CARDINAL HEALTH INC
Form 424B3
February 19, 2013
Table of Contents

Filed Pursuant to Rule 424(b)(3)
Registration Statement No. 333-169073

Subject to Completion, Dated February 19, 2013

The information in this preliminary prospectus supplement is not complete and may be changed. This preliminary prospectus supplement and the accompanying base prospectus are not an offer to sell these securities, and are not soliciting an offer to buy these securities in any jurisdiction where the offer and sale are not permitted.

PROSPECTUS SUPPLEMENT

February , 2013

(To Prospectus dated August 27, 2010)

$

Cardinal Health, Inc.

$ % Notes due 2018

$ % Notes due 2023

$ % Notes due 2043

The % notes will mature on , 2018 (the 2018 notes), the % notes will mature on , 2023 (the 2023 notes) and the % notes will mature on , 2043 (the 2043 notes and, together with the 2018 notes and the 2023 notes, the notes). Interest on the notes will accrue from February , 2013. Interest on the notes will be payable semi-annually on and of each year, commencing , 2013. We may redeem the notes of each series in whole at any time or in part from time to time, at the applicable redemption prices described in Description of the Notes Optional Redemption.

The notes are being issued to fund a portion of the purchase price of our acquisition of AssuraMed, Inc. (the Acquisition). In the event that we do not consummate the Acquisition on or prior to October 31, 2013, or the Merger Agreement (as defined herein) is terminated at any time prior to such date, we will be required to redeem all of the notes on a special mandatory redemption date at a redemption price equal to 101% of the principal amount of the notes as described under the caption Description of the Notes Special Mandatory Redemption. If a change of control repurchase event occurs, we will be required to offer to purchase the notes from holders at a purchase price of 101% of the principal amount of the notes. See Description of the Notes Repurchase at the Option of Holders Upon a Change of Control.

The notes will be our senior unsecured obligations and will rank equally with our other senior unsecured indebtedness outstanding from time to time.

Investing in the notes involves risk. See Risk Factors beginning on page S-5 and the section entitled Risk Factors in our Annual Report on Form 10-K for the fiscal year ended June 30, 2012, as they may be amended, updated or modified periodically in our reports filed with the Securities and Exchange Commission, for a discussion of certain risks that you should consider in connection with an investment in the notes.

Neither the Securities and Exchange Commission nor any state securities commission has approved or disapproved of these securities or passed upon the adequacy or accuracy of this prospectus supplement or the accompanying prospectus. Any representation to the contrary is a criminal offense.

	Per 2018 Note	2018 Notes Total	Per 2023 Note	2023 Notes Total	Per 2043 Note	2043 Notes Total	Total
Price to Public (1)	%	$	%	$	%	$	$
Underwriting Discount	%	$	%	$	%	$	$
Proceeds to Us Before Expenses (1)	%	$	%	$	%	$	$

(1) Plus accrued interest from and including February , 2013.

Currently, there is no public market for the notes. We do not intend to apply for listing of the notes on a securities exchange or for inclusion of the notes on an automated dealer quotation system.

We expect that delivery of the notes will be made to investors in book-entry form only through The Depository Trust Company for the accounts of its participants, including Clearstream Banking, société anonyme, and Euroclear Bank S.A./N.V., as operator of the Euroclear System, on or about February , 2013.

Joint Book-Running Managers

BofA Merrill Lynch **Deutsche Bank Securities** **UBS Investment Bank**

Table of Contents

TABLE OF CONTENTS

PROSPECTUS

Table of Contents

ABOUT THIS PROSPECTUS SUPPLEMENT

This document is in two parts. The first part is this prospectus supplement, which describes the specific terms of the offering of the notes and other matters relating to us. The second part is the accompanying prospectus, which gives more general information about securities we may offer from time to time, some of which does not apply to the notes we are offering. The information in this prospectus supplement replaces any inconsistent information included in the accompanying prospectus. If information in the prospectus supplement differs from information in the accompanying prospectus, you should rely on the information in this prospectus supplement. Before investing in the notes, you should read carefully both this prospectus supplement and the accompanying prospectus, together with additional information described under the heading Where You Can Find More Information and Incorporation of Certain Documents by Reference below.

Unless otherwise indicated or unless the context requires otherwise, all references in this prospectus supplement to we, us, our or the Company mean Cardinal Health, Inc., an Ohio corporation, and its consolidated subsidiaries, and references to Cardinal Health refer to Cardinal Health, Inc., excluding its consolidated subsidiaries.

You should rely only on the information contained or incorporated by reference in this prospectus supplement, the accompanying prospectus or any free writing prospectus prepared by the Company. We do not, and the underwriters and their affiliates do not, take any responsibility for, and can provide no assurance as to the reliability of, any information that others may provide to you. You should not assume that the information contained or incorporated by reference in this prospectus supplement or in the accompanying prospectus is accurate as of any date other than the date on the front of that document. Our business, financial condition, results of operations and prospects may have changed since those dates.

The distribution of this prospectus supplement and the accompanying prospectus and the offering of the notes in certain jurisdictions may be restricted by law. We are not making an offer of the notes in any jurisdiction where the offer is not permitted. Persons who come into possession of this prospectus supplement and the accompanying prospectus should inform themselves about and observe any such restrictions. This prospectus supplement and the accompanying prospectus do not constitute, and may not be used in connection with, an offer or solicitation by anyone in any jurisdiction in which such offer or solicitation is not authorized or in which the person making such offer or solicitation is not qualified to do so or to any person to whom it is unlawful to make such offer or solicitation.

You should not consider any information in this prospectus supplement or the accompanying prospectus to be investment, legal or tax advice. You should consult your own counsel, accountant and other advisors for legal, tax, business, financial and related advice regarding the purchase of the notes. We are not making any representation to you regarding the legality of an investment in the notes by you under applicable investment or similar laws.

Table of Contents

WHERE YOU CAN FIND MORE INFORMATION AND INCORPORATION

OF CERTAIN DOCUMENTS BY REFERENCE

We file annual, quarterly and current reports, proxy statements and other information with the Securities and Exchange Commission (the SEC). The SEC allows us to incorporate by reference the information we file with them, which means that we can disclose important business and financial information to you that is not included in or delivered with this prospectus supplement and the accompanying prospectus by referring you to publicly filed documents that contain the omitted information. Our SEC filings are available on the Internet at the SEC s website at http://www.sec.gov. You may also read and copy any document we file at the SEC s public reference room at 100 F Street, N.E., Washington, D.C. 20549. Please call the SEC at 1-800-SEC-0330 for more information on the public reference room and its copy charges. You may also inspect our SEC reports and other information at the New York Stock Exchange, 20 Broad Street, New York, New York 10005. Documents may also be available on our website at http://www.cardinalhealth.com under the heading Investors. Please note that all references to http://www.cardinalhealth.com in this prospectus supplement and the accompanying prospectus are inactive textual references only and that the information contained on our website is neither incorporated by reference into this prospectus supplement and the accompanying prospectus nor intended to be used in connection with this offering. You may also request a copy of these filings, at no cost, by writing or telephoning us as follows: Cardinal Health, Inc., 7000 Cardinal Place, Dublin, Ohio 43017, (614) 757-3996 Attention: Investor Relations. Exhibits to the filings will not be sent unless those exhibits have been specifically incorporated by reference in this prospectus supplement or the accompanying prospectus.

We have filed with the SEC an automatic shelf registration statement on Form S-3 under the Securities Act of 1933, as amended (the Securities Act), as a well-known seasoned issuer (as defined in Rule 405 under the Securities Act) covering the securities described in this prospectus supplement and the accompanying prospectus. This prospectus supplement and the accompanying prospectus do not contain all of the information included in the registration statement, some of which is contained in exhibits included with or incorporated by reference into the registration statement. The registration statement, including the exhibits contained or incorporated by reference therein, can be read at the SEC s website or at the SEC offices referred to above. Any statement made in this prospectus supplement or the accompanying prospectus concerning the contents of any contract, agreement or other document is only a summary of the actual contract, agreement or other document. If we have filed or incorporated by reference any contract, agreement or other document as an exhibit to the registration statement, you should read the exhibit for a more complete understanding of the document or matter involved. Each statement regarding a contract, agreement or other document is qualified in its entirety by reference to the actual document.

We incorporate by reference the following documents filed with the SEC by us and any future filings we make with the SEC after the date of this prospectus supplement under Sections 13(a), 13(c), 14 or 15(d) of the Securities Exchange Act of 1934, as amended (the Exchange Act), until we complete our offering of the securities offered by this prospectus supplement and the accompanying prospectus. We are not incorporating by reference any documents or portions thereof, whether specifically listed below or filed in the future, that are not deemed filed with the SEC (including the Current Reports on Form 8-K listed below), unless otherwise specified.

SEC Filings	Period/Date
Annual Report on Form 10-K	Fiscal Year ended June 30, 2012, filed with the SEC on August 22, 2012.
Quarterly Reports on Form 10-Q	Quarters ended September 30, 2012, filed with the SEC on November 9, 2012 and December 31, 2012, filed with the SEC on February 6, 2012.
Current Reports on Form 8-K	Dated August 8, 2012, August 31, 2012 (as amended on February 7, 2013), October 26, 2012, November 2, 2012, January 25, 2013, February 13, 2013 (Items 1.01 and 8.01 only) and February 19, 2013.

Table of Contents

SEC Filings	Period/Date
Definitive Proxy Statement on Schedule 14A	Filed with the SEC on September 14, 2012 for the 2012 Annual Meeting of Shareholders (other than the information set forth under the headings Human Resources and Compensation Committee Report and Shareholder Performance Graph)

Any statement contained or incorporated by reference in this prospectus supplement and the accompanying prospectus shall be deemed to be modified or superseded for purposes of this prospectus supplement and the accompanying prospectus to the extent that a statement contained herein or therein, or in any subsequently filed document which also is incorporated by reference herein or therein, modifies or supersedes such earlier statement. Any statement so modified or superseded shall not be deemed, except as so modified or superseded, to constitute a part of this prospectus supplement and the accompanying prospectus.

Table of Contents

INFORMATION CONCERNING FORWARD-LOOKING STATEMENTS

This prospectus supplement, the accompanying prospectus, our filings with the SEC, including our Annual Report on Form 10-K for the fiscal year ended June 30, 2012 (the 2012 Form 10-K), our Annual Report to Shareholders, any of our Quarterly Reports on Form 10-Q or any of our Current Reports on Form 8-K (together with any exhibits to such reports as well as any amendments to such reports), our press releases, or any other written or oral statements made by or on behalf of us, may include directly or by incorporation by reference forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995 and Section 27A of the Securities Act. These statements reflect our view (as of the date such forward-looking statement is first made) with respect to future events, prospects, projections or financial performance. The matters discussed in these forward-looking statements are subject to certain risks and uncertainties and other factors that could cause actual results to differ materially from those projected, anticipated or implied in or by such statements. These risks and uncertainties include, but are not limited to:

- competitive pressures in the markets in which we operate, including pricing pressures;
- increasing consolidation in the healthcare industry, which could give the resulting enterprises greater bargaining power and may increase pressure on prices for our products and services;
- uncertainties due to government healthcare reform, including the impact of the 2.3 percent tax to be paid by medical device manufacturers like us on the sale price of products;
- changes to the prescription drug reimbursement formula and related reporting requirements for generic pharmaceuticals under Medicaid;
- the expiration, loss of, material reduction in purchases by, or default by key customers, including CVS Caremark Corporation (CVS) and Walgreens Co. (Walgreens), whose contracts with us, absent renewal, are currently scheduled to expire in June 2013 and August 2013, respectively;
- actions of regulatory bodies and other governmental authorities, including the U.S. Drug Enforcement Administration (DEA), the U.S. Food and Drug Administration, the U.S. Nuclear Regulatory Commission, the U.S. Department of Health and Human Services, the U.S. Federal Trade Commission, various state boards of pharmacy, state health departments, state insurance departments or comparable agencies or foreign equivalents that could delay, limit or suspend product development, manufacturing, distribution, importation or sales or result in warning letters, recalls, seizures, injunctions and monetary sanctions;
- compliance with the settlement agreement that we entered into in connection with the DEA s suspension of our Lakeland, Florida distribution center s registration to distribute controlled substances and the possibility of civil fines against us by the U.S. Department of Justice for conduct covered by the settlement agreement;
- the loss of, or default by, one or more key suppliers for which alternative suppliers may not be readily available;
- unfavorable changes to the terms of key customer or supplier relationships, or changes in customer mix;

changes in manufacturers pricing, selling, inventory, distribution or supply policies or practices;

changes in hospital buying groups or hospital buying practices;

Table of Contents

changes in the frequency or magnitude of branded pharmaceutical price appreciation or generic pharmaceutical price deflation, restrictions in the amount of inventory available to us, or changes in the timing or frequency of generic launches or the introduction of branded pharmaceuticals;

uncertainties relating to market conditions for pharmaceuticals;

uncertainties relating to demand for our products and services;

changes in the distribution or outsourcing pattern for pharmaceutical and medical/surgical products and services, including an increase in direct and limited distribution;

the costs, difficulties and uncertainties related to the integration of acquired businesses, including liabilities related to the operations or activities of such businesses prior to their acquisition;

the possibility that the closing of the Acquisition may be delayed or may not occur and the uncertainties relating to our ability to achieve the expected benefits from the Acquisition;

uncertainties relating to our ability to grow our specialty pharmaceutical services and distribution business;

uncertainties relating to our ability to grow our Cardinal Health China business, including growth of the pharmaceutical market in China;

risks arising from possible violations of the Foreign Corrupt Practices Act;

risks arising from possible violations of healthcare fraud and abuse laws, including the current Department of Justice investigation regarding the structure of discounts offered or provided to our customers;

our ability to introduce and market new products and our ability to keep pace with advances in technology;

uncertainties relating to the effectiveness of our Medical segment s business transformation project;

changes in laws or in the interpretation or application of laws or regulations, as well as possible failures to comply with applicable laws or regulations as a result of possible misinterpretations or misapplications;

the continued financial viability and success of our customers, suppliers and franchisees;

costs or claims resulting from potential errors or defects in our manufacturing, compounding, repackaging, information systems or pharmacy management services that may injure persons or damage property or operations, including costs from remediation efforts or recalls;

the results, costs, effects or timing of any commercial disputes, government contract compliance matters, patent infringement claims, or other legal proceedings;

the costs, effects, timing or success of restructuring programs or plans, including the restructuring plan within the Medical segment that we announced in January 2013;

Table of Contents

- increased costs for commodities used in the Medical segment including various components, compounds, raw materials or energy such as oil-based resins, cotton, latex and other commodities;

- shortages in commodities, components, compounds, raw materials or energy used by our businesses, including supply disruptions of radioisotopes;

- the risks of counterfeit products in the supply chain;

- risks associated with global operations, including the effect of local economic environments, inflation, recession, currency volatility and global competition, in addition to risks associated with compliance with U.S and international laws relating to global operations;

- difficulties or delays in the development, production, manufacturing, sourcing and marketing of new or existing products and services, including difficulties or delays associated with obtaining requisite regulatory consents or approvals associated with those activities;

- disruption or damage to or failure of our information or controls systems or a data security breach;

- disruptions to the proper functioning of our critical facilities, including our national logistics center;

- uncertainties relating to general political, business, industry, regulatory and market conditions;

- adverse changes in U.S. or foreign tax laws, unfavorable challenges to our tax positions and payments to settle these challenges;

- risks associated with the spin-off of CareFusion Corporation, including risks of non-performance under the tax matters agreement and risks relating to adverse tax consequences to us and our shareholders; and

- other factors described in Item 1A-Risk Factors of the 2012 Form 10-K.

The words expect, anticipate, intend, plan, believe, will, should, could, would, project, continue, likely, and similar exp identify forward-looking statements, which speak only as of the date the statements were made, and also include statements reflecting future results or guidance, statements of outlook and expense accruals. We undertake no obligation to update or revise any forward-looking statements, except to the extent required by applicable law.

Table of Contents

SUMMARY

The following summary highlights selected information contained elsewhere in this prospectus supplement, the accompanying prospectus and in the documents incorporated by reference in this prospectus supplement and does not contain all the information you will need in making your investment decision. You should read carefully this entire prospectus supplement, the accompanying prospectus and the documents incorporated by reference in this prospectus supplement. See Where You Can Find More Information and Incorporation of Certain Documents by Reference in this prospectus supplement.

The Company

Cardinal Health, Inc. is an Ohio corporation formed in 1979. We are a healthcare services company providing products and services that help pharmacies, hospitals, surgery centers, physician offices and other healthcare providers focus on patient care while reducing costs, enhancing efficiency and improving quality.

The mailing address of our executive offices is 7000 Cardinal Place, Dublin, Ohio 43017, and our telephone number is (614) 757-5000.

For additional information concerning our business and affairs and descriptions of certain laws and regulations to which we may be subject, please refer to the information in the documents incorporated by reference in this prospectus supplement and the accompanying prospectus.

Recent Developments

On February 14, 2013, we announced that we entered into an Agreement and Plan of Merger (the Merger Agreement) to acquire AssuraMed, Inc. (AssuraMed). The Merger Agreement provides that we will pay an aggregate consideration of approximately $2.07 billion in cash to acquire AssuraMed, on a cash-free, debt-free basis, subject to working capital and other adjustments. AssuraMed is a leading provider of medical supplies to patients in the home.

We intend to finance the Acquisition with a combination of the net proceeds from this offering and cash on hand. On February 13, 2013, in connection with the Merger Agreement and the funding of the Acquisition, we obtained a commitment from Bank of America, N.A., an affiliate of Merrill Lynch, Pierce, Fenner & Smith Incorporated, for a new $1.3 billion senior unsecured bridge term loan facility.

The closing of the Acquisition is subject to the satisfaction or waiver of customary closing and regulatory conditions, including, among other things, the expiration or early termination of the waiting periods under the Hart-Scott-Rodino Antitrust Improvements Act of 1976, as amended. We currently expect that the Acquisition will be completed by early April 2013.

This offering is expected to be consummated on or about February , 2013, in advance of the expected date of the closing of the Acquisition. In the event that we do not consummate the Acquisition on or prior to October 31, 2013 or the Merger Agreement is terminated at any time prior to such date, we will be required to redeem all of the notes on a special mandatory redemption date at a redemption price equal to 101% of the aggregate principal amount of the notes, plus accrued and unpaid interest, if any, to, but excluding the date of redemption. See Description of Notes Special Mandatory Redemption.

The Offering

Issuer	Cardinal Health, Inc.

Notes Offered	$ aggregate principal amount of % notes due 2018.
	$ aggregate principal amount of % notes due 2023.
	$ aggregate principal amount of % notes due 2043.

Interest	% per year for the 2018 notes payable on and , commencing , 2013. % per year for the 2023 notes payable on and , commencing , 2013. % per year for the 2043 notes payable on and , commencing , 2013.
Maturity	, 2018 for the 2018 notes , 2023 for the 2023 notes , 2043 for the 2043 notes
Issue Date	February , 2013
Record Dates	and
Ranking	The notes will be senior unsecured debt obligations of Cardinal Health. The notes will rank equally with all of Cardinal Health s existing and future senior unsecured debt and senior to all of Cardinal Health s existing and future subordinated debt. As of December 31, 2012, Cardinal Health had outstanding approximately $2,898 million of unsecured indebtedness and guarantees of subsidiary indebtedness for borrowed money with which the notes would rank equally. The notes will be effectively subordinated to the liabilities of Cardinal Health s subsidiaries, including trade payables. As of December 31, 2012, Cardinal Health s subsidiaries had approximately $355 million of indebtedness for borrowed money ($184 million of which is guaranteed by Cardinal Health) and Cardinal Health s subsidiaries had an aggregate of approximately $11.8 billion of trade payables, to which the notes would be effectively subordinated.
Optional Redemption	We may redeem the notes prior to maturity, in whole at any time or in part from time to time, at our option, at a redemption price equal to the greater of the principal amount of such notes and the make-whole price described under Description of the Notes in this prospectus supplement, plus, in each case, accrued and unpaid interest, if any, to, but excluding, the date of redemption. See Description of the Notes Optional Redemption.

S-2

Special Mandatory Redemption	The offering is not conditioned upon the consummation of the Acquisition but, in the event that we do not consummate the Acquisition on or prior to October 31, 2013 or the Merger Agreement is terminated at any time prior to such date, we will be required to redeem all of the notes on a special mandatory redemption date at a redemption price equal to 101% of the aggregate principal amount of the notes, plus accrued and unpaid interest, if any, to, but excluding, the date of redemption. See Description of the Notes Special Mandatory Redemption.
Change of Control Repurchase Event	Upon the occurrence of a change of control repurchase event, we will be required to make an offer to purchase the notes at a price equal to 101% of the principal amount of the notes, plus accrued and unpaid interest, if any, to, but excluding, the date of repurchase. See Description of the Notes Repurchase at the Option of Holders Upon a Change of Control.
Form of Notes	The notes of each series will initially be represented by one or more global notes, registered in the name of Cede & Co., the nominee of The Depository Trust Company (DTC). The notes of each series will be issued in denominations of $2,000 and integral multiples of $1,000 in excess thereof.
Use of Proceeds	We estimate that the net proceeds from the sale of the notes, after deducting the underwriting discount and estimated unreimbursed offering expenses, will be approximately $. We plan to use the net proceeds from the offering, and cash on hand, to fund the Acquisition. See Use of Proceeds.
Further Issuances	We may from time to time, without the notice to or consent of the holders of the notes, create and issue additional notes ranking equally and ratably in all respects with the notes offered by this prospectus supplement, having the same terms and conditions (other than the issue date, the price to public, and if applicable, the first interest payment date) as each series of notes, so that such issuance shall be consolidated and form a single series with the outstanding 2018 notes, 2023 notes or 2043 notes, as the case may be.
Risk Factors	See Risk Factors beginning on page S-5 and the section entitled Risk Factors in our Annual Report on Form 10-K for the fiscal year ended June 30, 2012 for discussion of factors you should carefully consider before deciding to invest in the notes.

