

CARDINAL HEALTH INC

Form DEF 14A

September 21, 2017

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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

SCHEDULE 14A

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

Exchange Act of 1934 (Amendment No.)

Filed by the Registrant ☒

Filed by a party other than the Registrant ☐

Check the appropriate box:

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

☒ Definitive Proxy Statement

☐ Definitive Additional Materials

☐ Soliciting Material Pursuant to § 240.14a-12

CARDINAL HEALTH, INC.

(Name of Registrant as Specified In Its Charter)

N/A

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

Payment of Filing Fee (Check the appropriate box):

☒ No fee required.

☐ Fee computed on table below per Exchange Act Rules 14a-6(i)(1) and 0-11.

Title of each class of securities to which transaction applies:

(1)

Aggregate number of securities to which transaction applies:

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Per unit price or other underlying value of transaction computed pursuant to Exchange Act Rule 0-11 (set forth the amount on which the filing fee is calculated and state how it was determined):

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Amount Previously Paid:
(1)

Form, Schedule or Registration Statement No.:
(2)

Filing Party:
(3)

Date Filed:
(4)

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Notice of Annual Meeting of Shareholders
To Be Held November 8, 2017

Date and time: Wednesday, November 8, 2017, at 8:00 a.m., local time

Location: Cardinal Health, Inc., 7000 Cardinal Place, Dublin, Ohio 43017

Purpose: (1) To elect the 11 director nominees named in the proxy statement;
(2) To ratify the appointment of Ernst & Young LLP as our independent auditor for the fiscal year ending June 30, 2018;
(3) To approve, on a non-binding advisory basis, the compensation of our named executive officers;
(4) To vote, on a non-binding advisory basis, on the frequency of future advisory votes to approve executive compensation;
(5) To vote on two shareholder proposals described in the accompanying proxy statement, if properly presented at the meeting; and
(6) To transact such other business as may properly come before the meeting or any adjournment or postponement.

Who may vote: Shareholders of record at the close of business on September 11, 2017 are entitled to notice of, and to vote at, the meeting or any adjournment or postponement.

By Order of the Board of Directors.
September 21, 2017

JESSICA L. MAYER

Executive Vice President, Deputy General Counsel and
Corporate Secretary

Important notice regarding the availability of proxy materials for the Annual Meeting of Shareholders to be held on November 8, 2017:

This Notice of Annual Meeting of Shareholders, the accompanying proxy statement and our 2017 Annual Report to Shareholders all are available at www.edocumentview.com/cah.

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Proxy Summary

This summary highlights information contained elsewhere in our proxy statement. This summary does not contain all of the information that you should consider, and you should carefully read the entire proxy statement and our 2017 Annual Report to Shareholders before voting.

Fiscal 2017 Performance

In fiscal 2017, we took important actions to strengthen our market position, increase our scale, add new, long-term drivers of growth and improve the overall balance of our integrated portfolio.

In July 2017, we acquired the Patient Care, Deep Vein Thrombosis and Nutritional Insufficiency businesses (the "Patient Recovery Business") from Medtronic plc for \$6.1 billion. These well-established, industry-leading product lines are complementary to our medical product business, fit naturally into our customer offering and expand our global reach. The new portfolio will help us further expand our scope in the operating room, in long-term care facilities and in home healthcare, reaching customers across the entire continuum of care.

In our Pharmaceutical segment, our Specialty Solutions business had outstanding growth, expanding its therapeutic reach and growing its hospital and physician customer base, and we saw excellent performance from our Red Oak Sourcing generic sourcing venture with CVS Health Corporation.

In our Medical segment, our medical products distribution business had its strongest growth in recent years, and we continued to expand our Cardinal Health branded product portfolio with nearly 12,000 product SKUs in 850 categories, more than double from five years ago. We also saw excellent growth from our naviHealth business.

On the financial side:

Revenue increased 7% to a record \$130.0 billion.

GAAP diluted earnings per share ("EPS") decreased 7% to \$4.03, while non-GAAP diluted EPS* increased 3% to \$5.40, reflecting a challenging generic pharmaceutical pricing environment.

Our Pharmaceutical segment grew revenue 7%, while segment profit decreased 12% largely driven by the generic pharmaceutical pricing environment, partially offset by the benefits from Red Oak Sourcing.

Our Medical segment grew revenue 9% and segment profit 25%, with profit growth being driven by contributions from the naviHealth business, Cardinal Health branded products and distribution services.

We returned \$1.2 billion to shareholders, including \$1.80 per share in dividends and \$600 million in share repurchases.

CEO Compensation Decisions

Our Chairman and Chief Executive Officer, Mr. Barrett, declined to be considered for an annual incentive payout due to our performance. While we achieved 89% of the adjusted non-GAAP operating earnings goal under our annual incentive plan, we did not meet the threshold for a payout, largely as a result of the challenging generic pharmaceutical pricing environment. Mr. Barrett's cash compensation (salary plus annual incentive payout) was down 64% compared to the prior fiscal year.

We provide the reasons we use non-GAAP financial measures and the reconciliations to their most directly comparable U.S. Generally Accepted Accounting Principles ("GAAP") financial measures on pages 18 through 20 of our Annual Report on Form 10-K for the fiscal year ended June 30, 2017 (the "Fiscal 2017 Form 10-K").

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2017 Proxy Statement

General Information

These proxy materials are being furnished to solicit proxies on behalf of the Board of Directors of Cardinal Health, Inc. for use at our Annual Meeting of Shareholders to be held on Wednesday, November 8, 2017, and at any adjournment or postponement (the “Annual Meeting”). The Annual Meeting will take place at our principal executive office located at 7000 Cardinal Place, Dublin, Ohio 43017, at 8:00 a.m., local time.

These proxy materials include our Notice of Annual Meeting and Proxy Statement and our 2017 Annual Report to Shareholders, which includes our Fiscal 2017 Form 10-K. In addition, these proxy materials may include a proxy card for the Annual Meeting. These proxy materials are first being sent or made available to our shareholders commencing on September 21, 2017.

References to our fiscal years in this proxy statement mean the fiscal year ended or ending on June 30 of such year. For example, “fiscal 2017” refers to the fiscal year ended June 30, 2017.

Notice of Internet Availability of Proxy Materials

As permitted by the Securities and Exchange Commission (“SEC”), we are providing proxy materials to some of our shareholders via the Internet. Commencing on September 21, 2017, we mailed a Notice of Internet Availability of Proxy Materials (the “Notice”) explaining how to access our proxy materials online. If you received the Notice, you will not receive a printed copy of our proxy materials by mail unless you request one by following the directions included on the Notice.

Record Date

We have fixed the close of business on September 11, 2017 as the record date for determining our shareholders entitled to notice of and to vote at the Annual Meeting. On that date, we had 315,215,877 common shares outstanding. Shareholders as of the record date will have one vote per share for the election of each director nominee and on each other voting matter.

Quorum

We will have a quorum to conduct business at the Annual Meeting if the holders of a majority of our common shares are present, either in person or by proxy.

Board Recommendation

The Board recommends that you vote FOR the election of the 11 director nominees, FOR Proposals 2 and 3, ONE YEAR for Proposal 4, and AGAINST Proposals 5 and 6.

How to Vote

Shareholders of record. If you are a “shareholder of record” (meaning your shares are registered in your name with our transfer agent, Computershare Trust Company, N.A.), you may vote either in person at the Annual Meeting or by proxy. If you decide to vote by proxy, you may do so in any one of the following three ways:

By telephone. You may vote your shares 24 hours a day by calling the toll free number 1-800-652-VOTE (8683) within the United States, U.S. territories or Canada, and following instructions provided by the recorded message. You will need to enter identifying information that appears on your proxy card or the Notice. The telephone voting system allows you to confirm that your votes were properly recorded.

By Internet. You may vote your shares 24 hours a day by logging on to a secure website, www.envisionreports.com/CAH, and following the instructions provided. You will need to enter identifying information that appears on your proxy card or the Notice. As with the telephone voting system, you will be able to confirm that your votes were properly recorded.

By mail. If you received a proxy card, you may mark, sign and date your proxy card and return it by mail in the enclosed postage-paid envelope.

Telephone and Internet voting is available through 2:00 a.m. Eastern time on Wednesday, November 8, 2017. If you vote by mail, your proxy card must be received before the Annual Meeting to assure that your vote is counted. We encourage you to vote promptly.

Beneficial owners. If, like most shareholders, you are a beneficial owner of shares held in “street name” (meaning a broker, trustee, bank or other nominee holds shares on your behalf), you may vote in person at the Annual Meeting

only if you obtain a legal proxy from the nominee that holds your shares. Alternatively, you may

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General Information

vote by completing, signing and returning the voting instruction form that the nominee provides to you or by following any telephone or Internet voting instructions described on the voting instruction form, the Notice or other materials that the nominee provides to you. We encourage you to vote promptly.

Changing or Revoking Your Proxy

Your attendance at the Annual Meeting will not automatically revoke your proxy. If you are a shareholder of record, you may change or revoke your proxy at any time before a vote is taken at the meeting by giving notice to us in writing or at the Annual Meeting, by executing and forwarding to us a later-dated proxy or by voting a later proxy over the telephone or the Internet. If you are a beneficial owner of shares, you should check with the broker, trustee, bank or other nominee that holds your shares to determine how to change or revoke your vote.

Shares Held Through Our Employee Plans

If you hold shares through our 401(k) Savings Plans or Deferred Compensation Plan ("DCP"), you will receive voting instructions from Computershare Trust Company, N.A. and can vote through one of the three methods described above under "How to Vote." Please note that employee plan shares have an earlier voting deadline of 2:00 a.m. Eastern time on Monday, November 6, 2017.

Broker Non-Votes

If you are a beneficial owner whose shares are held by a broker, as stated above you must instruct the broker how to vote your shares. If you do not provide voting instructions, your broker is not permitted to vote your shares on the election of directors, the advisory vote to approve the compensation of our named executive officers, the advisory vote on the frequency of future advisory votes to approve executive compensation or the shareholder proposals. The inability of the broker to vote your shares on these proposals results in a "broker non-vote." In the absence of voting instructions, the broker can only register your shares as being present at the Annual Meeting for purposes of determining a quorum and may vote your shares on ratification of the appointment of our auditor.

Voting

You may either vote FOR, AGAINST or ABSTAIN on each of the proposals with the exception of Proposal 4 where you may vote for ONE YEAR, TWO YEARS, THREE YEARS or ABSTAIN. Votes will be tabulated by or under the direction of inspectors of election, who will certify the results following the Annual Meeting.

To elect directors under Proposal 1, our governing documents require that in an uncontested election, a director nominee be elected by a majority of votes cast. Abstentions and broker non-votes are not considered as votes cast and are not counted in determining the outcome of the voting results. If a director nominee is not re-elected by a majority of votes cast, that individual is required to tender a resignation for the Board's consideration. See

"Resignation Policy for Incumbent Directors Not Receiving Majority Votes" on page 13. Proxies may not be voted for more than 11 director nominees, and shareholders may not cumulate their voting power.

Each of Proposals 2 through 6 requires approval by a majority of votes cast, with the exception of Proposal 4 which requires the majority of the votes cast for one of the options (i.e., one year, two years or three years). Abstentions and broker non-votes are not considered as votes cast and will not be counted in determining the outcome of the voting results.

How Shares Will Be Voted

The shares represented by all valid proxies received by telephone, by Internet or by mail will be voted in the manner specified. For shareholders of record who do not specify a choice for a proposal, proxies that are signed and returned will be voted FOR the election of all 11 director nominees, FOR the ratification of the appointment of Ernst & Young LLP as independent auditor, FOR approval of the compensation of our named executive officers, FOR conducting future advisory votes to approve executive compensation every ONE YEAR, and AGAINST the shareholder proposals. If any other matters properly come before the Annual Meeting, the individuals named in your proxy, or their substitutes, will determine how to vote on those matters in their discretion. The Board of Directors does not know of any other matters that will be presented for action at the Annual Meeting.

Attending the Annual Meeting

To attend the Annual Meeting, you must be a shareholder as of September 11, 2017, the record date, and have an admission ticket or satisfactory proof of share ownership and photo identification. If you are a shareholder of record, you must present an admission ticket (which is attached to your proxy card) or you must present the Notice of Internet Availability. If you are a beneficial owner, in order to be admitted to the meeting, you must present either a valid legal proxy from your bank, broker or other nominee as to your shares, the Notice of Internet Availability, a voting instruction form or a bank or brokerage account statement. Anyone holding an admission ticket or other documentation not issued in his or her name will not be admitted to the meeting. Our annual meeting rules prohibit cameras, videotaping equipment and other recording devices, large packages, banners or placards in the meeting and prohibit use of a phone or other device.

You can call our Investor Relations department at (614) 757-4757 if you need directions to the Annual Meeting. Even if you expect to attend the Annual Meeting in person, we urge you to vote your shares in advance.

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Proposal 1—Election of Directors

Our Board has nominated 11 directors for election at this Annual Meeting to serve until the next Annual Meeting of Shareholders and until his or her successor is duly elected and qualified. All of the nominees are currently directors of Cardinal Health.

The Board seeks members that possess the experience, skills and diverse backgrounds to perform effectively in overseeing the company's current and evolving business and strategic direction and to properly perform its oversight responsibilities. All of our director nominees bring to the Board a wealth of executive leadership experience derived from their diverse professional backgrounds and areas of expertise. As a group, they have

extensive healthcare and global business experience, financial expertise and business acumen, as well as public company board experience. Each of our director nominees has sound judgment and integrity and is able to commit sufficient time and attention to the activities of the Board. All director nominees other than the Chairman and Chief Executive Officer are independent.

Each director nominee agreed to be named in this proxy statement and to serve if elected. If, due to death or other unexpected occurrence, one or more of the director nominees is not available for election, proxies will be voted for the election of all remaining nominees and any substitute nominee(s) the Board selects.

Biographies of our Director Nominees

David J. Anderson Age 68 Director since 2014

Senior Vice President and Chief Financial Officer of Honeywell International Inc. (retired); Former Executive Vice President and Chief Financial Officer of Alexion Pharmaceuticals, Inc.

Independent Director Director Qualification Highlights

Other Public

Boards: American Electric

Power Company, Inc., a ü Financial Literacy / Expertise - Former CFO roles

public utility holding ü Healthcare

company (since 2011); ü International

B/E Aerospace, Inc., a ü Executive Leadership

manufacturer of aircraft ü Strategic Planning / Acquisitions

interior products (2014 ü Technology

-2017); Fifth Street Asset ü Operations

Management Inc., an ü Regulatory / Public Policy

alternative asset manager

(2014 - 2015)

Mr. Anderson served as Chief Financial Officer of Honeywell International Inc., a global diversified technology and manufacturing company, from 2003 to 2014 and as Chief Financial Officer of Alexion Pharmaceuticals, Inc.

("Alexion"), a biotechnology company, from December 2016 to August 2017. While at Honeywell, Mr. Anderson was responsible for the company's corporate finance activities including domestic and international tax, accounting, treasury, audit, investments, financial planning, acquisitions and real estate. Prior to his roles at Honeywell and Alexion, Mr. Anderson held a number of other finance-related executive positions with ITT Corporation, Newport News Shipbuilding, RJR Nabisco and Quaker Oats Company.

Skills and Qualifications of Particular Relevance to Cardinal Health

Through his prior finance leadership positions as Chief Financial Officer at Honeywell and Alexion, as well as other leading companies, Mr. Anderson brings to the Board relevant experience in the areas of global finance and accounting, healthcare, management, executive leadership, strategic planning, acquisitions, information technology, manufacturing operations and international markets. Given his extensive financial expertise, Mr. Anderson provides valuable insight in the areas of financial reporting, accounting and internal controls, as well as international tax and finance. In addition, his recent experience as Chief Financial Officer of Alexion brings to the Board relevant experience in the areas of healthcare and pharmaceutical manufacturing. Mr. Anderson also brings to the Board

valuable perspectives and insights from his service on the board of directors of American Electric Power, including service on its Audit and Finance Committees, as well as his prior service on B/E Aerospace's board of directors.

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Proposal 1—Election of Directors

Colleen F. Arnold Age 60 Director since 2007

Senior Vice President, Sales and Distribution, International
Business Machines Corporation (retired)

Independent Director	Director Qualification Highlights
	ü Technology
	ü International and Global Leadership
Other Public Boards: None	ü Operations
	ü Executive Leadership
	ü Strategic Planning

Ms. Arnold was Senior Vice President, Sales and Distribution of International Business Machines Corporation ("IBM"), a provider of systems, financing, software and services, from 2014 until March 2016. Prior to that, she held a number of senior positions with IBM from 1998 to 2014, including Senior Vice President, Application Management Services, IBM Global Business Services; General Manager of GBS Strategy, Global Consulting Services, Global Industries and Global Application Services; General Manager, Europe; General Manager, Australia and New Zealand Global Services; and CEO, Global Services Australia, an IBM joint venture.

Skills and Qualifications of Particular Relevance to Cardinal Health

A former senior executive of IBM for over 17 years, Ms. Arnold's significant experience in the areas of global business operations and information technology contributes to the Board's discussions regarding information technology in our business and global strategies. Given her extensive international business experience, including leadership of international commercial operations at IBM, Ms. Arnold provides valuable insight for our growing presence in international markets. She also brings to the Board more than 30 years of relevant experience in the areas of operations, management, executive leadership and strategic planning.

George S. Barrett Age 62 Director since 2009

Chairman and Chief Executive Officer, Cardinal Health,
Inc.

	Director Qualification Highlights
	ü Healthcare
Other Public Boards:	ü Operations
Eaton Corporation plc, a diversified power management company (2011 - 2015)	ü Strategic Planning
	ü Executive Leadership
	ü International
	ü Regulatory / Public Policy
	ü Financial Expertise

Mr. Barrett has served as Chairman and Chief Executive Officer of Cardinal Health, Inc. since 2009. He joined Cardinal Health in 2008 as Vice Chairman and Chief Executive Officer of the company's Healthcare Supply Chain Services segment. From 1997 to 2008, Mr. Barrett held a number of executive positions with Teva Pharmaceutical Industries Ltd., a multinational generic and branded pharmaceutical manufacturer, including President and Chief Executive Officer of Teva North America.

Skills and Qualifications of Particular Relevance to Cardinal Health

Having served in leadership positions with companies in the pharmaceutical industry for over 30 years, Mr. Barrett has extensive healthcare experience in the areas of distribution and manufacturing operations, management, regulatory compliance, finance, executive leadership, strategic planning, human resources, corporate governance and global markets. As a result, he provides the Board with unique perspectives and insights regarding our businesses and our growing international presence, industry, challenges and opportunities. He also brings to the Board valuable perspectives and insights from his service as Chairman of the Healthcare Leadership Council, an alliance of leading

companies and organizations representing all sectors of U.S. healthcare. In addition, Mr. Barrett brings relevant experience and perspectives to the Board from his service on public and not-for-profit boards of directors, including his prior service on Eaton's board of directors.

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Proposal 1—Election of Directors

Carrie S. Cox Age 60 Director since 2009
 Chairman and Chief Executive Officer of Humacyte,
 Inc.; Executive Vice President and President of Global
 Pharmaceuticals, Schering-Plough Corporation (retired)
 Independent Director Director Qualification Highlights
 Other Public

Boards: Texas

Instruments

Incorporated, a ü Healthcare
 developer, ü International
 manufacturer and ü Operations
 marketer of ü Executive Leadership
 semiconductors (sinceü Strategic Planning
 2004); Celgene ü Regulatory / Public Policy

Corporation, a
 biopharmaceutical
 company (since 2009)

Ms. Cox has served as Chief Executive Officer of Humacyte, Inc., a privately held, development stage company focused on regenerative medicine, since 2010 and as Chairman of Humacyte since 2013. She previously served as Executive Vice President and President of Global Pharmaceuticals at Schering-Plough Corporation, a multinational branded pharmaceutical manufacturer, from 2003 until its merger with Merck & Co. in 2009. Ms. Cox previously was Executive Vice President and President of Global Prescription Business of Pharmacia Corporation from 1997 to 2003. Skills and Qualifications of Particular Relevance to Cardinal Health

Through her roles as a former executive officer of Schering-Plough, President of Pharmacia's Global Prescription business and a licensed pharmacist, and now with Humacyte, Ms. Cox brings to the Board substantial expertise in healthcare, particularly the pharmaceutical and international aspects of our business. She has worked in the global pharmaceutical industry for over 30 years, giving her relevant experience with large, multinational healthcare companies in the areas of manufacturing operations, management, regulatory compliance, executive leadership, strategic planning and global markets. She also brings to the Board valuable perspectives and insights from her service on the boards of directors of Celgene and Texas Instruments, including on Texas Instruments' Compensation Committee and her former service as its Lead Director.

Calvin Darden Age 67 Director since 2005
 Senior Vice President of U.S. Operations of United
 Parcel Service, Inc. (retired)
 Independent Director Director Qualification Highlights

Other Public Boards: ü Operations
 Target Corporation, anü Distribution / Supply Chain
 operator of ü Executive Leadership
 large-format general ü Strategic Planning
 merchandise discount ü Labor Relations
 stores (since 2003); ü International
 Coca-Cola
 Enterprises, Inc., a
 marketer,
 manufacturer and
 distributor of
 nonalcoholic

beverages in selected
international markets
(2004 - 2016)

Mr. Darden was Senior Vice President of U.S. Operations of United Parcel Service, Inc. ("UPS"), an express carrier and package delivery company, from January 2000 until 2005. During his 33-year career with UPS, he served in a number of senior leadership positions, including developing the corporate quality strategy for UPS and leading the business and logistics operations for its Pacific Region, the largest region of UPS at that time.

Skills and Qualifications of Particular Relevance to Cardinal Health

A former executive officer of UPS, Mr. Darden has expertise in supply chain networks and logistics that contributes to the Board's understanding of this important aspect of our business. He has over 30 years of relevant experience in the areas of operations, distribution and supply chain, executive leadership, efficiency and quality control, strategic planning, human resources and labor relations. Drawing upon his past experience as a member of Coca-Cola Enterprises' board of directors, Mr. Darden provides the Board with a valuable understanding of distribution operations in international markets. He also brings to the Board valuable perspectives and insights from his service on Target's board of directors, including its Compensation Committee, and his prior service on Coca-Cola Enterprises' Human Resources and Compensation Committee.

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Proposal 1—Election of Directors

Bruce L. Downey Age 69 Director since 2009
Chairman and Chief Executive Officer of Barr
Pharmaceuticals, Inc. (retired); Partner of NewSpring
Health Capital II, L.P.

Independent Director	Director Qualification Highlights
	ü Healthcare
Other Public Boards:	ü Regulatory / Public Policy
Momenta	ü Operations
Pharmaceuticals, Inc., a	ü International
biotechnology company	ü Financial Expertise
(since 2009)	ü Executive Leadership
	ü Strategic Planning

Mr. Downey was Chairman and Chief Executive Officer of Barr Pharmaceuticals, Inc., a global generic pharmaceutical manufacturer, from 1994 to 2008. Mr. Downey has served on a part-time basis as a Partner of NewSpring Health Capital II, L.P., a venture capital firm, since 2009.

Skills and Qualifications of Particular Relevance to Cardinal Health

Having spent 14 years as Chairman and Chief Executive Officer of Barr Pharmaceuticals, Mr. Downey brings to the Board substantial global healthcare experience in the areas of manufacturing operations, management, regulatory compliance, finance, executive leadership, strategic planning, human resources and corporate governance. He also offers valuable experience in the pharmaceutical and international aspects of our businesses. Mr. Downey brings to the Board valuable perspectives and insights from his service on Momenta Pharmaceuticals' board of directors, including its Audit Committee, and from his prior service as Chairman of Barr Pharmaceutical's board of directors. Before his career at Barr Pharmaceuticals, Mr. Downey was a practicing attorney for 20 years, having worked in both private practice and with the U.S. Department of Justice.

Patricia A. Hemingway Hall Age 64 Director since 2013
President and Chief Executive Officer of Health Care Service Corporation
(retired)

Independent Director	Director Qualification Highlights
	ü Healthcare
	ü Regulatory / Public Policy / Government
Other Public	ü Operations
Boards: ManpowerGroup, Inc., a	ü Financial Expertise
workforce solutions company (since	ü Executive Leadership
2011)	ü Strategic Planning
	ü Technology

Ms. Hemingway Hall served as President and Chief Executive Officer of Health Care Service Corporation, a mutual health insurer ("HCSC"), from 2008 until 2015. Previously, she held several leadership positions at HCSC, including President and Chief Operating Officer from 2007 to 2008 and Executive Vice President of Internal Operations from 2006 to 2007.

