on April 27, 1999 (SEC File No. 001-02960).
3.3	Certificate of Designation of Series B Convertible Preferred Stock of Newpark Resources, Inc., incorporated by reference to Exhibit 4.1 to the Company’s Current Report on Form 8-K filed on June 7, 2000 (SEC File No. 001-02960).
3.4	Certificate of Rights and Preferences of Series C Convertible Preferred Stock of Newpark Resources, Inc., incorporated by reference to Exhibit 4.1 to the Company’s Current Report on Form 8-K filed on January 4, 2001 (SEC File No. 001-02960).
3.5	Certificate of Amendment to the Restated Certificate of Incorporation of Newpark Resources, Inc., incorporated by reference to Exhibit 3.1 to the Company’s Current Report on Form 8-K filed on November 4, 2009 (SEC File No. 001-02960).
3.6	Amended and Restated Bylaws, incorporated by reference to Exhibit 3.1 to the Company’s Current Report on Form 8-K filed March 13, 2007 (SEC File No. 001-02960).

4.1	Specimen form of common stock certificate of Newpark Resources, Inc., incorporated by reference to the exhibit filed with the Company's Registration Statement on Form S-1 (SEC File No. 33-40716).
4.2	Indenture, dated October 4, 2010, between Newpark Resources, Inc. and Wells Fargo Bank, National Association, as trustee, incorporated by reference to Exhibit 4.1 to the Company's Current Report on Form 8-K filed on October 4, 2010 (SEC File No. 001-02960).
4.3	First Supplemental Indenture, dated October 4, 2010, between Newpark Resources, Inc. and Wells Fargo Bank, National Association, as trustee, incorporated by reference to Exhibit 4.2 to the Company's Current Report on Form 8-K filed on October 4, 2010 (SEC File No. 001-02960).
4.4	Form of 4.00% Convertible Senior Note due 2017, incorporated by reference to Exhibit 4.3 to the Company's Current Report on Form 8-K filed on October 4, 2010 (SEC File No. 001-02960).
*10.1	Amended and Restated 1993 Non-Employee Directors' Stock Option Plan, incorporated by reference to Exhibit 10.7 to the Company's Form 10-K for the year ended December 31, 1998 filed on March 31, 1999 (SEC File No. 001-02960).
*10.2	Form of Award Agreement under 2003 Long-Term Incentive Plan, incorporated by reference to Exhibit 10.31 to the Company's Form 10-K for the year ended December 31, 2004 filed on March 16, 2005 (SEC File No. 001-02960).
*10.3	Newpark Resources, Inc. Amended and Restated Non-Employee Directors' Restricted Stock Plan, incorporated by reference to Exhibit 10.9 to the Company's Form 10-K filed on March 10, 2009 (SEC File No. 001-02960).
*10.4	Form of Non-Employee Director Restricted Stock Agreement under the Newpark Resources, Inc. Amended and Restated Non-Employee Directors' Restricted Stock Plan, incorporated by reference to Exhibit 10.10 to the Company's Form 10-K filed on March 10, 2009 (SEC File No. 001-02960).
*10.5	Amended and Restated Employment Agreement, dated as of December 31, 2008, between the registrant and Paul L. Howes, incorporated by reference to Exhibit 10.1 to the Company's Quarterly Report on Form 10-Q filed on May 1, 2009 (SEC File No. 001-02960).
*10.6	Indemnification Agreement, dated June 7, 2006, between the registrant and Paul L. Howes, incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K filed on June 13, 2006 (SEC File No. 001-02960).
*10.7	

	Form of Indemnification Agreement, incorporated by reference to Exhibit 10.2 to the Company's Current Report on Form 8-K filed on June 13, 2006 (SEC File No. 001-02960).
*10.8	Employment Agreement, dated as of September 18, 2006, by and between Newpark Resources, Inc. and Mark J. Airola, incorporated by reference to Exhibit 10.2 to the Company's Current Report on Form 8-K filed on September 20, 2006 (SEC File No. 001-02960).
*10.9	Form of Non-Qualified Stock Option Agreement under the Newpark Resources, Inc. 2006 Equity Incentive Plan, incorporated by reference to Exhibit 4.4 to the Company's Registration Statement on Form S-8 filed on March 26, 2007 (SEC File No. 333-0141577).
*10.10	Employment Agreement between Newpark Resources, Inc. and Bruce Smith dated April 20, 2007, incorporated by reference to Exhibit 10.1 to the Company's Quarterly Report on Form 10-Q for the period ended March 31, 2007 filed on May 8, 2007 (SEC File No. 001-02960).
10.11	Amendment to the Indemnification Agreement between Newpark Resources, Inc. and Paul L. Howes dated September 11, 2007, incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K filed on September 14, 2007 (SEC File No. 001-02960).