Table of Contents

Summary Financial Information

In the table below, we provide you with our summary financial information, which is derived from our consolidated financial statements. The information is only a summary and should be read together with the financial information incorporated by reference into this prospectus supplement and the accompanying prospectus. See Where You Can Find More Information and Incorporation of Certain Documents by Reference in this prospectus supplement.

	At or for the Six Months Ended December 31,		At or for the Fiscal Year Ended June 30,		
	2012	2011	2012	2011	2010
	(unaudited)				
	(in millions, except per share amounts)				
Earnings Data:					
Revenue	$ 51,121	$ 53,870	$ 107,552	$ 102,644	$ 98,503
Earnings from continuing operations	$ 575	$ 501	$ 1,070	$ 966	$ 587
Earnings/(loss) from discontinued operations (1)		(2)	(1)	(7)	55
Net earnings	$ 575	$ 499	$ 1,069	$ 959	$ 642
Basic earnings/(loss) per Common Share					
Continuing operations	$ 1.69	$ 1.45	$ 3.10	$ 2.77	$ 1.64
Discontinued operations (1)		(0.01)		(0.02)	0.15
Net basic earnings per Common Share	$ 1.69	$ 1.44	$ 3.10	$ 2.75	$ 1.79
Diluted earnings/(loss) per Common Share					
Continuing operations	$ 1.67	$ 1.44	$ 3.06	$ 2.74	$ 1.62
Discontinued operations (1)		(0.01)		(0.02)	0.15
Net diluted earnings per Common Share	$ 1.67	$ 1.43	$ 3.06	$ 2.72	$ 1.77
Cash dividends declared per Common Share	$ 0.5125	$ 0.4300	$ 0.8825	$ 0.8000	$ 0.7200
Balance Sheet Data:					
Total assets	$ 24,642	$ 24,263	$ 24,260	$ 22,846	$ 19,990
Long-term obligations, less current portion and other short-term borrowings	$ 2,423	$ 2,211	$ 2,418	$ 2,175	$ 1,896
Shareholders equity	$ 6,542	$ 5,928	$ 6,244	$ 5,849	$ 5,276

(1) 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 percent 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. For additional information regarding discontinued operations, see Note 5 of the Notes to Consolidated Financial Statements in the 2012 Form 10-K.

Table of Contents

RISK FACTORS

Investing in our notes involves various risks. There are a number of factors, including those described below and in our Annual Report on Form 10-K for the fiscal year ended June 30, 2012, as they may be amended, updated or modified periodically in our reports filed with the SEC, that could materially and adversely affect our results of operations, financial condition, liquidity and cash flows. You should carefully consider the risks and uncertainties described below and the other information in this prospectus supplement and the accompanying prospectus and in the documents incorporated by reference before deciding whether to purchase Cardinal Health s notes. These risks are not the only risks that we face. Our business operations could also be affected by additional factors that are not presently known to us or that we currently consider to be immaterial to our operations.

Risks Related to our Business

You should carefully review all the information under the heading Risk Factors in our Annual Report on Form 10-K for the fiscal year ended June 30, 2012 in addition to those set forth below.

We have a few large customers that generate a significant amount of our revenue. Contracts with our two largest customers will expire in June 2013 and August 2013 and if either contract is not renewed, the expiration of that contract could materially adversely affect our business.

Our sales and credit concentration is significant. CVS and Walgreens accounted for approximately 22 percent and 21 percent, respectively, of our fiscal 2012 revenue. In addition, CVS and Walgreens accounted for 19 percent and 25 percent, respectively, of our gross trade receivable balance at June 30, 2012. Our contracts with CVS and Walgreens are scheduled to expire in June 2013 and August 2013, respectively. Walgreens and CVS issued requests for proposal for pharmaceutical distribution services during August 2012 and December 2012, respectively, and we are participating in these processes. The expiration of either of these contracts will have an adverse effect, which could be material, on our results of operations and operating cash flow. In addition, if CVS or Walgreens defaults in payment or significantly reduces its purchases of our products, our results of operations and financial condition could be materially adversely affected.

The Acquisition may not provide us with the benefits we expect and may expose us to unforeseen risks. The Acquisition will lead to significant expense related to amortization of intangible assets.

An important element of our growth strategy has been to acquire other businesses that expand or complement our existing businesses, such as the planned acquisition of AssuraMed. Acquisitions involve risks: we may overpay for a business or fail to realize the synergies and other benefits we expect from the acquisition; or we may encounter unforeseen accounting, internal control, regulatory or compliance issues.

In addition, for financial accounting purposes, we amortize intangible assets with definitive lives, such as customer relationships, trademarks and patents and non-compete agreements, over their useful lives. We have not made a preliminary valuation of intangible assets relating to AssuraMed, but we expect intangible assets to be a significant portion of the AssuraMed purchase price. As a result, we expect the amortization of acquisition-related intangible assets to be a significant expense in the portion of fiscal 2013 after the Acquisition closes and in future fiscal years.

Risks Related to the Offering

The notes will be effectively subordinated to all existing and future liabilities of Cardinal Health s subsidiaries.

Cardinal Health conducts nearly all of its operations through subsidiaries and it expects that it will continue to do so. As a result, the right of Cardinal Health to participate as a shareholder in any distribution of assets of any subsidiary upon such subsidiary s liquidation or reorganization or otherwise and the ability of holders of the notes to benefit as creditors of Cardinal Health from any such distribution are subject to the prior claims of creditors of the subsidiary. As of December 31, 2012, Cardinal Health had outstanding approximately $2,898 million of indebtedness and guarantees of subsidiary indebtedness for borrowed money with which the notes would rank equally. As of such date, Cardinal Health s subsidiaries had outstanding approximately $355 million of indebtedness for borrowed money ($184 million of which is guaranteed by Cardinal Health) and Cardinal Health s subsidiaries had an aggregate of approximately $11.8 billion of trade payables to which the notes would be effectively subordinated.

Cardinal Health currently has no secured debt. To the extent Cardinal Health were to incur any secured debt, the notes would effectively rank junior in right of payment to such secured debt of Cardinal Health to the extent of the value of the assets securing such debt.

Active trading markets for the notes may not develop.

The notes are new issues of securities with no established trading market. We do not intend to apply for listing of the notes on any securities exchange or for inclusion of the notes on any automated dealer quotation system. If no active trading markets develop, you may not be able to resell your notes at their fair market value or at all. Future trading prices of the notes will depend on many factors, including, among other things, prevailing interest rates, our financial condition and the markets for similar securities. We have been informed by the underwriters that they currently intend to make a market in the notes of each series after this offering is completed. However, the underwriters may cease their market-making at any time at their discretion without notice.

We may not be able to repurchase the notes upon a change of control.

Upon the occurrence of a change of control repurchase event, we will be required to offer to repurchase all outstanding notes at 101% of the aggregate principal amount plus accrued and unpaid interest, if any, to the date of repurchase. However, it is possible that we will not have sufficient funds at the time of the change of control (as defined herein) to make the required repurchase of notes or that restrictions in our then existing debt instruments will not allow such repurchases. See Description of the Notes Repurchase at the Option of Holders Upon a Change of Control.

In the event that we do not consummate the Acquisition on or prior to October 31, 2013 or the Merger Agreement is terminated at any time prior to such date, we will be required to redeem all of the notes on a special mandatory redemption date at a redemption price equal to 101% of the aggregate principal amount of the notes, and, as a result, holders of the notes may not obtain their expected return on the notes.

We may not consummate the Acquisition within the timeframe specified under Description of the Notes Special Mandatory Redemption, or the Merger Agreement may be terminated prior to such time. Our ability to consummate the Acquisition is subject to various closing conditions, including regulatory approvals and other matters over which we have limited or no control. If we fail to consummate the Acquisition on or prior to October 31, 2013 or the Merger Agreement is terminated prior to such time, we will be required to redeem all of the notes at a redemption price equal to 101% of the aggregate principal amount of the notes, plus accrued and unpaid interest, if any, to, but excluding, the date of redemption. If we redeem the notes pursuant to the special mandatory redemption, you may not obtain your expected return on the notes. Your decision to invest in the notes is made at the time of the offering of the notes. You will have no rights under the special mandatory redemption provision if the Acquisition closes within the specified timeframe, nor will you have any right to require us to redeem your notes if, between the closing of the notes offering and the closing of the Acquisition, we experience any changes in our business or financial condition or if the terms of the Acquisition change.

We may be unable to redeem the notes in the event of a special mandatory redemption.

If we do not consummate the Acquisition on or before October 31, 2013, or the Merger Agreement is terminated any time prior to such date, we will be required to redeem all of the notes for a redemption price equal to 101% of the aggregate principal amount of the notes, plus accrued and unpaid interest, if any, to, but excluding, the date of redemption. See Description of the Notes Special Mandatory Redemption. We are not obligated to place the proceeds from the sale of the notes in escrow prior to consummation of the Acquisition or to provide a security interest in those proceeds, and there are no restrictions on our use of those proceeds during such time. Accordingly, we will need to fund any special mandatory redemption using cash on hand, proceeds of this offering that we have voluntarily retained or from other sources of liquidity. In the event of a special mandatory redemption, we may not have sufficient funds to redeem any or all of the notes.

Table of Contents

CAPITALIZATION

The following table sets forth our short-term obligations and capitalization at December 31, 2012 (1) on an actual basis, and (2) as adjusted to reflect the issuance and sale of the notes offered hereby. You should read this table together with our audited financial statements incorporated by reference in this prospectus supplement and the accompanying prospectus. See Where You Can Find More Information and Incorporation of Certain Documents by Reference in this prospectus supplement.

	As of December 31, 2012	
	Actual	As Adjusted
	(unaudited, in millions)	
Short-term obligations:		
Current portion of long-term obligations and other short-term borrowings	$ 474	$ 474
Long-term obligations:		
% Notes due 2018 offered hereby		
% Notes due 2023 offered hereby		
% Notes due 2043 offered hereby		
1.900% Notes due 2017	250	250
3.200% Notes due 2022	251	251
4.00% Notes due 2015	531	531
4.625% Notes due 2020	540	540
5.80% Notes due 2016	304	304
5.85% Notes due 2017	161	161
6.00% Notes due 2017	204	204
7.00% Debentures due 2026	124	124
7.80% Debentures due 2016	37	37
Other long-term obligations, including capital leases (1)	21	21
Total long-term obligations	$ 2,423	$
Shareholders equity:		
Preferred Shares, without par value; Authorized 500 thousand shares; Issued none	$	$
Common Shares, without par value; Authorized 755 million shares; Issued 364 million shares	2,929	2,929
Retained earnings	4,491	4,491
Common Shares in treasury, at cost 23 million shares	(952)	(952)
Accumulated other comprehensive income	74	74
Total shareholders equity	$ 6,542	$ 6,542
Total capitalization	$ 9,439	$

(1) In connection with the Acquisition, we obtained a commitment letter for a new $1.3 billion senior unsecured bridge term loan facility. The aggregate commitments in respect of this facility will be permanently reduced dollar-for-dollar by the net proceeds from this offering.

Table of Contents

USE OF PROCEEDS

We estimate that the net proceeds from the sale of the notes, after deducting the underwriting discount and estimated unreimbursed expenses, will be approximately $. We plan to use the net proceeds from the offering and cash on hand to consummate the Acquisition. Under the Merger Agreement, we will pay an aggregate consideration of approximately $2.07 billion in cash to acquire AssuraMed, on a cash-free, debt-free basis subject to working capital and other adjustments. In connection with the Acquisition, we obtained a commitment letter for a new $1.3 billion senior unsecured bridge term loan facility. The aggregate commitments under the commitment letter will be permanently reduced dollar-for-dollar by the net proceeds from this offering. In addition, any proceeds from borrowings under the $1.3 billion senior unsecured bridge term loan facility may only be used to consummate the Acquisition and pay for certain related expenses.

The offering is not conditioned upon the consummation of the Acquisition but, in the event that we do not consummate the Acquisition on or prior to October 31, 2013 or the Merger Agreement is terminated at any time prior to such date, we will be required to redeem all of the notes on a special mandatory redemption date at a redemption price equal to 101% of the aggregate principal amount of the notes, plus accrued and unpaid interest, if any, to, but excluding, the date of redemption. See Description of the Notes Special Mandatory Redemption. There can be no assurance that the Acquisition will be consummated or that we will be able to fund the special mandatory redemption, if it is applicable.

We will temporarily invest the net proceeds from the sale of the notes in short-term, liquid investments until they are used for their stated purpose.

DESCRIPTION OF THE NOTES

The following information concerning the notes supplements, and should be read in conjunction with, the statements under Description of Debt Securities in the accompanying prospectus. Terms not defined herein are used as defined in the indenture referred to below. You should also read the entire indenture and the notes before you make any investment decision because they and not this description, define your rights as a holder of the notes.

The 2018 notes, the 2023 notes and the 2043 notes will be issued as separate series of senior unsecured debt securities under an indenture dated as of June 2, 2008 (the indenture) between Cardinal Health and The Bank of New York Mellon Trust Company, N.A., as trustee (the trustee). The indenture provides that the debt securities may be issued from time to time in one or more series with different terms. The indenture does not limit the aggregate amount of debt securities that may be issued or any other debt that may be incurred by Cardinal Health. A default in our obligations with respect to any other indebtedness will not constitute a default or an event of default with respect to the debt securities. The indenture does not contain any covenants or provisions that afford holders of debt securities protection in the event of a highly leveraged transaction. Reference is made to the accompanying prospectus for a description of other terms of the debt securities. The indenture and the notes are governed by New York law.

The 2018 notes will be limited initially to $ aggregate principal amount, the 2023 notes will be limited initially to $ aggregate principal amount and the 2043 notes will be limited initially to $ aggregate principal amount. The 2018 notes will mature on , 2018, the 2023 notes will mature on , 2023 and the 2043 notes will mature on , 2043. Interest on the notes will accrue from February , 2013, and will be payable semi-annually on and , commencing , 2013, to the persons in whose names the notes are registered at the close of business on or prior to the payment date at the annual rate for each series set forth on the cover page of this prospectus supplement.

We may, at any time, without notice to or the consent of the holders of the notes, create and issue additional notes having the same ranking and the same interest rate, maturity and other terms as the notes of each series (other than the date of issuance, price to public, and, under certain circumstances, the first interest payment date following the issue date of such additional notes). Any such additional notes, together with the notes of the applicable series offered by this prospectus supplement, will each form a single series of the notes under the indenture.

Cardinal Health may from time to time issue other series of debt securities under the indenture consisting of notes or other unsecured evidences of indebtedness, but, unless otherwise indicated, such other series will be separate from and independent of the notes.

The notes will not be entitled to the benefit of any sinking fund.

The notes of each series will initially be represented by one or more global notes (each, a global note), in registered form, without coupons, in denominations of $2,000 or an integral multiple of $1,000 in excess thereof as described under Book-Entry System.

There is no public trading market for the notes, and we do not intend to apply for listing of the notes on a securities exchange or for inclusion of the notes on an automated quotation system.

Ranking of Notes

The notes will be senior unsecured obligations of Cardinal Health and will rank equally in right of payment with all of Cardinal Health s existing and future senior unsecured indebtedness. The notes will also effectively rank junior in right of payment to any secured debt of Cardinal Health to the extent of the value of the assets securing such indebtedness.

Table of Contents

Cardinal Health conducts nearly all of its operations through subsidiaries and it expects that it will continue to do so. As a result, the right of Cardinal Health to participate as a shareholder in any distribution of assets of any subsidiary upon its liquidation or reorganization or otherwise and the ability of holders of the notes to benefit as creditors of Cardinal Health from any distribution are subject to the prior claims of creditors of the subsidiary. As of December 31, 2012, Cardinal Health had outstanding approximately $2,898 million of indebtedness and guarantees of subsidiary indebtedness for borrowed money with which the notes would rank equally. As of such date, Cardinal Health s subsidiaries had outstanding approximately $355 million of indebtedness for borrowed money ($184 million of which is guaranteed by Cardinal Health) and Cardinal Health s subsidiaries had an aggregate of approximately $11.8 billion of trade payables to which the notes would be effectively subordinated.

Cardinal Health currently has no secured debt. To the extent Cardinal Health were to incur any secured debt, the notes would effectively rank junior in right of payment to such secured debt of Cardinal Health to the extent of the value of the assets securing such debt.

Optional Redemption

The notes of each series will be redeemable, in whole at any time or, in part from time to time, at the option of Cardinal Health, at a redemption price equal to the greater of:

(1) 100% of the principal amount of the notes to be redeemed, or

(2) as determined by a quotation agent, the sum of the present values of the remaining scheduled payments of principal and interest thereon (exclusive of interest accrued to the date of redemption) discounted to the date of redemption on a semi-annual basis (assuming a 360-day year consisting of twelve 30-day months) at the adjusted treasury rate plus basis points for the 2018 notes, basis points for the 2023 notes and basis points for the 2043 notes, *plus*, in each case, accrued and unpaid interest, if any, on the amount being redeemed to, but excluding, the date of redemption.

Adjusted treasury rate means, with respect to any redemption date, the rate per year equal to the semi-annual equivalent yield to maturity of the comparable treasury issue, assuming a price for the comparable treasury issue (expressed as a percentage of its principal amount) equal to the comparable treasury price for such redemption date.

Comparable treasury issue means the United States Treasury security selected by a quotation agent as having a maturity comparable to the remaining term of the notes to be redeemed that would be utilized, at the time of selection and in accordance with customary financial practice, in pricing new issues of corporate debt securities of comparable maturity to the remaining terms of such notes.

Comparable treasury price means, with respect to any redemption date,

(1) the average of three reference treasury dealer quotations for such redemption date, after excluding the highest and lowest such reference treasury dealer quotations, or

(2) if the trustee obtains fewer than three such reference treasury dealer quotations, the average of all such quotations.

Quotation agent means the reference treasury dealer appointed by Cardinal Health.

Reference treasury dealer means,

(1) Merrill Lynch, Pierce, Fenner & Smith Incorporated, Deutsche Bank Securities Inc. and UBS Securities LLC and their respective successors; provided, however, that if any of the foregoing shall cease to be a primary U.S. Government securities dealer in the United States (a primary treasury dealer), Cardinal Health shall substitute therefor another primary treasury dealer, and

(2) any other primary treasury dealer selected by Cardinal Health.

Reference treasury dealer quotation means, with respect to each reference treasury dealer and any redemption date, the average, as determined by Cardinal Health, of the bid and asked prices for the comparable treasury issue (expressed in each case as a percentage of its principal amount) quoted in writing to the trustee by such reference treasury dealer at 5:00 p.m., New York City time on the third business day preceding such redemption date.

Notice to holders of notes to be redeemed will be delivered by first-class mail at least 30 and not more than 60 days prior to the date fixed for redemption. Unless Cardinal Health defaults in payment of the redemption price, on and after the redemption date interest will cease to accrue on the notes or portions thereof called for redemption.

Special Mandatory Redemption

If we do not consummate the Acquisition on or prior to October 31, 2013, or the Merger Agreement is terminated any time prior to such date, we will be required to redeem all of the outstanding notes on a special mandatory redemption date at a redemption price equal to 101% of the aggregate principal amount of the notes, plus accrued and unpaid interest, if any, to, but excluding, the special mandatory redemption date. The *special mandatory redemption date* means the earlier to occur of (1) December 31, 2013, if the Acquisition has not been consummated on or prior to October 31, 2013, or (2) the 60th day (or if such day is not a business day, the first business day thereafter) following the termination of the Merger Agreement for any reason. Notwithstanding the foregoing, installments of interest on any series of notes that are due and payable on interest payment dates falling on or prior to the special mandatory redemption date will be payable on such interest payment dates to the registered holders as of the close of business on the relevant record dates in accordance with the notes and the indenture.

We will cause the notice of special mandatory redemption to be mailed, with a copy to the trustee, within five business days after the occurrence of the event triggering the special mandatory redemption to each holder at its registered address. If funds sufficient to pay the special mandatory redemption price of the notes to be redeemed on the special mandatory redemption date are deposited with the trustee or a paying agent on or before such special mandatory redemption date, and certain other conditions are satisfied, on and after such special mandatory redemption date, the notes will cease to bear interest.