Skills and Qualifications of Particular Relevance to Cardinal Health

As retired President and Chief Executive Officer of HCSC, the largest customer-owned health insurer in the United States and fourth largest overall operating through Blue Cross and Blue Shield Plans in Texas, Illinois, Montana, New Mexico and Oklahoma, Ms. Hemingway Hall brings to the Board valuable experience regarding evolving healthcare payment models at a time of change and reform in the healthcare industry. She has worked in the healthcare industry for over 30 years, first as a registered nurse and most recently in health insurance, and has relevant experience in the areas of healthcare reform, operations, management, regulatory compliance, government relations, finance, executive

leadership, strategic planning, technology and human resources. In addition, Ms. Hemingway Hall provides the Board with a deep understanding of operations, management and technology from her experience in previous roles at HCSC. She also brings to the Board valuable perspectives and insights from her service on ManpowerGroup's board of directors, including its Audit Committee.

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Proposal 1—Election of Directors

Clayton M. Jones Age 68 Director since 2012
Chairman, President and Chief Executive Officer of Rockwell
Collins, Inc. (retired)

Independent Director Director Qualification Highlights

Other Public

Boards: Deere &

Company, an agricultural

and construction

machinery manufacturer

(since 2007); Motorola

Solutions, Inc., a data

communications and

telecommunications

equipment provider

(since 2015); Rockwell

Collins, Inc. (2001 -

2014)

ü Operations

ü Executive Leadership

ü Strategic Planning

ü Technology

ü Financial Expertise

ü International

ü Regulatory / Public Policy / Government

Mr. Jones served as Chairman of the Board of Rockwell Collins, Inc., a multinational aviation electronics and communications equipment company, from 2002 through 2014, and as Chief Executive Officer from 2001 until his retirement in 2013. He previously served as president of Rockwell Collins and corporate officer and senior vice president of Rockwell International, which he joined in 1979.

Skills and Qualifications of Particular Relevance to Cardinal Health

As retired Chairman, President and Chief Executive Officer of Rockwell Collins, Mr. Jones brings to the Board relevant experience in highly regulated industries as well as in the areas of manufacturing operations, management, finance, executive leadership, strategic planning, information technology, human resources, corporate governance, international markets and government contracting. He provides the Board with a valuable understanding of commercial operations in international markets. As a former member of the President's National Security Telecommunications Advisory Committee and a current member of The Business Council, Mr. Jones provides insights in regulatory affairs, government and public policy matters. He also brings to the Board valuable perspectives and insights from his service on Motorola Solutions' board of directors, including its Audit Committee, and Deere & Company's board of directors, as well as from his previous service as Chairman of Rockwell Collins' board of directors.

Gregory B. Kenny Age 64 Director since 2007

President and Chief Executive Officer of General Cable

Corporation (retired)

Independent Lead Director Director Qualification Highlights

Other Public

ü Executive Leadership

Boards: Ingredion

ü Operations

Incorporated, a corn

ü Strategic Planning

refining and ingredient

ü International

company (since 2005); AK

ü Financial Expertise

Steel Holding Corporation,

an integrated producer of

flat-rolled, carbon and

electrical stainless steels

and tubular products (since

January 2016); General

Cable Corporation (1997 - 2015)

Mr. Kenny served as President and Chief Executive Officer of General Cable Corporation, a global manufacturer of aluminum, copper and fiber-optic wire and cable products, from 2001 until 2015. Prior to that, he was President and Chief Operating Officer of General Cable from 1999 to 2001 and Executive Vice President and Chief Operating Officer from 1997 to 1999. Mr. Kenny previously also served in executive level positions at Penn Central Corporation, where he was responsible for corporate business strategy, and in diplomatic service as a Foreign Service Officer with the United States Department of State.

Skills and Qualifications of Particular Relevance to Cardinal Health

Mr. Kenny brings to the Board significant experience in the areas of Board and executive leadership, manufacturing operations, strategic planning, management, finance, human resources, corporate governance and international markets. He provides the Board with a deep understanding of strategic and financial implications impacting a global business with manufacturing and distribution operations. He also draws upon his Board governance and leadership experience as previous Chair of our Human Resources and Compensation Committee and current Chair of our Nominating and Governance Committee, and as Ingredion's Lead Director and Corporate Governance and Nominating Committee Chair. As our independent Lead Director, Mr. Kenny has promoted strong independent leadership on our Board and a robust, deliberative decision making process among independent directors. In addition, Mr. Kenny brings to the Board valuable perspectives and insights from his service on AK Steel's Board of Directors and his prior service on General Cable's and IDEX's board of directors.

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Proposal 1—Election of Directors

Nancy Killefer Age 63 Director since 2015

Senior Partner, Public Sector Practice, McKinsey & Company, Inc.
(retired)

Independent Director Director Qualification Highlights

Other Public

Boards: The Advisory

Board Company, a

provider of software

and solutions to the

healthcare and

education industries

(since 2013); Avon

Products, Inc., a global

manufacturer and

marketer of beauty

products (since 2013);

CSRA, Inc., a provider

of information

technology services to

the U.S. federal

government (since

2015); Computer

Sciences Corporation,

a global provider of

information

technology services

(2013 - 2015)

ü Strategic Planning

ü Healthcare

ü Regulatory / Public Policy / Government

ü Technology

ü Executive Leadership

ü Financial Expertise

Ms. Killefer served as Senior Partner of McKinsey & Company, Inc., a global management consulting firm, from 1992 until 2013. She joined McKinsey in 1979 and held a number of key leadership roles, including serving as a member of the firm's governing board. Ms. Killefer founded McKinsey's Public Sector Practice in 2007 and served as its managing partner until her retirement. She also served as Assistant Secretary for Management, Chief Financial Officer and Chief Operating Officer for the United States Department of Treasury from 1997 to 2000.

Skills and Qualifications of Particular Relevance to Cardinal Health

Having served in key leadership positions in both the public and private sectors and provided strategic counsel to healthcare and consumer-based companies during her 30 years with McKinsey, Ms. Killefer brings to the Board substantial experience in the areas of strategic planning, including healthcare strategy, marketing and brand building, executive leadership and information technology. Her extensive experience as a partner of a global consulting firm and as a chief financial officer of a government agency provides valuable insight in these areas as well as in government relations and public policy. Ms. Killefer also brings to the Board valuable perspectives and insights from her service on the boards of directors of The Advisory Board, Avon Products (including its Compensation and Management Development Committee), and CSRA, Inc. (including her role as independent Chairman since August 2016).

David P. King Age 61 Director since 2011

Chairman, President and Chief Executive Officer of

Laboratory Corporation of America Holdings

Independent Director Director Qualification Highlights

ü Healthcare

Other Public	<input checked="" type="checkbox"/> Regulatory / Public Policy
Boards: Laboratory	<input checked="" type="checkbox"/> Strategic Planning
Corporation of	<input checked="" type="checkbox"/> Operations
America Holdings	<input checked="" type="checkbox"/> Executive Leadership
(since 2007)	<input checked="" type="checkbox"/> Financial Expertise
	<input checked="" type="checkbox"/> International

Mr. King has served as President and Chief Executive Officer of Laboratory Corporation of America Holdings, a global healthcare diagnostics company ("LabCorp"), since 2007, and as Chairman of LabCorp since 2009. Previously he held other senior positions with LabCorp, including Executive Vice President and Chief Operating Officer, Executive Vice President, Strategic Planning and Corporate Development, and Senior Vice President, General Counsel and Chief Compliance Officer.

Skills and Qualifications of Particular Relevance to Cardinal Health

Having spent 16 years in senior executive roles with LabCorp, including the past ten years as its Chief Executive Officer, Mr. King brings to the Board substantial experience in the areas of healthcare, operations, management, regulatory compliance, finance, executive leadership, strategic planning, human resources, corporate governance and global healthcare markets. He also brings to the Board valuable perspectives and insights from his position as Chairman of LabCorp's board of directors. Prior to LabCorp, Mr. King was a practicing attorney for 17 years, having worked in both private practice focusing on healthcare and with the U.S. Department of Justice.

The Board recommends that you vote FOR the election of these director nominees.

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Proposal 1—Election of Directors

Our director nominees possess relevant experience, skills and qualifications that contribute to a well-functioning Board that effectively oversees the company's strategy and management. A chart of director skills and expertise is provided below:

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Corporate Governance

Board of Directors

Our Board of Directors currently consists of 11 members, 10 of whom are independent. Our Board is led by Chairman and Chief Executive Officer George S. Barrett, independent Lead Director Gregory B. Kenny (who also chairs the Nominating and Governance Committee), Audit Committee Chair Clayton M. Jones, and Human Resources and Compensation Committee Chair David P. King.

The Board held eight meetings during fiscal 2017. During fiscal 2017, each director attended 75% or more of the meetings of the Board and Board committees on which he or she served. All of our directors attended the 2016 Annual Meeting of Shareholders. Absent unusual circumstances, each director is expected to attend the Annual Meeting of Shareholders.

Board Leadership Structure

For a number of years, our Board has been led by a Chairman of the Board (who is also the Chief Executive Officer), a strong independent Lead Director, and active, independent chairs of the Audit, Nominating and Governance and Human Resources and Compensation Committees.

Our Board is responsible for selecting the Chairman of the Board and the Chief Executive Officer and has determined that its current leadership structure effectively promotes strong Board governance and oversight. The combined Chairman and Chief Executive Officer structure has allowed us to focus on long-term shareholder value and respond effectively to rapidly evolving industry changes and market dynamics, as well as to acquisition opportunities and competitive market pressures. Under this leadership structure, our Board has continued to provide effective, independent oversight of strategic decisions, management and regulatory compliance. The effectiveness of this structure has been demonstrated by strong performance over the past several years, including compound annual non-GAAP diluted EPS growth rate of 13.4% and total shareholder return (TSR) of 272%[†] since August 31, 2009. The Board believes that our Chief Executive Officer is best suited to serve as Chairman because of his unique knowledge of our businesses, the healthcare industry and our shareholders. This structure fosters effective decision-making and alignment between the Board and management, enables a single person to speak on behalf of the Board and the company to our customers, vendors, employees, shareholders and regulators, and provides strong leadership and a powerful "tone from the top" to focus on our compliance and reputation, growth and long-term success.

The Board ensures rigorous independent leadership through an active, engaged independent Lead Director with clearly defined responsibilities, who is elected annually by the independent directors. In selecting a Lead Director, the independent directors look for robust leadership skills, including fostering open dialogue among independent directors, candid input to management, an understanding of our strategy and businesses, and substantial governance experience and understanding. The independent Lead Director:

- works closely with the Chairman in developing the agenda, materials and schedule for Board meetings and approves the agenda and information sent to the Board;
- consults with and advises the Chairman on matters arising between Board meetings relating to our business, strategy, operations or governance;
- leads the Board's annual self-evaluation in coordination with the Nominating and Governance Committee;
- reviews the results of the evaluation of individual directors with those directors;
- contributes to the annual performance assessment of the Chief Executive Officer;
- participates in engagement with major shareholders;
- sets the agenda for and leads all executive sessions of independent directors;
- serves as a liaison between the Chairman and the independent directors; and
- has the authority to call additional executive sessions of the independent directors.

Total shareholder return over the period from August 31, 2009, when Mr. Barrett became Chairman and Chief
†Executive Officer, through June 30, 2017 expressed as a percentage, calculated based on changes in stock price
assuming reinvestment of dividends.

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Corporate Governance

Mr. Kenny, who has served as Lead Director since November 2014, has been actively engaged in Board leadership and shareholder engagement. Over the past year, Mr. Kenny has met regularly with Mr. Barrett and worked closely with him in developing Board agendas, schedules and topics, including discussions regarding long-term strategies and capital deployment. He has chaired regular executive sessions of the independent directors and met with Mr. Barrett regarding matters arising from these meetings. He has frequently gathered feedback and input from independent directors and provided it to Mr. Barrett and other members of management. Mr. Kenny has devoted significant time

to understanding our businesses and strategy, and has access to members of senior management. Mr. Kenny also leads the annual evaluation of the Board and the individual evaluation of each director. In addition, Mr. Kenny participated in the Human Resources and Compensation Committee's meeting to review Mr. Barrett's annual performance and compensation. Finally, during the year, Mr. Kenny held governance discussions with several large investors and attended a major healthcare investor conference with management, where he also met with many of our investors. Committees of the Board of Directors

The Board has an Audit Committee, a Nominating and Governance Committee and a Human Resources and Compensation Committee (the "Compensation Committee"). Each member of these Committees is independent under our Corporate Governance Guidelines and under applicable Committee independence rules.

The charter for each committee is available on our website at www.cardinalhealth.com under "About Us—Corporate—Investor Relations—Corporate Governance—Board Committees and Charters." This information also is available in print (free of charge) to any shareholder who requests it from our Investor Relations department. Audit Committee

Members:

Clayton M. Jones (Chair)
David J. Anderson*
Bruce L. Downey
Patricia A. Hemingway Hall

Meetings in fiscal 2017: 8

*Mr. Anderson served on the Audit Committee until December 2016 and was re-appointed to the Committee on September 14, 2017 after his employment with Alexion ended.

The Audit Committee's primary duties are to:

- oversee the integrity of our financial statements, including reviewing annual and quarterly financial statements and earnings releases and the effectiveness of our internal and disclosure controls;
- appoint the independent auditor and oversee its qualifications, independence and performance, including pre-approving all services by the independent auditor;
- review our internal audit plan and oversee our internal audit department;
- approve the appointment of our Chief Legal and Compliance Officer and oversee our ethics and compliance program and our compliance with applicable legal and regulatory requirements; and
- oversee our major financial and information technology risk exposures and our process for assessing and managing risk through our enterprise risk management program.

The Board has determined that each member of the Audit Committee is an “audit committee financial expert” for purposes of the SEC rules.

Nominating and Governance Committee

- Members: The Nominating and Governance Committee’s primary duties are to:
- Gregory B. •
- Kenny (Chair) identify, review and recommend candidates for the Board, including recommending criteria to the
- Colleen F. Arnold Board for potential Board candidates and assessing the qualifications, attributes, skills,
- Patricia A. contributions and independence of individual directors and director candidates;
- Hemingway Hall •
- make recommendations to the Board concerning the structure, composition and functions of the Board and its committees;
-
- advise the Board on Board leadership and leadership structure;
-
- Meetings in fiscal review our corporate governance guidelines and practices and recommend changes;
- 2017: 4 •
- conduct the annual Board evaluation and oversee the process for the evaluation of each director;
- and
-
- oversee our policies and practices regarding political expenditures.

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Corporate Governance

Human Resources and Compensation Committee

- Members: The Compensation Committee's primary duties are to:
- David P. •
 - King (Chair) approve compensation for the Chief Executive Officer, establish relevant performance goals, and
 - Carrie S. evaluate his performance;
 - Cox •
 - Calvin approve compensation for our other executive officers and oversee their evaluations;
 - Darden •
 - Nancy make recommendations to the Board with respect to the adoption of, and administer, equity and
 - Killefer incentive compensation plans;
 -
 - review our non-management directors' compensation program and recommend changes to the Board;
 -
 - oversee the management succession process for the Chief Executive Officer and senior executives;
 -
 - oversee workplace diversity initiatives and progress;
 -
 - Meetings in oversee and assess material risks related to compensation arrangements; and
 - fiscal •
 - 2017: 6 assess the independence of Compensation Committee's consultant and evaluate its performance.

The Compensation Discussion and Analysis, which begins on page 22, discusses how the Compensation Committee makes compensation-related decisions regarding our named executive officers. The Compensation Committee acts as the administrator of our incentive plans and delegates to our officers authority to administer the plans with respect to participants who are not officers subject to Section 16 of the Securities Exchange Act of 1934 (the "Exchange Act").

Director Independence

The Board has established director independence standards based on the NYSE Rules. These standards can be found within our Corporate Governance Guidelines on our website at www.cardinalhealth.com under "About Us—Corporate—Investor Relations—Corporate Governance—Corporate Governance Documents." These standards address, among other things, employment and compensation relationships, relationships with our auditor and customer and business relationships.

The Board assesses director independence annually, and as needed, based on the recommendations of the Nominating and Governance Committee.

The Board has determined that each of Messrs. Anderson, Darden, Downey, Jones, Kenny and King, and each of Mmes. Arnold, Cox, Hemingway Hall and Killefer, is independent. Mr. Anderson ceased to be independent in December 2016 when he became Chief Financial Officer of Alexion, which supplies pharmaceuticals to us in the ordinary course of its business. Mr. Anderson again became independent after his employment with Alexion ended. In determining that Mr. King is independent, the Nominating and Governance Committee considered that he is Chairman, President and Chief Executive Officer of LabCorp. We sell medical and laboratory products to LabCorp in the ordinary course of business. LabCorp's payments to us were less than 1% of our, and less than 2% of LabCorp's, revenue for each of the last three years.

Director Qualification Standards

The Nominating and Governance Committee considers and reviews with the Board the appropriate skills and characteristics for Board members. These include business experience, qualifications, attributes and skills, including healthcare industry and knowledge, as well as financial, international, operations, and technology experience, independence (including independence from the interests of a particular group of shareholders), judgment, integrity, ability to commit sufficient time and attention to the activities of the Board and the absence of potential conflicts with our interests.

The Nominating and Governance Committee considers these skills and qualifications when assessing the composition of the Board as a whole, and seeks diversity of skills, experience and backgrounds on the Board. The Nominating and Governance Committee assesses the effectiveness of this process based on its review of qualifications in the Director skills matrix on page 9. This assessment is ongoing and occurs both during the Committee's regular meetings as well as during the Board's annual self-assessment process.

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Corporate Governance

The Nominating and Governance Committee is responsible for identifying, reviewing and recommending candidates for the Board and is working with a firm that was retained to assist in identifying and selecting independent director candidates. The Board is

responsible for selecting candidates for election as directors based on the recommendation of the Nominating and Governance Committee.

Board Diversity

Our Corporate Governance Guidelines provide that the Board should be diverse, engaged and independent. In developing and recommending criteria for identifying and evaluating candidates for the Board, the Nominating and Governance Committee considers the diversity of the Board, including ethnic and gender

diversity. We believe the composition of our Board appropriately reflects a diversity of skills, professional and personal backgrounds and experiences and 45% of our Board members are ethnically or gender diverse.

Board Performance Assessment

For several years, our Board has had a rigorous self-evaluation process, which has included individual director evaluations. This process is overseen by the Nominating and Governance Committee and led by our independent Lead Director.

Our Board uses an outside facilitator with corporate governance experience who interviews each director to obtain his or her feedback regarding the Board's performance as well as feedback on each director. Based on the feedback, which is compiled anonymously, the Board identifies follow-up items and provides feedback to management.

The Board evaluation process includes an assessment of both Board process and substance, including:

- the Board's effectiveness, structure, composition and culture;
- quality of Board discussions, including time devoted to discussion and presentations;
- the Board's performance in oversight of strategy, succession planning, business performance, regulatory compliance, risk management and other key areas; and
- agenda topics for future meetings.

The outside facilitator also compiles feedback regarding each individual director, which the Lead Director provides to each director in individual discussion. The Board believes this annual process supports its effectiveness and continuous improvement.

Resignation Policy for Incumbent Directors Not Receiving Majority Votes

Our Corporate Governance Guidelines require any incumbent director who is not re-elected by shareholders in an uncontested election to promptly tender a resignation to the Chairman of the Board. Within 90 days following the certification of the shareholder

vote, the Nominating and Governance Committee will recommend to the Board whether to accept the resignation. Thereafter, the Board will promptly act and publicly disclose its decision and the rationale behind the decision.

Shareholder Engagement

We actively engage with our shareholders throughout the year so that management and the Board can better understand shareholder perspectives on governance, executive compensation and other topics that are important to them, and to assess emerging issues that may help shape our practices and enhance our corporate disclosures. We strive for a collaborative approach to shareholder engagement and value the variety of shareholders' perspectives received.

During the past three years, our independent Lead Director has participated in outreach discussions with our large shareholders. In addition, as in past years, we held regular discussions with our largest shareholders and solicited feedback from our top 50 investors on corporate governance matters. During fiscal 2017 we contacted governance professionals from our largest shareholders collectively representing more than 50% of our outstanding shares during fiscal 2017. An overview of our engagement process is below.

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Corporate Governance

After considering feedback from shareholders in recent years, we have:

- adopted a proxy access right for shareholders;
- enhanced our disclosures regarding the Board's role in strategy and risk oversight;
- formalized additional responsibilities for the independent Lead Director and enhanced our disclosure about the Lead Director's role and activities;

- formalized our annual individual director evaluation process and expanded our disclosure about the annual Board evaluation process;

- enhanced our executive compensation clawback provision;

- provided more detailed disclosure in the Proxy Summary and the Compensation Discussion and Analysis Executive Summary; and

- added a chart of director qualifications and experience in the proxy statement.

Strategy and Risk Oversight

Board's Oversight of Strategy and Capital Deployment

The Board regularly discusses our strategy in light of company performance, developments in the rapidly changing healthcare industry and the general business and global economic environment, and reviews and approves our capital deployment, including dividends, share repurchase plans and significant acquisitions. At two of its in-person meetings each year, the Board conducts dedicated strategy sessions with in-depth discussions with senior management on the healthcare industry and environmental factors and reviews specific businesses and new business opportunities. These strategy sessions have included external speakers such as business partners and advisors, as well as off-site visits to company facilities and customer locations. The Board also discusses risks related to our strategies, including those resulting from possible competitor, customer and supplier actions, the changing healthcare environment and new technologies. The collective backgrounds, skills and experiences of our directors, including broad healthcare experience, contribute

to robust discussions regarding strategic planning and risk oversight.

As an example, our Board discussed the possible acquisition of the Patient Recovery Business from Medtronic plc over a number of meetings beginning in the fall of 2016, when we learned that these assets might be for sale. We devoted significant portions of two in-person Board meetings to a detailed review and discussion of the possible acquisition and related capital deployment, and had several Board updates between these meetings. The Board approved the acquisition at a special meeting in April 2017.

Board's Role in Risk Oversight

Management has day-to-day responsibility for assessing and managing risks, and the Board is responsible for risk oversight. We have developed an enterprise risk management process, which our Audit Committee oversees and our Chief Legal and Compliance Officer administers. Under this process, management identifies and prioritizes enterprise risks and develops systems to assess, monitor and mitigate those risks. Management reviews and discusses with the Board significant risks identified through the process. The Audit Committee also is responsible for

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Corporate Governance

discussing with management our major financial risk exposures, our ethics and compliance programs, and compliance with legal and regulatory requirements. The Board and Audit Committee receive regular updates on the effectiveness of our compliance programs, including our healthcare regulatory compliance, anti-corruption and controlled substance anti-diversion program, as well as updates on potential information system and cyber security

exposures and mitigation strategies. In connection with its risk oversight role, the Audit Committee meets regularly with representatives from our independent registered public accounting firm and our Chief Financial Officer, Chief Legal and Compliance Officer and the head of our internal audit function.

The Opioid Epidemic and Risk Management

As a pharmaceutical distributor, we provide a safe and secure channel for transporting prescription medications of all types, including opioid pain medications, from manufacturers approved by the Food and Drug Administration to licensed pharmacies. Our role is to ensure medications of all kinds—oncology, blood pressure, antibiotic, pain and other medications—are available to pharmacies that are licensed by their state and regulated by the Drug Enforcement Administration to dispense these medications to patients with valid medical prescriptions. As a pharmaceutical distributor, we do not manufacture, market, promote or dispense these medications, and we do not interact with patients, diagnose medical conditions, write prescriptions or otherwise practice medicine. As part of our safe and secure distribution channel, we maintain a rigorous anti-diversion program to prevent opioid pain medications from being diverted for improper uses.