*10.12	First Amendment to the Newpark Resources, Inc. Amended and Restated Non-Employee Directors' Restricted Stock Plan, incorporated by reference to Exhibit 10.25 to the Company's Annual Report on Form 10-K filed on March 10, 2009 (SEC File No. 001-02960).
*10.13	Newpark Resources, Inc. 2008 Employee Stock Purchase Plan, incorporated by reference to Exhibit 4.1 the Company's Registration Statement on Form S-8 filed on December 9, 2008 (SEC File No. 333-156010).
10.14	Form of Change of Control Agreement, incorporated by reference to Exhibit 10.3 to the Company's Quarterly Report on Form 10-Q for the period ended March 31, 2008 filed on May 2, 2008 (SEC File No. 001-02960).
*10.15	Amendment to Amended and Restated Employment Agreement between Newpark Resources, Inc. and Paul L. Howes dated April 20, 2009, incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K filed on April 23, 2009 (SEC File No. 001-02960).
*10.16	Amendment to Employment Agreement between Newpark Resources, Inc. and Bruce C. Smith dated April 22, 2009, incorporated by reference to Exhibit 10.3 to the Company's Current Report on Form 8-K filed on April 23, 2009 (SEC File No. 001-02960).
*10.17	Amendment to Employment Agreement between Newpark Resources, Inc. and Mark J. Airola dated April 22, 2009, incorporated by reference to Exhibit 10.4 to the Company's Current Report on Form 8-K filed on April 23, 2009 (SEC File No. 001-02960).
*10.18	Extension Letter Amendment to Amended and Restated Employment Agreement between Newpark Resources, Inc. and Paul L. Howes dated November 30, 2009, incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K filed on December 7, 2009 (SEC File No. 001-02960).
*10.19	Extension Letter Amendment to Employment Agreement between Newpark Resources, Inc. and Bruce C. Smith dated November 30, 2009, incorporated by reference to Exhibit 10.3 to the Company's Current Report on Form 8-K filed on December 7, 2009 (SEC File No. 001-02960).
*10.20	Extension Letter Amendment to Employment Agreement between Newpark Resources, Inc. and Mark J. Airola dated November 30, 2009, incorporated by reference to Exhibit 10.4 to the Company's Current Report on Form 8-K filed on December 7, 2009 (SEC File No. 001-02960).
10.21	Employment Agreement, dated as of October 15, 2010, by and between Newpark Resources, Inc. and Jeffery L. Juergens, incorporated by reference to the Company's Current Report on Form 8-K filed on October 18, 2010 (SEC File No. 001-02960).

10.22	Change in Control Agreement dated as of October 15, 2010, by and between Newpark Resources, Inc. and Jeffery L. Juergens, incorporated by reference to the Company's Current Report on Form 8-K filed on October 18, 2010 (SEC File No. 001-02960).
10.23	Newpark Resources, Inc. 2010 Annual Cash Incentive Plan, incorporated by reference to the Company's Current Report on Form 8-K filed on April 2, 2010 (SEC File No. 001-02960).
†*10.24	Director Compensation Summary.
*10.25	Newpark Resources, Inc. 2006 Equity Incentive Plan (As Amended and Restated Effective June 10, 2009), incorporated by reference to Exhibit 4.6 to the Company's Registration Statement on Form S-8 filed on August 14, 2009 (SEC File No. 333-161378).
*10.26	Amendment No. 1 to the Newpark Resources, Inc. 2006 Equity Incentive Plan (As Amended and Restated Effective June 10, 2009), incorporated by reference to Exhibit 4.8 to the Company's Registration Statement on Form S-8 filed on June 9, 2011 (SEC File No. 333-174807).
*10.27	Form of Non-Qualified Stock Option Agreement under the Newpark Resources, Inc. 2006 Equity Incentive Plan (As Amended and Restated Effective June 10, 2009) (as amended), incorporated by reference to Exhibit 4.9 to the Company's Registration Statement on Form S-8 filed on June 9, 2011 (SEC File No. 333-174807).