Repurchase at the Option of Holders Upon a Change of Control

If a change of control repurchase event occurs, unless we have exercised our right to redeem the notes in full as described above, we will make an offer to each holder of notes to repurchase all or any part (equal to $2,000 or in integral multiples of $1,000 in excess thereof) of that holder s notes at a repurchase price in cash equal to 101% of the aggregate principal amount of notes repurchased plus accrued and unpaid interest, if any, on the notes repurchased to, but excluding, the date of purchase. Within 30 days following any change of control repurchase event or, at our option, prior to any change of control, but after the public announcement of the change of control, we will mail a notice to each holder, with a copy to the trustee, describing the transaction or transactions that constitute or may constitute the change of control repurchase event and offering to repurchase notes on the payment date specified in the notice, which date will be no earlier than 30 days and no later than 60 days from the date such notice is mailed. The notice shall, if mailed prior to the date of consummation of the change of control, state that the offer to purchase is conditioned on the change of control repurchase event occurring on or prior to the payment date specified in the notice. We will comply with the requirements of Rule 14e-1 under the Exchange Act and any other securities laws and regulations under the Exchange Act to the extent those laws and regulations are applicable in connection with the repurchase of the notes as a result of a change of control repurchase event. To the extent that the provisions of any securities laws or regulations conflict with the change of control repurchase event provisions of the notes, we will comply with the applicable securities laws and regulations and will not be deemed to have breached our obligations under the change of control repurchase event provisions of the notes by virtue of such conflict.

On the change of control repurchase event payment date, we will, to the extent lawful:

- accept for payment all notes or portions of notes properly tendered pursuant to our offer;
- deposit with the paying agent an amount equal to the aggregate purchase price in respect of all notes or portions of notes properly tendered; and
- deliver or cause to be delivered to the trustee the notes properly accepted, together with an officers certificate stating the aggregate principal amount of notes being purchased by us.

The paying agent will promptly mail to each holder of notes properly tendered the purchase price for the notes, and the trustee will promptly authenticate and mail (or cause to be transferred by book-entry) to each holder a new note equal in principal amount to any unpurchased portion of any notes surrendered; provided that each new note will be in a principal amount of $2,000 or an integral multiple of $1,000 in excess thereof.

We will not be required to make an offer to repurchase the notes upon a change of control repurchase event if a third party makes such an offer in the manner, at the times and otherwise in compliance with the requirements for an offer made by us and such third party purchases all notes properly tendered and not withdrawn under its offer.

The term below investment grade rating event means the notes are rated below investment grade (defined below) by each of the rating agencies (defined below) on any date from the date of the public notice of an arrangement that could result in a change of control until the end of the 60-day period following public notice of the occurrence of a change of control (which period shall be extended so long as the rating of the notes is under publicly announced consideration for possible downgrade by any of the rating agencies).

The term change of control means the occurrence of any one of the following: (1) the direct or indirect sale, lease, transfer, conveyance or other disposition (other than by way of merger or consolidation), in one or a series of related transactions, of all or substantially all of our assets taken as a whole to any person (as that term is used in Section 13(d)(3) of the Exchange Act) other than to Cardinal Health or one of its subsidiaries; (2) the consummation of any transaction (including, without limitation, any merger or consolidation) the result of which is that any person (as that term is used in Section 13(d)(3) of the Exchange Act) becomes the beneficial owner, directly or indirectly, of more than 50% of Cardinal Health s voting stock (defined below), measured by voting power rather than number of shares; or (3) the first day on which a majority of the members of Cardinal Health s board of directors cease to be continuing directors. Notwithstanding the foregoing, a transaction will not be deemed to involve a change of control if (i) Cardinal Health becomes a wholly owned subsidiary of a holding company and (ii) the holders of the voting stock of such holding company immediately following that transaction are substantially the same as the holders of Cardinal Health s voting stock immediately prior to that transaction.

The definition of change of control includes a phrase relating to the direct or indirect sale, lease, transfer, conveyance or other disposition of all or substantially all of the properties or assets of Cardinal Health and its subsidiaries taken as a whole. Although there is a limited body of case law interpreting the phrase substantially all, there is no precise established definition of the phrase under applicable law. Accordingly, the applicability of the requirement that we offer to repurchase the notes as a result of a sale, lease, transfer, conveyance or other disposition of less than all of the assets of Cardinal Health and its subsidiaries taken as a whole to another person or group may be uncertain.

The term change of control repurchase event means the occurrence of both a change of control and a below investment grade rating event.

The term continuing director means, as of any date of determination, members of our board of directors who (1) were members of such board of directors on the date of the issuance of the notes; or (2) were

Table of Contents

nominated for election, elected or appointed to such board of directors with the approval of a majority of the continuing directors who were members of such board of directors at the time of such nomination, election or appointment.

Under clause (3) of the definition of change of control, a change of control will occur when a majority of the members of Cardinal Health s board of directors cease to be continuing directors. In 2009, the Delaware Court of Chancery held that the occurrence of a change of control under a similar indenture provision may nevertheless be avoided if the existing directors were to approve the slate of new director nominees, provided the incumbent directors gave their approval in the good faith exercise of their fiduciary duties owed to the corporation and its stockholders. It has not been determined under Ohio law whether Cardinal Health s board of directors could similarly approve a slate of dissident director nominees while recommending and endorsing its own slate. If so, in certain circumstances involving a significant change in the composition of Cardinal Health s board of directors, including in connection with a proxy contest where Cardinal Health s board of directors does not endorse a dissident slate of directors but approves the dissident slate as continuing directors, holders of the notes may not be entitled to require Cardinal Health to repurchase the notes.

The term Fitch, Moody s and S&P mean Fitch Ratings, Moody s Investors Service, Inc. and Standard & Poor s Ratings Services, a division of T McGraw-Hill Companies, Inc., respectively.

The term investment grade means a rating of BBB or better by Fitch (or its equivalent under any successor rating categories of Fitch), Baa3 or better by Moody s (or its equivalent under any successor rating categories of Moody s); a rating of BBB or better by S&P (or its equivalent under any successor rating categories of S&P); or the equivalent investment grade credit rating from any additional rating agency (defined below) or rating agencies selected by us.

The term rating agency means (1) each of Fitch, Moody s and S&P; and (2) if any of Fitch, Moody s or S&P ceases to rate the notes or fails to make a rating of the notes publicly available for reasons outside of our control, a nationally recognized statistical rating organization within the meaning of Rule 15c3-1(c)(2)(vi)(F) under the Exchange Act, selected by Cardinal Health as a replacement agency for Fitch, Moody s or S&P, or all of them, as the case may be.

The term voting stock of any specified person (as that term is used in Section 13(d)(3) of the Exchange Act) as of any date means the capital stock of such person that is at the time entitled to vote generally in the election of the board of directors of such person.

Unless we default in the change of control payment, on and after the change of control payment date, interest will cease to accrue on the notes or portions of the notes tendered for repurchase pursuant to the change of control offer.

Certain Covenants

The indenture contains certain covenants for the benefit of the holders of notes which limit our ability to incur liens, to incur certain subsidiary debt and to enter into certain sale and lease-back, merger, and sale of assets transactions. See Description of Debt Securities Certain Covenants in the accompanying prospectus.

Events of Default

The indenture contains certain events of default. See Description of Debt Securities Events of Default in the accompanying prospectus.

Regarding the Trustee

The Bank of New York Mellon Trust Company, N.A., as trustee under the indenture, has been appointed by us as paying agent, registrar and DTC custodian with regard to the notes. The trustee or its affiliates may from time to time in the future provide banking and other services to us in the ordinary course of their business.

Table of Contents

Book-Entry System

The notes of each series will be issued initially in the form of one or more global notes, in the aggregate principal amount of the issue, that will be deposited with, or on behalf of, The Depository Trust Company (DTC), which will act as securities depository for the notes. The notes will be issued as fully-registered securities registered in the name of Cede & Co. (DTC s partnership nominee) or such other name as may be requested by an authorized representative of DTC. DTC and any other depository which may replace DTC as depository for the notes are sometimes referred to herein as the depository. Except under the limited circumstances described below, notes represented by global notes will not be exchangeable for certificated notes.

So long as the depository, or its nominee, is the registered owner of a global note, such depository or such nominee, as the case may be, will be considered the sole registered holder of the individual notes represented by such global note for all purposes under the indenture. Payments of principal of and premium, if any, and any interest on individual notes represented by a global note will be made to the depository or its nominee, as the case may be, as the registered holder of such global note. Except as set forth below, owners of beneficial interests in a global note will not be entitled to have any of the individual notes represented by such global note registered in their names, will not receive or be entitled to receive physical delivery of any such note and will not be considered the registered holder thereof under the indenture, including, without limitation, for purposes of consenting to any amendment thereof or supplement thereto as described in the accompanying prospectus.

Beneficial interests in the global notes will be represented through book-entry accounts of financial institutions acting on behalf of beneficial owners as direct and indirect participants in DTC. Investors may hold interests in the global notes through either DTC (in the United States), Clearstream Banking, société anonyme, Luxembourg (Clearstream), or Euroclear Bank S.A./N.V., as operator of the Euroclear System (Euroclear), in Europe, either directly if they are participants in such systems or indirectly through organizations that are participants in such systems. Clearstream and Euroclear will hold interests on behalf of their participants through customers securities accounts in Clearstream s and Euroclear s names on the books of their United States depositaries, which in turn will hold such interests in customers securities accounts in the United States depositaries names on the books of DTC.

The following is based on information furnished by DTC:

DTC is a limited-purpose trust company organized under the New York Banking Law, a banking organization within the meaning of the New York Banking Law, a member of the Federal Reserve System, a clearing corporation within the meaning of the New York Uniform Commercial Code, and a clearing agency registered pursuant to the provisions of Section 17A of the Exchange Act. DTC was created to hold securities of its participants and to facilitate the clearance and settlement of securities transactions among its participants in such securities through electronic book-entry changes in accounts of the participants, thereby eliminating the need for physical movement of securities certificates. Direct participants include securities brokers and dealers (including the underwriters), banks, trust companies, clearing corporations, and certain other organizations (Direct Participants). DTC is a wholly-owned subsidiary of The Depository Trust & Clearing Corporation (DTCC). DTCC is the holding company for DTC, National Securities Clearing Corporation and Fixed Income Clearing Corporation, all of which are registered clearing agencies. DTCC is owned by the users of its regulated subsidiaries. Access to DTC s book-entry system is also available to others such as both U.S. and non-U.S. securities brokers and dealers, banks, trust companies and clearing corporations that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly (Indirect Participants). The rules applicable to DTC and its Direct and Indirect Participants are on file with the SEC.

Purchases of notes under the DTC system must be made by or through Direct Participants, which will receive a credit for the notes on DTC s records. The ownership interest of each actual purchaser of each note (Beneficial Owner) is in turn to be recorded on the Direct and Indirect Participants records. Beneficial Owners will not receive written confirmation from DTC of their purchase, but Beneficial Owners are, however, expected

Table of Contents

to receive written confirmations providing details of the transaction, as well as periodic statements of their holdings, from the Direct or Indirect Participant through which the Beneficial Owner entered into the transaction. Transfers of ownership interests in the notes are to be accomplished by entries made on the books of Direct and Indirect Participants acting on behalf of Beneficial Owners. Beneficial Owners will not receive certificates representing their ownership interests in notes, except in the event that use of the book-entry system for the notes is discontinued.

To facilitate subsequent transfers, all global notes deposited by Direct Participants with DTC are registered in the name of DTC s partnership nominee, Cede & Co., or such other name as may be requested by an authorized representative of DTC. The deposit of global notes with DTC and their registration in the name of Cede & Co. or such other DTC nominee do not effect any change in beneficial ownership. DTC has no knowledge of the actual Beneficial Owners of the notes; DTC s records reflect only the identity of the Direct Participants to whose accounts such notes are credited, which may or may not be the Beneficial Owners. The Direct and Indirect Participants will remain responsible for keeping account of their holdings on behalf of their customers.

The laws of some jurisdictions may require that purchasers of securities take physical delivery of those securities in definitive form. Accordingly, the ability to transfer interests in the notes represented by a global note to those persons may be limited. In addition, because DTC can act only on behalf of its participants, who in turn act on behalf of persons who hold interests through participants, the ability of a person having an interest in notes represented by a global note to pledge or transfer those interests to persons or entities that do not participate in DTC s system, or otherwise to take actions in respect of such interest, may be affected by the lack of a physical definitive security in respect of such interest.

Conveyance of notices and other communications by DTC to Direct Participants, by Direct Participants to Indirect Participants, and by Direct Participants and Indirect Participants to Beneficial Owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time.

Neither DTC nor Cede & Co. (nor any other DTC nominee) will consent or vote with respect to the notes unless authorized by a Direct Participant in accordance with DTC s procedures. Under its usual procedures, DTC mails an Omnibus Proxy to Cardinal Health as soon as possible after the record date. The Omnibus Proxy assigns Cede & Co. s consenting or voting rights to those Direct Participants to whose accounts the notes are credited on the record date (identified in a listing attached to the Omnibus Proxy).

Principal, interest payments and redemption proceeds on the notes will be made to Cede & Co., or such other nominee, as may be requested by an authorized representative of DTC. DTC s practice is to credit Direct Participants accounts upon DTC s receipt of funds and corresponding detail information from us or the trustee, on the payment date in accordance with their respective holdings shown on DTC s records. Payments by Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers in bearer form or registered in street name and will be the responsibility of such Participant and not of DTC nor its nominee, any Agents, the trustee or Cardinal Health, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of principal, interest and redemption proceeds to Cede & Co. (or such other nominee as may be requested by an authorized representative of DTC) is the responsibility of Cardinal Health or the trustee, disbursement of such payments to Direct Participants will be the responsibility of DTC, and disbursement of such payments to the Beneficial Owners will be the responsibility of Direct and Indirect Participants.

None of Cardinal Health, the underwriters or the trustee will have any responsibility or liability for any aspect of the records relating to or payments made on account of notes by DTC, Clearstream or Euroclear, or for maintaining, supervising or reviewing any records of those organizations relating to the notes.

DTC may discontinue providing its services as depository with respect to the notes at any time by giving reasonable notice to Cardinal Health or the trustee. Under such circumstances, in the event that a successor depository is not obtained, certificated notes are required to be printed and delivered in exchange for the notes represented by the global notes held by DTC.

In addition, Cardinal Health may decide to discontinue use of the system of book-entry-only transfers through DTC (or a successor securities depositary). In that event, certificated notes will be printed and delivered in exchange for the notes represented by the global notes held by DTC.

Distributions on the notes held beneficially through Clearstream will be credited to cash accounts of its customers in accordance with its rules and procedures, to the extent received by the United States depositary for Clearstream.

Securities clearance accounts and cash accounts with the Euroclear Operator are governed by the Terms and Conditions Governing Use of Euroclear and the related Operating Procedures of the Euroclear System, and applicable Belgian law (collectively, the *Terms and Conditions*). The Terms and Conditions govern transfers of securities and cash within Euroclear, withdrawals of securities and cash from Euroclear, and receipts of payments with respect to securities in Euroclear. All securities in Euroclear are held on a fungible basis without attribution of specific certificates to specific securities clearance accounts. The Euroclear Operator acts under the Terms and Conditions only on behalf of Euroclear participants and has no record of or relationship with persons holding through Euroclear participants.

Distributions on the notes held beneficially through Euroclear will be credited to the cash accounts of its participants in accordance with the Terms and Conditions, to the extent received by the United States depositary for Euroclear.

Same-Day Settlement and Payment

Settlement for the notes will be made by the underwriters in immediately available funds. All payments of principal and interest will be made by us in immediately available funds.

Secondary trading in long-term notes of corporate issuers is generally settled in clearing-house or next-day funds. In contrast, the notes will trade in the Same-Day Funds Settlement System maintained by DTC until maturity, and secondary market trading activity in the notes will therefore be required by DTC to settle in immediately available funds. No assurance can be given as to the effect, if any, of settlement in immediately available funds on trading activity in the notes.

Cross-market transfers between persons holding directly or indirectly through DTC, on the one hand, and directly or indirectly through Clearstream customers or Euroclear participants, on the other, will be effected through DTC in accordance with DTC rules on behalf of the relevant European international clearing system by the United States depositary. Such cross-market transactions, however, will require delivery of instructions to the relevant European international clearing system by the counterparty in such system in accordance with its rules and procedures and within its established deadlines (European time). The relevant European international clearing system will, if the transaction meets its settlement requirements, deliver instructions to the United States depositary to take action to effect final settlement on its behalf by delivering or receiving the notes in DTC, and making or receiving payment in accordance with normal procedures for same-day funds settlement applicable to DTC. Clearstream customers and Euroclear participants may not deliver instructions directly to their United States depositaries.

Because of time-zone differences, credits of notes received in Clearstream or Euroclear, as a result of a transaction with a DTC participant will be made during subsequent securities settlement processing and dated the Business Day following the DTC settlement date. Such credits or any transactions in such notes settled during such processing will be reported to the relevant Clearstream or Euroclear participants on such Business Day. Cash received in Clearstream or Euroclear as a result of sales of notes by or through a Clearstream participant or a Euroclear participant to a DTC participant will be received with value on the DTC settlement date but will be available in the relevant Clearstream or Euroclear cash account only as of the Business Day following settlement in DTC.

Although DTC, Clearstream and Euroclear have agreed to the foregoing procedures in order to facilitate transfers of notes among participants of DTC, Clearstream and Euroclear, they are under no obligation to perform or continue to perform such procedures, and such procedures may be discontinued at any time.

The information in this section concerning DTC and DTC s book-entry system has been obtained from sources that Cardinal Health believes to be reliable, but Cardinal Health takes no responsibility for the accuracy thereof.

Cardinal Health has provided the descriptions of the operations and procedures of DTC, Clearstream and Euroclear in this prospectus supplement solely as a matter of convenience, and Cardinal Health makes no representation or warranty of any kind with respect to these operations and procedures. These operations and procedures are solely within the control of those organizations and are subject to change by them from time to time. None of Cardinal Health, the underwriters, the trustee, any paying agent or the registrar for the notes will have any responsibility or liability for any aspect of the records relating to or payments made on account of beneficial ownership interests in a global note or for maintaining, supervising or reviewing any records relating to such beneficial ownership interests.

Table of Contents

MATERIAL U.S. FEDERAL INCOME TAX CONSEQUENCES

The following discussion summarizes certain U.S. federal income tax considerations that may be relevant to the acquisition, ownership and disposition of the notes. This discussion is based upon the provisions of the Internal Revenue Code of 1986, as amended (the Code), applicable Treasury regulations promulgated thereunder, judicial authority and administrative interpretations, in each case as of the date hereof, all of which are subject to change, possibly with retroactive effect, or are subject to different interpretations.

This discussion does not address all tax considerations that may be relevant to a holder in light of the holder s particular circumstances, or to certain categories of investors that may be subject to special rules, such as banks or other financial institutions, insurance companies, regulated investment companies, tax-exempt organizations, dealers in securities or currencies, U.S. Holders (as defined below) whose functional currency is not the U.S. dollar, partnerships or other pass-through entities for U.S. federal income tax purposes, former U.S. citizens or residents of the United States, or persons who hold the notes as part of a hedge, conversion transaction, straddle or other risk-reduction transaction. This summary does not consider any tax consequences arising under U.S. federal gift, estate or alternative minimum tax law or under the laws of any foreign, state, local or other jurisdiction. Except as otherwise provided, this discussion is limited to initial investors who purchased the notes for cash at the initial issue price (i.e., the initial offering price to the public, excluding bond houses and brokers, at which price a substantial amount of such notes were sold) and hold the notes as capital assets (generally, property held for investment purposes).

If a partnership (or an entity treated as a partnership for U.S. federal income tax purposes) acquires the notes, the U.S. federal income tax consequences of an investment in the notes will depend on the status of the partners and the activities of the partnership. Partnerships that invest in the notes (and partners of such partnerships) are urged to consult their independent tax advisors regarding the U.S. federal income tax consequences of investing in the notes through a partnership.

This summary is intended for general information purposes only. Potential investors are urged to consult their independent tax advisors regarding the U.S., state, local and non-U.S. tax consequences of the acquisition, ownership and disposition of the notes.

Treatment of the notes

In certain circumstances (see Description of the Notes Special Mandatory Redemption and Description of the Notes Repurchase at the Option of Holders Upon a Change of Control), we may be obligated to pay amounts in excess of stated interest or principal on the notes. These contingencies could subject the notes to the provisions of the Treasury regulations relating to contingent payment debt instruments. Under these regulations, however, one or more contingencies will not cause a debt instrument to be treated as a contingent payment debt instrument if, as of the issue date, each such contingency is remote or is considered to be incidental. We believe and intend to take the position that the foregoing contingencies should be treated as remote and/or incidental. Our position is binding on a holder, unless the holder discloses in the proper manner to the Internal Revenue Service (IRS) that it is taking a different position. However, this determination is inherently factual and we can give no assurance that our position would be sustained if challenged by the IRS. A successful challenge of this position by the IRS could affect the timing and amount of a holder s income and could cause the gain from the sale or other disposition of a note to be treated as ordinary income, rather than capital gain. The remainder of this discussion assumes that the notes will not be considered contingent payment debt instruments for U.S. federal income tax purposes.

Consequences to U.S. Holders

A U.S. Holder for purposes of this discussion is a beneficial owner of a note which, for U.S. federal income tax purposes, is:

- a U.S. citizen or U.S. resident alien;

- a corporation, or other entity taxable as a corporation for U.S. federal income tax purposes, organized under the laws of the United States, any state thereof or the District of Columbia;

- an estate whose income is subject to U.S. federal income taxation regardless of its source; or

- a trust (i) if a court within the United States is able to exercise primary supervision over the administration of the trust and one or more U.S. persons have the authority to control all substantial decisions of the trust or (ii) that has a valid election in effect under applicable Treasury regulations to be treated as a U.S. person.

Interest on the notes

Interest on notes generally will be taxable to a U.S. Holder as ordinary interest income at the time it accrues or is received, in accordance with the U.S. Holder s regular method of accounting for U.S. federal income tax purposes.