Our Board is highly engaged in oversight of our anti-diversion program and is committed to helping with the complex national opioid abuse public health crisis. Our anti-diversion program includes state-of-the-art controls designed to prevent diversion of pain medication from legitimate uses. The Board regularly reviews and discusses with management the effectiveness of our anti-diversion program, which focuses on our regulatory obligation to detect and report suspicious orders. The Board also monitors and discusses the causes of, and our role in helping to address, this national epidemic. In 2014, in response to a shareholder demand, the Board appointed a committee of independent directors to conduct a review of our anti-diversion program utilizing independent counsel. The committee found, among other things, that we had implemented and maintained a robust system of controls to detect and report suspicious orders and that our Board was well informed of those controls. Since that review, the Board has continued to actively focus on the effectiveness of our anti-diversion program and to support its continued enhancements through regular reviews with management.

Ethics and Compliance Program

The Board has adopted written Standards of Business Conduct that outline our corporate values and standards of integrity and behavior. The Standards of Business Conduct are designed to foster a culture of integrity, drive compliance with legal and regulatory requirements and protect and promote the reputation of our company. The full text of the Standards of Business Conduct is posted on our website at www.cardinalhealth.com under “About Us—Our Business—Ethics and Compliance.” This information also is available in print (free of charge) to any shareholder who requests it from our Investor Relations department.

Our Chief Legal and Compliance Officer has responsibility to implement and maintain an effective ethics and compliance program. He also provides quarterly updates on our ethics and compliance program to the Audit Committee and an update to the full Board at least once a year. He reports to the Chair of the Audit Committee and to the Chief Executive Officer and meets in separate executive sessions quarterly with the Audit Committee.

Management Succession Planning

The Board is actively engaged in our talent management program. The Compensation Committee oversees the process for succession planning for the Chief Executive Officer and senior executives, and management provides an

organizational update at each quarterly Compensation Committee meeting. The Board

maintains an emergency succession plan as well as a long-term succession plan for the position of Chief Executive Officer.

The Board holds a formal succession planning and talent review session annually, which includes succession planning for other senior management positions. These talent review and

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succession planning discussions take into account desired leadership skills, key capabilities and experience in light of our current and evolving business and strategic direction, and include identification and development of internal candidates. Directors also have exposure to leaders through Board presentations and

discussions, as well as through informal events and interactions with key talent throughout the year, both in small group and one-on-one settings. In addition, the Board regularly discusses management talent and succession in its executive sessions.

Certain Relationships and Related Transactions

Related Person Transactions Policy

The Board follows a written policy that the Audit Committee must approve or ratify any "related person transactions" (transactions exceeding \$120,000 in which we are a participant and any related person has a direct or indirect material interest). "Related persons" include our directors, nominees for election as a director, persons controlling over 5% of our common shares, executive officers and the immediate family members of each of these individuals.

Once a related person transaction is identified, the Audit Committee will review all of the relevant facts and circumstances and determine whether to approve the transaction. The Audit Committee will take into account such factors as it considers appropriate, including the material terms of the transaction, the nature of the related person's interest in the transaction, the significance of the transaction to the related person and us, the nature of the related person's relationship with us and whether the transaction would be likely to impair the judgment of a director or executive officer to act in our best interest.

If advance approval of a transaction is not feasible, the Audit Committee will consider the transaction for ratification at its next regularly scheduled meeting. The Audit Committee Chairman may

pre-approve or ratify any related person transactions in which the aggregate amount is expected to be less than \$1 million.

Related Person Transactions

Since July 1, 2016, there have been no transactions, and there are no currently proposed transactions, involving an amount exceeding \$120,000 in which we were or are to be a participant and in which any related person had or will have a direct or indirect material interest, except as described below.

Mr. Anderson served as Chief Financial Officer of Alexion, a biotechnology company, from December 11, 2016 until July 31, 2017, and as an employee of Alexion until August 31, 2017. When Mr. Anderson joined Alexion, we had a pre-existing commercial relationship with Alexion which was negotiated at arm's length and in the ordinary course of business, and has continued since Mr. Anderson ended his employment with Alexion. From July 1, 2016 through July 31, 2017, we purchased for distribution to our customers approximately \$394 million of Alexion product.

Mr. Anderson has not been involved in any decisions or activities directly associated with the transactions between Alexion and us. These transactions were approved by our Audit Committee in accordance with the Related Person Transactions Policy.

Corporate Governance Guidelines

You can find the full text of our Corporate Governance Guidelines on our website at www.cardinalhealth.com under "About Us—Corporate—Investor Relations—Corporate Governance—Corporate Governance Documents." This information is available in print (free of charge) to any shareholder who requests it from our Investor Relations department.

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Proposal 2—Ratification of Ernst & Young LLP as Independent Auditor

The Audit Committee of the Board of Directors is directly responsible for the appointment, compensation, retention and oversight of our independent auditor and approves the audit engagement letter with Ernst & Young LLP and its audit fees. The Audit Committee has appointed Ernst & Young LLP as our independent auditor for fiscal 2018 and believes that the continued retention of Ernst & Young LLP as our independent auditor is in the best interest of Cardinal Health and its shareholders. Ernst & Young LLP has served as our independent auditor since 2002. In accordance with SEC rules, lead audit partners are subject to rotation requirements, which limit the number of consecutive years an individual partner may serve us. The Audit Committee oversees the rotation of the audit partners. The Audit Committee Chairman interviews candidates for audit partner and the Audit Committee discusses them. While not required by law, we are asking our shareholders to ratify the appointment of Ernst & Young LLP as our independent auditor for fiscal 2018 at the Annual Meeting as a matter of good corporate

governance. If shareholders do not ratify this appointment, the Audit Committee will consider whether it is appropriate to appoint another audit firm. Even if the appointment is ratified, the Audit Committee in its discretion may appoint a different audit firm at any time during the fiscal year if it determines that such a change would be in the best interest of the company and its shareholders. Our Audit Committee approved, and our shareholders ratified, the appointment of Ernst & Young LLP as our independent auditor for fiscal 2017.

We expect representatives of Ernst & Young LLP to be present at the Annual Meeting. They will have an opportunity to make a statement if they desire to do so and to respond to appropriate questions from shareholders.

The Board recommends that you vote FOR the proposal to ratify the appointment of Ernst & Young LLP as our independent auditor for fiscal 2018.

Audit Committee Report and Audit Matters

Audit Committee Report

The Audit Committee is responsible for monitoring the integrity of Cardinal Health's financial statements; the independent auditor's qualifications, independence and performance; Cardinal Health's internal audit function; Cardinal Health's ethics and compliance program and its compliance with legal and regulatory requirements; and Cardinal Health's processes for assessing and managing risk. As of the date of the report, the Audit Committee consisted of three members of the Board of Directors. Mr. Anderson was subsequently re-appointed to the Audit Committee on September 14, 2017. The Board of Directors has determined that each current Committee member is an "audit committee financial expert" for purposes of the SEC rules and is independent. The Audit Committee's activities are governed by a written charter, most recently revised by the Board of Directors in November 2016. The charter is available on Cardinal Health's website at www.cardinalhealth.com under "About Us—Corporate—Investor Relations—Corporate Governance—Board Committees and Charters."

Management has primary responsibility for the financial statements and for establishing and maintaining the system of internal control over financial reporting. Management also is responsible for reporting on the effectiveness of Cardinal Health's internal control over financial reporting. Cardinal Health's independent auditor, Ernst & Young LLP, is responsible for performing an independent audit of Cardinal Health's consolidated financial statements and for issuing a report on the financial statements and a report on the effectiveness of Cardinal Health's internal control over financial reporting based on its audit.

The Audit Committee reviewed and discussed the audited financial statements for the fiscal year ended June 30, 2017 with management and with Ernst & Young LLP. The Audit Committee also reviewed and discussed with management and Ernst & Young LLP the effectiveness of Cardinal Health's internal control over financial reporting as well as management's report and Ernst & Young LLP's report on the subject. The Audit Committee discussed with Ernst & Young LLP the matters related to the conduct of its audit that are required to be communicated by auditors to audit committees under applicable requirements of the Public Company

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Audit Committee Report and Audit Matters

Accounting Oversight Board (the "PCAOB") and matters related to Cardinal Health's financial statements, including critical accounting estimates and judgments. The Audit Committee received from Ernst & Young LLP the written disclosures and letter regarding Ernst & Young LLP's independence from Cardinal Health required by applicable PCAOB requirements and discussed Ernst & Young LLP's independence.

The Audit Committee meets regularly with Ernst & Young LLP, with and without management present, to review the overall scope and plans for Ernst & Young LLP's audit work and to discuss the results of its examinations, the evaluation of Cardinal Health's internal control over financial reporting and the overall quality of Cardinal Health's accounting and financial reporting. In addition, the Audit Committee annually considers the performance of Ernst & Young LLP.

In reliance on the review and discussions referred to above, the Audit Committee recommended to the Board of Directors that the audited financial statements for the fiscal year ended June 30, 2017 be included in Cardinal Health's Annual Report on Form 10-K for filing with the SEC.

Submitted by the Audit Committee of the Board of Directors on August 8, 2017.

Clayton M. Jones, Chairman

Bruce L. Downey

Patricia A. Hemingway Hall

Fees Paid to Independent Accountants

The following table sets forth the fees billed to us by Ernst & Young LLP for services in fiscal 2017 and 2016.

	Fiscal Year Ended June 30, 2017 (\$)	Fiscal Year Ended June 30, 2016 (\$)
Audit fees (1)	9,546,537	9,722,883
Audit-related fees (2)	2,722,451	3,780,485
Tax fees (3)	841,082	980,523
All other fees	—	—
Total fees	13,110,070	14,483,891

(1) Audit fees include fees paid to Ernst & Young LLP related to the annual audit of our consolidated financial statements, the annual audit of the effectiveness

of our internal control over financial reporting, the review of financial statements included in our Quarterly Reports on Form 10-Q and statutory audits of various international subsidiaries. Audit fees also include fees for services performed by Ernst & Young LLP that are closely related to the audit and in many cases could only be provided by our independent accountant, such as comfort letters and consents related to SEC registration statements.

(2) Audit-related fees include fees for services related to acquisitions and divestitures, audit-related research and assistance, internal control reviews, service auditor's examination reports and employee benefit plan audits.

Tax fees include fees for tax compliance and other tax-related services. The aggregate fees billed to us by Ernst & Young LLP for tax compliance and other tax-related services for fiscal 2017 were \$797,514 and \$43,568, respectively, and for fiscal 2016 were \$546,722 and \$433,801, respectively.

Audit Committee Audit and Non-Audit Services Pre-Approval Policy

The Audit Committee must pre-approve the audit and permissible non-audit services performed by our independent accountants in order to help ensure that the accountants remain independent from Cardinal Health. The Audit Committee has adopted a policy governing this pre-approval process.

Under the policy, the Audit Committee annually pre-approves certain services and assigns specific dollar thresholds for these types of services. If a proposed service is not included in the annual pre-approval, the Audit Committee must separately pre-approve the service before the engagement begins.

The Audit Committee has delegated pre-approval authority to the Chairman of the Audit Committee for proposed services up to \$500,000. Proposed services exceeding \$500,000 require full Audit Committee approval. All audit and non-audit services provided for us by Ernst & Young LLP for fiscal 2017 and 2016 were pre-approved by the Audit Committee.

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Proposal 3—Advisory Vote to Approve the Compensation of Our Named Executive Officers

In accordance with Section 14A of the Exchange Act, we are asking our shareholders to approve, on a non-binding advisory basis, the compensation of our named executive officers, as disclosed in the Compensation Discussion and Analysis, the Summary Compensation Table and the related compensation tables, notes and narrative in this proxy statement.

We urge shareholders to read the Compensation Discussion and Analysis beginning on page 22 of this proxy statement, which describes in more detail how our executive compensation program operates and is designed to achieve our compensation objectives, as well as the Summary Compensation Table and related compensation tables, notes and narrative appearing on pages 30 through 41, which provide detailed information on the compensation of our named executive officers.

The Compensation Committee and the Board believe that the executive compensation program described in the Compensation Discussion and Analysis is designed to support our long-term growth, with accountability for key annual results. We tie most of executive pay to performance based on financial, operational and individual performance, and we believe that our compensation programs are competitive in the marketplace.

While we took important actions to strengthen our market position, increase our scale, add new, long-term drivers of growth and improve the overall balance of our integrated portfolio in fiscal 2017, we did not achieve the earnings goal under our annual

incentive plan, largely as a result of a challenging generic pharmaceutical pricing environment. Our named executives other than Mr. Barrett received payouts at 25% of their respective targets. Mr. Barrett declined to be considered for an annual incentive payout, and the Compensation Committee did not award him a payout. The payouts demonstrate strong alignment between our pay and our performance.

Although this advisory vote is not binding on the Board, the Board and the Compensation Committee will review and consider the voting results when evaluating our executive compensation program.

The Board has adopted a policy providing for annual say-on-pay advisory votes. Accordingly, subject to the outcome of Proposal 4 and the decision of the Board, the next say-on-pay advisory vote will be held at our 2018 Annual Meeting of Shareholders.

The Board recommends that you vote FOR the approval, on a non-binding advisory basis, of the compensation of our named executive officers, as disclosed in the Compensation Discussion and Analysis, the Summary Compensation Table and the related compensation tables, notes and narrative in this proxy statement.

Proposal 4—Advisory Vote on Frequency of Future Advisory Votes to Approve Executive Compensation

In accordance with Section 14A of the Exchange Act, we are asking shareholders to vote on whether future advisory votes on executive compensation (like Proposal 3 above) should occur once every one, two or three years. This vote is not binding on the Board. Based on input from shareholders, the Board has determined that holding an advisory vote on executive compensation every year is most appropriate for us at this time, and recommends that shareholders vote to hold such votes every year. Holding an annual advisory vote provides us with more direct and immediate insight into our shareholders' views on our executive compensation program.

Although this advisory vote is not binding on the Board, we will carefully review the voting results on this proposal. Notwithstanding the Board's recommendation and the outcome of

the shareholder vote, the Board may in the future decide to vary its practice on the frequency of advisory votes on executive compensation based on factors such as discussions with shareholders.

You may specify one of four choices for this proposal on the proxy card: one year, two years, three years or abstain. You are not voting to approve or disapprove the Board's recommendation.

The Board recommends that you vote to conduct future advisory votes to approve executive compensation every ONE YEAR.

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Share Ownership Information

Beneficial Ownership

The table below sets forth certain information regarding the beneficial ownership of our common shares by and the percentage of our outstanding common shares represented by such ownership for:

each person known by us to own beneficially more than 5% of our outstanding common shares;

our directors;

our executive officers named in the Summary Compensation Table on page 30; and

all executive officers and directors as a group.

A person has beneficial ownership of shares if the person has voting or investment power over the shares or the right to acquire such power in 60 days. Investment power means the power to direct the sale or other disposition of the shares. Except as otherwise described in the notes below, information on the number of shares beneficially owned is as of September 11, 2017, and the listed beneficial owners have sole voting and investment power.

Name of Beneficial Owner	Common Shares		Additional Restricted Performance Units (11)
	Number Beneficially Owned	Percent of Class	
Wellington Management Group LLP (1)	40,120,566	12.7	—
BlackRock, Inc. (2)	23,919,543	7.6	—
The Vanguard Group (3)	22,358,098	7.1	—
Barrow, Hanley, Mewhinney & Strauss, LLC (4)	21,364,753	6.8	—
State Street Corporation (5)	16,617,021	5.3	—
David J. Anderson (6)(7)	7,785	*	—
Colleen F. Arnold (7)	7,511	*	19,569
George S. Barrett (8)	1,752,605	*	86,199
Donald M. Casey Jr. (8)	313,002	*	99,090
Carrie S. Cox (7)	6,758	*	16,306
Calvin Darden (7)	12,972	*	19,608
Bruce L. Downey (7)	16,975	*	18,387
Jon L. Giacomini (8)	148,271	*	24,684
Patricia A. Hemingway Hall (7)	6,323	*	2,612
Clayton M. Jones (7)	6,323	*	6,018
Michael C. Kaufmann (8)(9)	486,626	*	47,990
Gregory B. Kenny (7)	12,492	*	19,584
Nancy Killefer (7)	4,295	*	—
David P. King (7)	8,975	*	9,446
Craig S. Morford (8)	142,510	*	108,768
All Executive Officers and Directors as a Group (18 Persons)(10)	3,071,048	*	521,343

* Indicates beneficial ownership of less than 1% of the outstanding shares.

Based on information obtained from a Schedule 13G/A filed with the SEC on February 9, 2017 by Wellington Management Group LLP, Wellington Group Holdings LLP, Wellington Investment Advisors Holdings LLP and (1) Wellington Management Company LLP. The address of these entities is 280 Congress Street, Boston, Massachusetts 02210. These entities reported that, as of December 30, 2016, Wellington Management Group LLP had shared voting power with respect to 9,616,602 shares and shared

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Share Ownership Information

dispositive power with respect to all shares shown in the table, Wellington Group Holdings LLP had shared voting power with respect to 9,616,602 shares and shared dispositive power with respect to all shares shown in the table, Wellington Investment Advisors Holdings LLP had shared voting power with respect to 9,616,602 shares and shared dispositive power with respect to all shares shown in the table and Wellington Management Company LLP had shared voting power with respect to 9,301,550 shares and shared dispositive power with respect to 39,350,365 shares. The number and percentage of shares held by these entities may have changed since the filing of the Schedule 13G/A.

Based on information obtained from a Schedule 13G/A filed with the SEC on January 23, 2017 by BlackRock, Inc. ("BlackRock"). The address of BlackRock is 55 East 52nd Street, New York, New York 10055. BlackRock (2) reported that, as of December 31, 2016, it had sole voting power with respect to 19,458,612 shares and sole dispositive power with respect to all shares shown in the table. The number and percentage of shares held by BlackRock may have changed since the filing of the Schedule 13G/A.

Based on information obtained from a Schedule 13G/A filed with the SEC on February 10, 2017 by The Vanguard Group ("Vanguard"). The address of Vanguard is 100 Vanguard Boulevard, Malvern, Pennsylvania 19355.

(3) Vanguard reported that, as of December 31, 2016, it had sole voting power with respect to 500,349 shares, shared voting power with respect to 62,268 shares, sole dispositive power with respect to 21,797,227 shares and shared dispositive power with respect to 560,871 shares. The number and percentage of shares held by Vanguard may have changed since the filing of the Schedule 13G/A.

Based on information obtained from a Schedule 13G filed with the SEC on February 10, 2017 by Barrow, Hanley, Mewhinney & Strauss, LLC ("Barrow Hanley"). The address of Barrow Hanley is 2200 Ross Avenue, 31st Floor, Dallas, TX 75201-2761. Barrow Hanley reported that, as of December 31, 2016, it had sole voting power with (4) respect to 5,459,797 shares, shared voting power with respect to 15,904,956 shares, and sole dispositive power with respect to all shares shown in the table. The number and percentage of shares held by Barrow Hanley may have changed since the filing of the Schedule 13G.

Based on information obtained from a Schedule 13G filed with the SEC on February 10, 2017 by State Street Corporation ("State Street"). The address of State Street is State Street Financial Center, One Lincoln Street, Boston, MA 02111. State Street reported that, as of December 31, 2016, it had sole voting power with respect to (5) 90,515 shares, shared voting power with respect to 16,526,506 shares, and shared dispositive power with respect to all shares shown in the table. The number and percentage of shares held by State Street may have changed since the filing of the Schedule 13G.

(6) Includes 400 common shares held by Mr. Anderson's spouse.

Common shares listed as being beneficially owned by our non-management directors include (a) outstanding restricted share units ("RSUs") that may be settled within 60 days, as follows: Mr. Anderson—6,323 shares; (7) Ms. Arnold—6,323 shares; Ms. Cox—6,323 shares; Mr. Darden—6,323 shares; Mr. Downey—6,323 shares; Ms. Hemingway Hall—4,475 shares; Mr. Jones—6,323 shares; Mr. Kenny—7,113 shares; Ms. Killefer—4,295 shares; and Mr. King—6,323 shares; and (b) phantom stock over which the participants have sole voting rights under our DCP, as follows: Mr. Anderson—62 shares; Ms. Arnold—1,188 shares; Mr. Darden—5,514 shares; and Mr. Kenny—5,379 share

Common shares listed as being beneficially owned by our named executives include (a) outstanding stock options that are currently exercisable or will be exercisable within 60 days, as follows: Mr. Barrett—1,320,419 shares; (8) Mr. Casey—260,841 shares; Mr. Giacomini—123,751 shares; Mr. Kaufmann—346,477 shares; and Mr. Morford—141,120 shares; and (b) outstanding RSUs that will be settled within 60 days, as follows: Mr. Casey—10,006 shares; Mr. Giacomini—1,779 shares; and Mr. Kaufmann—13,341 shares.

(9) Includes 10 common shares held by Mr. Kaufmann's spouse.

(10) Common shares listed as being beneficially owned by all executive officers and directors as a group include (a) outstanding stock options for an aggregate of 2,281,968 shares that are currently exercisable or will be exercisable within 60 days; (b) an aggregate of 85,270 RSUs that may or will be settled in common shares within 60 days; and (c) an aggregate of 12,143 shares of phantom stock over which the participants have sole voting rights under

our DCP.

"Additional Restricted and Performance Share Units" include vested and unvested RSUs and vested performance (11)share units ("PSUs") that will not be settled in common shares within 60 days. RSUs and PSUs do not confer voting rights and generally are not considered "beneficially owned" shares under the SEC rules. Compliance with Section 16(a) of the Exchange Act

Based solely upon a review of Forms 3, 4 and 5 furnished to us and written representations from our officers and directors, we believe that all of our officers and directors and all beneficial owners of 10% or more of any class of our registered equity securities timely filed all reports required under Section 16(a) of the Exchange Act during fiscal 2017.

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Compensation Discussion and Analysis Executive Summary

This Compensation Discussion and Analysis focuses on the compensation of the following executive officers (the "named executives") for fiscal 2017 and describes the executive compensation program and the decisions of the Compensation Committee under the program.

Name	Title
George S. Barrett	Chairman and Chief Executive Officer
Michael C. Kaufmann	Chief Financial Officer
Donald M. Casey Jr.	Chief Executive Officer—Medical Segment
Jon L. Giacomini	Chief Executive Officer—Pharmaceutical Segment
Craig S. Morford	Chief Legal and Compliance Officer

Fiscal 2017 Performance

In fiscal 2017, we took important actions to strengthen our market position, increase our scale, add new, long-term drivers of growth and improve the overall balance of our integrated portfolio.

In July 2017, we acquired the Patient Recovery Business from Medtronic plc for \$6.1 billion. These well-established, industry-leading product lines are complementary to our medical product business, fit naturally into our customer offering and expand our global reach. The new portfolio will help us further expand our scope in the operating room, in long-term care facilities and in home healthcare, reaching customers across the entire continuum of care.

In our Pharmaceutical segment, our Specialty Solutions business had outstanding growth, expanding its therapeutic reach and growing its hospital and physician customer base, and we saw excellent performance from our Red Oak Sourcing generic sourcing venture with CVS Health Corporation.

- In our Medical segment, our medical products distribution business had its strongest growth in recent years, and we continued to expand our Cardinal Health branded product portfolio with nearly 12,000 product SKUs in 850 categories, more than double from five years ago. We also saw excellent growth from our naviHealth business.

On the financial side:

Revenue increased 7% to a record \$130.0 billion.

GAAP diluted EPS decreased 7% to \$4.03, while non-GAAP diluted EPS[‡] increased 3% to \$5.40, reflecting a challenging generic pharmaceutical pricing environment.

Our Pharmaceutical segment grew revenue 7%, while segment profit decreased 12% largely driven by the generic pharmaceutical pricing environment, partially offset by the benefits from Red Oak Sourcing.

Our Medical segment grew revenue 9% and segment profit 25%, with profit growth being driven by contributions from the naviHealth business, Cardinal Health branded products and distribution services.

We returned \$1.2 billion to shareholders, including \$1.80 per share in dividends and \$600 million in share repurchases.

