

UNITED STATES DISTRICT COURT
SOUTHERN DISTRICT OF NEW YORK

UNITED STATES SECURITIES
AND EXCHANGE COMMISSION,

Plaintiff,

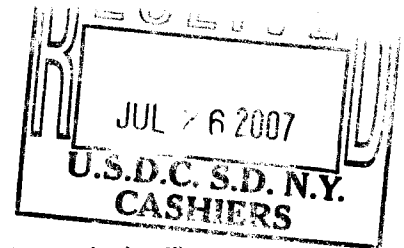
v.

CARDINAL HEALTH, INC.,

Defendant.

Civ. No. _____

ECF CASE



COMPLAINT

Plaintiff, the United States Securities and Exchange Commission ("Commission"),

alleges for its Complaint as follows:

SUMMARY

1. From at least September 2000 through at least March 2004, defendant Cardinal Health, Inc. ("Cardinal" or the "Company") engaged in a fraudulent earnings and revenue management scheme and other improper accounting and disclosure practices. Cardinal engaged in this conduct in order to present a false picture of its results of operations to the financial community and the investing public – one that matched Cardinal's publicly disseminated earnings guidance and analysts' expectations, rather than its true economic performance. Through these practices, the Company materially overstated its operating revenue, earnings and growth trends in certain earnings releases and filings with the Commission.

2. Cardinal, through the conduct of members of its corporate management, managed its reported revenue and earnings by: (a) inflating reported operating revenue by misclassifying over \$5 billion of bulk inventory sales as operating revenue; (b) selectively accelerating, without

disclosure, the payment of vendor invoices in order to prematurely record a cumulative total of \$133 million in cash discount income; (c) improperly establishing a general reserve account and improperly adjusting reserve accounts, which misstated earnings by over \$65 million; and (d) improperly classifying \$22 million of expected litigation settlement proceeds to increase operating earnings. In addition, on one occasion, Cardinal intentionally transferred inventory within business units in order to avoid a negative impact on year-end reported earnings due to the application of its last-in-first-out (“LIFO”) method of inventory valuation. Further, the Company failed timely to disclose the impact of a change in the method of applying its LIFO accounting principle. Cardinal also prematurely recognized millions of dollars in revenue from Pyxis (“Pyxis”), a wholly-owned subsidiary the Company featured as an important growth driver.

3. Due to the practices described above, between its fiscal years (“FY”) 2001 and 2004, Cardinal misrepresented its trends in reported operating revenue and earnings. During this period, Cardinal’s public claims of 16 consecutive years of 20% or higher growth in earnings per share before special items (“EPS”), and 77 consecutive quarters in which it “met or beat guidance,” were untrue. In addition, the Company’s 15 earnings releases and earnings conference calls, its 15 periodic reports and more than 10 registration statements filed with the Commission during this period contained materially false and misleading statements and omissions of material information.

4. When engaging in the practices described above, Cardinal circumvented internal accounting controls. Cardinal also failed to maintain a system of internal accounting controls sufficient to prevent material misstatements in its books, records, accounts and financial statements and to provide reasonable assurances that the Company’s financial statements were prepared in conformity with Generally Accepted Accounting Principles (“GAAP”). As a result,

Cardinal's books, records and accounts did not fairly and accurately reflect the Company's transactions.

5. During the course of the Commission's investigation of this matter, Cardinal's Audit Committee conducted an internal investigation. On October 26, 2004, based on the findings of its Audit Committee's investigation, Cardinal restated its financial results for its FYs 2000 to 2003 and for the first three quarters of FY 2004. In its restatement, Cardinal disclosed that it had improperly classified approximately \$1.2 billion of bulk revenue as operating revenue, that the Company had an undisclosed practice of accelerating payment of vendor invoices at the end of certain reporting periods, which improved operating results for those periods, and that certain non-recurring expenses in FY 2002 were partially offset by a \$23 million benefit during the period resulting from changes in Cardinal's LIFO calculation for generic products. The restatement also reduced the Company's net earnings by a cumulative total of \$65.2 million, due to the Company's adjustments to reserves and other accruals, which were restated as a result of misapplications of GAAP, other errors or an absence of substantiation. In addition, the Company reversed, reclassified and recognized in a later period \$22 million of expected litigation settlement proceeds it had previously recognized during the second quarter of FY 2001 and the first quarter of FY 2002, and reduced its FY 2003 operating earnings by \$5.3 million to correct the intentional avoidance of a LIFO charge resulting from the Company's improper transfer of inventory between business units. The Company also disclosed, for the first time, that it had prematurely recognized an indeterminable amount of Pyxis revenue and that a material weakness existed in Cardinal's internal controls, based in part on the inappropriate application of Cardinal's bulk revenue classification policy during several quarters of FY 2002 and 2003.