Disposition of the notes

A U.S. Holder generally will recognize capital gain or loss on the sale, exchange, redemption, retirement or other taxable disposition of a note. This gain or loss will equal the difference between the amount realized by the U.S. Holder in such sale, exchange, redemption, retirement or other taxable disposition and its adjusted tax basis in the note. The amount realized by a U.S. Holder for such purposes will equal the proceeds (including cash and the fair market value of any property) received for the note, less any portion of such proceeds attributable to accrued interest on the note, which will be taxable as ordinary interest income to the extent not previously included in gross income. A U.S. Holder s adjusted tax basis in a note generally will equal the cost of the note. Any gain or loss will be long-term capital gain or loss if at the time of disposition the note has been held for more than one year. Long-term capital gains of non-corporate U.S. Holders (including individuals) currently are eligible for taxation at preferential rates. The deductibility of capital losses is subject to limitation.

Information reporting and backup withholding

Information reporting will apply to payments of interest on or the proceeds of the sale, exchange, redemption, retirement or other taxable disposition of notes held by a U.S. Holder, and backup withholding (currently at a rate of 28%) will apply to such payments unless a U.S. Holder provides its correct taxpayer identification number, certified under penalties of perjury, as well as certain other information, or otherwise establishes an exemption from backup withholding. Certain U.S. Holders (including, among others, corporations and certain tax-exempt organizations) generally are not subject to backup withholding. Backup withholding is not an additional tax. Any amount withheld under the backup withholding rules is allowable as a refund or credit against a U.S. Holder s U.S. federal income tax liability, provided that the required information or appropriate claim form is furnished to the IRS on a timely basis.

Additional Tax on Net Investment Income

Certain U.S. Holders that are individuals, estates and trusts are subject to an additional 3.8% U.S. federal income tax on, among other things, interest and capital gains from the sale or other disposition of the notes if their modified adjusted gross income exceeds certain threshold amounts. U.S. Holders should consult their own tax advisors regarding the effect, if any, of this new tax on their ownership and disposition of the notes.

Consequences to non-U.S. Holders

A non-U.S. Holder is a beneficial owner of notes that is neither a U.S. Holder nor a partnership or other pass through entity for U.S. federal income tax purposes.

Table of Contents

Interest on the notes

Subject to the discussion below under Income or gain effectively connected with a U.S. trade or business, payments of interest on the notes to a non-U.S. Holder generally will be exempt from U.S. federal income tax (and generally no tax will be withheld) under the portfolio interest exemption if such non-U.S. Holder properly certifies as to its foreign status as described below, and:

- such non-U.S. Holder does not own, actually or constructively, 10% or more of the combined voting power of all classes of our stock entitled to vote; and

- such non-U.S. Holder is not a controlled foreign corporation that is related to us, within the meaning of Section 864(d)(4) of the Code.

The portfolio interest exemption and several of the special rules for non-U.S. Holders described below generally apply only if a non-U.S. Holder appropriately certifies as to its foreign status. Generally a non-U.S. Holder can meet this certification requirement by providing a properly executed IRS Form W-8BEN or appropriate substitute form to us or our paying agent certifying under penalty of perjury that such non-U.S. Holder is not a U.S. person as defined in the Code. If a non-U.S. Holder holds the notes through a financial institution or other agent acting on its behalf, such holder may be required to provide appropriate certifications to the agent. Such agent will then generally be required to provide appropriate certifications to us or our paying agent, either directly or through other intermediaries.

If a non-U.S. Holder does not qualify for the portfolio interest exemption and the interest is not effectively connected with the non-U.S. Holder s conduct of a trade or business within the United States (see Income or gain effectively connected with a U.S. trade or business), payments of interest made to such non-U.S. Holder will be subject to U.S. federal withholding tax at a rate of 30% (or lower applicable treaty rate).

Disposition of the notes

A non-U.S. Holder generally will not be subject to U.S. federal income tax (and generally no tax will be withheld) on any gain realized on the sale, redemption, exchange, retirement or other taxable disposition of a note unless:

- the gain is effectively connected with the conduct by such non-U.S. Holder of a U.S. trade or business (and, if an income tax treaty applies, is attributable to a U.S. permanent establishment or fixed base of the non-U.S. Holder); or

- such non-U.S. Holder is an individual who has been present in the United States for 183 days or more in the taxable year of disposition and certain other requirements are met. Such individual non-U.S. Holder will be subject to a flat 30% U.S. federal income tax (or reduced rate under an applicable income tax treaty) on the gain derived from the sale, which may be offset by certain U.S.-source capital losses, even though that non-U.S. Holder is not considered a resident of the United States.

Income or gain effectively connected with a U.S. trade or business

If any interest on the notes or gain from the sale, exchange, redemption, retirement or other taxable disposition of the notes is effectively connected with a U.S. trade or business conducted by a non-U.S. Holder (and, if an income tax treaty applies, is attributable to a U.S. permanent establishment or fixed base of such non-U.S. Holder), then interest or gain will be subject to U.S. federal income tax on a net income basis at regular graduated income tax rates, but will not be subject to withholding tax if certain certification requirements are satisfied. A non-U.S. Holder generally can meet the certification requirements by providing a properly executed

Table of Contents

IRS Form W-8ECI or appropriate substitute form to us, or our paying agent. If a non-U.S. Holder is a corporation, the portion of its earnings and profits that is effectively connected with its U.S. trade or business (and, if an income tax treaty applies, is attributable to a U.S. permanent establishment or fixed base of the non-U.S. Holder) also may be subject to an additional branch profits tax at a 30% rate (or reduced rate under an applicable income tax treaty).

Information reporting and backup withholding

Payments to a non-U.S. Holder of interest on a note, and amounts withheld from such payments, if any, generally will be required to be reported to the IRS and to such non-U.S. Holder. Backup withholding generally will not apply to payments of interest and principal on a note to a non-U.S. Holder if certification, such as an IRS Form W-8BEN described above in Consequences to non-U.S. Holders Interest on the notes, is duly provided by the holder or the holder otherwise establishes an exemption, provided that we do not have actual knowledge or reason to know that the holder is a U.S. person as defined in the Code. Payment of the proceeds of a sale of a note effected by the U.S. office of a U.S. or foreign broker will be subject to information reporting requirements and backup withholding unless a non-U.S. Holder properly certifies under penalties of perjury as to its foreign status and certain other conditions are met or a non-U.S. Holder otherwise establishes an exemption. Information reporting requirements and backup withholding generally will not apply to any payment of the proceeds of the sale of a note effected outside the United States by a foreign office of a broker. However, unless such a broker has documentary evidence in its records that you are a non-U.S. Holder and certain other conditions are met, or you otherwise establish an exemption, information reporting will apply to a payment of the proceeds of the sale of a note effected outside the United States by such a broker if the broker:

- is a U.S. person;
- derives 50% or more of its gross income for certain periods from the conduct of a trade or business in the United States;
- is a controlled foreign corporation for U.S. federal income tax purposes; or
- is a foreign partnership that, at any time during its taxable year, has more than 50% of its income or capital interests owned by U.S. persons or is engaged in the conduct of a U.S. trade or business.

Backup withholding is not an additional tax. Any amount withheld under the backup withholding rules may be refunded or credited against a non-U.S. Holder s U.S. federal income tax liability, provided the proper information is furnished to the IRS on a timely basis.

Table of Contents

UNDERWRITING

Subject to the terms and conditions contained in an underwriting agreement among us and Merrill Lynch, Pierce, Fenner & Smith Incorporated, Deutsche Bank Securities Inc. and UBS Securities LLC, as representatives of the several underwriters, we have agreed to sell to the underwriters, and the underwriters have severally and not jointly agreed to purchase from us, the principal amount of the notes listed opposite their respective names below. The underwriters have agreed to purchase all of the notes sold pursuant to the underwriting agreement if any of these notes are purchased.

Underwriter	Principal Amount of 2018 Notes	Principal Amount of 2023 Notes	Principal Amount of 2043 Notes
Merrill Lynch, Pierce, Fenner & Smith Incorporated	$	$	$
Deutsche Bank Securities Inc.			
UBS Securities LLC			
Total	$	$	$

The underwriters are offering the notes, subject to prior sale, when, as and if issued to and accepted by them, subject to approval of legal matters by their counsel, including the validity of the notes, and other conditions contained in the underwriting agreement, such as the receipt by the underwriters of officer s certificates and legal opinions. The underwriters reserve the right to withdraw, cancel or modify offers to the public and to reject orders in whole or in part.

The underwriters have advised us that they propose initially to offer the notes to the public at the public offering prices on the cover page of this prospectus supplement, and may offer the notes to dealers at that price less a concession not in excess of % of the principal amount of the 2018 notes, % of the principal amount of the 2023 notes and % of the principal amount of the 2043 notes. The underwriters may allow, and the dealers may reallow, a discount not in excess of % of the principal amount of the 2018 notes, % of the principal amount of the 2023 notes and % of the principal amount of the 2043 notes to other dealers. After the initial public offering, the public offering price, concession and discount may be changed.

The following table shows the discounts and commissions we will pay to the underwriters in respect to this offering:

Per 2018 Note	%
Per 2023 Note	%
Per 2043 Note	%
Total	$

The notes are new issues of securities with no established trading markets. We have been advised by the underwriters that the underwriters presently intend to make a market in the notes of each series after completion of the offering. However, the underwriters are under no obligation to do so and may discontinue any market-making activities at any time without notice. We cannot assure the liquidity of the trading market for the notes or that an active public market for the notes will develop. If active public trading markets for the notes do not develop, the market prices and liquidity of the notes may be adversely affected.

In connection with the offering, the underwriters are permitted to engage in transactions that stabilize the market prices of the notes. Such transactions consist of bids or purchases to peg, fix or maintain the prices of the notes. If the underwriters create a short position in the notes in connection with the offering, i.e., if they sell more notes than are on the cover page of this prospectus supplement, the underwriters may reduce that short position by purchasing notes in the open market. Purchases of a security to stabilize the price or to reduce a short position could cause the price of the security to be higher than it might be in the absence of such purchases.

Table of Contents

Neither we nor the underwriters make any representation or prediction as to the direction or magnitude of any effect that the transactions described above may have on the prices of the notes. In addition, neither we nor the underwriters make any representation that the underwriters will engage in these transactions or that these transactions, once commenced, will not be discontinued without notice.

The expenses of the offering, not including the underwriting discount, are estimated to be approximately $ million. The underwriters have agreed to reimburse us up to $ for certain of our expenses incurred with this offering.

We have agreed to indemnify the underwriters against certain liabilities, including liabilities under the Securities Act, as amended, or, if such indemnification is not available, to contribute to payments the underwriters may be required to make in respect of these liabilities.

The underwriters and their affiliates have provided, and expect to provide in the future, certain investment banking, commercial banking and other financial services to us and our affiliates, for which they have received, and may continue to receive, customary fees and commissions. For instance, Merrill Lynch, Pierce, Fenner & Smith Incorporated served as our financial advisor in connection with the Acquisition. In addition, we have obtained a commitment from an affiliate of Merrill Lynch, Pierce, Fenner & Smith Incorporated to enter into a new senior unsecured bridge term loan facility under which we may borrow up to $1.3 billion to finance the Acquisition. Certain other underwriters or their affiliates may also be lenders under the bridge term loan facility. The amount of financing available under the bridge term loan facility will be permanently reduced and any amount drawn is subject to prepayment in certain circumstances, including for each dollar of net proceeds received by us from this offering of notes. Certain affiliates of the underwriters are also lenders under our revolving credit facility.

In addition, in the ordinary course of their business activities, the underwriters and their affiliates may make or hold a broad array of investments and actively trade debt and equity securities (or related derivative securities) and financial instruments (including bank loans) for their own account and for the accounts of their customers. Such investments and securities activities may involve securities and/or instruments of ours or our affiliates. If any of the underwriters or their affiliates have a lending relationship with us, certain of those underwriters or their affiliates routinely hedge, and certain other of those underwriters may hedge, their credit exposure to us consistent with their customary risk management policies. Typically, these underwriters and their affiliates would hedge such exposure by entering into transactions which consist of either the purchase of credit default swaps or the creation of short positions, including potentially the notes offered hereby. Any such credit default swaps or short positions could adversely affect future trading prices of the notes offered hereby. The underwriters and their affiliates may also make investment recommendations and/or publish or express independent research views in respect of such securities or financial instruments and may hold, or recommend to clients that they acquire, long and/or short positions in such securities and instruments.

European Economic Area

In relation to each Member State of the European Economic Area which has implemented the Prospectus Directive, as defined below (each, a Relevant Member State), and with effect from and including the date on which the Prospectus Directive is implemented in that Relevant Member State (the Relevant Implementation Date), an offer of notes to the public may not be made in that Relevant Member State, except that an offer to the public in the Relevant Member State of any notes may, with effect from and including the Relevant Implementation Date, be made in that Relevant Member State:

(a) at any time to any legal entity which is a qualified investor as defined in the Prospectus Directive;

(b) at any time to fewer than 100 or, if the Relevant Member State has implemented the relevant provision of the 2010 PD Amending Directive, as defined below, 150 natural or legal persons (other than qualified investors as defined in the Prospectus Directive) subject to obtaining the prior consent of the underwriters; or

Table of Contents

(c) at any time in any other circumstances falling within Article 3(2) of the Prospectus Directive,

provided that no such offer of notes referred to in (a) to (c) above shall require the publication by us or any underwriter of a prospectus pursuant to Article 3 of the Prospectus Directive, or supplement to a prospectus pursuant to Article 16 of the Prospectus Directive. For the purposes of this provision, the expression an offer to the public in relation to any notes in any Relevant Member State means the communication in any form and by any means of sufficient information on the terms of the offer and the notes to be offered so as to enable an investor to decide to purchase or subscribe to the notes, as the same may be varied in that Relevant Member State by any measure implementing the Prospectus Directive in that Relevant Member State, the expression Prospectus Directive means Directive 2003/71/EC (and the amendments thereto, including the 2010 PD Amending Directive, to the extent implemented in the Relevant Member State), and includes any relevant implementing measure in the Relevant Member State and the expression 2010 PD Amending Directive means Directive 2010/73/EU.

United Kingdom

The underwriters have informed us that (a)(i) they are each a person whose ordinary activities involve it in acquiring, holding, managing or disposing of investments (as principal or agent) for the purposes of its business and (ii) they have not offered or sold and will not offer or sell the notes other than to persons whose ordinary activities involve them in acquiring, holding, managing or disposing of investments (as principal or as agent) for the purposes of their businesses or who it is reasonable to expect will acquire, hold, manage or dispose of investments (as principal or agent) for the purposes of their businesses where the issue of the notes would otherwise constitute a contravention of Section 19 of the Financial Services and Markets Act 2000 (FSMA) by them; (b) they have only communicated or caused to be communicated and will only communicate or cause to be communicated an invitation or inducement to engage in investment activity (within the meaning of Section 21 of the FSMA) received by them in connection with the issue or sale of the notes in circumstances in which Section 21(1) of the FSMA does not apply; and (c) they have complied and will comply with all applicable provisions of the FSMA with respect to anything done by them in relation to the notes in, from or otherwise involving the United Kingdom.

Table of Contents

LEGAL MATTERS

The validity of the notes will be passed upon for us by Shearman & Sterling LLP, New York, New York and by Rylan O. Rawlins, Esq., Associate General Counsel of Cardinal Health. Mr. Rawlins is paid a salary by Cardinal Health and he participates in various employee benefit plans offered to its employees generally. Mr. Rawlins holds equity incentive awards with respect to Common Shares of the Company valued at greater than $50,000. Hunton & Williams LLP, New York, New York is counsel for the underwriters in connection with this offering. Hunton & Williams LLP from time to time has performed and may perform legal services for us.

EXPERTS

The consolidated financial statements of Cardinal Health, Inc. and subsidiaries appearing in Cardinal Health, Inc. s Annual Report on Form 10-K for the year ended June 30, 2012 (including the schedule appearing therein) and the effectiveness of Cardinal Health Inc. s internal control over financial reporting as of June 30, 2012, have been audited by Ernst & Young LLP, independent registered public accounting firm, as set forth in their reports thereon, included therein, and incorporated herein by reference. Such consolidated financial statements are, and audited consolidated financial statements to be included in subsequently filed documents will be, incorporated herein in reliance upon the reports of Ernst & Young LLP pertaining to such consolidated financial statements and the effectiveness of our internal control over financial reporting as of the respective dates (to the extent covered by consents filed with the Securities and Exchange Commission) given on the authority of such firm as experts in accounting and auditing.

Table of Contents

COMMON SHARES

PREFERRED SHARES

DEBT SECURITIES

Cardinal Health may offer and sell from time to time, together or separately, the following securities:

(i) common shares,

(ii) preferred shares,

(iii) unsecured debt securities, or

(iv) any combination of these securities.

We will provide the terms of any offering and the specific terms of the securities offered in supplements to this prospectus. You should read this prospectus and any accompanying prospectus supplement carefully before you invest. This prospectus may not be used to sell any of these securities unless accompanied by a prospectus supplement or term sheet.

See Risk Factors beginning on page 3 for a discussion of certain risks that you should consider in connection with an investment in Cardinal Health s securities.

Cardinal Health s common shares are listed on the New York Stock Exchange under the symbol CAH.

Neither the Securities and Exchange Commission nor any state securities commission has approved or disapproved of these securities or determined if this prospectus is truthful or complete. Any representation to the contrary is a criminal offense.

The date of this prospectus is August 27, 2010.

Table of Contents

TABLE OF CONTENTS

Table of Contents

ABOUT THIS PROSPECTUS

This prospectus is part of a registration statement that we filed with the Securities and Exchange Commission (the SEC) using a shelf registration process. Under this shelf process, Cardinal Health may sell in one or more offerings any combination of Cardinal Health s common shares, preferred shares, unsecured debt securities in one or more series, which may be senior or subordinated debt securities, or any combination of these securities. This prospectus provides you with a general description of the securities Cardinal Health may offer. Each time Cardinal Health sells securities, we will provide a prospectus supplement, which may be in the form of a term sheet, that will contain specific information about the terms of that offering and the specific terms of the securities. The prospectus supplement may also add, update or change information contained in this prospectus, and accordingly, to the extent inconsistent, information in this prospectus is superseded by the information in the prospectus supplement. You should read both this prospectus and the applicable prospectus supplement together with additional information described under the heading Where You Can Find More Information and Incorporation of Certain Documents by Reference.

Because Cardinal Health is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act of 1933, as amended (the Securities Act), Cardinal Health may add to and offer additional securities, including securities to be offered and sold by selling securityholders, by filing a prospectus supplement with the SEC at the time of the offer.

We have not authorized any person to provide you with any information or to make any representation other than as contained in this prospectus or in any prospectus supplement and the information incorporated by reference herein and therein. We do not take any responsibility for, and can provide no assurance as to the reliability of, any information that others may give you. Cardinal Health is not making an offer to sell or a solicitation of an offer to buy these securities in any jurisdiction where the offer, sale or solicitation is not permitted. The information appearing or incorporated by reference in this prospectus and any supplement to this prospectus is accurate only as of the date of this prospectus or any supplement to this prospectus or the date of the document in which incorporated information appears. Our business, financial condition, results of operations and prospects may have changed since those dates.

Unless otherwise indicated or unless the context otherwise requires, all references in this prospectus to we, us or our mean Cardinal Health, Inc. and its consolidated subsidiaries, and references to Cardinal Health or the Company refer to Cardinal Health, Inc. excluding its consolidated subsidiaries.

WHERE YOU CAN FIND MORE INFORMATION AND

INCORPORATION OF CERTAIN DOCUMENTS BY REFERENCE

We file annual, quarterly and current reports, proxy statements and other information with the SEC. Our SEC filings are available on the Internet at the SEC s web site at http://www.sec.gov. You may also read and copy any document we file at the SEC s public reference room at 100 F Street, N.E., Washington, D.C. 20549. Please call the SEC at 1-800-SEC-0330 for more information on the public reference room and its copy charges. You may also inspect our SEC reports and other information at the New York Stock Exchange, 20 Broad Street, New York, New York 10005. Documents may also be available on our web site at http://www.cardinal.com under the heading Investors. Please note that all references to http://www.cardinal.com in this registration statement and prospectus and any prospectus supplement that accompanies this prospectus are inactive textual references only and that the information contained on our website is neither incorporated by reference into this registration statement or prospectus or any accompanying prospectus supplement nor intended to be used in connection with any offering hereunder.

This prospectus is part of a registration statement on Form S-3 that we filed with the SEC, which includes exhibits and other information not included in this prospectus or a prospectus supplement. The SEC allows us to incorporate by reference in this prospectus the information we file with it. This means that we are disclosing

Table of Contents

important business and financial information to you by referring to other documents filed separately with the SEC that contain the omitted information. The information incorporated by reference is an important part of this prospectus, and information that we file later with the SEC will automatically update and supersede this information.