Fiscal 2017 Key Compensation Decisions

For fiscal 2017, the Compensation Committee set the adjusted non-GAAP operating earnings goal for a 100% payout under our annual incentive plan higher than the prior fiscal year goal, and set the threshold for a 40% payout at 92% of that goal. While we achieved 89% of the goal, we did not achieve the threshold, largely as a result of the challenging generic pharmaceutical pricing environment. In recognition of our strategic and operational accomplishments during fiscal 2017, however, the Compensation Committee awarded payouts to our named executives other than Mr. Barrett at 25% of their respective targets under our annual incentive plan. Mr. Barrett declined to be considered for an annual incentive payout, and the Compensation Committee did not award him a payout. Cash compensation (salary plus annual incentive payout) for each of our named executives was down between 38% to 64% compared to the prior fiscal year.

[‡]

We provide the reasons we use non-GAAP financial measures and the reconciliations to their most directly comparable GAAP financial measures on pages 18 through 20 of the Fiscal 2017 Form 10-K.

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Compensation Discussion and Analysis

Results of 2016 Advisory Vote to Approve Executive Compensation and Shareholder Engagement

At the 2016 Annual Meeting of Shareholders, our say-on-pay advisory vote received 93% support. The Compensation Committee considered this vote—as well as shareholder feedback from our engagement efforts discussed below—as demonstrating strong support for our executive compensation program and determined to maintain the current structure of our executive

compensation program when making compensation decisions for fiscal 2017.

We hold regular discussions with our largest shareholders and solicit feedback from our top 50 investors on corporate governance topics, including executive compensation. During fiscal 2017, we contacted governance professionals from our shareholders representing more than 50% of our outstanding shares. (See pages 13 and 14 for further detail about shareholder engagement.)

Compensation Philosophy and Practices

Our compensation program is designed to support our long-term growth, with accountability for key annual results. It has the following key objectives:

- **Reward performance.** We tie most of executive pay to performance based on financial, operational and individual performance.

- **Drive stock ownership.** Long-term incentive grants combined with stock ownership guidelines provide executives with meaningful ownership stakes and align their interests with shareholders.

- **Emphasize long-term incentive compensation.** We emphasize performance and retention through the use of long-term incentive compensation, which supports sustainable long-term shareholder return.

Attract, retain and reward the best talent to achieve superior results for shareholders. We need to attract and retain top talent to drive superior results for our shareholders. We have structured our compensation programs to be competitive in the marketplace, with a focus on pay and performance alignment.

Executive Compensation Governance Features

WHAT WE HAVE

- ü Significant portion of executive pay "at risk"
- ü Different metrics for annual incentives and PSUs
- ü Caps on annual cash incentive and PSU payouts
- ü Minimum vesting period for long-term incentive awards
- ü Stock ownership guidelines for directors and executive officers
- ü Compensation recoupment ("clawback") provisions
- ü Long-standing, proactive shareholder engagement program

WHAT WE DON'T HAVE

- û No dividend equivalents on unvested PSUs or RSUs
- û No repricing of underwater options without shareholder approval
- û No hedging or pledging of company stock
- û No executive pensions or supplemental retirement plans
- û No "single trigger" change of control arrangements
- û No excise tax gross-ups upon change of control

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Compensation Discussion and Analysis

Elements of Fiscal 2017 Compensation for Executive Officers

We have three elements of total direct compensation: base salary, annual incentives and long-term incentives. Long-term incentives consist of an equally-weighted mix of PSUs, stock options and RSUs. A significant portion of executive compensation is performance-based and at-risk (annual incentives, PSUs and stock options). At the beginning of the fiscal year, the Compensation Committee reviews targets for the named executives' incentives and sets the performance goals under our annual incentive plan and PSUs. Following the end of the performance period, the Compensation Committee evaluates actual performance against the performance goals and determines payouts.

Pay Element	Description and Purpose	Links to Business and Talent Strategies
Base salary	<ul style="list-style-type: none">Fixed cash compensation; reviewed annually and adjusted when appropriate	<ul style="list-style-type: none">Competitive base salaries support our ability to attract and retain executive talent
	<ul style="list-style-type: none">Set based on historic salary levels, market data, individual performance, experience and skills, and internal pay equity	
Annual incentives	<ul style="list-style-type: none">Variable cash compensation based on achieving annual financial goals and operational and individual performance	<ul style="list-style-type: none">Primary financial measure reflects our focus on operating earnings, with tangible capital modifier promoting efficient use of capital
	<ul style="list-style-type: none">Target as a percentage of base salary based on market data and internal pay equity	
Long-term incentives	<ul style="list-style-type: none">Equally weighted between PSUs, stock options and RSUs	<ul style="list-style-type: none">Supports sustainable long-term shareholder return and closely aligns management's interests with shareholders'PSU measures (non-GAAP diluted EPS growth and dividend yield) influence shareholder returns over the long termStock options and RSUs retain executive talent and promote focus on stock price appreciation
	<ul style="list-style-type: none">PSUs vest based on achieving the performance goal over a three-year period; stock options and RSUs vest ratably over three years	
	<ul style="list-style-type: none">Target annual grant value based on market data and internal pay equity	
Base Salary		

The Compensation Committee did not change Mr. Barrett's base salary during fiscal 2017. At the beginning of fiscal 2017, the Compensation Committee increased base salaries for Messrs. Kaufmann, Casey, Giacomini and Morford between 3% and 5% based on individual performance, an assessment of market data for their roles and internal pay equity.

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Compensation Discussion and Analysis

Annual Incentive Compensation

While we achieved 89% of our earnings goal, we did not achieve the threshold for a 40% payout under our annual incentive plan, largely as a result of the challenging generic pharmaceutical pricing environment. In recognition of our strategic and operational accomplishments during fiscal 2017, however, the Compensation Committee awarded payouts to our named executives other than Mr. Barrett at 25% of their respective targets under our annual incentive plan, and approved a 33% enterprise funding percentage for the remainder of the organization. Mr. Barrett declined to be considered for an annual incentive payout, and the Compensation Committee did not award him a payout. Cash compensation (salary plus annual incentive payout) for each of our named executives was down between 38% to 64% compared to the prior fiscal year.

At the beginning of fiscal 2017, the Compensation Committee set the goal of \$3,089 million of adjusted non-GAAP operating earnings, which, if achieved, would fund a 100% payout. This goal represented 5% growth compared to the prior fiscal year. In order to fund a 40% payout, we had to achieve a threshold of \$2,853 million (or 92% of the goal). Our actual performance of \$2,734 million (or 89% of the goal) fell short of that threshold. (We describe how we calculate adjusted non-GAAP operating earnings under “Annual Cash Incentive and PSU Performance Measure Calculations” on page 34.)

(in millions)	Actual	Threshold	Goal	Maximum	Comments
Adjusted non-GAAP operating earnings	\$2,734	\$2,853	\$3,089	\$3,749	Achieved 89% of the goal
Enterprise funding percentage (1)	33%	40%	100%	200%	

(1) Had we achieved threshold performance, the enterprise funding percentage would have been subject to adjustment up or down by up to 10 percentage points based on tangible capital performance.

In exercising its discretion to award annual incentive payouts, the Compensation Committee considered the following strategic and operational accomplishments during fiscal 2017:

- strategy, deal execution and financing efforts for the Patient Recovery Business acquisition;
- outstanding growth in our Specialty Solutions and Nuclear Pharmacy Services businesses and excellent performance from Red Oak Sourcing;

- significant and timely progress on the Pharmaceutical segment's project to replace certain finance and operating information systems and the pharmaceutical distribution business's SG&A expense control; and
- strong performance of the naviHealth business and the Medical segment's distribution services.

Name	Target (Percent of Base Salary)	Target Amount (\$)	Actual Amount (\$)	Actual (Percent of Target)
Barrett	150	1,980,000	0	0
Kaufmann	100	746,438	186,609	25
Casey	100	705,014	176,253	25
Giacomin	100	567,151	141,788	25
Morford	85	469,328	117,332	25

Long-Term Incentive Compensation

At the beginning of fiscal 2017, the Compensation Committee awarded Mr. Barrett long-term incentive compensation with a total value of \$9.5 million, consistent with the target value in his employment agreement. The Compensation Committee increased Mr. Kaufmann's, Casey's and Giacomin's targets to

\$2.85 million, in each case based on market data and internal pay equity considerations. The Committee increased Mr. Morford's target to \$1.55 million based on the additional responsibilities he assumed following the Cordis acquisition, leadership transitions within the Legal and Compliance organization and market data.

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Compensation Discussion and Analysis

We equally weight our long-term incentive grants between PSUs, stock options and RSUs and may adjust annual grants from target to reflect individual performance, retention or succession planning.

Fiscal 2017 Long-Term Incentive Grants

Name	Annual Grant	Actual Grants		Target	Total
	Target (\$)	Stock Options (\$)	RSUs (\$)	PSUs (\$)	
Barrett	9,500,000	3,166,667	3,166,667	3,166,667	9,500,001
Kaufmann	2,850,000	997,500	997,500	950,000	2,945,000
Casey	2,850,000	997,500	997,500	950,000	2,945,000
Giacomin	2,850,000	950,000	950,000	950,000	2,850,000
Morford	1,550,000	516,667	516,667	516,667	1,550,001

Fiscal 2017-2019 PSU Grants

For the PSUs granted at the beginning of fiscal 2017 (the "Fiscal 17-19 PSUs"), the Compensation Committee set the three-year performance goal based on the sum of non-GAAP diluted EPS compound annual growth rate ("CAGR") and average annual dividend yield, which are the same performance measures we used for PSU grants made in prior years. These measures influence total shareholder return over the long term and align management's interests with shareholders'. These measures reflect operating performance as well as capital deployment through acquisitions, dividends and share repurchases. We describe how we calculate these measures under "Annual Cash Incentive and PSU Performance Measure Calculations" on page 34.

While we stated the performance goal in absolute terms, as in years past, we established the goal factoring in relative market data. We considered historical data for diluted EPS growth rate and dividend yield of the Standard & Poor's ("S&P") 500 Index, the S&P 500 Healthcare Index and our Comparator Group, which is discussed on page 28. We also took into account our company-specific long-term outlook, as well as analysts' estimates of future performance of Comparator Group companies.

The table below shows the funding percentages set for the three-year period for varying levels of performance.

	Performance (%)	Funding Percentage
Threshold	7.0	50
Goal	12.0	100
Maximum	17.0	200

Fiscal 2015-2017 PSU Payouts

In August 2017, the Compensation Committee certified the payout of the PSUs granted at the beginning of fiscal 2015 (the "Fiscal 15-17 PSUs") based on performance against the non-GAAP diluted EPS CAGR and average annual dividend yield goal. The table below shows the funding percentages at varying levels of performance over the three-year period and the actual funding percentage.

	Performance (%)	Funding Percentage
Threshold	7.0	50
Goal	12.0	100
Maximum	17.0	200
Actual	14.1 (1)	133

(1) Non-GAAP diluted EPS CAGR was 11.9% and average annual dividend yield was 2.2% over the performance period. As permitted by the terms of the PSU agreements, the Compensation Committee excluded the respective \$0.02 and \$0.04 per share net positive effect of certain discrete tax items from fiscal 2014 and 2017 non-GAAP

diluted EPS.

The following table shows the target and earned Fiscal 15-17 PSUs for our named executives.

Name	Target Number of Shares (#)	Number of Shares Earned (#)
Barrett	37,333	49,653
Kaufmann	9,800	13,034
Casey	9,800	13,034
Giacomin	8,253	10,976
Morford	5,600	7,448

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Compensation Discussion and Analysis

Other Elements of Compensation

Deferred Compensation and 401(k) Savings Plans

We maintain a DCP and 401(k) Savings Plan to allow the vast majority of our employees based in the United States and Puerto Rico to accumulate value on a tax-deferred basis and to be competitive in recruiting and retaining talent. Our DCP permits certain management employees, including the named executives, to defer payment and taxation of a portion of their salary and annual incentive compensation into a variety of different investment alternatives. We may make matching contributions to the deferred balances of participants, subject to limits discussed under “Deferred Compensation” on page 36. We also may make non-matching contributions to the 401(k) Savings Plan and DCP based on pre-established performance goals on the same basis for all employees. We did not exceed the pre-established performance goal for fiscal 2017 and accordingly did not make any non-matching contributions for fiscal 2017. Named executives also may elect to defer payment and taxation of PSUs and RSUs.

Other Benefits and Perquisites

Mr. Barrett's employment agreement provides that he may use our corporate aircraft for personal travel. He does not receive tax reimbursement for any imputed income associated with personal travel. The Compensation Committee encourages Mr. Barrett to use corporate aircraft for personal travel as it increases his time available for business purposes and enhances his safety and security. During fiscal 2017, the Compensation Committee set Mr. Barrett's personal travel allowance at \$150,000. Consistent with Mr. Barrett's employment agreement, any personal travel that

would cause the amount reported in our annual proxy statement to exceed \$150,000 requires advance approval from the Compensation Committee. Under an aircraft time sharing agreement with Mr. Barrett, he may reimburse us for incremental costs when he uses the aircraft for personal travel; reimbursed travel does not count against the \$150,000 allowance.

Severance and Change of Control Benefits

Mr. Barrett's employment agreement provides for benefits payable upon specified employment termination events. Mr. Barrett will receive cash severance equal to two times the sum of his annual base salary and his target bonus payable in 24 equal monthly installments if we terminate his employment without "cause," or if he terminates employment for "good reason." He also will receive a prorated bonus for the year of termination based on actual achievement of performance goals and his vested stock options will remain exercisable for two years. Mr. Barrett's employment agreement does not provide for special treatment of any unvested equity awards.

We discuss our limited severance payments and benefits in detail under “Potential Payments on Termination of Employment or Change of Control” beginning on page 38. We do not have any agreements to provide change-of-control excise tax gross-ups.

Our Board has a policy requiring us to obtain shareholder approval of severance agreements with our executives that provide cash severance benefits that exceed 2.99 times the sum of base salary and bonus.

Our Policies, Guidelines and Practices Related to Executive Compensation

Role of Compensation Committee's Compensation Consultant

The Compensation Committee has retained Frederic W. Cook & Co., Inc. ("Cook") as its independent executive compensation consultant since 2011.

The nature and scope of Cook's engagement consist primarily of:

- participating in meetings of the Compensation Committee;
- providing compensation data on the Comparator Group; and
- providing support, advice and recommendations related to compensation for our Chief Executive Officer and other executive officers, the design of our executive compensation program (including the plan design for annual and long-term incentives), the composition of our Comparator Group and director compensation.

The Compensation Committee has made an assessment under factors set forth in NYSE rules and concluded that Cook is independent and that the firm's work for the Compensation Committee did not raise any conflicts of interest.

Role of Executive Officers

Our Chief Executive Officer and Chief Human Resources Officer participate in Compensation Committee meetings to make recommendations as to design and compensation amounts, to present performance assessments of the named executives (other than our Chief Executive Officer) and, together with our Chief Financial Officer, to discuss our financial and operational performance.

Our Chief Executive Officer reviewed fiscal 2017 performance objectives with the Compensation Committee at the beginning of the fiscal year, including financial objectives and non-financial objectives for customer, strategic and talent priorities. The

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Compensation Discussion and Analysis

Compensation Committee reviews and discusses the performance and compensation of our Chief Executive Officer in executive session and with the Lead Director. The Chief Executive Officer does not participate in decisions regarding his own compensation.

Comparator Group

The Compensation Committee establishes target compensation levels based on a variety of factors, including data from a "Comparator Group" of similarly situated public companies, which helps the Committee to assess whether our executive pay remains reasonable and competitive in the marketplace. Developed with the assistance of Cook, our Comparator Group reflects the industry in which we primarily compete for executive talent and includes direct competitors and other companies in the healthcare field. Our Comparator Group also includes air/freight and logistics companies because of those companies' similar business models. The following companies comprised the Comparator Group for fiscal 2017 executive pay decisions:

Aetna	Express Scripts	Quest Diagnostics
AmerisourceBergen	FedEx	Sysco
Anthem	Henry Schein	Thermo Fisher Scientific
Baxter International	Humana	United Parcel Service
Becton, Dickinson	Kimberly-Clark*	UnitedHealth Group
Boston Scientific	LabCorp	Walgreens Boots Alliance
CIGNA	McKesson	
CVS Health	Owens & Minor	

* Removed for fiscal 2018 executive pay decisions.

The Committee, working with its compensation consultant, periodically reviews the group's composition to ensure that the companies remain relevant for comparison purposes. The Committee used the following screening criteria when it last reviewed the Comparator Group's composition:

- revenue ranging from 0.2 to 2 times our annual revenue;
- market capitalization ranging from 0.2 to 5 times our market capitalization;
- inclusion in the peer group of 5 or more of the other companies in our Comparator Group; and
- inclusion in our Global Industry Classification Standard (GICS) sub-industry group, Health Care Equipment and Services.

Our revenue has been in the top quintile of the Comparator Group, while our market capitalization has been in the third quintile.

Our Compensation Committee compares total direct compensation (base salary plus annual and long-term incentives) against the 50th percentile of the Comparator Group as a reference point in setting target compensation levels. In addition to

competitive market data, the Committee also considers internal pay equity and an executive's experience and scope of responsibility, individual performance, potential and unique or hard-to-replace skills, as well as retention concerns.

Risk Assessment of Compensation Programs

Management has assessed our compensation programs and concluded that our compensation policies and practices do not create risks that are reasonably likely to have a material adverse effect on Cardinal Health. This risk assessment included reviewing the design and operation of our compensation programs, identifying and evaluating situations or compensation elements that could raise more significant risks and evaluating other controls and processes designed to identify and manage risk. The Compensation Committee reviewed and discussed the risk assessment and Cook reviewed the risk assessment and concurred with management's conclusion.

Stock Ownership Guidelines

We have stock ownership guidelines to align the interests of executive officers and directors with the interests of our shareholders. The guidelines specify a dollar value (expressed as a multiple of salary or cash retainer) of shares that

executive officers and directors must accumulate and hold while serving in these positions. All named executives exceed the required ownership level.

	Multiple of Base Salary/ Annual Cash Retainer
Chairman and Chief Executive Officer	6x
Chief Financial Officer and Segment CEOs	4x
Other executive officers	3x
Non-management directors	5x

We count common shares, RSUs and phantom shares held through the DCP under the stock ownership guidelines. Executive officers and directors must retain 100% of the net after-tax shares received under any equity awards until they satisfy the required ownership levels.

Potential Impact on Compensation from Executive Misconduct ("Clawbacks")

Our incentive plans and agreements provide that we may require repayment of cash incentives and gains realized under equity awards and cancel outstanding equity awards in specified instances of executive misconduct. In addition, in August 2017, we amended our incentive plan to provide that any cash award paid to an executive officer will be subject to repayment if the executive officer commits a material violation of law or of our Standards of Business Conduct that causes material financial harm to us.

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Compensation Discussion and Analysis

We will disclose publicly the incentive compensation forfeitures or repayments from our executive officers if required by law or if we have already disclosed publicly the underlying event triggering the forfeiture or repayment and the disclosure would not violate any individual's privacy rights, is not likely to result in or exacerbate any existing or threatened employee, shareholder or other litigation, arbitration, investigation or proceeding against us and is not otherwise prohibited.

We discuss these provisions in more detail under "Potential Impact on Compensation from Executive Misconduct ("Clawbacks")" on page 34.

Hedging and Pledging Shares

Our Board has adopted a policy prohibiting all employees and directors from engaging in short sales, publicly traded options, puts and calls, forward sale contracts and other swap, hedging and derivative transactions relating to our securities. The Board also has adopted a policy prohibiting our executive officers and directors from holding our securities in margin accounts or pledging our securities as collateral for a loan.

Equity Grant Practices

The Compensation Committee typically approves the annual equity grant in August of each year and sets August 15 as the grant date. The Compensation Committee expects the annual grant date to follow the release of earnings for the prior fiscal year in early August, without regard to whether we are aware of material nonpublic information.

Equity Dilution Practices

Our fiscal 2017 annual equity run rate was 0.8%. We calculate our equity run rate as the total number of shares subject to equity awards granted in the fiscal year divided by the weighted average number of our common shares outstanding during the fiscal year.

Minimum Vesting of Equity Grants

We recently added one-year minimum vesting provisions to our 2011 Long-Term Incentive Plan (the "2011 LTIP"). We discuss these provisions in more detail under "2011 Long-Term Incentive Plan" on page 33.

Tax Matters

Section 162(m) of the Internal Revenue Code ("Code") precludes us from taking a tax deduction for non-performance-based compensation in excess of \$1 million paid in any fiscal year to our Chief Executive Officer and three other most highly compensated executive officers (other than the Chief Financial Officer). While we intend annual cash incentive, PSU and stock option awards to qualify as performance-based compensation within the meaning of Section 162(m) and, as such, to be fully deductible, due to the complexity of Section 162(m), amounts intended to qualify as "performance-based compensation" may not satisfy applicable requirements. In addition, we maintain flexibility to operate our compensation programs in a manner designed to promote varying company goals. For purposes of qualifying payments as performance-based compensation under Section 162(m), the Compensation Committee established the performance criteria of \$900 million in non-GAAP operating earnings for fiscal 2017 annual cash incentive awards and \$1.00 of non-GAAP diluted EPS in fiscal 2017 for the Fiscal 15-17 PSUs, both of which we exceeded.

Executive Compensation

Human Resources and Compensation Committee Report

We have reviewed and discussed the foregoing Compensation Discussion and Analysis with management. Based on that review and discussion, we have recommended to the Board of Directors that the Compensation Discussion and Analysis be included in this proxy statement and in Cardinal Health's Annual Report on Form 10-K for the fiscal year ended June 30, 2017.

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

David P. King, Chairman

Carrie S. Cox

Calvin Darden
Nancy Killefer

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Executive Compensation

Executive Compensation Tables

The table below summarizes fiscal 2017 compensation for our Chief Executive Officer, our Chief Financial Officer and each of our three other most highly compensated executive officers at June 30, 2017, the end of our fiscal 2017. Summary Compensation Table

Name and Principal Position	Year	Salary (\$)	Bonus (\$)(1)	Stock Awards (\$)(2)	Option Awards (\$)(3)	Non-Equity Incentive Plan Compensation (\$)	Change in Pension Value and Nonqualified Deferred Compensation Earnings (\$)	All Other Compensation (\$)(4)	Total Compensation (\$)
George S. Barrett	2017	1,320,000	—	6,333,255	3,166,434	—	—	165,488	10,985,177
Chairman and Chief Executive Officer	2016	1,320,000	—	6,491,739	3,330,665	2,386,755	—	131,928	13,661,087
	2015	1,320,000	—	5,983,334	3,320,657	2,510,508	—	135,232	13,269,731
Michael C. Kaufmann	2017	746,438	186,609	1,947,561	997,432	—	—	14,979	3,893,019
Chief Financial Officer	2016	721,311	—	1,575,006	826,402	880,723	—	27,251	4,030,693
	2015	688,630	—	4,540,005	841,018	1,053,260	—	36,338	7,159,251
Donald M. Casey Jr.	2017	705,014	176,253	1,947,561	997,432	—	—	10,800	3,837,060
Chief Executive Officer—Medical Segment	2016	671,311	—	1,505,062	806,369	894,188	—	22,830	3,899,760
	2015	650,000	—	3,005,055	805,967	618,118	—	31,653	5,110,793
Jon L. Giacomini	2017	567,151	141,788	1,900,060	949,930	—	—	14,966	3,573,895
Chief Executive Officer—Pharmaceutical Segment	2016	542,623	—	1,400,062	701,196	602,314	—	27,770	3,273,965
	2015	480,685	—	1,237,482	629,304	679,692	—	37,170	3,064,333
Craig S. Morford	2017	552,151	117,332	1,033,386	516,631	—	—	14,967	2,234,467
Chief Legal and Compliance Officer	2016	531,311	—	1,620,055	420,707	576,487	—	37,579	3,186,139
	2015	510,000	—	800,016	400,477	559,598	—	35,453	2,305,544

As discussed in Compensation Discussion and Analysis above, while we did not achieve the performance threshold for a 40% payout under our annual incentive plan, the Compensation Committee, in its discretion, awarded payouts (1) to our named executives other than Mr. Barrett at 25% of their respective targets under the Management Incentive Plan (the "MIP"). Mr. Barrett declined to be considered for an annual incentive payout, and the Compensation Committee did not award him a payout.