*10.28	Form of Non-Qualified Stock Option Agreement under the Newpark Resources, Inc. 2006 Equity Incentive Plan (As Amended and Restated Effective June 10, 2009) (as amended), incorporated by reference to Exhibit 4.10 to the Company's Registration Statement on Form S-8 filed on June 9, 2011 (SEC File No. 333-174807).
*10.29	Form of Restricted Stock Agreement under the Newpark Resources, Inc. 2006 Equity Incentive Plan (As Amended and Restated Effective June 10, 2009) (as amended), incorporated by reference to Exhibit 4.11 to the Company's Registration Statement on Form S-8 filed on June 9, 2011 (SEC File No. 333-174807).
*10.30	Form of Restricted Stock Agreement under the Newpark Resources, Inc. 2006 Equity Incentive Plan (As Amended and Restated Effective June 10, 2009) (as amended), incorporated by reference to Exhibit 4.12 to the Company's Registration Statement on Form S-8 filed on June 9, 2011 (SEC File No. 333-174807).
*10.31	Newpark Resources, Inc. 2003 Long Term Incentive Plan, Amended and Restated Effective March 8, 2011, incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K filed on June 15, 2011 (SEC File No. 001-02960).
*10.32	Form of Restricted Stock Agreement under the 2003 Long Term Incentive Plan, Amended and Restated Effective March 8, 2011, incorporated by reference to Exhibit 10.2 to the Company's Current Report on Form 8-K filed on June 15, 2011 (SEC File No. 001-02960).
*10.33	Employment Agreement, dated October 18, 2011, by and between Newpark Resources, Inc. and Gregg Steven Piontek, incorporated by reference to the Company's Current Report on Form 8-K filed on October 21, 2011 (SEC File No. 001-02960).
*10.34	Indemnification Agreement, dated October 26, 2011, between Gregg S. Piontek and Newpark Resources, Inc., incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K filed on October 31, 2011 (SEC File No. 001-02960).
10.35	Second Amended and Restated Credit Agreement among Newpark Resources, Inc., JPMorgan Chase Bank, N.A., as Administrative Agent, Bank of America, N.A., as Syndication Agent, and Wells Fargo Bank, National Association, as Documentation Agent, dated November 22, 2011, incorporated by reference to Exhibit 10.2 to the Company's Current Report on Form 8-K filed on November 29, 2011 (SEC File No. 001-02960).
*10.36	Employment Agreement, dated December 29, 2011, between Lee Ann Kendrick and Newpark Resources, Inc., incorporated by reference to Exhibit 10.1 to the Company's Quarterly Report on Form 10-Q filed on May 2, 2012 (SEC File No. 001-02960).

*10.37	Indemnification Agreement, dated May 23, 2012, between Lee Ann Kendrick and Newpark Resources, Inc., incorporated by reference to Exhibit 10.1 to the Company’s Quarterly Report on Form 10-Q filed on July 27, 2012 (SEC File No. 001-02960).
*10.38	Form of Restricted Stock Unit for Participants Outside the United States under the 2006 Equity Incentive Plan (As Amended and Restated Effective June 10, 2009) (as amended), incorporated by reference to Exhibit 10.2 to the Company’s Quarterly Report on Form 10-Q filed on July 27, 2012 (SEC File No. 001-02960).
*10.39	Form of Non-Qualified Stock Option Agreement for Participants Outside the United States under the 2006 Equity Incentive Plan (As Amended and Restated Effective June 10, 2009) (as amended), incorporated by reference to Exhibit 10.3 to the Company’s Quarterly Report on Form 10-Q filed on July 27, 2012 (SEC File No. 001-02960).
*10.40	Second Amendment to the Newpark Resources, Inc. Amended and Restated Non-Employee Directors’ Restricted Stock Plan, incorporated by reference to Exhibit 10.4 to the Company’s Quarterly Report on Form 10-Q filed on July 27, 2012 (SEC File No. 001-02960).
*10.41	Amendment to Employment Agreement, dated December 31, 2012, between Mark Airola and Newpark Resources, Inc., incorporated by reference to the Company’s Current Report on Form 8-K filed on January 4, 2013 (SEC File No. 001-02960).