We incorporate by reference the following documents filed with the SEC by us and any future filings we make with the SEC after the date of this prospectus under Sections 13(a), 13(c), 14 or 15(d) of the Securities Exchange Act of 1934, as amended (the Exchange Act), until we complete our offering of the securities offered by this prospectus and the accompanying prospectus supplement. We are not incorporating by reference any information furnished rather than filed under Item 2.02 or Item 7.01 of any Current Report on Form 8-K, unless otherwise specified:

SEC Filings	**Period/Date**
Annual Report on Form 10-K	Fiscal Year ended June 30, 2010, filed on August 26, 2010
Definitive Proxy Statement on Schedule 14A	Filed on September 24, 2009 for the 2009 Annual Meeting of Shareholders (other than the information set forth under the headings Human Resources and Compensation Committee Report and Shareholder Performance Graph)
Description of common shares contained in Registration Statement on Form 8-A	Filed August 19, 1994

Any statement contained or incorporated by reference in this prospectus shall be deemed to be modified or superseded for purposes of this prospectus to the extent that a statement contained herein, or in any subsequently filed document which also is incorporated herein by reference, modifies or supersedes such earlier statement. Any statement so modified or superseded shall not be deemed, except as so modified or superseded, to constitute a part of this prospectus. Any statement made in this prospectus concerning the contents of any contract, agreement or other document is only a summary of the actual contract, agreement or other document. If we have filed or incorporated by reference any contract, agreement or other document as an exhibit to the registration statement, you should read the exhibit for a more complete understanding of the document or matter involved. Each statement regarding a contract, agreement or other document is qualified by reference to the actual document.

We will furnish without charge to each person (including any beneficial owner) to whom a prospectus is delivered, upon written or oral request, a copy of any or all of the foregoing documents incorporated herein by reference (other than certain exhibits). Requests for such documents should be made to:

Cardinal Health, Inc.

7000 Cardinal Place

Dublin, Ohio 43017

(614) 757-5222

Attention: Investor Relations

Table of Contents

RISK FACTORS

Investing in Cardinal Health s securities involves significant risks. Before you invest in Cardinal Health s securities, in addition to the other information contained in this prospectus and in the accompanying prospectus supplement, you should carefully consider the risks and uncertainties identified in Cardinal Health s reports to the SEC incorporated by reference into this prospectus and the accompanying prospectus supplement.

CAUTIONARY STATEMENT REGARDING FORWARD-LOOKING STATEMENTS

Cardinal Health s filings with the SEC, including Cardinal Health s Annual Report on Form 10-K for the fiscal year ended June 30, 2010 (the 2010 Form 10-K), Cardinal Health s Annual Report to Shareholders, any quarterly report on Form 10-Q or any current report on Form 8-K of Cardinal Health (along with any exhibits to such reports as well as any amendments to such reports), Cardinal Health press releases, or any other written or oral statements made by or on behalf of Cardinal Health, may include directly or by incorporation by reference forward-looking statements which reflect Cardinal Health s current view (as of the date such forward-looking statement is first made) with respect to future events, prospects, projections or financial performance. The matters discussed in these forward-looking statements are subject to certain risks and uncertainties that could cause actual results to differ materially from those projected, anticipated or implied in or by such statements. These risks and uncertainties include, but are not limited to:

- competitive pressures in the markets in which Cardinal Health operates, including pricing pressures;
- increasing consolidation in the healthcare industry, which could give the resulting enterprises greater bargaining power and may increase pressure on prices for Cardinal Health s products and services;
- uncertainties due to government healthcare reform, including the impact of the recently enacted health care reform legislation;
- legislative changes to the prescription drug reimbursement formula and related reporting requirements for generic pharmaceuticals under Medicaid;
- the loss of, or material reduction in purchases by, or default by one or more key customers;
- the loss of, or default by, one or more key suppliers for which alternative suppliers may not be readily available;
- unfavorable changes to the terms of key customer or supplier relationships, or changes in customer mix;
- changes in manufacturers pricing, selling, inventory, distribution or supply policies or practices, including policies concerning price appreciation;
- changes in hospital buying groups or hospital buying practices;
- changes in the frequency or magnitude of branded pharmaceutical price appreciation or generic pharmaceutical price deflation, restrictions in the amount of inventory available to us, or changes in the timing of generic launches or the introduction of branded pharmaceuticals;

uncertainties relating to market conditions for pharmaceuticals;

uncertainties relating to demand for our products and services;

changes in the distribution or outsourcing pattern for pharmaceutical and medical/surgical products and services, including an increase in direct distribution;

the costs, difficulties and uncertainties related to the integration of acquired businesses, including liabilities related to the operations or activities of such businesses prior to their acquisition;

Table of Contents

the ability to achieve the expected benefits from the acquisition of Healthcare Solutions Holding and to grow Cardinal Health s specialty distribution business;

uncertainties related to Cardinal Health s divestiture strategy, including difficulties in finding buyers or alternative exit strategies at acceptable prices and terms and in a timely manner;

Cardinal Health s ability to introduce and market new products and Cardinal Health s ability to keep pace with advances in technology;

changes in laws and regulations or in the interpretation or application of laws or regulations, as well as possible failures to comply with applicable laws or regulations as a result of possible misinterpretations or misapplications;

the continued financial viability and success of Cardinal Health s customers, suppliers and franchisees;

actions of regulatory bodies and other governmental authorities, including the U.S. Drug Enforcement Administration, the U.S. Food and Drug Administration, the U.S. Nuclear Regulatory Commission, the U.S. Department of Health and Human Services, various state boards of pharmacy, state health departments, and state insurance departments or comparable agencies that could delay, limit or suspend product development, manufacturing, distribution or sales or result in warning letters, recalls, seizures, injunctions and monetary sanctions;

costs or claims resulting from potential errors or defects in Cardinal Health s manufacturing, compounding, repackaging, information systems or pharmacy management services that may injure persons or damage property or operations, including costs from remediation efforts or recalls;

the results, costs, effects or timing of any commercial disputes, patent infringement claims, or other legal proceedings;

the costs, effects, timing or success of restructuring programs or plans;

increased costs for commodities used in the Medical segment including various components, compounds, raw materials or energy such as oil, oil-related and other commodities;

shortages in commodities, components, compounds, raw materials or energy used by Cardinal Health businesses, including supply disruptions of radioisotopes;

the risks of counterfeit products in the supply chain;

risks associated with global operations, including the effect of local economic environments, inflation, recession, currency volatility and global competition, in addition to risks associated with compliance with U.S and international laws relating to global operations;

difficulties or delays in the development, production, manufacturing, sourcing and marketing of new or existing products and services, including difficulties or delays associated with obtaining requisite regulatory consents or approvals associated with those activities;

disruption or damage to or failure of Cardinal Health s information or controls systems;

uncertainties relating to general political, business, industry, regulatory and market conditions;

risks associated with the spin-off of CareFusion Corporation (CareFusion), including risks of non-performance under spin-off agreements, and risks relating to adverse tax consequences to us and/or our shareholders;

risks associated with Cardinal Health s minority investment in CareFusion such as risks relating to CareFusion s business and risks relating to the disposition of the shares of CareFusion common stock currently held by Cardinal Health; and

other factors described in Item 1A: Risk Factors of the 2010 Form 10-K.

Table of Contents

The words expect, anticipate, intend, plan, believe, will, should, could, would, project, continue, and similar expressions g forward-looking statements, which speak only as of the date the statement was made, and also include statements reflecting future results or guidance, statements of outlook and tax accruals. Cardinal Health undertakes no obligation to update or revise any forward-looking statements, except to the extent required by applicable law.

THE COMPANY

Cardinal Health, Inc. is an Ohio corporation formed in 1979. 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.

On August 31, 2009, we completed the spin-off of CareFusion Corporation, our wholly-owned subsidiary, formed for the purpose of holding the majority of our clinical and medical products businesses.

For additional information concerning our business and our financial results and condition, please refer to the documents incorporated by reference in this prospectus.

The mailing address of our executive offices is 7000 Cardinal Place, Dublin, Ohio 43017, and our telephone number is (614) 757-5000.

USE OF PROCEEDS

Except as we may describe otherwise in a prospectus supplement, we will use the net proceeds from the sale of any offered securities for general corporate purposes, which may include working capital, capital expenditures, repayment or refinancing of indebtedness, acquisitions, repurchases of Cardinal Health s common shares, dividends or investments.

RATIO OF EARNINGS TO FIXED CHARGES

Our ratio of earnings to fixed charges for each of the fiscal years ended June 30, 2006 through 2010 was as follows:

	Fiscal Year Ended June 30				
	2010	**2009**	**2008**	**2007**	**2006**
Ratio of Earnings to Fixed Charges	9.4	9.4	8.4	6.7	11.4

The ratio of earnings to fixed charges is computed by dividing fixed charges of Cardinal Health and its consolidated subsidiaries into earnings before income taxes and discontinued operations plus fixed charges and capitalized interest. Fixed charges include interest expense, amortization of debt offering costs and the portion of rent expense which is deemed to be representative of the interest factor. Interest expense recorded on tax exposures has been recorded in income tax expense and has therefore been excluded from the calculation.

DESCRIPTION OF CAPITAL STOCK

The following is a summary of Cardinal Health s capital stock. The following summary of the terms of Cardinal Health s capital stock is not meant to be complete and is qualified by reference to Cardinal Health s Amended and Restated Articles of Incorporation, as amended (the Articles), and Cardinal Health s Restated Code of Regulations, as amended (the Regulations), which are the operative documents that establish these rights. Copies of the Articles and Regulations are incorporated by reference in the registration statement of which this prospectus is a part. See Where You Can Find More Information and Incorporation of Certain Documents by Reference on page 1 of this prospectus for information on how to obtain a copy of the Articles and Regulations.

The Articles authorize Cardinal Health to issue up to 750,000,000 common shares. On June 30, 2010, approximately 363.6 million common shares were issued and outstanding and approximately 7.2 million were held in treasury. The Articles also authorize Cardinal Health to issue up to 5,000,000 Class B common shares, none of which are outstanding or reserved for issuance, and 500,000 non-voting preferred shares, none of which are outstanding or reserved for issuance.

From time to time, Cardinal Health may issue additional authorized but unissued common shares for share dividends, stock splits, employee benefit programs, financing and acquisition transactions, and other general purposes. Those common shares will be available for issuance without action by Cardinal Health s shareholders, unless action by the Cardinal Health shareholders is required by applicable law or the rules of the New York Stock Exchange or any other stock exchange on which common shares may be listed in the future.

Common Shares

All of the outstanding common shares are fully paid and nonassessable. Holders of common shares do not have preemptive rights and have no right to convert their common shares into any other security. All common shares are entitled to participate equally and ratably in dividends, when and as declared by Cardinal Health s board of directors. In the event of the liquidation of Cardinal Health, holders of common shares are entitled to share ratably in assets remaining after payment of all liabilities, subject to prior distribution rights of any preferred shares then outstanding. Holders of common shares are entitled to one vote per share in the election of directors and upon all matters on which shareholders are entitled to vote. Holders of Class B common shares (if any are issued in the future) are entitled to one-fifth of one vote per share in the election of directors and upon all matters on which shareholders are entitled to vote. Under certain circumstances, holders of Class B common shares have a right to a separate class vote. Holders of common shares do not have any rights to cumulate votes in the election of directors.

Preferred Shares

No shares of non-voting preferred shares are currently outstanding. Under the Articles, Cardinal Health s board of directors, without further action by our shareholders, is authorized to issue up to 500,000 non-voting preferred shares, without par value, in one or more series and to fix the designation, preferences, limitations and relative or other rights thereof, including the designation and authorized number of shares constituting each series, dividend rights, redemption rights, conversion rights and liquidation price. The issuance of preferred shares could adversely affect the holders of common shares. The issuance of preferred shares could also have the effect, under certain circumstances, of delaying, deferring or preventing a change of control of Cardinal Health.

Board of Directors

Cardinal Health s board of directors currently consists of twelve members. The Regulations provide that the number of directors may be increased or decreased by action of the board of directors upon the majority vote of the board, but in no case may the number of directors be fewer than nine or more than sixteen without an

Table of Contents

amendment approved by the affirmative vote of the holders of shares representing not less than a majority of the voting power with respect to that proposed amendment. The board of directors may fill any vacancy with a person who will serve until the shareholders hold an election to fill the vacancy. Each director serves until the next annual meeting of shareholders and until his or her successor is duly elected and qualified. At the 2008 annual meeting of shareholders, Cardinal Health s shareholders approved amendments to the Articles and the Regulations to implement a majority voting standard for the election of directors in uncontested elections of directors (as defined in our Articles). Director elections other than uncontested elections are governed by a plurality voting standard. Also at the 2008 annual meeting, Cardinal Health s shareholders approved amendments to our Articles and Regulations to eliminate cumulative voting in elections of directors.

Anti-takeover Protections

The following summarizes certain provisions of the Ohio Revised Code (the Ohio Law) which may have the effect of prohibiting, raising the costs of, or otherwise impeding, a change of control of Cardinal Health, whether by merger, consolidation or sale of assets or stock (by tender offer or otherwise), or by other methods. Chapter 1704 of the Ohio Law provides generally that any person who acquires 10% or more of a corporation s voting stock (thereby becoming an interested shareholder) may not engage in a wide range of business combinations with the corporation for a period of three years following the date the person became an interested shareholder, unless the directors of the corporation have approved the transactions or the interested shareholder s acquisition of shares of the corporation, in either case, prior to the date the interested shareholder became an interested shareholder of the corporation. These restrictions on interested shareholders do not apply under certain circumstances, including, but not limited to, the following: (i) if the corporation s original articles of incorporation contain a provision expressly electing not to be governed by Chapter 1704 of the Ohio Law; (ii) if the corporation, by action of its shareholders, adopts an amendment to its articles of incorporation expressly electing not to be governed by such section; or (iii) if, on the date the interested shareholder became a shareholder of the corporation, the corporation did not have a class of voting shares registered or traded on a national securities exchange. The Articles do not contain a provision electing not to be governed by Chapter 1704.

Under Section 1701.831 of the Ohio Law, unless the articles of incorporation or regulations of a corporation otherwise provide, a control share acquisition of an issuing public corporation can be made only with the prior approval of the corporation s shareholders. A control share acquisition is defined as any acquisition of shares of a corporation that, when added to all other shares of that corporation owned by the acquiring person, would enable that person to exercise levels of voting power in any of the following ranges: at least 20% but less than 331/3%, at least 331/3% but less than 50%, or 50% or more. Although Cardinal Health is an issuing public corporation, the Regulations expressly provide that the provisions of Section 1701.831 of the Ohio Law do not apply to control share acquisitions of shares of Cardinal Health.

Transfer Agent and Registrar

The transfer agent and registrar for the common shares is Computershare Trust Co., Inc. (formerly EquiServe Trust Company), Providence, Rhode Island.

Table of Contents

DESCRIPTION OF DEBT SECURITIES

The following description summarizes the general terms and provisions of the debt securities that Cardinal Health may offer pursuant to this prospectus that are common to all series. The specific terms relating to any series of the debt securities that Cardinal Health may offer will be described in a prospectus supplement, which you should read. Because the terms of specific series of debt securities offered may differ from the general information that Cardinal Health has provided below, you should rely on information in the applicable prospectus supplement that contradicts any information below.

As required by federal law for all bonds and notes of companies that are publicly offered, the debt securities will be governed by a document called an indenture. An indenture is a contract between a financial institution, acting on your behalf as trustee of the debt securities offered, and Cardinal Health. The debt securities will be issued pursuant to an indenture, dated as of June 2, 2008, between Cardinal Health and The Bank of New York Mellon Trust Company, N.A. (formerly The Bank of New York Trust Company, N.A.), as trustee, unless otherwise indicated in the applicable prospectus supplement. When Cardinal Health refers to the indenture in this prospectus, Cardinal Health is referring to the indenture under which your debt securities are issued, as may be supplemented by any supplemental indenture applicable to your debt securities. The trustee has two main roles. First, subject to some limitations on the extent to which the trustee can act on your behalf, the trustee can enforce your rights against Cardinal Health if Cardinal Health defaults on its obligations under the indenture. Second, the trustee performs certain administrative duties for Cardinal Health with respect to the debt securities.

Unless otherwise provided in any applicable prospectus supplement, the following section is a summary of the principal terms and provisions that will be included in the indenture. This summary is not complete and is subject to, and qualified in its entirety by reference to, the terms and provisions of the indenture, which will be in the form filed as an exhibit to or incorporated by reference in the registration statement of which this prospectus is a part. If this summary refers to particular provisions in the indenture, such provisions, including the definition of terms, are incorporated by reference in this prospectus as part of this summary. Cardinal Health urges you to read the applicable indenture and any supplement thereto because these documents, and not this section, define your rights as a holder of debt securities.

In this section, Cardinal Health refers to Cardinal Health, Inc., excluding its subsidiaries, unless otherwise expressly stated or the context otherwise requires.

General

The indenture does not limit the amount of debt securities or any other debt Cardinal Health may incur. The indenture provides that the debt securities may be issued from time to time in one or more series. The debt securities may have the same or various maturities. The debt securities may be issued at par, at a premium or with original issue discount. Cardinal Health may also reopen a previous issue of securities and issue additional securities of the series. The debt securities will be unsecured obligations of Cardinal Health. Senior debt securities will rank equally in right of payment with all of Cardinal Health s existing and future unsecured and unsubordinated indebtedness. Subordinated debt securities will be unsecured and subordinated in right of payment to the prior payment in full of all of Cardinal Health s unsecured and senior indebtedness. Unless otherwise specified in a prospectus supplement, a default in Cardinal Health s obligations with respect to any other indebtedness will not constitute a default or an event of default with respect to the debt securities. The indenture does not contain any covenants or provisions that afford holders of debt securities protection in the event of a highly leveraged transaction.

Cardinal Health conducts nearly all of its operations through subsidiaries and it expects that it will continue to do so. As a result, the right of Cardinal Health to participate as a shareholder in any distribution of assets of any subsidiary upon its liquidation or reorganization or otherwise and the ability of holders of the debt securities to benefit as creditors of Cardinal Health from any distribution are subject to the prior claims of creditors of the subsidiary.

Table of Contents

The prospectus supplement relating to any series of debt securities will, among other things, describe the following terms, where applicable:

The title of the debt securities and whether the debt securities will be senior securities or subordinated securities;

The total principal amount of the debt securities and any limit on the total principal amount of the debt securities of the series;

If not the principal amount of the debt securities, the portion of the principal amount payable upon acceleration of the maturity of the debt securities or how this portion will be determined;

The date or dates, or how the date or dates will be determined when the principal of the debt securities will be payable;

The interest rate or rates, which may be fixed or variable, that the debt securities will bear, if any, or how the rate or rates will be determined, the date or dates from which any interest will accrue or how the date or dates will be determined, the interest payment dates, any record dates for these payments and the basis upon which interest will be calculated if other than that of a 360-day year of twelve 30-day months;

Any optional redemption provisions;

Any sinking fund or other provisions that would obligate us to repurchase or otherwise redeem the debt securities;

The form in which we will issue the debt securities; whether we will have the option of issuing debt securities in certificated form; whether we will have the option of issuing certificated debt securities in bearer form if we issue the securities outside the United States to non-U.S. persons; any restrictions on the offer, sale or delivery of bearer securities and the terms, if any, upon which bearer securities of the series may be exchanged for registered securities of the series and vice versa (if permitted by applicable laws and regulations);

If other than U.S. dollars, the currency or currencies in which the debt securities are denominated and/or payable;

Whether the amount of payments of principal, premium or interest, if any, on the debt securities will be determined with reference to an index, formula or other method (which could be based on one or more currencies, commodities, equity indices or other indices) and how these amounts will be determined;

The place or places, if any, other than or in addition to The City of New York, of payment, transfer, conversion and/or exchange of the debt securities;

If other than denominations of $1,000 or any integral multiple in the case of registered securities issued in certificated form and $5,000 in the case of bearer securities, the denominations in which the offered debt securities will be issued;

The applicability of the provisions of the indenture described under defeasance and any provisions in modification of, in addition to or in lieu of any of these provisions;

Whether the securities are subordinated and the terms of such subordination;

Any provisions granting special rights to the holders of the debt securities upon the occurrence of specified events;

Any changes or additions to the events of default or covenants contained in the indenture;

Whether the debt securities will be convertible into or exchangeable for any other securities and the applicable terms and conditions; and

Any other material terms of the debt securities.

Table of Contents

Unless otherwise specified in a prospectus supplement, principal and premium, if any, will be payable, and the debt securities will be transferable and exchangeable without service charge, at the office of the trustee under the indenture. Interest on any series of the debt securities will be payable on the interest payment dates to the persons in whose names the debt securities are registered at the close of business on the related record dates, and, unless other arrangements are made, will be paid by checks mailed to such persons.

The debt securities may be issued as discounted debt securities (bearing no interest or interest at a rate which at the time of issuance is below market rates) and sold at a discount which may be substantially below their stated principal amount (Original Issue Discount Securities). The applicable prospectus supplement may describe the federal income tax consequences and other special considerations applicable to any Original Issue Discount Securities.

Definitions

The definitions set forth below are a description of the terms that are defined in the indenture and used in this prospectus. The complete definitions are set forth in the indenture.

Attributable Debt means, in connection with a sale and lease-back transaction, the lesser of:

- the fair value of the assets subject to the transaction; or
- the aggregate of present values (discounted at a rate per annum equal to the weighted average Yield to Maturity of the debt securities of all series then outstanding and compounded semiannually) of Cardinal Health s or its Consolidated Subsidiaries obligations for rental payments during the remaining term of all leases.

Consolidated Subsidiary means any Subsidiary substantially all the property of which is located, and substantially all the operations of which are conducted, in the United States of America whose financial statements are consolidated with those of Cardinal Health in accordance with generally accepted accounting principles practiced in the United States of America.