The amounts reported represent the aggregate grant date fair value of PSUs (at target) and RSUs granted during each fiscal year. The amounts reported in each fiscal year do not represent amounts paid to or realized by the named executives. See the Grants of Plan-Based Awards for Fiscal 2017 table on page 32 and the accompanying (2) footnotes for information on the grant date fair value of each award granted in fiscal 2017. The value of the Fiscal 17-19 PSUs granted during fiscal 2017 assuming achievement of the maximum 200% funding would be: Mr. Barrett—\$6,333,255; Mr. Kaufmann—\$1,900,060; Mr. Casey—\$1,900,060; Mr. Giacomini—\$1,900,060; and Mr. Morford—\$1,033,386. The named executives may never realize any value from the PSUs.

(3) The amounts reported represent the grant date fair value of nonqualified stock options granted during each fiscal year and do not represent amounts paid to or realized by the named executives. See the Grants of Plan-Based Awards for Fiscal 2017 table on page 32 and the accompanying footnotes for information on the grant date fair value of stock options granted during fiscal 2017 and the assumptions used in determining the grant date fair value.

The named executives may never realize any value from these stock options, and to the extent they do, the amounts realized may be more or less than the amounts reported above.

- (4) The elements of compensation included in the “All Other Compensation” column for fiscal 2017 are set forth in the table below.

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Executive Compensation

The amounts shown for “All Other Compensation” for fiscal 2017 include (a) company matching contributions to the named executive’s account under our 401(k) plan; (b) company matching contributions to the named executive’s account under our DCP; and (c) perquisites, in the following amounts:

Name	Company 401(k) Savings Plan Contributions (\$)	Company Deferred Compensation Plan Contributions (\$)	Perquisites (\$)(a)	Total (\$)
Barrett	10,800	4,000	150,688	165,488
Kaufmann	10,800	4,179	—	14,979
Casey	10,800	0	—	10,800
Giacomin	10,800	4,166	—	14,966
Morford	10,800	4,167	—	14,967

The amounts shown include the value of perquisites and other personal benefits if the aggregate value exceeded \$10,000. Where we report perquisites and other personal benefits, we quantify each perquisite or personal benefit if (a) it exceeds \$25,000. The amount reported for Mr. Barrett for fiscal 2017 included the incremental cost to us of his personal use of corporate aircraft (\$149,731) and home security system monitoring fees.

We own corporate aircraft and lease other aircraft. We calculate the incremental cost of personal use of corporate aircraft based on the average cost of fuel, average trip-related maintenance costs, crew travel expenses, per flight landing fees, hangar and parking costs and smaller variable costs, offset by any timeshare payments by the executive. Since we use our aircraft primarily for business travel, we do not include fixed costs, such as depreciation, pilot salaries and certain maintenance costs. Mr. Barrett receives up to \$150,000 in personal use of corporate aircraft without advance approval of the Compensation Committee. He does not receive tax reimbursement for any imputed income associated with personal travel. We have an aircraft time sharing agreement with Mr. Barrett under which he is permitted to reimburse us for the incremental costs of his personal use of corporate aircraft consistent with Federal Aviation Administration regulations; reimbursed travel does not count against the \$150,000 authorization.

CEO Employment Agreement

Mr. Barrett is the only executive officer with an employment agreement. In August 2015, we entered into an amendment with Mr. Barrett to his employment agreement to provide that he will continue to serve as Chairman and Chief Executive Officer until the earlier of the date of our Annual Meeting of Shareholders following June 30, 2018 or December 31, 2018, subject to earlier termination in accordance with its terms.

As amended, the employment agreement provides, among other things, for Mr. Barrett:

to receive an annual base salary of at least \$1,320,000;

to participate in our annual cash incentive award program with a target annual award of at least 150% of his annual base salary, payable based on performance objectives that our Compensation Committee determines in consultation with him; and

to receive an annual long-term incentive award grant comprised of PSUs, stock options, RSUs and other incentives as determined by the Committee with a target value of \$9,500,000, with each annual award subject to the Board’s discretion based on both company and individual performance.

The agreement also provides that Mr. Barrett receives personal use of corporate aircraft, which currently is a maximum of \$150,000.

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Executive Compensation

Grants of Plan-Based Awards for Fiscal 2017

The table below supplements our Summary Compensation Table by providing additional information about our plan-based compensation for fiscal 2017.

Name/ Award Type	Grant Date	Approval Date	Estimated Potential Payouts Under Non-Equity Incentive Plan Awards (1)			Estimated Potential Payouts Under Equity Incentive Plan Awards (2)			All Other Stock Awards Number of Shares or Units (#)(3)		All Other Option Awards: Number of Securities Underlying Options (#)(4)		Exercise or Base Price of Option Awards (\$/Sh)(5)		Grant Date Fair Value of Stock and Option Awards \$(6)
			Threshold (\$)	Target (\$)	Maximum (\$)	Threshold (#)	Target (#)	Maximum (#)							
Barrett Annual Incentive		8/4/2016	792,000	1,980,000	3,960,000										
PSUs	8/15/2016	8/4/2016				19,033	38,065	76,130							3,166,627
Option	8/15/2016	8/4/2016									189,380	83.19			3,166,434
RSUs	8/15/2016	8/4/2016							38,065						3,166,627
Kaufmann Annual Incentive		8/4/2016	298,575	746,438	1,492,876										
PSUs	8/15/2016	8/4/2016				5,710	11,420	22,840							950,030
Option	8/15/2016	8/4/2016									59,655	83.19			997,432
RSUs	8/15/2016	8/4/2016							11,991						997,531
Casey Annual Incentive		8/4/2016	282,005	705,014	1,410,028										
PSUs	8/15/2016	8/4/2016				5,710	11,420	22,840							950,030
Option	8/15/2016	8/4/2016									59,655	83.19			997,432
RSUs	8/15/2016	8/4/2016							11,991						997,531
Giacomin Annual Incentive		8/4/2016	226,860	567,151	1,134,302										
PSUs	8/15/2016	8/4/2016				5,710	11,420	22,840							950,030
Option	8/15/2016	8/4/2016									56,814	83.19			949,930
RSUs	8/15/2016	8/4/2016							11,420						950,030
Morford Annual Incentive		8/4/2016	187,731	469,328	938,656										
PSUs	8/15/2016	8/4/2016				3,106	6,211	12,422							516,693
Option	8/15/2016	8/4/2016									30,899	83.19			516,631
RSUs	8/15/2016	8/4/2016							6,211						516,693

(1) This information relates to annual cash incentive award opportunities with respect to fiscal 2017 performance.

- "Equity Incentive Plan Awards" are PSUs granted during the fiscal year under our 2011 LTIP that are eligible to vest after a three-year performance period based on the sum of (i) non-GAAP diluted EPS CAGR and (ii) average annual dividend yield. We accrue cash dividend equivalents that are payable when, and only to the extent that, the PSUs vest.
- (2) "All Other Stock Awards" are RSUs granted during the fiscal year under our 2011 LTIP that vest ratably over three years and accrue cash dividend equivalents that are payable when, and only to the extent that, the RSUs vest.
- (3) "All Other Option Awards" are nonqualified stock options granted during the fiscal year under our 2011 LTIP that vest ratably over three years and have a term of 10 years.
- (4) The stock options have an exercise price equal to the closing price of our common shares on the NYSE on the grant date.
- (5) We valued the PSUs and RSUs by multiplying the closing price of our common shares on the NYSE on the grant date (\$83.19) by the number of PSUs (at target) and RSUs awarded. We valued the stock options granted utilizing a lattice model with the following assumptions: expected stock option life: 7.05 years; dividend yield: 2.16%; risk-free interest rate: 1.42%; and expected volatility: 23.86%. The amounts reported represent the grant date fair value and do not represent amounts paid to or realized by the named executives. The named executives may never realize any value from the PSUs or stock options. To the extent they realize value from stock options, the amounts realized may be more or less than the amounts reported above.
- (6)

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Executive Compensation

Management Incentive Plan

Our key executive employees, including our named executives, were eligible to receive fiscal 2017 annual cash incentive awards under our MIP. The Compensation Committee establishes "performance criteria" during the first three months of each fiscal year and may establish "performance goals" (which criteria and goals may vary from year to year). For fiscal 2017, the Compensation Committee established the performance criterion of \$900 million in non-GAAP operating earnings. This performance criterion was intended to allow payments under the MIP to qualify as performance-based compensation under Section 162(m) of the Code and to be fully tax deductible by us. The named executives would not receive any payout under the MIP unless we achieved this threshold.

As discussed in the Compensation Discussion and Analysis, the Compensation Committee also set a performance goal of adjusted non-GAAP operating earnings, and established a matrix of potential funding percentages based upon achievement of varying levels of earnings, subject to adjustment based on tangible capital performance. The funding percentage determines the total pool for annual incentive awards under the MIP.

Adjusted non-GAAP operating earnings is based on the non-GAAP operating earnings measure that we use in our presentations with shareholders, which is one of our primary measures of operating performance, but is adjusted to exclude certain variable, performance-based compensation expenses. Tangible capital focuses on the efficient use of capital. We describe how we calculate these measures under "Annual Cash Incentive and PSU Performance Measure Calculations" on page 34.

The MIP allows the Compensation Committee, in its discretion, to make annual incentive awards to named executives if we do not achieve the threshold level for the performance goal, but we achieve the performance criterion. As discussed in the Compensation Disclosure and Analysis, our actual fiscal 2017 adjusted non-GAAP operating earnings fell below the threshold level for the performance goal, but we exceeded the performance criterion of \$900 million in non-GAAP operating earnings. For our named executives other than Mr. Barrett, the Committee recognized our fiscal 2017 strategic and operational accomplishments and, in its discretion, awarded payouts at 25% of their respective targets. Mr. Barrett declined to be considered for an annual incentive payout, and the Compensation Committee did not award him a payout.

As we previously disclosed, beginning in fiscal 2018, we administer our annual cash incentive program under our 2011 LTIP in order to have a single plan for all of our executive incentive compensation.

2011 Long-Term Incentive Plan

Under our 2011 LTIP, we may grant stock options, stock appreciation rights, stock awards, other stock-based awards and cash awards to employees. During fiscal 2017, we granted PSUs, nonqualified stock options and RSUs to our named executives, as shown in the Grants of Plan-Based Awards for Fiscal 2017 table on page 32, under the 2011 LTIP. The plan provides for "double-trigger" accelerated vesting in connection with a change of control, under which the vesting of awards will accelerate only if there is a qualifying termination within two years after the change of control or if the surviving entity does not provide qualifying replacement awards.

We recently added one-year minimum vesting provisions to our 2011 LTIP. Under these provisions, stock options and stock awards are subject to a one-year vesting condition, except upon a change of control, upon the death or disability of the grantee or for up to an aggregate not to exceed 5% of the total number of shares provided for in the 2011 LTIP. PSUs granted under the 2011 LTIP settle following the end of a performance period by the issuance of a number of our common shares, which may be a fraction or multiple of the target number of PSUs subject to an award. Issuance of the shares is subject to both continued employment and the achievement of performance criteria and goals established by the Compensation Committee (which may vary from award to award).

The Compensation Committee establishes PSU performance criteria and goals during the first three months of each performance period. For the PSUs granted during fiscal 2017, the Compensation Committee established the performance criterion of non-GAAP diluted EPS for our fiscal year ending June 30, 2019 equal to or greater than \$1.00 per share. This performance criterion is intended to allow the PSUs to be performance-based compensation

under Section 162(m) of the Code and to be fully tax deductible by us.

As discussed in the Compensation Discussion and Analysis, the Compensation Committee also established a three-year performance goal under the PSUs granted during fiscal 2017 based upon the achievement of the sum of non-GAAP diluted EPS CAGR and average annual dividend yield over the performance period. A participant can receive 50% of target PSUs if we attain threshold performance and can receive up to 200% of target PSUs for above-target performance. A participant will receive no shares under the PSUs if we do not attain threshold performance. We describe how we calculate these measures under "Annual Cash Incentive and PSU Performance Measure Calculations" on page 34.

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Executive Compensation

Annual Cash Incentive and PSU Performance Measure Calculations

Award	Performance Measure	Calculation
Annual Cash Incentive	Adjusted non-GAAP operating earnings ⁽¹⁾	Non-GAAP operating earnings ⁽²⁾ adjusted to exclude annual cash incentive expense to the extent below or above target performance, contributions to the DCP and 401(k) Savings Plan when we exceed pre-established performance goals and income or expense related to the performance of our DCP assets that is included within distribution, selling, general and administrative expenses in our consolidated statement of earnings.
	Tangible capital ⁽¹⁾	12-month average of total assets, less total liabilities (other than interest-bearing long-term obligations), goodwill and other intangibles, net, and cash and equivalents.
PSUs	Sum of non-GAAP diluted EPS CAGR and average annual dividend yield	Non-GAAP diluted EPS CAGR is non-GAAP diluted EPS ⁽³⁾ for the last fiscal year of the performance period divided by non-GAAP diluted EPS for the last fiscal year preceding the performance period; the quotient is then raised to the power of one divided by the number of years in the performance period. Average annual dividend yield is the sum of all cash dividends paid per share during a performance period divided by the number of years in the performance period; the quotient is then divided by our closing share price on the grant date.

We generally exclude the results of acquired or divested businesses from the adjusted non-GAAP operating earnings and tangible capital calculations if they are not included in our Board-approved annual budget.

(1) Accordingly, we excluded a few small acquisitions for fiscal 2017. The Compensation Committee also may make other adjustments to adjusted non-GAAP operating earnings and tangible capital for purposes of determining whether we achieved our performance goals, although none were made for fiscal 2017.

Non-GAAP operating earnings is operating earnings, excluding LIFO inventory credits and charges, restructuring (2) and employee severance costs, amortization and other acquisition-related costs, impairments and gains and losses on disposal of assets and net litigation recoveries and charges.

Non-GAAP diluted EPS is non-GAAP net earnings from continuing operations attributable to Cardinal Health, Inc. divided by the diluted weighted average shares outstanding. Non-GAAP net earnings from continuing operations attributable to Cardinal Health, Inc. is net earnings attributable to Cardinal Health, Inc., adjusted to exclude earnings and losses from discontinued operations, LIFO inventory credits and charges, restructuring and employee severance costs, amortization and other acquisition-related costs, impairments and gains and losses on disposal of (3) assets, net litigation recoveries and charges, loss on extinguishment of debt and tax benefits and expenses associated with each of the items mentioned above. For purposes of the PSUs, the Compensation Committee may approve adjustments to how we calculate non-GAAP net earnings attributable to Cardinal Health, Inc. to reflect a change by us to the definition of that measure as presented to investors, exceptional acquisitions or divestitures, changes in accounting principles or other exceptional items that are not reflective of our operating performance.

In addition to determining incentive compensation, we use the non-GAAP financial measures referenced above internally to evaluate our performance, evaluate the balance sheet, and engage in financial and operational planning because we believe that these measures provide additional perspective on and, in some circumstances are more closely correlated to, the performance of our underlying, ongoing business. We provide these non-GAAP financial measures to investors as supplemental metrics to assist readers in assessing the effects of items and events on our financial and operating results on a year-over-year basis and in comparing our performance to that of our competitors.

Potential Impact on Compensation from Executive Misconduct ("Clawbacks")

The MIP and 2011 LTIP both authorize us to seek repayment of incentive awards from a participant if that participant engages in misconduct that causes or contributes to the need to restate previously filed financial statements and the payment was based on financial results that we subsequently restate. In addition, incentive awards granted under these

plans may be subject to repayment if a participant commits misconduct, including a breach of our Standards of Business Conduct or violation of an applicable non-competition or confidentiality agreement.

Under our stock option, PSU and RSU agreements, unexercised stock options, unvested PSUs and RSUs and certain vested PSUs and RSUs are forfeited if the holder breaches our Standards of Business Conduct, discloses confidential information, commits fraud, gross negligence or willful misconduct, solicits business or our employees, disparages us or engages in competitive actions while employed by Cardinal Health or during a set time period after termination of employment. We also may require the holder to repay the gross gain realized from any stock option exercises or the value of the PSUs and RSUs settled within a set time period prior to such conduct.

Mr. Barrett's employment agreement gives Cardinal Health the right to repayment of any bonus or other compensation paid to him if he engaged in misconduct that caused or materially contributed to the need to restate financial statements and, if based on the financial statements as restated, he otherwise would not have received such compensation. This right of repayment applies to compensation granted or vesting within three years of the date on which we originally filed the subject financial statements with the SEC.

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Executive Compensation

Outstanding Equity Awards at Fiscal Year-End for Fiscal 2017

The table below shows the number of shares underlying exercisable and unexercisable stock options and unvested PSUs and RSUs held by our named executives on June 30, 2017.

Name	Option Grant Date	Option Awards			Option Expiration Date	Stock Awards		Equity Incentive Plan Awards: Number of Unearned Shares, Units or Rights That Have Not Vested (#)(3)	Equity Incentive Plan Awards: Market or Payout Value of Unearned Shares, Units or Other Rights That Have Not Vested (\$)(2)(3)
		Number of Securities Underlying Unexercised Options (#) Exercisable	Number of Securities Underlying Unexercised Options (#) Unexercisable (1)	Option Exercise Price (\$/Sh)		Number of Shares or Units of Stock That Have Not Vested (#)	Market Value of Shares or Units of Stock That Have Not Vested (\$)(2)		
Barrett	8/15/2011	308,302	—	41.60	8/15/2021				
	8/15/2012	330,738	—	39.81	8/15/2022				
	8/15/2013	279,770	—	51.49	8/15/2023				
	8/15/2014	141,346	70,674	71.43	8/15/2024				
	8/15/2015	63,231	126,464	84.27	8/15/2025				
	8/15/2016	—	189,380	83.19	8/15/2026				
						79,848(4)	6,221,756	106,264(5)	8,280,091
Kaufmann	8/15/2011	76,909	—	41.60	8/15/2021				
	8/15/2012	96,291	—	39.81	8/15/2022				
	8/15/2013	68,316	—	51.49	8/15/2023				
	8/15/2014	35,798	17,900	71.43	8/15/2024				
	8/15/2015	15,689	31,378	84.27	8/15/2025				
	8/15/2016	—	59,655	83.19	8/15/2026				
						35,779(6)	2,787,900	27,644 (7)	2,154,020
Casey	8/15/2012	83,731	—	39.81	8/15/2022				
	8/15/2013	75,148	—	51.49	8/15/2023				
	8/15/2014	34,306	17,154	71.43	8/15/2024				
	8/15/2015	15,308	30,618	84.27	8/15/2025				
	8/15/2016	—	59,655	83.19	8/15/2026				
						32,123(8)	2,503,024	27,051 (9)	2,107,814
Giacomin	8/15/2012	26,166	—	39.81	8/15/2022				
	8/15/2013	21,349	—	51.49	8/15/2023				
	8/15/2014	9,766	4,884	71.43	8/15/2024				
	9/15/2014	16,024	8,013	74.96	9/15/2024				
	8/15/2015	13,312	26,624	84.27	8/15/2025				
	8/15/2016	—	56,814	83.19	8/15/2026				
						19,807(10)	1,543,361	24,993 (11)	1,947,455
Morford	8/15/2011	12,795	—	41.60	8/15/2021				
	8/15/2012	37,444	—	39.81	8/15/2022				

8/15/2013	39,038	—	51.49	8/15/2023
8/15/2014	17,046	8,524	71.43	8/15/2024
8/15/2015	7,987	15,974	84.27	8/15/2025
8/15/2016	—	30,899	83.19	8/15/2026

20,758(12)1,617,463 15,301 (13)1,192,254

- (1) These stock options vest 33% on the first, second and third anniversaries of the grant date.
- (2) The market value is the product of \$77.92, the closing price of our common shares on the NYSE on June 30, 2017, and the number of unvested stock awards.
- Fiscal 15-17 PSUs are actual amounts that vested upon our achieving the performance goal over the performance
- (3) period. Based on current performance in accordance with the SEC rules, PSUs for the fiscal 2016-2018 ("Fiscal 16-18 PSUs") assume payout at target and Fiscal 17-19 PSUs assume payout at threshold.
- (4) Reflects RSUs that vest as follows: 41,318 shares on August 15, 2017; 25,841 shares on August 15, 2018; and 12,689 shares on August 15, 2019.

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Executive Compensation

(5) Reflects 49,653 Fiscal 15-17 PSUs, 37,578 Fiscal 16-18 PSUs and 19,033 Fiscal 17-19 PSUs.

(6) Reflects RSUs that vest as follows: 11,180 shares on August 15, 2017; 13,341 shares on September 15, 2017; 7,261 shares on August 15, 2018; and 3,997 shares on August 15, 2019.

(7) Reflects 13,034 Fiscal 15-17 PSUs, 8,900 Fiscal 16-18 PSUs and 5,710 Fiscal 17-19 PSUs.

(8) Reflects RSUs that vest as follows: 10,938 shares on August 15, 2017; 10,006 shares on September 15, 2017; 7,182 shares on August 15, 2018; and 3,997 shares on August 15, 2019.

(9) Reflects 13,034 Fiscal 15-17 PSUs, 8,307 Fiscal 16-18 PSUs and 5,710 Fiscal 17-19 PSUs.

(10) Reflects RSUs that vest as follows: 7,645 shares on August 15, 2017; 1,779 shares on September 15, 2017; 6,576 shares on August 15, 2018; 3,807 shares on August 15, 2019.

(11) Reflects 10,976 Fiscal 15-17 PSUs, 8,307 Fiscal 16-18 PSUs and 5,710 Fiscal 17-19 PSUs.

(12) Reflects RSUs that vest as follows: 5,598 shares on August 15, 2017; 4,678 shares on November 15, 2017; 3,732 shares on August 15, 2018; 4,679 shares on November 15, 2018; and 2,071 on August 15, 2019.

(13) Reflects 7,448 Fiscal 15-17 PSUs, 4,747 Fiscal 16-18 PSUs and 3,106 Fiscal 17-19 PSUs.

Option Exercises and Stock Vested for Fiscal 2017

The table below shows stock options that were exercised, and PSUs and RSUs that vested, during fiscal 2017 for each of our named executives.

Name	Option Awards		Stock Awards	
	Number of Shares Acquired on Exercise (#)	Value Realized on Exercise (\$)	Number of Shares Acquired on Vesting (#)(1)	Value Realized on Vesting (\$)
Barrett	685,989(2)	32,061,337	(2) 135,230	11,305,228
Kaufmann	—	—	48,167	3,915,506
Casey	59,180	2,545,598	45,043	3,682,153
Giacomin	62,951	2,892,986	13,911	1,148,123
Morford	—	—	19,324	1,615,486

This column represents the vesting during fiscal 2017 of PSUs granted during fiscal 2014 for the fiscal 2014-2016 performance period and RSUs granted during fiscal 2014, 2015 and 2016. The number of shares acquired on vesting includes the following PSUs and RSUs deferred at the election of the named executive, net of required withholdings: Mr. Casey—2,939 RSUs; and Mr. Morford—12,401 PSUs and 5,741 RSUs. See “Deferred Compensation” below for a discussion of deferral terms.

(2) During fiscal 2017, Mr. Barrett exercised an option granted in August 2010, which had an expiration date of August 2017.

OTHER MATTERS

We filed an Annual Report on Form 10-K for the year ended December 31, 2017 with the SEC on March 13, 2018. Stockholders may obtain a copy of this report, free of charge, by writing to Vermillion, Inc., Attn: Investor Relations, 12117 Bee Caves Road, Building Three, Suite 100, Austin, Texas 78738. In addition, copies of our annual, quarterly and current reports are available at <http://www.vermillion.com>.

Our management and our Board know of no matters to come before the Annual Meeting other than the matters referred to in the Notice of Annual Meeting of Stockholders. The persons named in the enclosed proxy will vote the shares represented thereby in accordance with the recommendation of the Board as to any proposal properly presented at the Annual Meeting, or if no recommendation is made by the Board, then pursuant to the authority granted in the proxy.

IMPORTANT NOTE

The matters to be considered at the Annual Meeting are of great importance to our stockholders. Accordingly, you are urged to read and carefully consider the information presented in this proxy statement. Your vote is important, no matter how many or how few shares you hold. Please sign and date the enclosed proxy card and return it today in the enclosed pre-addressed postage-paid envelope. If your shares are held in street name, only your broker or bank can vote your shares and only upon receipt of your specific instructions. Please return the enclosed proxy card to your broker and contact the person responsible for your account to ensure that a proxy card is voted on your behalf.