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*10.42	Amendment to Employment Agreement, dated December 31, 2012, between Bruce Smith and Newpark Resources, Inc., incorporated by reference to the Company's Current Report on Form 8-K filed on January 4, 2013 (SEC File No. 001-02960).
10.43	Asset Purchase Agreement, dated December 28, 2012, between Alliance Drilling Fluids, LLC, Xtreme Specialty Products, LLC, Prop-Tech Services, LLC, each of the members listed therein, Newpark Drilling Fluids LLC and Newpark Resources, Inc.
*10.44	Newpark Resources, Inc. Amended and Restated 2006 Equity Incentive Plan, incorporated by reference to Exhibit 4.7 to the Company's Registration Statement on Form S-8 filed on June 6, 2013 (SEC File No. 333-189127).
*10.45	Form of Non-Qualified Stock Option Agreement under the Newpark Resources, Inc. Amended and Restated 2006 Equity Incentive Plan, incorporated by reference to Exhibit 4.8 to the Company's Registration Statement on Form S-8 filed on June 6, 2013 (SEC File No. 333-189127).
*10.46	Form of Restricted Stock Agreement under the Newpark Resources, Inc. Amended and Restated 2006 Equity Incentive Plan, incorporated by reference to Exhibit 4.9 to the Company's Registration Statement on Form S-8 filed on June 6, 2013 (SEC File No. 333-189127).
*10.47	Form of Restricted Stock Unit Agreement under the Newpark Resources, Inc. Amended and Restated 2006 Equity Incentive Plan (Time-Based), incorporated by reference to Exhibit 4.10 to the Company's Registration Statement on Form S-8 on June 6, 2013 (SEC File No. 333-189127).
*10.48	Form of Restricted Stock Unit Agreement under the Newpark Resources, Inc. Amended and Restated 2006 Equity Incentive Plan (Performance Based), incorporated by reference to Exhibit 4.11 to the Company's Registration Statement on Form S-8 filed on June 6, 2013 (SEC File No. 333-189127).
*10.49	Form of Non-Qualified Stock Option for participants outside the United States under the Newpark Resources, Inc. Amended and Restated 2006 Equity Incentive Plan (Time Based), incorporated by reference to Exhibit 4.12 to the Company's Registration Statement on Form S-8 filed on June 6, 2013 (SEC File No. 333-189127).
*10.50	Third Amendment to the Newpark Resources, Inc. Amended and Restated Non-Employee Director's Restricted Stock Plan, incorporated by reference to Exhibit 10.1 to the Company's Quarterly Report on Form 10-Q filed on July 26, 2013 (SEC File No. 001-02960).
*10.51	Amendment No. 1 Newpark Resources, Inc. 2008 Employee Stock Purchase Plan, incorporated by reference to Exhibit 10.1 to the Company's Quarterly Report on Form 10-Q filed on October 25, 2013 (SEC File No. 001-02960).

†10.52	First Amendment to Second Amended and Restated Credit Agreement dated October 10, 2012 among Newpark Resources, Inc., JPMorgan Chase Bank, N.A., as Administrative Agent, Bank of America, N.A., as Syndication Agent, and Wells Fargo Bank, National Association, as Documentation Agent.
10.53	Second Amendment to Second Amended and Restated Credit Agreement, dated February 13, 2014, by and among Newpark Resources, Inc., JPMorgan Chase Bank, N.A., as Administrative Agent, Bank of America, N.A., as Syndication Agent, Wells Fargo Bank, National Association, as Documentation Agent, as the several lenders parties thereto, incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K filed on February 18, 2014 (SEC File No. 001-02960).
†21.1	Subsidiaries of the Registrant.
†23.1	Consent of Independent Registered Public Accounting Firm.
†31.1	Certification of Paul L. Howes pursuant to Rule 13a-14 or 15d-14 of the Securities Exchange Act of 1934, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.

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†31.2	Certification of Gregg S. Piontek pursuant to Rule 13a-14 or 15d-14 of the Securities Exchange Act of 1934, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
†32.1	Certification of Paul L. Howes pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
†32.2	Certification of Gregg S. Piontek pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
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†101.CAL	XBRL Calculation Linkbase Document
†101.LAB	XBRL Label Linkbase Document
†101.PRE	XBRL Presentation Linkbase Document
†101.DEF	XBRL Definition Linkbase Document

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† Filed herewith.

* Management compensation plan or agreement

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized

NEWPARK RESOURCES, INC.

By: /s/ Paul L. Howes
Paul L. Howes
President and Chief Executive Officer

Dated: February 28, 2014

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed by the following persons on behalf of the registrant in the capacities and on the dates indicated.