Exempted Debt means the sum of the following as of the date of determination:

- our indebtedness incurred after the date of the indenture and secured by liens not permitted by the limitation on liens provisions of the indenture; and
- our Attributable Debt in respect of every sale and lease-back transaction entered into after the date of the indenture, other than leases permitted by the limitation on sale and lease-back provisions of the indenture.

Financing Subsidiary means any Subsidiary, including its Subsidiaries, engaged in one or more of the following activities:

- the business of making loans or advances, extending credit or providing financial accommodations (including leasing new or used products) to others;
- the business of purchasing notes, accounts receivable (whether or not payable in installments), conditional sale contracts or other obligations of others originating in sales at wholesale or retail; or
- any other business as may be reasonably incidental to those described herein, including the ownership and use of property in connection with it.

Funded Indebtedness means all Indebtedness having a maturity of more than 12 months from the date as of which the amount of Indebtedness is to be determined or having a maturity of less than 12 months but by its terms being renewable or extendable beyond 12 months from such date at the option of the borrower.

Table of Contents

Indebtedness means all items classified as indebtedness on our most recently available balance sheet in accordance with generally accepted accounting principles.

Net Worth means, as of any date of determination, the total shareholder s equity of Cardinal Health and its Subsidiaries calculated on a consolidated basis in accordance with generally accepted accounting principles.

Original Issue Discount Security means any debt security that provides for an amount less than the principal amount thereof to be due and payable upon a declaration of acceleration thereof following an event of default.

Rate Hedging Obligations means any and all obligations of anyone arising under:

- any and all agreements, devices or arrangements designed to protect at least one of the parties thereto from the fluctuations of interest rates, exchange rates or forward rates applicable to such party s assets, liabilities or exchange transactions; and

- any and all cancellations, buybacks, reversals, terminations or assignments of the same.

Restricted Subsidiary means a significant subsidiary as defined in Article 1, Rule 1-02 of Regulation S-X, promulgated under the Securities Act, and as amended from time to time.

Senior Funded Indebtedness means any of Cardinal Health s Funded Indebtedness that is not subordinated in right of payment to any of Cardinal Health s other Indebtedness.

Subsidiary means any corporation, partnership, limited liability company, business trust, trust or other legal entity of which at least a majority of the outstanding stock or other ownership interests having voting power (irrespective of whether or not at the time stock or other ownership interests of any other class or classes of such corporation, partnership, limited liability company, business trust, trust or other legal entity shall have or might have voting power by reason of the happening of any contingency) to elect a majority of the board of directors, managers or trustees of that corporation, partnership, limited liability company, business trust, trust or other legal entity is at the time owned by Cardinal Health or by Cardinal Health and one or more Subsidiaries or by one or more Subsidiaries.

Yield tew roman; FONT-SIZE: 10pt; FONT-WEIGHT: bold">

December 31, 2010
Securities Available for Sale:
(In Thousands)

	Total	Level 1	Level 2	
U.S. Government and agency obligations	$37,582	$2,000	$35,582	$-
Mortgage-backed securities - residential	28,994	-	28,994	-
SBA pools	3,853	-	3,853	-
Total Available for Sale Securities	$70,429	$2,000	$68,429	$-

				Level 3
U.S. Government and agency obligations	$39,336	$8,014	$31,322	$-
Mortgage-backed securities - residential	29,361	1,673	27,688	-
SBA pools	3,937	-	3,937	-
Total Available for Sale Securities	$72,634	$9,687	$62,947	$-

There were seven U.S Government and agency obligations for $5.5 million and one Mortgage-backed security for $1.7 million transferred out of level 1assets to level 2 assets during the three months ended March 31, 2011. All of the transfers were the result of an increase in the availability of observable market data used in the securities' pricing obtained through independent pricing services or dealer market participants. No assets or liabilities have been measured on a non-recurring basis at or for the three months ended March 31, 2011 or for the year ended December 31, 2010.

Financial Accounting Standards Board (FASB) ASC Topic 825-10-50, Disclosure about Fair Value of Financial Instruments, requires disclosure of fair value information about financial instruments, whether or not recognized in the consolidated balance sheets, for which it is practicable to estimate that value. In cases where quoted market prices are not available, fair values are based on estimates using present value or other valuation techniques. Those techniques are significantly affected by the assumptions used, including the discount rate and estimates of future cash flows. In that regard, the defined fair value estimates cannot be substantiated by comparison to independent markets and, in many cases, could not be realized in immediate settlement of the instrument. ASC Topic 825-10-50 excludes certain assets and liabilities from its disclosure requirements. Accordingly, the aggregate fair value amounts presented do not represent the underlying value of the Company.

Note 2--Fair Value Measurement and Disclosure (Continued)

The following methods and assumptions were used by the Company in estimating its fair value disclosures for financial instruments at March 31, 2011 and December 31, 2010:

Cash, Due from Banks, and Interest-Bearing Demand Deposits

The carrying amounts of these assets approximate their fair values.

Investment Securities

The fair value of securities available for sale (carried at fair value) and held to maturity (carried at amortized cost) are determined by obtaining quoted market prices on nationally recognized securities exchanges (Level 1), or matrix pricing (Level 2), which is a mathematical technique used widely in the banking industry to value debt securities without relying exclusively on quoted market prices for the specific securities but rather by relying on the securities' relationship to other benchmark quoted prices. For certain securities which are not traded in active markets or are subject to transfer restrictions, valuations are adjusted to reflect illiquidity and/or non-transferability, and such adjustments are based on observable market based assumptions (Level 3). In the absence of such evidence, management's best estimate is used. Management's best estimate consists of both internal and external support on certain Level 3 investments. Internal cash flow models using a present value formula that includes assumptions market participants would use along with indicative exit pricing obtained from broker/dealers (where available) were used to support fair values of certain Level 3 investments. The Company had no Level 3 investment securities at March 31, 2011 or at December 31, 2010.

Investment in FHLB Stock

The carrying value of Federal Home Loan Bank ("FHLB") stock approximates its fair value based on the restricted nature of the FHLB stock.

Loans

The fair values of loans held to maturity are estimated using discounted cash flow analyses, using market rates at the balance sheet date that reflect the credit and interest rate-risk inherent in the loans. Projected future cash flows are calculated based upon contractual maturity or call dates, projected repayments and prepayments of principal. Generally, for variable rate loans that reprice frequently and with no significant change in credit risk, fair values are based on carrying values.

Mortgage loans held for sale in the secondary market are carried at the lower of cost or fair value. Separate determinations of fair value for residential and commercial loans are made on an aggregate basis. Fair value is determined based solely on the effect of changes in secondary market interest rates and yield requirements from the commitment date to the date of the financial statements. Realized gains and losses on sales are computed using the specific identification method.

Accrued Interest Receivable and Payable

The carrying amount of accrued interest receivable and payable approximates fair value.

Deposits

The fair values disclosed for demand deposits (e.g., NOW accounts, non-interest checking, regular savings and certain types of money market accounts) are, by definition, equal to the amount payable on demand at the reporting date (i.e., their carrying amounts). The carrying amounts for variable-rate certificates of deposit approximate their fair values at the reporting date. Fair values for fixed rate certificates of deposit are estimated using a discounted cash flow calculation that applies market interest rates currently being offered on certificates to a schedule of aggregated expected monthly maturities on time deposits.

Note 2--Fair Value Measurement and Disclosure (Continued)

Borrowings

The fair values of FHLB borrowings are estimated using discounted cash flow analyses, based on the quoted rates for new FHLB advances with similar credit risk characteristics, terms and remaining maturity.

Off-Balance Sheet Instruments

The fair values for off-balance sheet financial instruments (lending commitments and lines of credit) are estimated using the fees currently charged to enter into similar agreements, taking into account market interest rates, the remaining terms and present credit worthiness of the counterparties.

The carrying amounts and estimated fair values of the Company's financial instruments at March 31, 2011 and December 31, 2010 are as follows:

	March 31, 2011		December 31, 2010	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
	(In Thousands)			
Financial assets:				
Cash and due from banks	$3,715	$3,715	$4,533	$4,533
Interest bearing demand deposits	4,405	4,405	3,301	3,301
Securities available for sale	70,429	70,429	72,634	72,634
Securities held to maturity	7,040	7,169	7,183	7,305
FHLB stock	1,487	1,487	1,513	1,513
Loans, net	116,323	117,349	114,819	116,692
Accrued interest receivable	829	829	888	888
Financial liabilities:				
Deposits	163,192	162,130	162,406	161,165
Borrowings	26,218	24,803	26,732	25,107
Accrued interest payable	61	61	68	68
Off-balance sheet instruments:				
Commitments to extend credit	-	-	-	-

8

Note 3 - Securities

The amortized cost and estimated fair value of securities with gross unrealized gains and losses at March 31, 2011 and at December 31, 2010 are as follows:

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
		(In Thousands)		
March 31, 2011:				
Available for Sale:				
U.S. Government and agency obligations	$38,166	$25	$(609)	$37,582
Mortgage-backed securities - residential	28,673	484	(163)	28,994
SBA pools	3,835	18	-	3,853
	$70,674	$527	$(772)	$70,429
Held to Maturity:				
Mortgage-backed securities-residential	$4,777	$166	$-	$4,943
State and Municipal securities	2,263	1	(38)	2,226
	7,040	167	(38)	7,169
December 31, 2010:				
Available for Sale:				
U.S. Government and agency obligations	$39,764	32	(460)	39,336
Mortgage-backed securities - residential	28,882	539	(60)	29,361
SBA pools	3,886	51	-	3,937
	$72,532	$622	$(520)	$72,634
Held to Maturity:				
Mortgage-backed securities – residential	$4,918	$182	$-	$5,100
State and Municipal securities	2,265	-	(60)	2,205
	7,183	182	(60)	7,305

Mortgage-backed securities consist of securities that are issued by Fannie Mae (“FNMA”), Freddie Mac (“FHLMC”), Ginnie Mae (“GNMA”), and Federal Farm Credit Bank (“FFCB”) and are collateralized by residential mortgages.

The amortized cost and estimated fair value by contractual maturity of debt securities at March 31, 2011 are shown below. Actual maturities may differ from contractual maturities because borrowers may have the right to call or prepay obligations.

Note 3 – Securities (continued)

	Available for Sale		Held to Maturity	
	Amortized Cost	Estimated Fair Value	Amortized Cost	Estimated Fair Value
	(In Thousands)		(In Thousands)	
Due in one year or less	$-	$-	$-	$-
Due after one year through five years	2,500	2,506	946	931
Due after five years through ten years	19,544	19,461	1,317	1,295
Due after ten years	16,122	15,615	-	-
Mortgage-backed securities – residential	28,673	28,994	4,777	4,943
SBA pools	3,835	3,853	-	-
	$70,674	$70,429	$7,040	$7,169

There were no sales of securities for the three months ended March 31, 2011. For the three months ended March 31, 2010 there was a $10,573 gross realized loss on sale of mortgage-backed securities held to maturity resulting from proceeds of $686,000, and a $2,120 gross realized gain on sale of FHLMC common stock available for sale resulting from proceeds of $11,000. In accordance with accounting guidance, the Company was able to sell securities classified as held to maturity after the Company had already collected a substantial portion (at least 85%) of the principal outstanding at acquisition due either to prepayments or to scheduled principal and interest payments on the debt securities.

No securities were pledged to secure public deposits or for any other purpose required or permitted by law at March 31, 2011 or at December 31, 2010.

Note 3 – Securities (continued)

The following table shows gross unrealized losses and fair value, aggregated by investment category and length of time that individual securities have been in a continuous unrealized loss position, at March 31, 2011 and December 31, 2010:

	Less than 12 Months		12 Months or More		Total	
	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses
	(In Thousands)					
March 31, 2011:						
Available for Sale						
U.S. Government and agency obligations	$ 30,056	$ 609	$ -	$ -	$ 30,056	$ 609
Mortgaged-backed securities - residential	15,366	163	-	-	15,366	163
Held to Maturity						
State and Municipal securities	1,716	38	-	-	1,716	38
	$ 47,138	$ 810	$ -	$ -	$ 47,138	$ 810
December 31, 2010:						
Available for Sale						
U.S. Government and agency obligations	$24,757	$460	$-	$-	$24,757	$460
Mortgaged-backed securities - residential	8,387	60	-	-	8,387	60
Held to Maturity						
State and Municipal securities	1,875	60	-	-	1,875	60
	$35,019	$580	$-	$-	$35,019	$580

Management evaluates securities for other-than-temporary impairment at least quarterly, and more frequently when economic or market concerns warrant such evaluation. Consideration is given to (1) the length of time and the extent to which the fair value has been less than the amortized cost basis, (2) the financial condition of the issuer (and guarantor, if any) and adverse conditions specifically related to the security, industry or geographic area, (3) failure of the issuer of the security to make scheduled interest or principal payments, (4) any changes to the rating of a security by a rating agency, (5) the presence of credit enhancements, if any, including the guarantee of the federal government or any of its agencies, and (6) whether the Company intends to sell or might be required to sell the debt securities. In the three month period ended March 31, 2011 and in 2010, the Company did not record an other-than-temporary impairment charge.

At March 31, 2011, 28 U.S Government and agency securities, 10 mortgage-backed securities, and 6 state and municipal securities have been in a continuous unrealized loss position for less than twelve months. No U.S Government agency securities, mortgage-backed securities, or state and municipal securities have been in a continuous unrealized loss position for twelve months or more. The U.S Government and agency securities and mortgage-backed security were issued by U.S. government sponsored agencies and the state and municipal securities are general obligation (G.O.) bonds backed by the full faith and credit of local municipalities. There has never been a default of a New York G.O. in the history of the state. Historical performance does not guarantee future performance, but it does indicate that the risk of loss on default of a G.O. municipal bond for the Company is relatively low. All are paying in accordance with their terms with no deferrals of interest or defaults. Because the decline in fair value is attributable to changes in interest rates, not credit quality, and because management does not intend to sell and will not be required to sell these securities prior to recovery or maturity, no declines are deemed to be other-than-temporary.

Note 4 – Loans and The Allowance for Loan Losses

Net loans at March 31, 2011 and December 31, 2010 consist of the following:

	2011	2010
	(In Thousands)	
Real estate loans:		
Secured by one to four family residences	$ 104,163	$ 102,637
Secured by five or more family residences	1,153	1,165
Construction	100	652
Commercial	1,967	1,395
Home equity lines of credit	8,880	8,900
Other	76	73
Total Loans	116,339	114,822
Net deferred loan origination costs	376	381
Allowance for loan losses	(392)	(384)
Net Loans	$116,323	$114,819

An analysis of activity in the allowance for loan losses for the three months ended March 31, 2011 is as follows:

	2011
Balance at January 1	$ 384
Provision for loan losses	8
Loans charged-off	-
Recoveries	-
Balance at March 31	$ 392

The loan portfolio is segmented into commercial and consumer loans. Commercial loans consist of commercial real estate. Consumer loans consist of the following classes: residential real estate, construction, home equity lines of credit, and other consumer.

The Bank's primary lending activity is the origination of one-to-four-family residential real estate mortgage loans. At March 31, 2011 $104.2 million, or 89.5%, of the total loan portfolio consisted of one-to-four-family residential real estate mortgage loans compared to $102.6 million, or 89.4%, of the total loan portfolio at December 31, 2010. The Bank offers fixed-rate and adjustable-rate residential real estate mortgage loans with maturities of up to 30 years and maximum loan amounts generally of up to $750,000.

The Bank currently offers fixed-rate conventional mortgage loans with terms of up to 30 years that are fully amortizing with monthly loan payments, and adjustable-rate mortgage loans that provide an initial fixed interest rate for one, three, five, seven or ten years and that amortize over a period of up to 30 years. The Bank originates fixed-rate mortgage loans with terms of less than 15 years, but at rates applicable to 15-year loans. The Bank originates fixed-rate bi-weekly mortgage loans with terms of up to 30 years that are fully amortizing with bi-weekly loan payments, and “interest only” loans where the borrower pays interest for an initial period (ten years) after which the loan converts to a fully amortizing loan.

Note 4 – Loans and The Allowance for Loan Losses (continued)

Management actively monitors the interest rate risk position to determine the desired level of investment in fixed-rate mortgages. Depending on market interest rates and the Bank's capital and liquidity position, all newly originated longer term fixed-rate residential mortgage loans may be retained, or, all or a portion of such loans may be sold in the secondary mortgage market to government sponsored entities such as Freddie Mac or other purchasers.

The Bank originates residential, first mortgage loans with the assistance of computer-based underwriting engines licensed from Fannie Mae and/or Freddie Mac. Appraisals of real estate collateral are contracted directly with independent appraisers and not through appraisal management companies. The Bank's appraisal management policy and procedure is in accordance with all rules and best practice guidance from the Bank's primary regulator. Credit scoring, using FICO is employed in the ultimate, judgmental credit decision by the Bank's underwriting staff. The Bank does not use third party contract underwriting services. Residential mortgage loans include fixed and variable interest rate loans secured by one to four family homes generally located in Monroe, Ontario, and Wayne counties of New York State. The Bank's ability to be repaid on such loans is closely linked to the economic and real estate market conditions in this region. Underwriting policies generally adhere to Fannie Mae and Freddie Mac guidelines for loan requests of conforming and non-conforming amounts. In deciding whether to originate each residential mortgage, the Bank considers the qualifications of the borrower as well as the value of the underlying property.

Adjustable-rate mortgage loans generally present different credit risks than fixed-rate mortgage loans primarily because the underlying debt service payments of the borrowers increase as interest rates increase, thereby increasing the potential for default. Interest-only loans present different credit risks than fully amortizing loans, as the principal balance of the loan does not decrease during the interest-only period. As a result, the Bank's exposure to loss of principal in the event of default does not decrease during this period.

The Bank offers home equity lines of credit, which are primarily secured by a second mortgage on one-to-four-family residences. At March 31, 2011, home equity lines of credit totaled $8.9 million, or 7.6% of total loans receivable compared to $8.9 million, or 7.7% of total loans receivable at December 31, 2010.

The underwriting standards for home equity lines of credit include a determination of the applicant's credit history, an assessment of the applicant's ability to meet existing obligations and payments on the proposed loan and the value of the collateral securing the loan. The combined loan-to-value ratio (first and second mortgage liens) for home equity lines of credit is generally limited to 90%. The Company originates home equity lines of credit without application fees or borrower-paid closing costs. Home equity lines of credit are offered with adjustable-rates of interest indexed to the prime rate, as reported in The Wall Street Journal.

Multi-family residential loans generally are secured by rental properties. Multi-family real estate loans are offered with fixed and adjustable interest rates. Loans secured by multi-family real estate totaled $1.2 million, or 1.0% of the total loan portfolio, at March 31, 2011 compared to $1.2 million, or 1.0% of the total loan portfolio, at December 31, 2010. Multi-family real estate loans are originated for terms of up to 20 years. Adjustable-rate multi-family real estate loans are tied to the average yield on U.S. Treasury securities, subject to periodic and lifetime limitations on interest rate changes.

Loans secured by multi-family real estate generally involve a greater degree of credit risk than one-to four-family residential mortgage loans and carry larger loan balances. This increased credit risk is a result of several factors, including the concentration of principal in a limited number of loans and borrowers, the effects of general economic conditions on income producing properties, and the increased difficulty of evaluating and monitoring these types of loans. Furthermore, the repayment of loans secured by multi-family real estate typically depends upon the successful operation of the real estate property securing the loans. If the cash flow from the project is reduced, the borrower's ability to repay the loan may be impaired.

Note 4 – Loans and The Allowance for Loan Losses (continued)

The Bank originates construction loans for the purchase of developed lots and for the construction of single-family residences. At March 31, 2011, construction loans totaled $100,000, or 0.1% of total loans receivable compared to $652,000, or 0.6% at December 31, 2010. At March 31, 2011, the additional unadvanced portion of these construction loans totaled $200,000 compared to $357,000 of additional unadvanced portion of construction loans at December 31, 2010. Construction loans are offered to individuals for the construction of their personal residences by a qualified builder (construction/permanent loans).

Before making a commitment to fund a construction loan, we require an appraisal of the property by an independent licensed appraiser. We generally also review and inspect each property before disbursement of funds during the term of the construction loan.

Construction financing generally involves greater credit risk than long-term financing on improved, owner-occupied real estate. Risk of loss on a construction loan depends largely upon the accuracy of the initial estimate of the value of the property at completion of construction compared to the estimated cost (including interest) of construction and other assumptions. If the estimate of construction cost proves to be inaccurate, we may be required to advance additional funds beyond the amount originally committed in order to protect the value of the property. Moreover, if the estimated value of the completed project proves to be inaccurate, the borrower may hold a property with a value that is insufficient to assure full repayment of the loan.

Commercial real estate loans are secured by office buildings, mixed use properties, places of worship, and other commercial properties. At March 31, 2011, $2.0 million, or 1.7%, of our total loan portfolio consisted of commercial real estate loans compared to $1.4 million, or 1.2%, of our total loan portfolio at December 31, 2010.

The Company generally originates adjustable-rate commercial real estate loans with maximum terms of up to 15 years. The maximum loan-to-value ratio of commercial real estate loans is 70%.

Loans secured by commercial real estate generally are larger than one-to-four-family residential loans and involve greater credit risk. Commercial real estate loans often involve large loan balances to single borrowers or groups of related borrowers. Repayment of these loans depends to a large degree on the results of operations and management of the properties securing the loans or the businesses conducted on such property, and may be affected to a greater extent by adverse conditions in the real estate market or the economy in general. Accordingly, the nature of these loans makes them more difficult for management to monitor and evaluate.