BY ORDER OF THE BOARD OF DIRECTORS

/s/ Valerie B.
Palmieri_____
Valerie B. Palmieri
President, Chief Executive Officer
and Director

Austin, Texas
May 11, 2018

Appendix A

VERMILLION, INC.

CERTIFICATE OF DESIGNATIONS, PREFERENCES AND RIGHTS

OF

SERIES B CONVERTIBLE PREFERRED STOCK

PURSUANT TO SECTION 151 OF THE

DELAWARE GENERAL CORPORATION LAW

VERMILLION, INC., a Delaware corporation (the “Corporation”), does hereby certify that the following resolution was duly adopted by a duly authorized committee of the Board of Directors of the Corporation on April 13, 2018, and remains in full force and effect on the date hereof:

RESOLVED, that pursuant to authority expressly set forth in the Corporation’s Fourth Amended and Restated Certificate of Incorporation, as amended (the “Certificate of Incorporation”), and the Corporation’s Fifth Amended and Restated Bylaws (the “Bylaws”), and in accordance with Section 151 of the General Corporation Law of the State of Delaware, there is hereby created, out of the 5,000,000 shares of the Corporation’s preferred stock, par value \$0.001 per share (the “Preferred Stock”), remaining authorized, unissued and undesignated, a series of Preferred Stock designated as the Series B Convertible Preferred Stock of the Corporation, and the designation, number of shares, powers, preferences, rights, qualifications, limitations and restrictions thereof (in addition to any provisions set forth in the Certificate of Incorporation that are applicable to the Preferred Stock of all classes and series) are hereby fixed, and the Certificate of Designations, Preferences and Rights of Series B Convertible Preferred Stock is hereby approved as follows:

SECTION 1. Definitions.

For the purposes of this Certificate of Designations, the following terms shall have the following meanings:

“Alternate Consideration” shall have the meaning set forth in Section 7(c).

“Business Day” means any day except Saturday, Sunday, any day which shall be a federal legal holiday in the United States or any day on which banking institutions in the State of New York are authorized or required by law or other governmental action to close.

“Bylaws” shall have the meaning set forth in the preamble to this Certificate of Designations.

“Certificate of Incorporation” shall have the meaning set forth in the preamble to this Certificate of Designations.

“Common Stock” means the Corporation’s common stock, par value \$0.001 per share, and stock of any other class of securities into which such common stock may hereafter be reclassified or changed into.

“Conversion” shall have the meaning set forth in Section 6(a).

“Conversion Date” shall have the meaning set forth in Section 7(e).

“Conversion Price” means \$1.00, subject to adjustment from time to time pursuant to Section 7(c).

“Conversion Shares” means, collectively, the shares of Common Stock issuable upon conversion of the shares of Series B Preferred Stock in accordance with the terms hereof.

“Corporation” shall have the meaning set forth in the preamble to this Certificate of Designations.

“Corporation Stockholders’ Meeting” shall have the meaning set forth in Section 6(a).

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“DGCL” shall mean the General Corporation Law of the State of Delaware, as amended from time to time.

“Distributions” shall have the meaning set forth in Section 5(a).

“Fundamental Transaction” shall have the meaning set forth in Section 7(c).

“Holder” means any holder of a share of Series B Preferred Stock.

“Issuance Date” means April 17, 2018.

“Junior Securities” shall have the meaning set forth in Section 5(a).

“Nasdaq” means the Nasdaq Stock Market LLC.

“Parity Securities” shall have the meaning set forth in Section 5(a).

“Person” means any individual or corporation, partnership, trust, incorporated or unincorporated association, joint venture, limited liability company, joint stock company, government (or an agency or subdivision thereof) or other entity of any kind.

“Preferred Stock” shall have the meaning set forth in the preamble to this Certificate of Designations.

“Recommendation” shall have the meaning set forth in Section 6(a).

“Requisite Stockholder Approval” shall have the meaning set forth in Section 6(a).

“Senior Securities” shall have the meaning set forth in Section 5(a).

“Series B Preferred Stock” shall have the meaning set forth in Section 2(a).

“Series B Preferred Stock Register” shall have the meaning set forth in Section 2(c).

“Stated Value” means \$100.00.

SECTION 2. Designation, Amount and Par Value; Assignment.

(a) The series of Preferred Stock designated by this Certificate of Designations shall be designated as the Corporation’s Series B Convertible Preferred Stock (the “Series B Preferred Stock”) and the number of shares so designated shall be 50,000. Subject to the requirements of the DGCL, the Certificate of Incorporation and this Certificate of Designations, the number of shares of Preferred Stock that are designated as Series B Preferred Stock may be increased or decreased by vote of the Board of Directors of the Corporation; provided, that no decrease shall reduce the number of shares of Series B Preferred Stock to a number less than the number of such shares then outstanding. Each share of Series B Preferred Stock shall have a par value of \$0.001 per share.

(b) The Series B Preferred Stock may be issued in certificated form or in book-entry form. To the extent that any shares of Series B Preferred Stock are issued in book-entry form, references herein to “certificates” shall instead refer to the book-entry notation relating to such shares.

(c) The Corporation shall register shares of the Series B Preferred Stock, upon records to be maintained by the Corporation for that purpose (the "Series B Preferred Stock Register"), in the name of the Holders thereof from time to time. The Corporation may deem and treat the registered Holder of shares of Series B Preferred Stock as the absolute owner thereof for the purpose of any conversion thereof and for all other purposes. The Corporation shall register the transfer of any shares of Series B Preferred Stock in the Series B Preferred Stock Register, upon surrender of the certificates evidencing such shares to be transferred, if any, duly endorsed by the Holder thereof, to the Corporation at its address specified herein. Upon any such registration or transfer, a new

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certificate evidencing the shares of Series B Preferred Stock so transferred shall be issued to the transferee and a new certificate evidencing the remaining portion of the shares not so transferred, if any, shall be issued to the transferring Holder, in each case, within three Business Days. The provisions of this Certificate of Designations are intended to be for the benefit of all Holders from time to time and shall be enforceable by any such Holder.

SECTION 3. Dividends.

Holders shall not be entitled to receive any dividends in respect of the Series B Preferred Stock, unless and until specifically declared by the Board of Directors of the Corporation to be payable to the Holders of the Series B Preferred Stock.

SECTION 4. Voting Rights.

Except as otherwise provided herein or as otherwise required by the DGCL, the Series B Preferred Stock shall have no voting rights. However, as long as any shares of Series B Preferred Stock are outstanding, the Corporation shall not, without the affirmative vote of the Holders of all of the then outstanding shares of the Series B Preferred Stock, (a) adversely alter or change the powers, preferences or rights given to the Series B Preferred Stock, (b) adversely alter or amend this Certificate of Designations, (c) amend or repeal any provision of, or add any provision to, the Certificate of Incorporation or Bylaws, or file any certificate of designation of any series of Preferred Stock, if such action would adversely alter or change the preferences, rights, privileges or powers of, or restrictions provided for the benefit of the Series B Preferred Stock, regardless of whether any of the foregoing actions shall be by means of amendment to the Certificate of Incorporation or by merger, consolidation or otherwise, or (d) enter into any agreement with respect to any of the foregoing.

SECTION 5. Rank; Liquidation.

(a) The Series B Preferred Stock shall rank (i) senior to all of the Common Stock; (ii) senior to any class or series of capital stock of the Corporation hereafter created specifically ranking by its terms junior to any Series B Preferred Stock ("Junior Securities"); (iii) on parity with any class or series of capital stock of the Corporation hereafter created specifically ranking by its terms on parity with the Series B Preferred Stock ("Parity Securities"); and (iv) junior to any class or series of capital stock of the Corporation hereafter created specifically ranking by its terms senior to any Series B Preferred Stock ("Senior Securities"), in each case, as to distributions of assets upon liquidation, dissolution or winding up of the Corporation, whether voluntarily or involuntarily (all such distributions being referred to collectively as "Distributions").

(b) Subject to the prior and superior rights of any Senior Securities, upon liquidation, dissolution or winding up of the Corporation, whether voluntary or involuntary, each Holder shall be entitled to receive, in preference to any Distributions of any of the assets or surplus funds of the Corporation to the holders of the Common Stock and Junior Securities and pari passu with any Distribution to the holders of Parity Securities, an amount equal to the greater of (i) the Stated Value per share of Series B Preferred Stock held by such Holder (taking into account any adjustments required by Section 7(c)) plus the amount of all accrued and unpaid dividends thereon and (ii) such amount as would have been payable on the number of shares of Common Stock into which the shares of Series B Preferred Stock held by such Holder could have been converted immediately prior to such liquidation, dissolution or winding up in accordance with the provisions of Section 7, assuming receipt of the Requisite Stockholder Approval, before any payments shall be made or any assets distributed to holders of any class of Common Stock or Junior Securities. If, upon any such liquidation, dissolution or winding up of the Corporation, the assets of the Corporation shall be insufficient to pay the Holders the amount required under the preceding sentence, then all remaining assets of the Corporation shall be distributed ratably to the Holders and holders of Parity Securities.

SECTION 6. Requisite Stockholder Approval.

(a) Subject to applicable law, the rules and regulations of Nasdaq and the Certificate of Incorporation and Bylaws, the Corporation covenants that it shall establish a record date for, call, give notice of, convene and hold a meeting of the holders of Common Stock of the Corporation (the "Corporation Stockholders' Meeting"),

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as promptly as practicable following the Issuance Date, for the purpose of voting upon the approval of the full conversion of outstanding shares of the Series B Convertible Preferred Stock into shares of Common Stock (the “Conversion”), in accordance with applicable law and the rules and regulations of Nasdaq. Notwithstanding the foregoing, (i) if there are insufficient shares of Common Stock necessary to establish a quorum at the Corporation Stockholders’ Meeting, the Corporation may postpone or adjourn the date of the Corporation Stockholders’ Meeting to the extent (and only to the extent) the Corporation reasonably determines that such postponement or adjournment is necessary in order to conduct business at the Corporation Stockholders’ Meeting, (ii) the Corporation may postpone or adjourn the Corporation Stockholders’ Meeting to the extent (and only to the extent) the Corporation reasonably determines that such postponement or adjournment is required by applicable law, and (iii) the Corporation may postpone or adjourn the Corporation Stockholders’ Meeting to the extent (and only to the extent) the Corporation reasonably determines that such postponement or adjournment is necessary to solicit sufficient proxies to secure the favorable vote of the holders of a majority of the outstanding shares of Common Stock present in person or by proxy at the Corporation Stockholders’ Meeting and entitled to vote with respect to the full conversion of outstanding shares of the Series B Preferred Stock into shares of Common Stock (the “Requisite Stockholder Approval”). The Corporation shall solicit from stockholders of the Corporation proxies in favor of the approval of the Conversion in accordance with applicable law and the rules and regulations of Nasdaq, and, except as required to comply with fiduciary duties under applicable law, the Corporation’s Board of Directors shall (x) recommend that the Corporation’s stockholders vote to approve the Conversion (the “Recommendation”), (y) use its reasonable best efforts to solicit such stockholders to vote in favor of the Conversion and (z) use its reasonable best efforts to take all other actions necessary or advisable to secure the favorable votes of such stockholders required to approve and effect the Conversion. The Corporation shall establish a record date for, call, give notice of, convene and hold the Corporation Stockholders’ Meeting in accordance with this Section 6, whether or not the Corporation’s Board of Directors at any time subsequent to the Issuance Date shall have changed its position with respect to its Recommendation or determined that the Conversion is no longer advisable and/or recommended that stockholders of the Corporation reject the Conversion.

(b) Except as required to comply with fiduciary duties under applicable law, the Corporation’s Board of Directors shall not (i) withdraw or modify the Recommendation in a manner adverse to any Holder, or adopt or propose a resolution to withdraw or modify the Recommendation that is or becomes disclosed publicly and which can reasonably be interpreted to indicate that the Corporation’s Board of Directors or any committee thereof does not support the Conversion or does not believe that the Conversion is in the best interests of the Corporation’s stockholders or (ii) fail to reaffirm, without qualification, the Recommendation, or fail to state publicly, without qualification, that the Conversion is in the best interests of the Corporation’s stockholders after any Holder requests in writing that such action be taken.

SECTION 7. Conversion.

(a) Automatic Conversion. Upon receipt of the Requisite Stockholder Approval, each outstanding share of Series B Preferred Stock shall be automatically converted, without any further action by the Holders and whether or not the certificates representing such shares, if any, are surrendered to the Corporation, into the number of fully paid and nonassessable shares of Common Stock equal to the number obtained by dividing (i) the Stated Value plus the amount of any accrued but unpaid dividends thereon as of the Conversion Date by (ii) the Conversion Price in effect on the Conversion Date (determined as provided in this Section 7).

(b) Fractions of Shares. Fractional shares of Common Stock shall not be issued in connection with any Conversion. If any fractional interest in a share would be deliverable upon Conversion, such fractional share shall be rounded up to the next whole number.

(c) Adjustments to Conversion Price.

(i) Upon Stock Dividends, Subdivisions or Splits. If, at any time or from time to time after the Issuance Date, the number of shares of Common Stock outstanding is increased by a stock dividend payable in shares of Common Stock or by a subdivision or split-up of shares of Common Stock, then, following the record date for the determination of

holders of Common Stock entitled to receive such stock dividend, or to be affected by such subdivision or split-up, the Conversion Price shall be appropriately decreased so that the number of shares of

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Common Stock issuable on conversion of Series B Preferred Stock shall be increased in proportion to such increase in outstanding shares.

(ii) Upon Combinations. If, at any time or from time to time after the Issuance Date, the number of shares of Common Stock outstanding is decreased by a combination of the outstanding shares of Common Stock into a smaller number of shares of Common Stock, then, following the record date to determine shares affected by such combination, the Conversion Price shall be appropriately increased so that the number of shares of Common Stock issuable on conversion of each share of Series B Preferred Stock shall be decreased in proportion to such decrease in outstanding shares.

(iii) Upon Fundamental Transactions. If, at any time while shares of Series B Preferred Stock are outstanding, (A) the Corporation effects any merger or consolidation of the Corporation with or into another Person or any stock sale to, or other business combination (including, without limitation, a reorganization, recapitalization, spin-off, share exchange or scheme of arrangement) with or into another Person (other than such a transaction in which the Corporation is the surviving or continuing entity and the Common Stock is not exchanged for or converted into other securities, cash or property), (B) the Corporation effects any sale of all or substantially all of its assets in one transaction or a series of related transactions, (C) any tender offer or exchange offer (whether by the Corporation or another Person) is completed pursuant to which more than 50% of the Common Stock not held by the Corporation or such Person is exchanged for or converted into other securities, cash or property, or (D) the Corporation effects any reclassification of the Common Stock or any compulsory share exchange pursuant (other than as a result of a dividend, subdivision, split or combination covered by Section 7(c)(i) or (ii) above) to which the Common Stock is effectively converted into or exchanged for other securities, cash or property (in any such case, a “Fundamental Transaction”), then, upon any subsequent conversion of Series B Preferred Stock, each Holder shall have the right to receive, in lieu of the right to receive Conversion Shares, for each Conversion Share that would have been issuable upon such conversion immediately prior to the occurrence of such Fundamental Transaction assuming receipt of the Requisite Stockholder Approval, the same kind and amount of securities, cash or property as it would have been entitled to receive upon the occurrence of such Fundamental Transaction if it had been, immediately prior to such Fundamental Transaction, the holder of one share of Common Stock (the “Alternate Consideration”). For purposes of any such subsequent conversion, the determination of the Conversion Price shall be appropriately adjusted to apply to such Alternate Consideration based on the amount of Alternate Consideration issuable in respect of one share of Common Stock in such Fundamental Transaction, and the Corporation shall adjust the Conversion Price in a reasonable manner reflecting the relative value of any different components of the Alternate Consideration. If holders of Common Stock are given any choice as to the securities, cash or property to be received in a Fundamental Transaction, then each Holder shall be given the same choice as to the Alternate Consideration it receives upon any conversion of shares of Series B Preferred Stock following such Fundamental Transaction. To the extent necessary to effectuate the foregoing provisions, any successor to the Corporation or surviving entity in such Fundamental Transaction shall file a new Certificate of Designations with the same terms and conditions and issue to the Holders new preferred stock consistent with the foregoing provisions and evidencing the Holders’ right to convert such preferred stock into Alternate Consideration. The terms of any agreement to which the Corporation is a party and pursuant to which a Fundamental Transaction is effected shall include terms requiring any such successor or surviving entity to comply with the provisions of this Section 7(c)(iii) and ensuring that the Series B Preferred Stock (or any such replacement security) will be similarly adjusted upon any subsequent transaction analogous to a Fundamental Transaction. The Corporation shall cause to be delivered to each Holder, at its last address as it shall appear upon the Series B Preferred Stock Register, written notice of any Fundamental Transaction at least 20 calendar days prior to the date on which such Fundamental Transaction is expected to become effective or close.

(d) Notice of Adjustment of Conversion Price. Whenever the provisions of this Section 7 require that the Conversion Price be adjusted as herein provided, the Corporation shall compute the adjusted Conversion Price in accordance with this Section 7 and shall prepare a certificate signed by the Corporation’s chief executive officer or chief financial

officer setting forth the adjusted Conversion Price and showing in reasonable detail the facts upon which such adjustment is based, and such certificate shall forthwith be filed at each office or agency maintained for such purpose for conversion of shares of Series B Preferred Stock and mailed by the Corporation at its expense to all Holders at their last addresses as they shall appear in the Series B Preferred Stock Register.

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(e) Conversion Procedures. As of the date the Series B Preferred Stock automatically converts into Common Stock pursuant to Section 7(a) (the "Conversion Date"), the rights of each Holder as a holder of shares of Series B Preferred Stock shall cease, and the Person or Persons entitled to receive the Common Stock issuable upon conversion shall be treated for all purposes as the record holder or holders of such Common Stock as and after such time. As promptly as practicable on or after the Conversion Date, (i) if the Series B Preferred Stock is certificated, each Holder shall surrender the certificate evidencing such share of Series B Preferred Stock, duly endorsed or assigned to the Corporation in blank, at any office or agency of the Corporation maintained for such purpose, and (ii) the Corporation shall issue and shall deliver at any office or agency of the Corporation maintained for the surrender of Series B Preferred Stock a certificate or certificates for the number of full shares of Common Stock issuable upon conversion, together with payment in lieu of any fraction of a share, as provided in Section 7(b).

(f) Taxes on Conversions. The Corporation will pay any and all original issuance, transfer, stamp and other similar taxes that may be payable in respect of the issue or delivery of shares of Common Stock on conversion of Series B Preferred Stock pursuant to this Certificate of Designations. The Corporation shall not, however, be required to pay any tax which may be payable in respect of any transfer involved in the issue and delivery of shares of Common Stock in a name other than that of the Holder of the share(s) of Series B Preferred Stock to be converted (nor shall the Corporation be responsible for any other taxes payable by the Holders), and no such issue or delivery shall be made unless and until the Person requesting such issue has paid to the Corporation the amount of any such tax, or has established to the satisfaction of the Corporation that such tax has been paid.

(g) Reservation of Shares Issuable Upon Conversion. The Corporation covenants that it will at all times reserve and keep available out of its authorized and unissued shares of Common Stock for the sole purpose of issuance upon conversion of the Series B Preferred Stock, free from preemptive rights or any other actual contingent purchase rights of Persons other than the Holders, not less than such aggregate number of shares of the Common Stock as shall be issuable (taking into account any adjustments required by Section 7(c)) upon the conversion of all outstanding shares of Series B Preferred Stock. The Corporation covenants that all shares of Common Stock that shall be so issuable shall, upon issue, be duly authorized, validly issued, fully paid and nonassessable.

(h) Calculations. All calculations under this Section 7 shall be made to the nearest cent.

SECTION 8. Miscellaneous.

(a) Notices. Any and all communications or deliveries to be provided by the Holders hereunder shall be in writing and delivered personally, or sent by a nationally recognized overnight courier service, addressed to the Corporation, at 12117 Bee Caves Road, Building Three, Suite 100, Austin, Texas 78738, or such other address as the Corporation may specify for such purposes by notice to the Holders delivered in accordance with this Section 8. Any and all notices or other communications or deliveries to be provided by the Corporation hereunder shall be in writing and delivered personally, by electronic communication, or sent by a nationally recognized overnight courier service addressed to each Holder at the address of such Holder appearing on the Series B Preferred Stock Register, or if no such address appears on the Series B Preferred Stock Register, at the principal place of business of such Holder. Any notice, communication or deliveries hereunder shall be deemed given and effective on the earliest of (i) the date of transmission, if such notice or communication is delivered via electronic communication prior to 5:30 p.m. (New York City time) on any date, (ii) the date immediately following the date of transmission, if such notice or communication is delivered via electronic communication between 5:30 p.m. and 11:59 p.m. (New York City time) on any date, (iii) the second Business Day following the date of mailing, if sent by nationally recognized overnight courier service, or (iv) upon actual receipt by the party to whom such notice is required to be given.

(b) Lost or Mutilated Series B Preferred Stock Certificate. If a Holder's Series B Preferred Stock certificate shall be mutilated, lost, stolen or destroyed, the Corporation shall execute and deliver, in exchange and substitution for and upon cancellation of a mutilated certificate, or in lieu of or in substitution for a lost, stolen or destroyed certificate, a

new certificate for the shares of Series B Preferred Stock so mutilated, lost, stolen or destroyed, but only upon receipt of evidence of such loss, theft or destruction of such certificate, and of the ownership thereof, reasonably satisfactory to the Corporation and, in each case, customary and reasonable indemnity, if requested. Applicants for a new certificate under such circumstances shall also comply with such other

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reasonable regulations and procedures and pay such other reasonable third-party costs as the Corporation may prescribe.

(c) Waiver. Any waiver by the Corporation or a Holder of a breach of any provision of this Certificate of Designations shall not operate as or be construed to be a waiver of any other breach of such provision or of any breach of any other provision of this Certificate of Designations or a waiver by any other Holders. The failure of the Corporation or a Holder to insist upon strict adherence to any term of this Certificate of Designations on one or more occasions shall not be considered a waiver or deprive that party (or any other Holder) of the right thereafter to insist upon strict adherence to that term or any other term of this Certificate of Designations. Any waiver by the Corporation or a Holder must be in writing.

(d) Severability. If any provision of this Certificate of Designations is invalid, illegal or unenforceable, the balance of this Certificate of Designations shall remain in effect, and if any provision is inapplicable to any Person or circumstance, it shall nevertheless remain applicable to all other Persons and circumstances.

(e) Next Business Day. Whenever any payment or other obligation hereunder shall be due on a day other than a Business Day, such payment shall be made on the next succeeding Business Day.

(f) Headings. The headings contained herein are for convenience only, do not constitute a part of this Certificate of Designations and shall not be deemed to limit or affect any of the provisions hereof.

(g) Status of Converted Series B Preferred Stock. If any shares of Series B Preferred Stock shall be converted into Common Stock, such shares of Series B Preferred Stock shall not revert to the status of authorized but unissued shares of Preferred Stock, but instead shall be canceled by the Corporation and shall not be re-issuable by the Corporation.

IN WITNESS WHEREOF, the undersigned has executed this Certificate of Designations, Preferences and Rights of Series B Convertible Preferred Stock this 16th day of April 2018.

/s/ Robert Beechey
Robert Beechey

Chief Financial Officer

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Appendix B

VERMILLION, INC.

SECOND AMENDED AND RESTATED 2010 STOCK INCENTIVE PLAN

Plan Document

Vermillion, Inc. (the “Company”) hereby establishes and adopts the following Second Amended and Restated 2010 Stock Incentive Plan (the “Plan”), effective upon approval by the Company’s stockholders at the Company’s 2015 Annual Meeting of Stockholders (the “Effective Date”).

1.Introduction.

(a) Purpose. The purposes of the Plan are: (i) to enhance the Company’s ability to attract highly qualified personnel; (ii) to strengthen its retention capabilities; (iii) to enhance the long-term performance and competitiveness of the Company; and (iv) to align the interests of Plan participants with those of the Company’s stockholders. This Plan, as amended and restated, shall be submitted to the stockholders of the Company for approval and, if approved, shall become effective as of the Effective Date.

(b) Definitions. Terms in the Plan and any Appendix that begin with an initial capital letter have the defined meaning set forth in Appendix I or elsewhere in this Plan, in either case unless the context of their use clearly indicates a different meaning.