Signatures	**Title**	**Date**
/s/ Paul L. Howes Paul L. Howes	President, Chief Executive Officer and Director (Principal Executive Officer)	February 28, 2014
/s/ Gregg S. Piontek Gregg S. Piontek	Vice President and Chief Financial Officer (Principal Financial Accounting Officer)	February 28, 2014
/s/ Jerry W. Box Jerry W. Box	Chairman of the Board	February 28, 2014

/s/ James W. McFarland James W. McFarland	Director, Member of the Audit Committee	February 28, 2014
/s/ G. Stephen Finley G. Stephen Finley	Director, Member of the Audit Committee	February 28, 2014
/s/ Gary L. Warren Gary L. Warren	Director, Member of the Audit Committee	February 28, 2014
/s/ David C. Anderson David C. Anderson	Director	February 28, 2014

NEWPARK RESOURCES, INC

EXHIBIT INDEX

The exhibits listed are filed as part of, or incorporated by reference into, this Annual Report on Form 10-K.

3.1	Restated Certificate of Incorporation of Newpark Resources, Inc., incorporated by reference to Exhibit 3.1 to the Company's Form 10-K405 for the year ended December 31, 1998 filed on March 31, 1999 (SEC File No. 001-02960).
3.2	Certificate of Designation of Series A Cumulative Perpetual Preferred Stock of Newpark Resources, Inc. incorporated by reference to Exhibit 99.1 to the Company's Current Report on Form 8-K filed on April 27, 1999 (SEC File No. 001-02960).
3.3	Certificate of Designation of Series B Convertible Preferred Stock of Newpark Resources, Inc., incorporated by reference to Exhibit 4.1 to the Company's Current Report on Form 8-K filed on June 7, 2000 (SEC File No. 001-02960).
3.4	Certificate of Rights and Preferences of Series C Convertible Preferred Stock of Newpark Resources, Inc., incorporated by reference to Exhibit 4.1 to the Company's Current Report on Form 8-K filed on January 4, 2001 (SEC File No. 001-02960).
3.5	Certificate of Amendment to the Restated Certificate of Incorporation of Newpark Resources, Inc., incorporated by reference to Exhibit 3.1 to the Company's Current Report on Form 8-K filed on November 4, 2009 (SEC File No. 001-02960).
3.6	Amended and Restated Bylaws, incorporated by reference to Exhibit 3.1 to the Company's Current Report on Form 8-K filed March 13, 2007 (SEC File No. 001-02960).
4.1	Specimen form of common stock certificate of Newpark Resources, Inc., incorporated by reference to the exhibit filed with the Company's Registration Statement on Form S-1 (SEC File No. 33-40716).
4.2	Indenture, dated October 4, 2010, between Newpark Resources, Inc. and Wells Fargo Bank, National Association, as trustee, incorporated by reference to Exhibit 4.1 to the Company's Current Report on Form 8-K filed on October 4, 2010 (SEC File No. 001-02960).

4.3	First Supplemental Indenture, dated October 4, 2010, between Newpark Resources, Inc. and Wells Fargo Bank, National Association, as trustee, incorporated by reference to Exhibit 4.2 to the Company's Current Report on Form 8-K filed on October 4, 2010 (SEC File No. 001-2960).
4.4	Form of 4.00% Convertible Senior Note due 2017, incorporated by reference to Exhibit 4.3 to the Company's Current Report on Form 8-K filed on October 4, 2010 (SEC File No. 001-2960).
*10.1	Amended and Restated 1993 Non-Employee Directors' Stock Option Plan, incorporated by reference to Exhibit 10.7 to the Company's Form 10-K for the year ended December 31, 1998 filed on March 31, 1999 (SEC File No. 001-02960).
*10.2	Form of Award Agreement under 2003 Long-Term Incentive Plan, incorporated by reference to Exhibit 10.31 to the Company's Form 10-K for the year ended December 31, 2004 filed on March 16, 2005 (SEC File No. 001-02960).
*10.3	Newpark Resources, Inc. Amended and Restated Non-Employee Directors' Restricted Stock Plan, incorporated by reference to Exhibit 10.9 to the Company's Form 10-K filed on March 10, 2009 (SEC File No. 001-02960).
*10.4	Form of Non-Employee Director Restricted Stock Agreement under the Newpark Resources, Inc. Amended and Restated Non-Employee Directors' Restricted Stock Plan, incorporated by reference to Exhibit 10.10 to the Company's Form 10-K filed on March 10, 2009 (SEC File No. 001-02960).