The Company offers a variety of other loans secured by property other than real estate. At March 31, 2011, these other loans totaled $76,000, or 0.1% of the total loan portfolio compared to other loans totaling $73,000, or 0.1% of the total loan portfolio at December 31, 2010. These loans include automobile, passbook, overdraft protection and unsecured loans. Due to the relative immateriality of other loans, the Company's risk associated with these loans is not considered significant.

Note 4 – Loans and The Allowance for Loan Losses (continued)

The following table sets forth the allowance for loan losses allocated by loan class and the activity in our allowance for loan losses for the three months ending March 31, 2011. The allowance for loan losses allocated to each class is not necessarily indicative of future losses in any particular class and does not restrict the use of the allowance to absorb losses in other classes.

	Secured by 1-4 family residential	Secured by more than 4 family residential	Construction	Commercial	Home Equity	Other/ Unallocated	Total
Allowance for Loan Losses:							
Beginning Balance December 31, 2010	242	9	3	14	55	61	384
Charge Offs	-	-	-	-	-	-	-
Recoveries	-	-	-	-	-	-	-
Provisions	63	-	(2)	6	(11)	(48)	8
Ending Balance March 31, 2011 (1)	305	9	1	20	44	13	392

(1) All Loans are collectively evaluated for impairment.

The Bank's policies, consistent with regulatory guidelines, provide for the classification of loans that are considered to be of lesser quality as substandard, doubtful, or loss assets. An asset is considered substandard if it is inadequately protected by the current net worth and paying capacity of the obligor or of the collateral pledged, if any. Substandard assets include those assets characterized by the distinct possibility that we will sustain some loss if the deficiencies are not corrected. Assets classified as doubtful have all of the weaknesses inherent in those classified as substandard with the added characteristic that the weaknesses present make collection or liquidation in full, on the basis of currently existing facts, conditions and values, highly questionable and improbable. Assets (or portions of assets) classified as loss are those considered uncollectible and of such little value that their continuance as assets is not warranted. Assets that do not expose us to risk sufficient to warrant classification in one of the aforementioned categories, but which possess potential weaknesses that deserve our close attention, are required to be designated as special mention.

When the Bank classifies assets as either, pass, substandard or doubtful, we allocate a portion of the related general loss allowances to such assets as we deem prudent. The allowance for loan losses is the amount estimated by management as necessary to absorb credit losses incurred in the loan portfolio that are both probable and reasonably estimable at the balance sheet date. Our determination as to the classification of our assets and the amount of our loss allowances are subject to review by our principal federal regulator, the Office of Thrift Supervision, which can require that we establish additional loss allowances. We regularly review our asset portfolio to determine whether any assets require classification in accordance with applicable regulations.

At March 31, 2011 and December 31, 2010, there were no loans considered to be impaired. At March 31, 2011 and December 31, 2010 we had no troubled debt restructurings.

The following table presents the risk category of loans by class at March 31, 2011:

	Pass	Special Mention	Substandard	Doubtful	Total
One-to-four residential	$103,479	-	$684	-	$104,163
Home equity lines of credit	8,880	-	-	-	8,880
Multi-family residential	1,153	-	-	-	1,153
Construction	100	-	-	-	100
Commercial	1,967	-	-	-	1,967
Other loans	76	-	-	-	76
Total	$115,655	-	$684	-	$116,339

Note 4 – Loans and The Allowance for Loan Losses (continued)

The following table presents the risk category of loans by class at December 31, 2010:

	Pass	Special Mention	Substandard	Doubtful	Total
One-to-four residential	$102,580	-	$57	-	$102,637
Home equity lines of credit	8,784	-	116	-	8,900
Multi-family residential	1,165	-	-	-	1,165
Construction	652	-	-	-	652
Commercial	1,395	-	-	-	1,395
Other loans	73	-	-	-	73
Total	$114,649	-	$173	-	$114,822

The Bank had no nonaccrual loans or foreclosed assets at March 31, 2011 and at December 31, 2010. There were no loans that were past due 90 days or more and still accruing interest at March 31, 2011 and December 31, 2010. Interest on non-accrual loans that would have been earned if loans were accruing interest was immaterial for both 2011 and 2010.

Delinquent Loans. The following table sets forth an analysis of the age of the loan delinquencies by type and by amount past due as of March 31, 2011 and December 31, 2010.

	30-59 Days Past Due	60-89 Days Past Due	Greater than 90 Days	Total Past Due	Current	Total Loans Receivable
			(Dollars in thousands)			
At March 31, 2011						
Real estate loans:						
One-to-four-family residential	$359	$325	$-	$684	$103,479	$104,163
Home equity lines of credit	-	-	-	-	8,880	8,880
Multi-family residential	-	-	-	-	1,153	1,153
Construction	-	-	-	-	100	100
Commercial	-	-	-	-	1,967	1,967
Other loans	-	-	-	-	76	76
Total	$359	$325	$-	$684	$115,655	$116,339
At December 31, 2010						
Real estate loans:						
One-to-four-family residential	$57	$-	$-	$57	$102,580	$102,637
Home equity lines of credit	116	-	-	116	8,784	8,900
Multi-family residential	-	-	-	-	1,165	1,165
Construction	-	-	-	-	652	652
Commercial	-	-	-	-	1,395	1,395
Other loans	-	-	-	-	73	73
Total	$173	$-	$-	$173	$114,649	$114,822

Note 5 - Federal Home Loan Bank of New York Stock

Federal law requires a member institution of the Federal Home Loan Bank System to hold stock of its district FHLB according to a predetermined formula. This restricted stock is carried at cost.

Management evaluates the FHLB stock for impairment on a quarterly basis. Management's determination of whether this investment is impaired is based on its assessment of the ultimate recoverability of its cost rather than by recognizing temporary declines in value. The determination of whether a decline affects the ultimate recoverability of cost is influenced by criteria such as (1) the significance of the decline in net assets of the FHLB as compared to the capital stock amount for the FHLB and the length of time this situation has persisted, (2) commitments by the FHLB to make payments required by law or regulation and the level of such payments in relation to the operating performance of the FHLB, and (3) the impact of legislative and regulatory changes on institutions and, accordingly, on the customer base of the FHLB.

No impairment charges were recorded related to the FHLB stock for the three month period ended March 31, 2011 or in 2010.

Note 6 – Comprehensive Income (Loss)

Accounting principles generally require that recognized revenue, expenses, gains, and losses be included in net income. Although certain changes in assets and liabilities, such as unrealized gains and losses on available for sale securities, are reported as a separate component of the stockholders' equity section of the consolidated balance sheets, such items, along with net income, are components of comprehensive income.

The components of other comprehensive income (loss) and related tax effects for the three months ended March 31, 2011 and 2010 are as follows:

	For the Three Months Ended March 31, 2011	2010
Unrealized holding gain (loss) on available for sale securities	$ (347)	$ 404
Reclassification adjustment for realized gain included in net income (loss)	-	(2)
Net Unrealized Gain (Loss)	(347)	402
Tax effect	(118)	137
Net of tax amount	$ (229)	$ 265

Note 7 - Earnings Per Common Share

Basic earnings per common share are calculated by dividing net income by the weighted-average number of common shares outstanding during the period. The Company has not granted any restricted stock awards or stock options during the three months ended March 31, 2011 and 2010 and had no potentially dilutive common stock equivalents. Unallocated common shares held by the ESOP are not included in the weighted-average number of common shares outstanding for purposes of calculating earnings per common share until they are committed to be released. The weighted average common shares outstanding were 1,729,897 for the three months ended March 31, 2011 and 1,726,398 for the three months ended March 31, 2010.

Note 8 - Recent Accounting Pronouncements

In January 2010, the Financial Accounting Standards Board ("FASB") amended fair value measurement and disclosure guidance Accounting Standards Update ("ASU") No. 2010-6 to require disclosure of significant transfers in and out of Level 1 and Level 2 fair value measurements and the reasons for the transfers and to require separate presentation of information about purchases, sales, issuances, and settlements in the roll forward of activity in Level 3 fair value measurements. The amended guidance also clarifies existing requirements that (a) fair value measurement disclosures should be disaggregated for each class of asset and liability and (b) disclosures about valuation techniques and inputs for both recurring and nonrecurring Level 2 and Level 3 fair value measurements should be provided. The Corporation has implemented this guidance, which became effective for interim and annual periods beginning after December 15, 2009 except for the disclosures about purchases, sales, issuances, and settlements in the roll forward of activity in

Level 3 fair value measurements, which are effective for fiscal years beginning after, December 15, 2010 and for interim periods within those years. The adoption of this guidance did not impact the Company's consolidated financial position or results of operations.

Note 8 - Recent Accounting Pronouncements (continued)

In April 2011, the FASB issued ASU 2011-02 to clarify the accounting principles applied to loan modifications, as defined by FASB ASC Subtopic 310-40, Receivables – Troubled Debt Restructurings by Creditors. The Update clarifies guidance on a creditor's evaluation of whether or not a concession has been granted, with an emphasis on evaluating all aspects of the modification rather than a focus on specific criteria, such as the effective interest rate test, to determine a concession. This update goes on to provide guidance on specific types of modifications such as changes in the interest rate of the borrowing, and insignificant delays in payments, as well as guidance on the creditor's evaluation of whether or not a debtor is experiencing financial difficulties. For public entities, the amendments in this update are effective for the first interim or annual periods beginning on or after June 15, 2011, and should be applied retrospectively to the beginning of the annual period of adoption. The entity should also disclose information required by ASU 2010-20, Disclosures about the Credit Quality of Financing Receivables and the Allowance for Credit Losses, which had previously been deferred by ASU 2011-01, Deferral of the Effective Date of Disclosures about Troubled Debt Restructurings in Update No. 2010-20, for interim and annual periods beginning on or after June 15, 2011. Early adoption is permitted.

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

General

Throughout the Management's Discussion and Analysis ("MD&A"), the term "the Company" refers to the consolidated entity of FSB Community Bankshares, Inc., Fairport Savings Bank, and Oakleaf Services Corporation, a wholly owned subsidiary of Fairport Savings Bank. At March 31, 2011, FSB Community Bankshares, MHC the Company's mutual holding company parent, held 946,050 shares, or 53.0%, of the Company's common stock, engaged in no significant activities, and was not included in the MD&A.

Forward Looking Statements

This Quarterly Report contains forward-looking statements, within the meaning of the Private Securities Litigation Reform Act of 1995. Such statements are subject to certain risks and uncertainties, including, among other things, changes in general economic conditions, either nationally or in our market areas, that are worse than expected; competition among depository and other financial institutions; inflation and changes in the interest rate environment that reduce our margins or reduce the fair value of financial instruments; adverse changes in the securities markets; changes in laws or government regulations or policies affecting financial institutions, including changes in regulatory fees and capital requirements; our ability to enter new markets successfully and capitalize on growth opportunities; our ability to successfully integrate acquired entities, if any; changes in consumer spending, borrowing and savings habits; changes in accounting policies and practices, as may be adopted by the bank regulatory agencies, the Financial Accounting Standards Board, the Securities and Exchange Commission and the Public Company Accounting Oversight Board; changes in our organization, compensation and benefit plans; changes in our financial condition or results of operations that reduce capital available to pay dividends; and changes in the financial condition or future prospects of issuers of securities that we own, that could cause actual results to differ materially from historical earnings and those presently anticipated or projected. The Company wishes to caution readers not to place undue reliance on any such forward-looking statements, which speak only as of the date made. The Company wishes to advise readers that the factors listed above could affect the Company's financial performance and could cause the Company's actual results for future periods to differ materially from any opinions or statements expressed with respect to future periods in any current statements.

The Company does not undertake, and specifically declines any obligation, to publicly release the results of any revisions that may be made to any forward-looking statements to reflect events or circumstances after the date of such statements or to reflect the occurrence of anticipated or unanticipated events.

Critical Accounting Policies

The most significant accounting policies followed by the Company are presented in Note 1 to the consolidated financial statements included in the Company's Annual Report filed on Form 10-K with the Securities and Exchange Commission on March 31, 2011. These policies, along with the disclosures presented in the other consolidated financial statement notes and in this discussion, provide information on how significant assets and liabilities are valued in the consolidated financial statements and how those values are determined. Based on the valuation techniques used and the sensitivity of consolidated financial statement amounts to the methods, assumptions and estimates underlying those amounts, management has identified the determination of the allowance for loan losses, the evaluation of investment securities for other-than-temporary impairment and the valuation and recoverability of deferred tax assets to be the accounting areas that require the most subjective and complex judgments, and as such could be the most subject to revision as new information becomes available.

Allowance for Loan Losses. The allowance for loan losses is the amount estimated by management as necessary to absorb credit losses incurred in the loan portfolio that are both probable and reasonably estimable at the balance sheet date. The amount of the allowance is based on significant estimates, and the ultimate losses may vary from such estimates as more information becomes available or conditions change. The methodology for determining the allowance for loan losses is considered a critical accounting policy by management due to the high degree of judgment involved, the subjectivity of the assumptions used and the potential for changes in the economic environment that could result in changes to the amount of the recorded allowance for loan losses.

As a substantial percentage of our loan portfolio is collateralized by real estate, appraisals of the underlying value of property securing loans are critical in determining the amount of the allowance required for specific loans. Assumptions are instrumental in determining the value of properties. Overly optimistic assumptions or negative changes to assumptions could significantly affect the valuation of a property securing a loan and the related allowance. Management carefully reviews the assumptions supporting such appraisals to determine that the resulting values reasonably reflect amounts realizable on the related loans.

Management performs a quarterly evaluation of the adequacy of the allowance for loan losses. We consider a variety of factors in establishing this estimate including, but not limited to, current economic conditions, delinquency statistics, geographic concentrations, the adequacy of the underlying collateral, the financial strength of the borrower, results of internal loan reviews, and other relevant factors. This evaluation is inherently subjective as it requires material estimates by management that may be susceptible to significant change based on changes in economic and real estate market conditions. Various banking regulators, as an integral part of their examination process, also review the allowance for loan losses. Such regulators may require, based on their judgments about information available to them at the time of their examination, that certain loan balances be charged off or require that adjustments be made to the allowance for loan losses when their credit evaluations differ from those of management. Additionally, the allowance for loan losses is determined, in part, by the composition and size of the loan portfolio which represents the largest asset type on the consolidated statement of financial condition.

The evaluation has specific, general, and unallocated components. The specific component relates to loans that are classified as doubtful, substandard, or special mention. For such loans that are also classified as impaired, an allowance is generally established when the collateral value of the impaired loan is lower than the carrying value of that loan. The general component covers non-classified loans and is based on historical loss experience adjusted for qualitative factors. An unallocated component is maintained to cover uncertainties that could affect management's estimate of probable losses. The unallocated component of the allowance reflects the margin of imprecision inherent in the underlying assumptions used in the methodologies for estimating specific and general losses in the portfolio.

Actual loan losses may be significantly more than the allowance we have established which could have a material negative effect on our financial results.

Other-than-temporary impairment. When the fair value of a held to maturity or available for sale security is less than its amortized cost basis, an assessment is made at the balance sheet date as to whether other-than-temporary impairment (OTTI) is present.

The Company considers numerous factors when determining whether a potential OTTI exists and the period over which the debt security is expected to recover. The principal factors considered are (1) the length of time and the extent to which the fair value has been less than the amortized cost basis, (2) the financial condition of the issuer (and guarantor, if any) and adverse conditions specifically related to the security, industry or geographic area, (3) failure of the issuer of the security to make scheduled interest or principal payments, (4) any changes to the rating of a security by a rating agency, and (5) the presence of credit enhancements, if any, including the guarantee of the federal government or any of its agencies.

For debt securities, OTTI is considered to have occurred if (1) the Company intends to sell the security, (2) it is more likely than not the Company will be required to sell the security before recovery of its amortized cost basis, or (3) if the present value of expected cash flows is not sufficient to recover the entire amortized cost basis.

In determining whether OTTI has occurred for equity securities, the Company considers the applicable factors described above and the intent and ability of the Company to retain its investment in the issuer for a period of time sufficient to allow for any anticipated recovery in fair value.

For debt securities, credit-related OTTI is recognized in income while noncredit-related OTTI on securities not expected to be sold is recognized in other comprehensive income (loss). Credit-related OTTI is measured as the difference between the present value of an impaired security's expected cash flows and its amortized cost basis. Noncredit-related OTTI is measured as the difference between the fair value of the security and its amortized costs less any credit-related losses recognized. For securities classified as held to maturity, the amount of OTTI recognized in other comprehensive income (loss) is accreted to the credit-adjusted expected cash flow amounts of the securities over future periods. For equity securities, the entire amount of OTTI is recognized in income.

Deferred Tax Assets. Deferred tax assets and liabilities represent the future tax return consequences of temporary differences, which will either be taxable or deductible when the assets and liabilities are recovered or settled. Deferred tax assets are reduced by a valuation allowance when, in the opinion of management, it is more likely than not that some portion of the deferred tax assets will not be realized. Deferred tax assets and liabilities are reflected at income tax rates applicable to the period in which the deferred tax assets and liabilities are expected to be realized or settled. As changes in tax laws or rates are enacted, deferred tax assets and liabilities are adjusted through the provision for income taxes.

Comparison of Financial Condition at March 31, 2011 and December 31, 2010

Total Assets. Total assets decreased by $998,000, or 0.5%, to $211.4 million at March 31, 2011 from $212.4 million at December 31, 2010. The modest decrease in total assets primarily reflects decreases in securities available for sale, securities held to maturity, investment in FHLB stock, and other assets, partially offset by increases in net loans receivable, and cash and cash equivalents.

Cash and cash equivalents, primarily interest-earning deposits at the Federal Reserve Bank and Federal Home Loan Bank, increased by $286,000, or 3.7%, to $8.1 million at March 31, 2011 from $7.8 million at December 31, 2010. The Bank continues to maintain a strong liquidity position, retaining significant cash and cash equivalent balances that will allow the Bank to capitalize on investment and lending opportunities that may arise in future periods.

Total securities decreased by $2.3 million, or 2.9%, to $77.5 million at March 31, 2011 from $79.8 million at December 31, 2010. Securities classified as available for sale decreased $2.2 million to $70.4 million at March 31, 2011 from $72.6 million at December 31, 2010. The $2.2 million decrease was attributable to maturities and calls of $5.5 million of U.S. government agency securities classified as available for sale, $1.9 million in principal repayments received and amortization, and a $347,000 decrease in the fair value of securities available for sale, partially offset by the purchase of $4.0 million of U.S. government agency securities, and $1.5 million of mortgage-backed securities.

Securities classified as held to maturity decreased $143,000, or 2.0%, to $7.0 million at March 31, 2011 from $7.2 million at December 31, 2010 as a result of $143,000 in principal repayments and amortization. All securities purchased in 2011, with the exception of State and Municipal bonds classified as held to maturity, have been classified as available for sale to provide a portfolio of marketable securities for liquidity as an alternative to borrowings. The Company has reviewed its investment securities portfolio for the three months ended March 31, 2011, and has determined that no other-than-temporary impairment exists in the portfolio at March 31, 2011.

Investment in FHLB of New York stock decreased by $26,000, or 1.7%, due to stock redemptions. The FHLB of New York requires members to purchase and redeem stock based on the level of borrowings.

Other assets decreased $360,000, or 32.5%, to $748,000 at March 31, 2011 from $1.1 million at December 31, 2010. The decrease was primarily the result of $333,000 less in principal receivable on FHLMC mortgage-backed securities at March 31, 2011 compared to December 31, 2010.

Net loans receivable increased $1.5 million, or 1.3%, to $116.3 million at March 31, 2011 from $114.8 million at December 31, 2010. The Company had $7.2 million of fixed-rate loan refinances and home purchase originations, one loan sold for $37,000 in the secondary market, and brokered $1.5 million of Federal Housing Administration (FHA) mortgage loans in the first three months of 2011. The $1.5 million of combined sold residential mortgages and brokered FHA mortgage loans in the secondary market generated a net gain of $46,000 which was recorded in other income. Management believed that selling FHA loans was a prudent interest rate risk decision. Total loans sold and serviced as of March 31, 2011 totaled $18.4 million compared to $19.1 million as of December 31, 2010. In the current interest rate environment we intend to continue to sell a portion of our fixed-rate residential mortgage loans on a servicing-retained basis resulting in additional loan servicing income, as well as selling the majority of FHA mortgage loans originated on a servicing-released basis. At March 31, 2011, the Bank had no committed-for-sale mortgage loans in the secondary market.

The Bank opened three mortgage loan origination offices in January of 2010 located in Canandaigua, Pittsford, and Watertown, New York. Throughout 2010 and the first quarter of 2011 we have increased our investment in the loan division with additional loan originators, support staff, a newly leased facility, and furniture and equipment. Loan demand was weak in the first quarter and continues to be slow-moving at the beginning of the second quarter of 2011, although we are starting to see renewed demand from creditworthy borrowers. We believe that we are well positioned for future growth and profitability with high liquidity and capacity for more loans and we will continue to be a strong competitive force in the mortgage markets in which we serve. The Bank intends to continue to emphasize aggressive, yet prudent originations of loans secured by one-to-four family residential real estate. The mortgage origination offices were established as Fairport Mortgage, a division of Fairport Savings Bank. The primary responsibilities of the Fairport Mortgage origination team will be to originate mortgage loans to increase the Bank’s current mortgage loan portfolio, to originate loans for the Bank to close and sell as a correspondent to outside investors, and also to broker a select portion of residential mortgage loans directly to other investors.