(c) Effect on Other Plans, Awards, and Arrangements. This Plan is not intended to affect and shall not affect any stock options, equity-based compensation, or other benefits that the Company or its Affiliates may have provided, or may separately provide in the future, pursuant to any agreement, plan, or program that is independent of this Plan.

(d) Appendices. Incorporated by reference and thereby part of the Plan are the definitions set forth in Appendix I hereof.

2.Types of Awards. The Plan permits the granting of the following types of Awards according to the Sections of the Plan listed here:

Section 5Stock Options

Section 6Share Appreciation Rights (“SARs”)

Section 7Restricted Shares, Restricted Share Units (“RSUs”), and Unrestricted Shares

Section 8Deferred Share Units (“DSUs”)

Section 9Performance and Cash-settled Awards

Section 10 Dividend Equivalent Rights

3. Shares Available for Awards.

(a) Number of Shares. Subject to Section 13 below, a total of 12,122,983 Shares shall be available for issuance under the Plan. The Shares deliverable pursuant to Awards shall be authorized but unissued Shares, or Shares that the Company otherwise holds in treasury or in trust.

(b) Replenishment; Counting of Shares. For purposes of the limitation under Section 3(a), to the extent that Shares underlying any Plan Awards are not issued or delivered by reason of (i) forfeiture, cancellation, expiration or termination (other than by exercise) or (ii) the settlement of such Shares in cash, then such Shares shall be added back to the Shares available for issuance under the Plan. Notwithstanding the foregoing, the following Shares shall

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not be added to the Shares authorized for grant under the Plan: (i) Shares that were subject to an Option or an SAR and were not issued or delivered upon the net settlement or net exercise of such Option or SAR, (ii) Shares delivered to or withheld by the Company to pay purchase price or the withholding taxes related to an Award or (iii) Shares repurchased by the Company on the open market with the proceeds of an Option exercise. Further, and to the extent permitted under Applicable Law, the maximum number of Shares available for delivery under the Plan shall not be reduced by any Shares issued under the Plan through the settlement, assumption, or substitution of outstanding awards or obligations to grant future awards as a condition of the Company's or an Affiliate's acquiring another entity.

(c) ISO Share Reserve. The number of Shares that are available for ISO Awards shall not exceed the total number set forth in Section 3(a) above (as adjusted pursuant to Section 13 of the Plan, and as determined in accordance with Code Section 422).

4. Eligibility.

(a) General Rule. Subject to the express provisions of the Plan, the Committee shall determine from the class of Eligible Persons those Persons to whom Awards may be granted. Each Award shall be evidenced by an Award Agreement that sets forth its Grant Date and all other terms and conditions of the Award, that is signed on behalf of the Company (or delivered by an authorized agent through an electronic medium), and that, if required by the Committee, is signed by the Eligible Person as an acceptance of the Award. The grant of an Award shall not obligate the Company or any Affiliate to continue the employment or service of any Eligible Person, or to provide any future Awards or other remuneration at any time thereafter.

(b) Option and SAR Limits per Person. Subject to adjustment pursuant to Section 13, the maximum number of Shares with respect to which Options or SARs, or a combination thereof, may be granted during any fiscal year of the Company to any person shall be 1,000,000.

5. Stock Options.

(a) Grants. Subject to the special rules for ISOs set forth in the next paragraph, the Committee may grant Options to Eligible Persons pursuant to Award Agreements setting forth terms and conditions that are not inconsistent with the Plan, that may be immediately exercisable or that may become exercisable in whole or in part based on future events or conditions, that may include vesting or other requirements for the right to exercise the Option, and that may differ for any reason between Eligible Persons or classes of Eligible Persons, provided in all instances that:

(i) the exercise price for Shares subject to purchase through exercise of an Option shall not be less than 100% of the Fair Market Value of the underlying Shares on the Grant Date; and

(ii) no Option shall be exercisable for a term ending more than ten years after its Grant Date.

(b) Special ISO Provisions. The following provisions shall control any grants of Options that are denominated as ISOs.

(i) Eligibility. The Committee may grant ISOs only to Employees (including officers who are Employees) of the Company or an Affiliate that is a "parent corporation" or "subsidiary corporation" within the meaning of Code Section 424.

(ii) Documentation. Each Option that is intended to be an ISO must be designated in the Award Agreement as an ISO, provided that any Option designated as an ISO will be a Non-ISO to the extent the Option fails to meet the requirements of Code Section 422. In the case of an ISO, the Committee shall determine on the Grant Date the

acceptable methods of paying the exercise price for Shares, and it shall be included in the applicable Award Agreement.

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(iii) \$100,000 Limit. To the extent that the aggregate Fair Market Value of Shares with respect to which ISOs first become exercisable by a Participant in any calendar year (under this Plan and any other plan of the Company or any Affiliate) exceeds U.S. \$100,000, such excess Options shall be treated as Non-ISOs. For purposes of determining whether the U.S. \$100,000 limit is exceeded, the Fair Market Value of the Shares subject to an ISO shall be determined as of the Grant Date. In reducing the number of Options treated as ISOs to meet the U.S. \$100,000 limit, the most recently granted Options shall be reduced first. In the event that Code Section 422 is amended to alter the limitation set forth therein, the limitation of this paragraph shall be automatically adjusted accordingly.

(iv) Grants to 10% Holders. In the case of an ISO granted to an Employee who is a Ten Percent Holder on the Grant Date, the ISO's term shall not exceed five years from the Grant Date, and the exercise price shall be at least 110% of the Fair Market Value of the underlying Shares on the Grant Date. In the event that Code Section 422 is amended to alter the limitations set forth therein, the limitations of this paragraph shall be automatically adjusted accordingly.

(v) Substitution of Options. In the event the Company or an Affiliate acquires (whether by purchase, merger, or otherwise) all or substantially all of outstanding capital stock or assets of another corporation or in the event of any reorganization or other transaction qualifying under Code Section 424, the Committee may, in accordance with the provisions of that Section, substitute ISOs for ISOs previously granted under the plan of the acquired company provided (A) the excess of the aggregate Fair Market Value of the Shares subject to an ISO immediately after the substitution over the aggregate exercise price of such shares is not more than the similar excess immediately before such substitution, and (B) the new ISO does not give additional benefits to the Participant, including any extension of the exercise period.

(vi) Notice of Disqualifying Dispositions. By executing an ISO Award Agreement, each Participant agrees to notify the Company in writing immediately after the Participant sells, transfers or otherwise disposes of any Shares acquired through exercise of the ISO, if such disposition occurs within the earlier of (A) two years of the Grant Date, or (B) one year after the exercise of the ISO being exercised. Each Participant further agrees to provide any information about a disposition of Shares as may be requested by the Company to assist it in complying with any applicable tax laws.

(c) Method of Exercise. Each Option may be exercised, in whole or in part (provided that the Company shall not be required to issue fractional shares) at any time and from time to time prior to its expiration, but only pursuant to the terms of the applicable Award Agreement, and subject to the times, circumstances and conditions for exercise contained in the applicable Award Agreement. Exercise shall occur by delivery of both written notice of exercise to the secretary of the Company, and payment of the full exercise price for the Shares being purchased. The methods of payment that the Committee may in its discretion accept or commit to accept in an Award Agreement include:

(i) cash or check payable to the Company (in U.S. dollars);

(ii) other Shares that (A) are owned by the Participant who is purchasing Shares pursuant to an Option, (B) have a Fair Market Value on the date of surrender equal to the aggregate exercise price of the Shares as to which the Option is being exercised, (C) are all, at the time of such surrender, free and clear of any and all claims, pledges, liens and encumbrances, or any restrictions which would in any manner restrict the transfer of such Shares to or by the Company (other than such restrictions as may have existed prior to an issuance of such Shares by the Company to such Participant), and (D) are duly endorsed for transfer to the Company;

(iii) a net exercise by surrendering to the Company Shares otherwise receivable upon exercise of the Option;

(iv) a cashless exercise program that the Committee may approve, from time to time in its discretion, pursuant to which a Participant may elect to concurrently provide irrevocable instructions (A) to such Participant's broker or dealer to effect the immediate sale of the purchased Shares and remit to the Company, out of the sale proceeds available on

the settlement date, sufficient funds to cover the exercise

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price of the Option plus all Withholding Taxes, and (B) to the Company to deliver the certificates for the purchased Shares directly to such broker or dealer in order to complete the sale; or

(v) any combination of the foregoing methods of payment.

The Company shall not be required to deliver Shares pursuant to the exercise of an Option until the Company has received sufficient funds to cover the full exercise price due and all applicable Withholding Taxes required by reason of such exercise.

Notwithstanding any other provision of the Plan to the contrary, no Participant who is a Director or an “executive officer” of the Company within the meaning of Section 13(k) of the Exchange Act shall be permitted to make payment with respect to any Awards granted under the Plan, or continue any extension of credit with respect to such payment with a loan from the Company or a loan arranged by the Company in violation of Section 13(k) of the Exchange Act.

(d) Exercise of an Unvested Option. The Committee in its sole discretion may allow a Participant to exercise an unvested Option, in which case the Shares then issued shall be Restricted Shares having analogous vesting restrictions to the unvested Option.

(e) Termination of Continuous Service. The Committee may establish and set forth in the applicable Award Agreement the terms and conditions on which an Option shall remain exercisable, if at all, following termination of a Participant’s Continuous Service. The Committee may waive or modify these provisions at any time. To the extent that a Participant is not entitled to exercise an Option at the date of his or her termination of Continuous Service, or if the Participant (or other person entitled to exercise the Option) does not exercise the Option to the extent so entitled within the time specified in the Award Agreement or below (as applicable), the Option shall terminate and the Shares underlying the unexercised portion of the Option shall revert to the Plan and become available for future Awards.

The following provisions shall apply to the extent an Award Agreement does not specify the terms and conditions upon which an Option shall terminate when there is a termination of a Participant’s Continuous Service:

Reason for terminating Continuous Service	Option Termination Date
(I) By the Company for Cause, or what would have been Cause if the Company had known all of the relevant facts.	Termination of the Participant’s Continuous Service, or when Cause first existed if earlier.
(II) Disability of the Participant.	Within one year after termination of the Participant’s Continuous Service.
(III) Retirement of the Participant after age 65 with five years or more of Continuous Service.	Within one year after termination of the Participant’s Continuous Service.
(IV) Death of the Participant during Continuous Service or within 90 days thereafter.	Within one year after termination of the Participant’s Continuous Service.
(V) Other than due to Cause or the Participant’s Disability, Retirement, or Death.	Within 90 days after termination of the Participant’s Continuous Service.

If there is a Securities and Exchange Commission blackout period (or a Committee-imposed blackout period) that prohibits the buying or selling of Shares during any part of the ten day period before the expiration of any Option based on the termination of a Participant’s Continuous Service (as described above), the period for exercising the Options shall be extended until ten days beyond when such blackout period ends. Notwithstanding

any provision hereof or within an Award Agreement, no Option shall ever be exercisable after the expiration date of its original term as set forth in the Award Agreement.

6.SARs.

(a) Grants. The Committee may grant SARs to Eligible Persons pursuant to Award Agreements setting forth terms and conditions that are not inconsistent with the Plan; provided that:

- (i) the exercise price for the Shares subject to each SAR shall not be less than 100% of the Fair Market Value of the underlying Shares on the Grant Date;
- (ii) no SAR shall be exercisable for a term ending more than ten years after its Grant Date; and
- (iii) each SAR shall, except to the extent an SAR Award Agreement provides otherwise, be subject to the provisions of Section 5(e) relating to the effect of a termination of Participant's Continuous Service, with "SAR" being substituted for "Option."

(b) Settlement. Subject to the Plan's terms, an SAR shall entitle the Participant, upon exercise of the SAR, to receive Shares having a Fair Market Value on the date of exercise equal to the product of the number of Shares as to which the SAR is being exercised, and the excess of (i) the Fair Market Value, on such date, of the Shares covered by the exercised SAR, over (ii) an exercise price designated in the SAR Award Agreement. Notwithstanding the foregoing, an SAR Award Agreement may limit the total settlement value that the Participant will be entitled to receive upon the SAR's exercise, and may provide for settlement either in cash or in any combination of cash or Shares that the Committee may authorize pursuant to an Award Agreement. If, on the date on which an SAR or portion thereof is to expire, the Fair Market Value exceeds the per Share exercise price of such SAR, then the SAR shall be deemed exercised and cancelled without any payment in settlement thereof; subject to any specific provision to the contrary within an Award Agreement.

(c) SARs related to Options. The Committee may grant SARs either concurrently with the grant of an Option or with respect to an outstanding Option, in which case the SAR shall extend to all or a portion of the Shares covered by the related Option, and shall have an exercise price that is not less than the exercise price of the related Option. An SAR shall entitle the Participant who holds the related Option, upon exercise of the SAR and surrender of the related Option, or portion thereof, to the extent the SAR and related Option each were previously unexercised, to receive payment of an amount determined pursuant to Section 6(b) above. Any SAR granted in tandem with an ISO will contain such terms as may be required to comply with the provisions of Code Section 422.

7.Restricted Shares, RSUs, and Unrestricted Share Awards.

(a) Grant. The Committee may grant Restricted Share, RSU, or Unrestricted Share Awards to Eligible Persons, in all cases pursuant to Award Agreements setting forth terms and conditions that are not inconsistent with the Plan. The Committee shall establish as to each Restricted Share or RSU Award the number of Shares deliverable or subject to the Award (which number may be determined by a written formula), and the period or periods of time (the "Restriction Period") at the end of which all or some restrictions specified in the Award Agreement shall lapse, and the Participant shall receive unrestricted Shares (or cash to the extent provided in the Award Agreement) in settlement of the Award. Such restrictions may include, without limitation, restrictions concerning voting rights and transferability, and such restrictions may lapse separately or in combination at such times and pursuant to such circumstances or based on such criteria as selected by the Committee, including, without limitation, criteria based on the Participant's duration of employment, directorship or consultancy with the Company, individual, group, or divisional performance criteria, Company performance, or other criteria selection by the Committee. The Committee may make Restricted Share and

RSU Awards with or without the requirement for payment of cash or other consideration. In addition, the Committee may grant Awards hereunder in the form of Unrestricted Shares which shall vest in full upon the Grant Date or such other date as the Committee may determine or which the Committee may issue pursuant to any program under which one or more Eligible Persons (selected by the Committee in its sole discretion) elect to pay for such Shares or to receive Unrestricted Shares in lieu of cash bonuses that would otherwise be paid.

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(b) Vesting and Forfeiture. The Committee shall set forth, in an Award Agreement granting Restricted Shares or RSUs, the terms and conditions under which the Participant's interest in the Restricted Shares or the Shares or cash subject to RSUs will become vested and non-forfeitable. Except as set forth in the applicable Award Agreement or as the Committee otherwise determines, upon termination of a Participant's Continuous Service for any reason, the Participant shall forfeit his or her Restricted Shares and RSUs to the extent the Participant's interest therein has not vested on or before such termination date; provided that if a Participant purchases Restricted Shares and forfeits them for any reason, the Company shall return the purchase price to the Participant to the extent either set forth in an Award Agreement or required by Applicable Law.

(c) Certificates for Restricted Shares. Unless otherwise provided in an Award Agreement, the Company shall hold certificates representing Restricted Shares and dividends (whether in Shares or cash) that accrue with respect to them until the restrictions lapse, and the Participant shall provide the Company with appropriate stock powers endorsed in blank. The Participant's failure to provide such stock powers within ten days after a written request from the Company shall entitle the Committee to unilaterally declare a forfeiture of all or some of the Participant's Restricted Shares.

(d) Section 83(b) Elections. A Participant may make an election under Code Section 83(b) (the "Section 83(b) Election") with respect to Restricted Shares. A Participant who has received RSUs may, within ten days after receiving the RSU Award, provide the Committee with a written notice of his or her desire to make Section 83(b) Election with respect to the Shares subject to such RSUs. The Committee may in its discretion convert the Participant's RSUs into Restricted Shares, on a one-for-one basis, in full satisfaction of the Participant's RSU Award. The Participant may then make a Section 83(b) Election with respect to those Restricted Shares; provided that the Participant's Section 83(b) Election will be invalid if not filed with the Company and the appropriate U.S. tax authorities within 30 days after the Grant Date of the RSUs replaced by the Restricted Shares.

(e) Deferral Elections for RSUs. To the extent specifically provided in an Award Agreement, a Participant may irrevocably elect, in accordance with Section 8 below, to defer the receipt of all or a percentage of the Shares that would otherwise be transferred to the Participant both more than 12 months after the date of the Participant's deferral election and upon the vesting of an RSU Award. If the Participant makes this election, the Company shall credit the Shares subject to the election, and any associated Shares attributable to Dividend Equivalent Rights attached to the Award, to a DSU account established pursuant to Section 8 below on the date such Shares would otherwise have been delivered to the Participant pursuant to this Section.

(f) Issuance of Shares upon Vesting. As soon as practicable after vesting of a Participant's Restricted Shares (or of the right to receive Shares underlying RSUs), the Company shall deliver to the Participant, free from vesting restrictions, one Share for each surrendered and vested Restricted Share (or deliver one Share free of the vesting restriction for each vested RSU), unless an Award Agreement provides otherwise and subject to Section 11 regarding Withholding Taxes. No fractional Shares shall be distributed, and cash shall be paid in lieu thereof.

8.DSUs.

(a) Elections to Defer. The Committee may make DSU awards to Eligible Persons pursuant to Award Agreements (regardless of whether or not there is a deferral of the Eligible Person's compensation), and may permit select Eligible Persons to irrevocably elect, on a form provided by and acceptable to the Committee (the "Election Form"), to forego the receipt of cash or other compensation (including the Shares deliverable pursuant to any RSU Award) and in lieu thereof to have the Company credit to an internal Plan account a number of DSUs having a Fair Market Value equal to the Shares and other compensation deferred. These credits will be made at the end of each calendar quarter (or other period determined by the Committee) during which compensation is deferred. Notwithstanding the foregoing sentence, a Participant's Election Form will be ineffective with respect to any compensation that the Participant earns before the date on which the Election Form takes effect. For any Participant who is subject to U.S. income taxation,

the Committee shall only authorize deferral elections under this Section (i) pursuant to written procedures, and using written Election Forms, that satisfy the requirements of Code Section 409A, and (ii) only by Eligible Persons who are Directors, Consultants, or members of a select group of management or highly compensated Employees (within the meaning of ERISA).

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(b) Vesting. Unless an Award Agreement expressly provides otherwise, each Participant shall be 100% vested at all times in any Shares subject to DSUs.

(c) Issuances of Shares. Unless an Award Agreement expressly provides otherwise, the Company shall settle a Participant's DSU Award, by delivering one Share for each DSU, in five substantially equal annual installments that are issued before the last day of each of the five calendar years that end after the date on which the Participant's Continuous Service ends for any reason, subject to –

(i) the Participant's right to elect a different form of distribution, only on a form provided by and acceptable to the Committee, that permits the Participant to select any combination of a lump sum and annual installments that are triggered by, and completed within ten years following, the last day of the Participant's Continuous Service, and

(ii) the Company's acceptance of the Participant's distribution election form executed at the time the Participant elects to defer the receipt of cash or other compensation pursuant to Section 8(a), provided that the Participant may change a distribution election through any subsequent election that (A) the Participant delivers to the Company at least one year before the date on which distributions are otherwise scheduled to commence pursuant to the Participant's initial distribution election, (B) such distribution election does not take effect until at least one year after the date it was executed by the Participant and (C) defers the commencement of distributions by at least five years from the originally scheduled distribution commencement date.

Fractional shares shall not be issued, and instead shall be paid out in cash.

(d) Emergency Withdrawals. In the event that a Participant suffers an unforeseeable emergency within the contemplation of this Section, the Participant may apply to the Committee for an immediate distribution of all or a portion of the Participant's DSUs. The unforeseeable emergency must result from a sudden and unexpected illness or accident of the Participant, the Participant's spouse, or a dependent (within the meaning of Code Section 152) of the Participant, casualty loss of the Participant's property, or other similar extraordinary and unforeseeable conditions beyond the control of the Participant. The Committee shall, in its sole and absolute discretion, determine whether a Participant has a qualifying unforeseeable emergency, may require independent verification of the emergency, and may determine whether or not to provide the Participant with cash or Shares. Examples of purposes which are not considered unforeseeable emergencies include post-secondary school expenses or the desire to purchase a residence. In no event will a distribution be made to the extent the unforeseeable emergency could be relieved through reimbursement or compensation by insurance or otherwise, or by liquidation of the Participant's nonessential assets to the extent such liquidation would not itself cause a severe financial hardship. The amount of any distribution hereunder shall be limited to the amount necessary to relieve the Participant's unforeseeable emergency plus amounts necessary to pay taxes reasonably anticipated as a result of the distribution. The number of Shares subject to the Participant's DSU Award shall be reduced by any Shares distributed to the Participant and by a number of Shares having a Fair Market Value on the date of the distribution equal to any cash paid to the Participant pursuant to this Section. For all DSUs granted to Participants who are U.S. taxpayers, the term "unforeseeable emergency" shall be interpreted in accordance with Code Section 409A.

(e) Termination of Service. For purposes of this Section, a Participant's "Continuous Service" shall only end when the Participant incurs a "separation from service" within the meaning of Treasury Regulations § 1.409A-1(h). A Participant shall be considered to have experienced a termination of Continuous Service when the facts and circumstances indicate that either (i) no further services will be performed for the Company or any Affiliate after a certain date, or (ii) that the level of bona fide services the Participant will perform after such date (whether as an Employee, Director, or Consultant) are reasonably expected to permanently decrease to no more than 50% of the average level of bona fide services performed by such Participant (whether as an Employee, Director, or Consultant) over the immediately preceding 36-month period (or full period of services to the Company and its Affiliates if the Participant has been

providing such services for less than 36 months).

9.Performance and Cash-Settled Awards.

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(a) Performance Units. Subject to the limitations set forth in paragraph (b) hereof, the Committee may in its discretion grant Performance Awards, including Performance Units to any Eligible Person, including Performance Unit Awards that (i) have substantially the same financial benefits and other terms and conditions as Options, SARs, RSUs, or DSUs, but (ii) are settled only in cash. All Awards hereunder shall be made pursuant to Award Agreements setting forth terms and conditions that are not inconsistent with the Plan.

(b) Performance Compensation Awards. Subject to the limitations set forth in this Section, the Committee may, at the time of grant of a Performance Unit, designate such Award as a “Performance Compensation Award” (payable in cash or Shares) in order that such Award constitutes, and has terms and conditions that are designed to qualify as, “qualified performance-based compensation” under Code Section 162(m). With respect to each such Performance Compensation Award, the Committee shall establish, in writing within the time required under Code Section 162(m), a “Performance Period,” “Performance Measure(s),” and “Performance Formula(e)” (each such term being defined below). Once established for a Performance Period, the Performance Measure(s) and Performance Formula(e) shall not be amended or otherwise modified to the extent such amendment or modification would cause the compensation payable pursuant to the Award to fail to constitute qualified performance-based compensation under Code Section 162(m).

A Participant shall be eligible to receive payment in respect of a Performance Compensation Award only to the extent that the Performance Measure(s) for such Award is achieved and the Performance Formula(e) as applied against such Performance Measure(s) determines that all or some portion of such Participant’s Award has been earned for the Performance Period. As soon as practicable after the close of each Performance Period, the Committee shall review and certify in writing whether, and to what extent, the Performance Measure(s) for the Performance Period have been achieved and, if so, determine and certify in writing the amount of the Performance Compensation Award to be paid to the Participant and, in so doing, may use negative discretion to decrease, but not increase, the amount of the Award otherwise payable to the Participant based upon such performance

(c) Limitations on Awards. The maximum Performance Award and the maximum Performance Compensation Award that any one Participant may receive during any 12-month period during a Performance Period, without regard to time of vesting or exercisability, shall not together exceed 500,000 Shares, as adjusted pursuant to Section 13 below (or, for Performance Units to be settled in cash, U.S. \$2,000,000).

(d) Definitions.

(i) “Performance Formula” means, for a Performance Period, one or more objective formulas or standards established by the Committee for purposes of determining whether or the extent to which an Award has been earned based on the level of performance attained or to be attained with respect to one or more Performance Measure(s). Performance Formulae may vary from Performance Period to Performance Period and from Participant to Participant and may be established on a stand-alone basis, in tandem or in the alternative.