*10.5	Amended and Restated Employment Agreement, dated as of December 31, 2008, between the registrant and Paul L. Howes, incorporated by reference to Exhibit 10.1 to the Company's Quarterly Report on Form 10-Q filed on May 1, 2009 (SEC File No. 001-02960).
*10.6	Indemnification Agreement, dated June 7, 2006, between the registrant and Paul L. Howes, incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K filed on June 13, 2006 (SEC File No. 001-02960).
*10.7	Form of Indemnification Agreement, incorporated by reference to Exhibit 10.2 to the Company's Current Report on Form 8-K filed on June 13, 2006 (SEC File No. 001-02960).
*10.8	Employment Agreement, dated as of September 18, 2006, by and between Newpark Resources, Inc. and Mark J. Airola, incorporated by reference to Exhibit 10.2 to the Company's Current Report on Form 8-K filed on September 20, 2006 (SEC File No. 001-02960).
*10.9	Form of Non-Qualified Stock Option Agreement under the Newpark Resources, Inc. 2006 Equity Incentive Plan, incorporated by reference to Exhibit 4.4 to the Company's Registration Statement on Form S-8 filed on March 26, 2007 (SEC File No. 333-0141577).
*10.10	Employment Agreement between Newpark Resources, Inc. and Bruce Smith dated April 20, 2007, incorporated by reference to Exhibit 10.1 to the Company's Quarterly Report on Form 10-Q for the period ended March 31, 2007 filed on May 8, 2007 (SEC File No. 001-02960).
10.11	Amendment to the Indemnification Agreement between Newpark Resources, Inc. and Paul L. Howes dated September 11, 2007, incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K filed on September 14, 2007 (SEC File No. 001-02960).
*10.12	First Amendment to the Newpark Resources, Inc. Amended and Restated Non-Employee Directors' Restricted Stock Plan, incorporated by reference to Exhibit 10.25 to the Company's Annual Report on Form 10-K filed on March 10, 2009 (SEC File No. 001-02960).
*10.13	Newpark Resources, Inc. 2008 Employee Stock Purchase Plan, incorporated by reference to Exhibit 4.1 the Company's Registration Statement on Form S-8 filed on December 9, 2008 (SEC File No. 333-156010).
10.14	Form of Change of Control Agreement, incorporated by reference to Exhibit 10.3 to the Company's Quarterly Report on Form 10-Q for the period ended March 31, 2008 filed on May 2, 2008 (SEC File No. 001-02960).
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	Amendment to Amended and Restated Employment Agreement between Newpark Resources, Inc. and Paul L. Howes dated April 20, 2009, incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K filed on April 23, 2009 (SEC File No. 001-02960).
*10.16	Amendment to Employment Agreement between Newpark Resources, Inc. and Bruce C. Smith dated April 22, 2009, incorporated by reference to Exhibit 10.3 to the Company's Current Report on Form 8-K filed on April 23, 2009 (SEC File No. 001-02960).
*10.17	Amendment to Employment Agreement between Newpark Resources, Inc. and Mark J. Airola dated April 22, 2009, incorporated by reference to Exhibit 10.4 to the Company's Current Report on Form 8-K filed on April 23, 2009 (SEC File No. 001-02960).
*10.18	Extension Letter Amendment to Amended and Restated Employment Agreement between Newpark Resources, Inc. and Paul L. Howes dated November 30, 2009, incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K filed on December 7, 2009 (SEC File No. 001-02960).
*10.19	Extension Letter Amendment to Employment Agreement between Newpark Resources, Inc. and Bruce C. Smith dated November 30, 2009, incorporated by reference to Exhibit 10.3 to the Company's Current Report on Form 8-K filed on December 7, 2009 (SEC File No. 001-02960).
*10.20	Extension Letter Amendment to Employment Agreement between Newpark Resources, Inc. and Mark J. Airola dated November 30, 2009, incorporated by reference to Exhibit 10.4 to the Company's Current Report on Form 8-K filed on December 7, 2009 (SEC File No. 001-02960).

10.21	Employment Agreement, dated as of October 15, 2010, by and between Newpark Resources, Inc. and Jeffery L. Juergens, incorporated by reference to the Company's Current Report on Form 8-K filed on October 18, 2010 (SEC File No. 001-02960).
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