The credit quality of the Bank’s loan portfolio remains solid. The Bank continues not to be involved in, and has no exposure to, sub-prime or Alt-A lending activities. The Bank ended the first quarter of 2011 with net loans receivable of $116.3 million, with no non-performing loans or foreclosed real estate assets. At March 31, 2010 and 2011, the Bank had no loans that are considered to be troubled debt restructurings. Management continues to actively monitor the performance of the loan portfolio during these difficult economic times. The Company has never been involved with, and has no direct exposure to, sub-prime lending activities. Credit quality continues to be the highest priority when underwriting loans. Subjective judgments about a borrower’s ability to repay and the value of any underlying collateral are made prior to approving a loan. We believe our stringent underwriting standards have directly resulted in our significantly low level of non-accruing loans.

Deposits and Borrowings. Total deposits increased by $786,000, or 0.5%, to $163.2 million at March 31, 2011 from $162.4 million at December 31, 2010. The increase consists of core deposit growth of $666,000 including non-interest bearing checking accounts, NOW accounts, money market accounts, and savings accounts, and $120,000 in non-core deposit growth including IRAs and Certificates of Deposit. Management believes that the deposit growth is the result, in part, of customers' preference for the flexibility provided by short-term core deposits in the current low interest rate environment, as well as the Bank's competitive strength in our market.

Borrowings, consisting of Federal Home Loan Bank ("FHLB") advances, decreased by $514,000, or 1.9%, to $26.2 million at March 31, 2011 from $26.7 million at December 31, 2010. The decrease of $514,000 includes $49,000 in amortization of deferred premium expense.

In July 2010, the Company restructured a portion of its FHLB advances by repaying $13.2 million of existing borrowings and replacing these borrowings with $13.2 million of new, lower cost FHLB advances. This transaction resulted in $638,000 in prepayment penalties that have been deferred and are recognized in interest expense as an adjustment to the cost of the Company's new borrowings in future periods. At March 31, 2011 there was $498,000 remaining in deferred premium expense on total FHLB borrowings.

Stockholders' Equity. Total stockholders' equity decreased by $267,000 or 1.3%, to $20.2 million at March 31, 2011 from $20.5 million at December 31, 2010. The decrease resulted from a decrease of $229,000 in accumulated other comprehensive income (loss), a net loss of $46,000, partially offset by an $8,000 increase in committed ESOP shares. At March 31, 2011 the Bank was considered well capitalized, the highest standard of capital rating as defined by the Bank's regulators.

Non-Performing Assets. At March 31, 2011 and December 31, 2010 the Company had no loans classified as non-performing or foreclosed assets. At March 31, 2011, management has evaluated the Bank's loan loss reserve and believes it is adequate based on the quality of the current loan portfolio. The moderate increase in one-to-four-family real estate mortgage loans classified as substandard was the cause for the shift from unallocated to allocated one-to-four-family real estate mortgage loans in the allowance for loan loss. At March 31, 2011, there were no other assets that are not disclosed as classified or special mention, where known information about possible credit problems of borrowers caused us to have serious doubts as to the ability of the borrowers to comply with the present loan repayment terms and which may result in impairment or disclosure of such loans in the future.

Average balances and yields. The following tables set forth average balance sheets, average yields and costs, and certain other information at and for the periods indicated. All average balances are daily average balances. Non-accrual loans were included in the computation of average balances, where applicable, but have been reflected in the table as loans carrying a zero yield. The yields set forth below include the effect of deferred fees, discounts and premiums that are amortized or accreted to interest income. Yields have been annualized.

	For the Three months Ended March 31,					
	2011			2010		
	Average Balance	Interest Income/ Expense	Yield/ Cost	Average Balance	Interest Income/ Expense	Yield/ Cost
	(Dollars in thousands)					
Interest-earning assets:						
Loans	$116,029	$1,524	5.25 %	$114,369	$1,593	5.57 %
Securities - taxable	44,732	264	2.36	59,222	447	3.02
Mortgage-backed securities	34,235	240	2.80	25,700	217	3.38
State and Municipal securities (1)	2,263	18	3.18	-	-	-
Other	5,804	2	0.14	6,206	2	0.13
Total interest-earning assets	203,063	2,048	4.03 %	205,497	2,259	4.40 %
Non-interest-earning assets	8,791			9,577		
Total assets	$211,854			$215,074		
Interest-bearing liabilities:						
NOW accounts	$11,531	$12	0.42 %	$9,014	$16	0.71 %
Passbook savings	24,946	28	0.45	26,887	73	1.09
Money market savings	27,586	49	0.71	23,422	65	1.11
Individual retirement accounts	18,306	109	2.38	18,072	141	3.12
Certificates of deposit	76,730	307	1.60	77,485	440	2.27
Borrowings	26,302	229	3.48	33,060	354	4.28
Total interest-bearing liabilities	185,401	734	1.58 %	187,940	1,089	2.32 %
Non-interest-bearing liabilities:						
Demand deposits	3,793			3,940		
Other	2,308			2,646		
Total liabilities	191,502			194,526		
Stockholders' equity	20,352			20,548		
Total liabilities and stockholders' equity	$211,854			$215,074		
Net interest income		$1,314			$1,170	
Interest rate spread (2)			2.45 %			2.08 %
Net interest-earning assets (3)	$17,662			$17,557		
Net interest margin (4)		2.59 %			2.28 %	
Average interest-earning assets to average interest-bearing liabilities	110 %			109 %		

(1) Tax-exempt interest income is presented on a tax equivalent basis using a 35 percent federal tax rate.

(2) Interest rate spread represents the difference between the yield on average interest-earning assets and the cost of average interest-bearing liabilities.

(3) Net interest-earning assets represent total interest-earning assets less total interest-bearing liabilities.

(4) Net interest margin represents net interest income divided by total interest-earning assets.

Comparison of Operating Results for the Three Months Ended March 31, 2011 and March 31, 2010

General. The Company had a net loss of $46,000 for the quarter ended March 31, 2011 compared to net income of $33,000 for the quarter ended March 31, 2010. Net loss per basic and diluted share was $(0.03) for the quarter ended March 31, 2011 compared to net income per basic and diluted share of $0.02 for the quarter ended March 31, 2010. The Company's net interest margin for the quarter ended March 31, 2011 increased 31 basis points to 2.59% from 2.28% for the quarter ended March 31, 2010, due to a decrease in the cost of our interest-bearing liabilities of 74 basis points from 2.32% to 1.58%, which was partially offset by a decrease in the yield on our interest-earning assets of 37 basis points from 4.40% to 4.03%.

The $79,000 decrease in net income for the first quarter of 2011 compared to the first quarter of 2010 resulted from an increase in other expense of $294,000, an increase in provision for loan losses of $5,000, partially offset by an increase in net interest income of $138,000, an increase in other income of $49,000, and an increase in tax benefit of $33,000. The $294,000 increase in other expense was primarily attributable to our increased investment in our loan origination division with increased salaries and employee benefits, additional occupancy, equipment expenses, mortgage fees and taxes, and miscellaneous other operating expenses related to the three mortgage origination offices that we opened in January 2010 and have expanded throughout 2010 and the first quarter of 2011. The $138,000 increase in net interest income is reflective of the Bank's ability to reduce its deposit and borrowing costs in a low interest rate environment in addition to an increased average volume of higher yielding interest-earning assets in the first quarter of 2011 compared to the first quarter of 2010. The $49,000 increase in other income was the result of additional gain on sale of loans and mortgage fee income in the first quarter of 2011 compared to the same period in 2010.

Interest and Dividend Income. Interest and dividend income decreased by $217,000 or 9.6%, to $2.0 million for the three months ended March 31, 2011 from $2.3 million for the three months ended March 31, 2010. The decrease in interest and dividend income resulted from a $69,000 or 4.3% decrease in interest income from loans, a $183,000 or 40.9% decrease in interest income from taxable securities, partially offset by a $23,000 or 10.6% increase in interest income from mortgage-backed securities, and a $12,000 or 100.0% increase in interest income from tax exempt securities. Average interest-earning assets decreased by $2.4 million, or 1.2%, to $203.1 million for the three months ended March 31, 2011 from $205.5 million for the three months ended March 31, 2010. The yield on interest-earning assets decreased by 37 basis points to 4.03% for the three months ended March 31, 2011 compared to 4.40% for the three months ended March 31, 2010, reflecting a volume increase in higher yielding interest earning asset categories as a result of the repositioning of assets into higher yielding assets, in a lower market interest rate environment at March 31, 2011.

Interest Expense. Interest expense decreased $355,000 or 32.6%, to $734,000 for the three months ended March 31, 2011 from $1.1 million for the three months ended March 31, 2010. The decrease in interest expense resulted primarily from significantly lower average rates paid on deposits and borrowings and lower average balances on borrowings, despite higher average balances in deposits. The average balance of interest-bearing liabilities decreased $2.5 million, or 1.4%, to $185.4 million for the three months ended March 31, 2011 compared to $187.9 million for the three months ended March 31, 2010. The average cost of interest-bearing liabilities decreased by 74 basis points to 1.58% for the three months ended March 31, 2011 from 2.32% for the three months ended March 31, 2010. The average cost of deposit accounts decreased by 63 basis points to 1.27% for the three months ended March 31, 2011 compared to 1.90% for the three months ended March 31, 2010. The average cost of borrowings decreased by 80 basis points to 3.48% for the three months ended March 31, 2011 compared to 4.28% for the three months ended March 31, 2010. The average balance of borrowings decreased $6.8 million or 20.4%, to $26.3 million for the three months ended March 31, 2011 compared to $33.1 million for the three months ended March 31, 2010. The decrease in interest expense reflects the Bank's management of lower deposit and borrowing costs in a historically low interest rate environment. The Bank has continued to respond to the lower interest rate environment allowing for downward deposit re-pricing of all deposits accounts and borrowings decreasing our overall cost of funds.

At March 31, 2011, we had $15.3 million of certificates of deposit, including IRAs that will mature during the first quarter of 2011 with a weighted average cost of 1.42%. Based on current market rates, if these funds remain with the Bank with similar maturities, the rates paid on these deposits will decrease.

Net Interest Income. Net interest income increased $138,000 or 11.8%, to $1.3 million for the three months ended March 31, 2011 from $1.2 million for the three months ended March 31, 2010. The increase in net interest income was due primarily to a lower average cost of deposits and borrowings, partially offset by a decrease in interest earning assets and decrease in yield on interest earning assets. The Company's net interest margin increased 31 basis points to

2.59% for the three months ended March 31, 2011 from 2.28% for the three months ended March 31, 2010.

Provision for Loan Losses. Based on management's evaluation of the factors that determine the level of the allowance for loan losses, including the plan to increase loan production and grow the mortgage portfolio, we recorded $8,000 in provision for loan losses for the three month period ended March 31, 2011 and $3,000 for the three month period ended March 31, 2010. The allowance for loan losses as of March 31, 2011 was $392,000 or 0.34% of total loans, compared to $371,000 or 0.33% of total loans as of March 31, 2010. We ended the quarter with no non-accrual loans at March 31, 2011 compared to $23,000 in non-accrual loans at March 31, 2010. We recorded no charge offs in the first quarter of 2011 and 2010. We had no foreclosed real estate at March 31, 2011 and one foreclosed asset of $79,000 at March 31, 2010.

Other Income. Total other income increased $49,000 or 30.8%, to $208,000 for the three months ended March 31, 2011 compared to $159,000 for the three months ended March 31, 2010. In the three months ended March 31, 2011 compared to the three months ended March 31, 2010, there was a $32,000 increase in gain on sale of loans, a $25,000 increase in mortgage fee income, and a $3,000 increase in miscellaneous other income, partially offset by a $13,000 decrease in deposit service fees, a decrease of $3,000 in Bank owned life insurance income, and a decrease of $3,000 in commissions from Oakleaf Services insurance/annuity and security sales. There was an $8,000 realized loss on sales of securities in the three months ended March 31, 2010 and no sales of securities in the three months ended March 31, 2011.

Other Expense. Total other expense increased $294,000, or 22.6%, to $1.6 million for the three months ended March 31, 2011 compared to $1.3 million for the three months ended March 31, 2010. The increase was primarily the result of expenses related to our three mortgage origination offices including a $168,000 increase in salaries and employee benefits, a $23,000 increase in occupancy expense, a $10,000 increase in data processing costs, a $2,000 increase in advertising expense, a $22,000 increase in equipment expense, a $6,000 increase in electronic banking, a $5,000 increase in directors fees, a $25,000 increase in mortgage fees and taxes, a $13,000 increase in FDIC insurance premium expense, and a $20,000 increase in miscellaneous other expenses.

Income Tax Expense. We had a pre-tax loss of $89,000 for the three months ended March 31, 2011 compared to pre-tax income of $23,000 for the three months ended March 31, 2010, and had a $43,000 tax benefit for the three months ended March 31, 2011, compared to a $10,000 tax benefit for the three months ended March 31, 2010, an increase in tax benefit of $33,000. The effective tax benefit rate was (48.3)% for the three months ended March 31, 2011 compared to a tax benefit rate of (43.5)% for the three months ended March 31, 2010. The high effective tax benefit rate in the quarters ended March 31, 2011 and 2010 was mainly the result of the benefit (reduction in expense) due to the increase in the cash surrender value of our bank owned life insurance, which is tax exempt, as well as the result of the utilization of New York State mortgage recording tax credits in the periods that had been previously subject to a valuation allowance. The New York State franchise tax recorded on taxable assets for the quarters ended March 31, 2011 and 2010 exceeded the mortgage tax generated in each of these periods.

Liquidity and Capital Resources

Liquidity is the ability to meet current and future financial obligations of a short-term nature. Our primary sources of funds consist of deposit inflows, loan repayments, advances from the FHLB, maturities and principal repayments of securities, and loan sales. While maturities and scheduled amortization of loans and securities are predictable sources of funds, deposit flows and mortgage prepayments are greatly influenced by general interest rates, economic conditions and competition. Our asset/liability management committee is responsible for establishing and monitoring our liquidity targets and strategies in order to ensure that sufficient liquidity exists for meeting the borrowing needs and deposit withdrawals of our customers as well as unanticipated contingencies. We seek to maintain a liquidity ratio of 20.0% or greater. For the quarter ended March 31, 2011, our liquidity ratio averaged 59.7%. We believe that we have enough sources of liquidity to satisfy our short and long-term liquidity needs as of March 31, 2011.

We regularly adjust our investments in liquid assets based upon our assessment of:

(i) expected loan demand;

(ii) expected deposit flows;

(iii) yields available on interest-earning deposits and securities; and

(iv) the objectives of our asset/liability management program.

25

Excess liquid assets are invested generally in interest-earning deposits, short-term and intermediate-term securities and federal funds sold.

Our most liquid assets are cash and cash equivalents. The levels of these assets are dependent on our operating, financing, lending and investing activities during any given period. At March 31, 2011, cash and cash equivalents totaled $8.1 million.

Our cash flows are derived from operating activities, investing activities and financing activities as reported in our Consolidated Statements of Cash Flows included in our Consolidated Financial Statements.

At March 31, 2011, we had $1.1 million in loan commitments outstanding. In addition to commitments to originate loans, we had $8.4 million in unused lines of credit to borrowers. Certificates of deposit, including IRAs comprised solely of certificates of deposits, due within one year of March 31, 2011 totaled $57.4 million, or 60.4% of our certificates of deposit and 35.2% of total deposits. If these deposits do not remain with us, we will be required to seek other sources of funds including loan sales, other deposit products, including certificates of deposit, and FHLB advances. Depending on market conditions, we may be required to pay higher rates on such deposits or other borrowings than we currently pay on the certificates of deposit due on or before March 31, 2012. We believe, however, based on past experience that a significant portion of such deposits will remain with us. We have the ability to attract and retain deposits by adjusting the interest rates offered.

Our primary investing activity is, and will continue to be, originating loans. During the three months ended March 31, 2011, we originated $7.2 million of loans.

Financing activities consist primarily of activity in deposit accounts and FHLB borrowings. We experienced a net increase in total deposits of $786,000 for the quarter ended March 31, 2011. Deposit flows are affected by the overall level of interest rates, the interest rates and products offered by us and our local competitors, and by other factors.

Liquidity management is both a daily and long-term function of business management. If we require funds beyond our ability to generate them internally, borrowing agreements exist with the FHLB of New York, which provides an additional source of funds. FHLB borrowings decreased by $514,000 to $26.2 million for the three months ended March 31, 2011, compared to a net decrease of $3.3 million to $31.3 million for the three months ended March 31, 2010. Historically, FHLB borrowings have primarily been used to fund loan demand and expand the investment portfolio. At March 31, 2011, we had the ability to borrow approximately $83.6 million from the Federal Home Loan Bank, of which $26.7 million had been advanced.

The Bank also has a repurchase agreement with a third party broker providing an additional $10.0 million in liquidity. Funds obtained under the repurchase agreement are secured by the Bank’s U.S. Government and agency obligations. There were no advances outstanding under the repurchase agreement at March 31, 2011 or at March 31, 2010.

Fairport Savings Bank is subject to various regulatory capital requirements, including a risk-based capital measure. The risk-based capital guidelines include both a definition of capital and a framework for calculating risk-weighted assets by assigning balance sheet assets and off-balance sheet items to broad risk categories. At March 31, 2011, Fairport Savings Bank exceeded all regulatory capital requirements, and was considered “well capitalized” under regulatory guidelines.

Off-Balance Sheet Arrangements

In the ordinary course of business, the Company is a party to credit-related financial instruments with off-balance sheet risk to meet the financing needs of our customers. These financial instruments include commitments to extend credit. We follow the same credit policies in making commitments as we do for on-balance sheet instruments.

Commitments to extend credit are agreements to lend to a customer as long as there is no violation of any condition established in the contract. Commitments generally have fixed expiration dates or other termination clauses and may require payment of a fee. The commitments for equity lines of credit may expire without being drawn upon. Therefore, the total commitment amounts do not necessarily represent future cash requirements. The amount of collateral obtained, if it is deemed necessary by us, is based on our credit evaluation of the customer.

At March 31, 2011 and 2010, we had $1.1 million and $3.9 million, respectively, of commitments to grant loans, and $8.4 million and $9.0 million, respectively, of unfunded commitments under lines of credit.

Item 3. Quantitative and Qualitative Disclosures About Market Risk

Not applicable since the Company is a smaller reporting company.

Item 4T. Controls and Procedures

Under the supervision and with the participation of our management, including our Chief Executive Officer and Chief Financial Officer, we evaluated the effectiveness of the design and operation of our disclosure controls and procedures (as defined in Rule 13a-15(e) and 15d-15(e) under the Exchange Act) as of the end of the period covered by this report. Based upon that evaluation, the Chief Executive Officer and Chief Financial Officer concluded that our disclosure controls and procedures were effective at March 31, 2011.

There were no significant changes made in the Company's internal control over financial reporting or in other factors that could significantly affect the Company's internal control over financial reporting during the period covered by this report that has materially affected, or is reasonably likely to materially affect, the Company's internal control over financial reporting.

Part II – Other Information

Item 1. Legal Proceedings

The Company and its subsidiaries are subject to various legal actions arising in the normal course of business. In the opinion of management, the resolution of these legal actions is not expected to have a material adverse effect on the Company's consolidated financial condition or results of operations.

Item 1A. Risk Factors

There are no material updates and additions to the risk factors previously disclosed in the Company's Annual Report on Form 10-K for the Year Ended December 31, 2010 as filed with the Securities and Exchange Commission. Additional risks not presently known to us, or that we currently deem immaterial, may also adversely affect our business, financial condition or results of operations.

Further, to the extent that any of the information contained in this Quarterly Report on Form 10-Q constitutes forward-looking statements, the risk factors set forth below also are cautionary statements identifying important factors that could cause our actual results to differ materially from those expressed in any forward-looking statements made by or on behalf of us.

27

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

(a) There were no sales of unregistered securities during the period covered by this Report.

(b) Not applicable.

(c) There were no issuer repurchases of securities during the period covered by this Report.

Item 3. Defaults Upon Senior Securities

Not applicable.

Item 4. [Removed and Reserved]

Item 5. Other Information

None.

Item 6. Exhibits

The following exhibits are either filed as part of this report or are incorporated herein by reference:

3.1 Charter of FSB Community Bankshares, Inc.*

3.2 Bylaws of FSB Community Bankshares, Inc.*

4 Form of Common Stock Certificate of FSB Community Bankshares, Inc.*

10.1 Supplemental Executive Retirement Plan*

10.2 Form of Employee Stock Ownership Plan*

10.3 Supplemental Executive Retirement Plan for K. Maroney**

31.1 Certification of Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002

31.2 Certification of Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002

32 Certification of Chief Executive Officer and Chief Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

---

* Filed as exhibits to the Company's Registration Statement on Form SB-2, and any amendments thereto, with the Securities and Exchange Commission (Registration No. 333-141380) on March 16, 2007.

** Filed as an exhibit to the Company's Current Report on Form 8-K, file with the Securities and Exchange Commission on August 4, 2010.

SIGNATURES

Pursuant to the requirements 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.

	FSB COMMUNITY BANKSHARES, INC.
Date: May 13, 2011	/s/ Dana C. Gavenda Dana C. Gavenda President and Chief Executive Officer
Date: May 13, 2011	/s/ Kevin D. Maroney Kevin D. Maroney Executive Vice President and Chief Financial Officer

29