(ii) “Performance Measure” means one or more of the following selected by the Committee to measure Company, Affiliate, and/or business unit performance for a Performance Period, whether in absolute or relative terms (including, without limitation, terms relative to a peer group or index): earnings per share; sales or revenue; earnings before interest, and taxes (in total or on a per share basis); net income; returns on equity, assets, capital, or revenue; economic value added; working capital; total stockholder return; and product development, product market share, research, licensing, successful completion of clinical trials, submission of applications with the U.S. Food and Drug Administration (“FDA”) for new tests, receipt from the FDA of clearance for new tests, commercialization of new tests, litigation, human resources, information services, mergers, acquisitions, sales of assets of Affiliates or business units. Each such measure shall be, to the extent applicable, determined in accordance with generally accepted accounting principles as consistently applied by the Company (or such other standard applied by the Committee) and, if so determined by the Committee, and in the case of a Performance Compensation Award, to the extent permitted under

Code Section 162(m), adjusted to omit the effects of extraordinary items, gain or loss on the disposal of a business segment, unusual or infrequently occurring events and transactions and cumulative effects of changes in accounting principles. Performance Measures may vary

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from Performance Period to Performance Period and from Participant to Participant, and may be established on a stand-alone basis, in tandem or in the alternative.

(iii) “Performance Period” means one or more periods of time (of not less than one fiscal year of the Company), as the Committee may designate, over which the attainment of one or more Performance Measure(s) will be measured for the purpose of determining a Participant’s rights in respect of an Award.

(e) Deferral Elections. At any time prior to the date that is both at least six months before the close of a Performance Period (or shorter or longer period that the Committee selects) with respect to a Performance Award and at which time vesting or payment is substantially uncertain to occur, the Committee may permit a Participant who is a member of a select group of management or highly compensated employees (within the meaning of ERISA) to irrevocably elect, on a form provided by and acceptable to the Committee, to defer the receipt of all or a percentage of the cash or Shares that would otherwise be transferred to the Participant upon the vesting of such Award. If the Participant makes this election, the cash or Shares subject to the election, and any associated interest and dividends, shall be credited to an account established pursuant to Section 8 hereof on the date such cash or Shares would otherwise have been released or issued to the Participant pursuant to this Section.

10.Dividend Equivalent Rights. To the extent expressly provided in an Award Agreement, a Dividend Equivalent Right shall entitle an Eligible Person who has received an Award to be credited with dividends that the Company declares and pays (in cash, Shares, or other securities) to its stockholders of record between the Grant Date and the settlement date of the Award. Any Dividend Equivalent Rights arising from cash dividends shall be immediately deemed to be reinvested in Shares having a Fair Market Value equal to such cash dividends (unless an Award Agreement provides otherwise). The Company shall settle Dividend Equivalent Rights by issuing Shares to a Participant to the extent they were previously credited to the Participant as Dividend Equivalent Rights and are attributable to Shares that the Participant is receiving as settlement of an Award. Notwithstanding the foregoing, the Committee may in an Award Agreement or modification thereto provide for (i) an earlier or later settlement event for Dividend Equivalent Rights, and (ii) complete or partial settlement in cash rather than in Shares; provided that Dividend Equivalent Rights associated with an Award subject to performance-based vesting conditions shall be deposited with the Company and shall be subject to the same restrictions as the underlying Award.

11.Taxes; Withholding.

(a) General Rule. Participants are solely responsible and liable for the satisfaction of all taxes and penalties that may arise in connection with Awards, and neither the Company, any Affiliate, nor any of their employees, directors, or agents shall have any obligation to mitigate, indemnify, or to otherwise hold any Participant harmless from any or all of such taxes. The Company’s obligation to deliver Shares (or to pay cash) to Participants pursuant to Awards is at all times subject to their prior or coincident satisfaction of all required Withholding Taxes. Except to the extent otherwise either provided in an Award Agreement or thereafter authorized by the Committee, the Company or any Affiliate will satisfy required Withholding Taxes that the Participant has not otherwise arranged to settle before the due date thereof

—
(i) first from withholding the cash otherwise payable to the Participant pursuant to the Award;

(ii) then by withholding and cancelling the Participant’s rights with respect to a number of Shares that (A) would otherwise have been delivered to the Participant pursuant to the Award, and (B) have an aggregate Fair Market Value equal to the Withholding Taxes (such withheld Shares may not have a value in excess of the aggregate Fair Market Value thereof on the date of the withholding determined by applying the minimum statutory withholding rate); and

(iii) finally, withholding the cash otherwise payable to the Participant by the Company.

(b) U.S. Code Section 409A. To the extent that the Committee determines that any Award granted under the Plan is subject to Code Section 409A, the Award Agreement evidencing such Award shall incorporate the terms and conditions required by Code Section 409A. To the extent applicable, the Plan and Award Agreements shall be interpreted in accordance with Code Section 409A and Department of Treasury regulations and other interpretive

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guidance issued thereunder, including without limitation any such regulations or other guidance that may be issued after the Effective Date. Notwithstanding any provision of the Plan to the contrary, the Committee may adopt such amendments to the Plan and the applicable Award Agreement or adopt other policies and procedures (including amendments, policies and procedures with retroactive effect), or take any other actions, that the Administrator determines are necessary or appropriate (i) to exempt the Award from Code Section 409A and/or preserve the intended tax treatment of the benefits provided with respect to the Award, or (ii) to comply with the requirements of Code Section 409A and related Department of Treasury guidance and thereby avoid the application of any penalty taxes under such Section.

(c) **Unfunded Tax Status.** The Plan is intended to be an “unfunded” plan for incentive compensation. With respect to any payments not yet made to a Person pursuant to an Award, nothing contained in the Plan or any Award Agreement shall give the Person any rights that are greater than those of a general creditor of the Company or any Affiliate, and a Participant’s rights under the Plan at all times constitute an unsecured claim against the general assets of the Company for the collection of benefits as they come due. Neither the Participant nor the Participant’s duly-authorized transferee or Beneficiaries shall have any claim against or rights in any specific assets, Shares, or other funds of the Company.

12. Non-Transferability of Awards.

(a) **General.** Except as set forth in this Section, or as otherwise approved by the Committee, Awards may not be sold, pledged, assigned, hypothecated, transferred or disposed of in any manner other than by will or by the laws of descent or distribution. The designation of a death Beneficiary by a Participant will not constitute a transfer. An Award may be exercised, during the lifetime of the holder of an Award, only by such holder, by the duly-authorized legal representative of a holder who is Disabled, or by a transferee permitted by this Section.

(b) **Limited Transferability Rights.** The Committee may in its discretion provide in an Award Agreement that an Award in the form of a Non-ISO, a Share-settled SAR, Restricted Shares, RSUs, Performance Awards, Performance Units may be transferred without consideration and on such terms and conditions as the Committee deems appropriate, either (i) by instrument to the Participant’s “Immediate Family” (as defined below), (ii) by instrument to an inter vivos or testamentary trust (or other entity) in which the Award is to be passed to the Participant’s designated beneficiaries, or (iii) by gift to charitable institutions. Any transferee of the Participant’s rights shall succeed and be subject to all of the terms of the applicable Award Agreement and the Plan. “Immediate Family” means any child, stepchild, grandchild, parent, stepparent, grandparent, spouse, former spouse, sibling, niece, nephew, mother-in-law, father-in-law, son-in-law, daughter-in-law, brother-in-law, or sister-in-law, and shall include adoptive relationships.

(c) **Death.** In the event of the death of a Participant, any outstanding Awards issued to the Participant shall automatically be transferred to the Participant’s Beneficiary (or, if no Beneficiary is designated or surviving, to the person or persons to whom the Participant’s rights under the Award pass by will or the laws of descent and distribution).

13. Change in Capital Structure; Change in Control; Etc.

(a) **Changes in Capitalization.** The Committee shall equitably adjust the number of Shares covered by each outstanding Award, the number of Shares that have been authorized for issuance under the Plan but as to which no Awards have yet been granted or that have been returned to the Plan upon cancellation, forfeiture, or expiration of an Award, the per person maximums set forth in the Plan, as well as the exercise or other price per Share covered by each such outstanding Award, to reflect any increase or decrease in the number of issued Shares resulting from a stock-split, reverse stock-split, stock dividend, combination, recapitalization or reclassification of the Shares, merger, consolidation, change in form of organization, or any other increase or decrease in the number of issued Shares effected without receipt of consideration by the Company. In the event of any such transaction or event, the

Committee may provide in substitution for any or all outstanding Awards under the Plan such alternative consideration (including cash or securities of any surviving entity) as it may in good faith determine to be equitable under the circumstances and may require in connection therewith the surrender of all Awards so replaced. In any case, such substitution of cash or securities shall not require the consent of any person who is granted Awards pursuant to the Plan. Except as expressly provided herein, or in an Award Agreement, if the Company issues for

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consideration shares of stock of any class or securities convertible into shares of stock of any class, the issuance shall not affect, and no adjustment by reason thereof shall be required to be made with respect to the number or price of Shares subject to any Award.

(b) Dissolution or Liquidation. In the event of the dissolution or liquidation of the Company other than as part of a Change in Control, each Award will terminate immediately prior to the consummation of such dissolution or liquidation, subject to the ability of the Committee to exercise any discretion authorized in the case of a Change in Control.

(c) Change in Control. In the event of a Change in Control but subject to the terms of any Award Agreements or employment-related agreements between the Company or any Affiliates and any Participant, each outstanding Award shall be assumed or a substantially equivalent award shall be substituted by the surviving or successor company or a parent or subsidiary of such successor company (in each case, the "Successor Company") upon consummation of the Change in Control. Notwithstanding the foregoing, instead of having outstanding Awards be assumed or replaced with equivalent awards by the Successor Company, the Committee may in its sole and absolute discretion and authority, without obtaining the approval or consent of the Company's stockholders or any Participant with respect to his or her outstanding Awards, take one or more of the following actions (with respect to any or all of the Awards, and with discretion to differentiate between individual Participants and Awards for any reason):

(i) accelerate the vesting of Awards so that Awards shall vest (and, to the extent applicable, become exercisable) as to the Shares that otherwise would have been unvested and provide that repurchase rights of the Company with respect to Shares issued pursuant to an Award shall lapse as to the Shares subject to such repurchase right;

(ii) arrange or otherwise provide for the payment of cash or other consideration to Participants in exchange for the satisfaction and cancellation of outstanding Awards (with the Committee determining the amount payable to each Participant based on the Fair Market Value, on the date of the Change in Control, of the Award being cancelled, based on any reasonable valuation method selected by the Committee);

(iii) terminate all or some Awards upon the consummation of the Change in Control, provided that the Committee shall provide for vesting of such Awards in full as of a date immediately prior to consummation of the Change in Control. To the extent that an Award is not exercised prior to consummation of a transaction in which the Award is not being assumed or substituted, such Award shall terminate upon such consummation;

(iv) make such other modifications, adjustments or amendments to outstanding Awards or this Plan as the Committee deems necessary or appropriate, subject however to the terms of Section 13 above.

14. Termination, Rescission and Recapture of Awards.

(a) Each Award under the Plan is intended to align the Participant's long-term interests with those of the Company. Accordingly, unless otherwise expressly provided in an Award Agreement, the Company may terminate any outstanding, unexercised, unexpired, unpaid, or deferred Awards ("Termination"), rescind any exercise, payment or delivery pursuant to the Award ("Rescission"), or recapture any Shares (whether restricted or unrestricted) or proceeds from the Participant's sale of Shares issued pursuant to the Award ("Recapture"), if the Participant does not comply with the conditions of subsections (b), (c), and (e) hereof (collectively, the "Conditions").

(b) The Participant shall comply with any agreement between the Participant and the Company or any Affiliate with regard to nondisclosure of the proprietary or confidential information or material of the Company or any Affiliate.

- (c) The Participant shall comply with any agreement between the Participant and the Company or any Affiliate with regard to intellectual property (including but not limited to patents, trademarks, copyrights, trade secrets, inventions, developments and improvements).
- (d) Upon exercise, payment, or delivery of cash or Company Stock pursuant to an Award, the Participant shall certify on a form acceptable to the Company that he or she is in compliance with the terms and conditions of the Plan.
- (e) If the Company determines, in its sole and absolute discretion, that (i) a Participant has violated any of the Conditions set forth in subsection (b) or (c); (ii) during his or her Continuous Service, or within one year after its termination for any reason, a Participant has solicited any non-administrative employee of the Company to terminate employment with the Company; or (y) during his or her Continuous Service, a Participant has engaged in activities which are materially prejudicial to or in conflict with the interests of the Company, including any breaches of fiduciary duty or the duty of loyalty, then the Company may, in its sole and absolute discretion, impose a Termination, Rescission, and/or Recapture with respect to any or all of the Participant's relevant Awards, Shares, and the proceeds thereof.
- (f) Within ten days after receiving notice from the Company of any such activity described in Section 14(e) above, the Participant shall deliver to the Company the Shares acquired pursuant to the Award, or, if Participant has sold the Shares, the gain realized, or payment received as a result of the rescinded exercise, payment, or delivery; provided, that if the Participant returns Shares that the Participant purchased pursuant to the exercise of an Option (or the gains realized from the sale of such Company Stock), the Company shall promptly refund the exercise price, without earnings, that the Participant paid for the Shares. Any payment by the Participant to the Company pursuant to this Section shall be made either in cash or by returning to the Company the number of Shares that the Participant received in connection with the rescinded exercise, payment, or delivery.
- (g) Notwithstanding the foregoing provisions of this Section, the Company has sole and absolute discretion not to require Termination, Rescission and/or Recapture, and its determination not to require Termination, Rescission and/or Recapture with respect to any particular act by a particular Participant or Award shall not in any way reduce or eliminate the Company's authority to require Termination, Rescission and/or Recapture with respect to any other act or Participant or Award.
- (h) All administrative and discretionary authority given to the Company under this Section shall be exercised by the most senior human resources executive of the Company or such other person or committee (including without limitation the Committee) as the Committee may designate from time to time.
- (i) If any provision within this Section is determined to be unenforceable or invalid under any Applicable Law, such provision will be applied to the maximum extent permitted by Applicable Law, and shall automatically be deemed amended in a manner consistent with its objectives and any limitations required under Applicable Law.

15. Recoupment of Awards. Unless otherwise specifically provided in an Award Agreement, and to the extent permitted by Applicable Law, the Committee may in its sole and absolute discretion, without obtaining the approval or consent of the Company's stockholders or of any Participant, require that any Participant reimburse the Company for all or any portion of any Awards granted under this Plan ("Reimbursement"), or the Committee may require the Termination or Rescission of, or the Recapture associated with, any Award, if and to the extent—

- (a) the granting, vesting, or payment of such Award was predicated upon the achievement of certain financial results that were subsequently the subject of a material financial restatement;

(b) in the Committee's view the Participant either benefited from a calculation that later proves to be materially inaccurate, or engaged in fraud or misconduct that caused or partially caused the need for a material financial restatement by the Company or any Affiliate; and

(c) a lower granting, vesting, or payment of such Award would have occurred based upon the miscalculated amounts or the conduct described in clause (b) of this Section.

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In each instance, the Committee will, to the extent practicable and allowable under Applicable Laws, require Reimbursement, Termination or Rescission of, or Recapture relating to, any such Award granted to a Participant; provided that the Company will not seek Reimbursement, Termination or Rescission of, or Recapture relating to, any such Awards that were paid or vested more than three years prior to the first date of the applicable restatement period.

16.Relationship to other Benefits. No payment pursuant to the Plan shall be taken into account in determining any benefits under any pension, retirement, savings, profit sharing, group insurance, welfare or other benefit plan of the Company or any Affiliate except to the extent otherwise expressly provided in writing in such other plan or an agreement thereunder.

17.Administration of the Plan. The Committee shall administer the Plan in accordance with its terms, provided that the Board may act in lieu of the Committee on any matter. The Committee shall hold meetings at such times and places as it may determine and shall make such rules and regulations for the conduct of its business as it deems advisable. In the absence of a duly appointed Committee, the Board shall function as the Committee for all purposes of the Plan.

(a) Committee Composition. The Board shall appoint the members of the Committee. If and to the extent permitted by Applicable Law, the Committee may authorize one or more executive officers to make Awards to Eligible Persons other than themselves. The Board may at any time appoint additional members to the Committee, remove and replace members of the Committee with or without Cause, and fill vacancies on the Committee however caused.

(b) Powers of the Committee. Subject to the provisions of the Plan, the Committee shall have the authority, in its sole discretion:

(i) to grant Awards and to determine Eligible Persons to whom Awards shall be granted from time to time, and the number of Shares, units, or dollars to be covered by each Award;

(ii) to determine, from time to time, the Fair Market Value of Shares;

(iii) to determine, and to set forth in Award Agreements, the terms and conditions of all Awards, including any applicable exercise or purchase price, the installments and conditions under which an Award shall become vested (which may be based on performance), terminated, expired, cancelled, or replaced, and the circumstances for vesting acceleration or waiver of forfeiture restrictions, and other restrictions and limitations;

(iv) to approve the forms of Award Agreements and all other documents, notices and certificates in connection therewith which need not be identical either as to type of Award or among Participants;

(v) to construe and interpret the terms of the Plan and any Award Agreement, to determine the meaning of their terms, and to prescribe, amend, and rescind rules and procedures relating to the Plan and its administration;

(vi) to the extent consistent with the purposes of the Plan and without amending the Plan, to modify, to cancel, or to waive the Company's rights with respect to any Awards, to adjust or to modify Award Agreements for changes in Applicable Law, and to recognize differences in foreign law, tax policies, or customs;

(vii) in the event that the Company establishes, for itself or using the services of a third party, an automated system for the documentation, granting, settlement, or exercise of Award, such as a system using an internet website or interactive voice response, to implement paperless documentation, granting, settlement, or exercise of Awards by a Participant may be permitted through the use of such an automated system; and

(viii) to make all interpretations and to take all other actions that the Committee may consider necessary or advisable to administer the Plan or to effectuate its purposes.

Subject to Applicable Law and the restrictions set forth in the Plan, the Committee may delegate administrative functions to individuals who are Directors or Employees.

(c) Law Adjustments and Sub-plans. To facilitate the making of any grant of an Award under this Plan, the Committee may adopt rules and provide for such special terms for Awards to Participants who are located within the United States, foreign nationals, or who are employed by the Company or any Affiliate outside of the United States of America as the Committee may consider necessary or appropriate to accommodate differences in local law, tax policy or custom. Without limiting the foregoing, the Company is specifically authorized to adopt rules and procedures regarding the conversion of local currency, taxes, withholding procedures and handling of stock certificates which vary with the customs and requirements of particular countries. The Company may adopt sub-plans and establish escrow accounts and trusts, and settle Awards in cash in lieu of shares, as may be appropriate, required or applicable to particular locations and countries.

(d) Action by Committee. Unless otherwise established by the Board or in any charter of the Committee, a majority of the Committee shall constitute a quorum and the acts of a majority of the members present at any meeting at which a quorum is present, and acts approved in writing by all members of the Committee in lieu of a meeting, shall be deemed the acts of the Committee. Each member of the Committee is entitled to, in good faith, rely or act upon any report or other information furnished to that member by an officer or other employee of the Company or any Affiliate, the Company's independent certified public accounts, or any executive compensation consultant or other professional retained by the Company to assist in the administration of the Plan.

(e) Deference to Committee Determinations. The Committee shall have the discretion to interpret or construe ambiguous, unclear, or implied (but omitted) terms in any fashion it deems to be appropriate in its sole discretion, and to make any findings of fact needed in the administration of the Plan or Award Agreements. The Committee's prior exercise of its discretionary authority shall not obligate it to exercise its authority in a like fashion thereafter. The Committee's interpretation and construction of any provision of the Plan, or of any Award or Award Agreement, and all determination the Committee makes pursuant to the Plan shall be final, binding, and conclusive. The validity of any such interpretation, construction, decision or finding of fact shall not be given de novo review if challenged in court, by arbitration, or in any other forum, and shall be upheld unless clearly made in bad faith or materially affected by fraud.

(f) No Liability; Indemnification. Neither the Board nor any Committee member, nor any Person acting at the direction of the Board or the Committee, shall be liable for any act, omission, interpretation, construction or determination made in good faith with respect to the Plan, any Award or any Award Agreement. The Company and its Affiliates shall pay or reimburse any member of the Committee, as well as any Director, Employee, or Consultant who in good faith takes action on behalf of the Plan, for all expenses incurred with respect to the Plan, and to the full extent allowable under Applicable Law shall indemnify each and every one of them for any claims, liabilities, and costs (including reasonable attorney's fees) arising out of their good faith performance of duties on behalf of the Plan. The Company and its Affiliates may, but shall not be required to, obtain liability insurance for this purpose.

(g) Expenses. The expenses of administering the Plan shall be borne jointly and severally by the Company and its Affiliates.

18. Modification of Awards and Substitution of Options. Within the limitations of the Plan, the Committee may modify an Award to accelerate the rate at which an Option or SAR may be exercised, to accelerate the vesting of any Award, to extend or renew outstanding Awards, to accept the cancellation of outstanding Awards to the extent not

previously exercised, or to make any change that the Plan would permit for a new Award. Notwithstanding the foregoing, no modification of an outstanding Award may materially and adversely affect a Participant's rights thereunder unless either (a) the Participant provides written consent to the modification, or (b) before a Change in Control, the Committee determines in good faith that the modification is not materially adverse to the Participant. Except as provided in Section 13, without prior stockholder approval, in no event may the Committee exercise its discretion to reduce the exercise price of outstanding Options or SARs or effect repricing through cancellation and re-grants or cancellation in exchange for cash.

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19. Plan Amendment and Termination. The Board may amend or terminate the Plan as it shall deem advisable; provided that no change shall be made that increases the total number of Shares reserved for issuance pursuant to Awards (except pursuant to Section 13 above) unless such change is authorized by the stockholders of the Company. A termination or amendment of the Plan shall not materially and adversely affect a Participant's vested rights under an Award previously granted to him or her, unless either (a) the Participant consents in writing to such termination or amendment, or (b) before a Change in Control, the Committee determines in good faith that the modification is not materially adverse to the Participant. Notwithstanding the foregoing, the Committee may amend the Plan to comply with changes in tax or securities laws or regulations, or in the interpretation thereof.

20. Term of Plan. If not sooner terminated by the Board, this Plan shall terminate at the close of business on the date ten years after its Effective Date. No Awards shall be made under the Plan after its termination; however, termination of the Plan shall not affect the Committee's ability to exercise the powers granted to it hereunder with respect to Awards granted under the Plan prior to the date of such termination.

21. Governing Law. The terms of this Plan shall be governed by the laws of the State of Delaware, within the United States of America, without regard to the State's conflict of laws rules.

22. Laws and Regulations.

(a) General Rules. This Plan, the granting of Awards, the exercise of Options and SARs, and the obligations of the Company hereunder (including those to pay cash or to deliver, sell or accept the surrender of any of its Shares or other securities) shall be subject to all Applicable Laws. In the event that any Shares are not registered under any Applicable Law prior to the required delivery of them pursuant to Awards, the Company may require, as a condition to their issuance or delivery, that the persons to whom the Shares are to be issued or delivered make any written representations and warranties (such as that such Shares are being acquired by the Participant for investment for the Participant's own account and not with a view to, for resale in connection with, or with an intent of participating directly or indirectly in, any distribution of such Shares) that the Committee may reasonably require, and the Committee may in its sole discretion include a legend to such effect on the certificates representing any Shares issued or delivered pursuant to the Plan.

(b) Black-out Periods. Notwithstanding any contrary terms within the Plan or any Award Agreement, the Committee shall have the absolute discretion to impose a "blackout" period on the exercise of any Option or SAR, as well as the settlement of any Award, with respect to any or all Participants (including those whose Continuous Service has ended) to the extent that the Committee determines that doing so is either desirable or required in order to comply with applicable securities laws.

23. No Stockholder Rights. Neither a Participant nor any transferee or Beneficiary of a Participant shall have any rights as a stockholder of the Company with respect to any Shares underlying any Award until the date of issuance of the Shares to such Participant, transferee, or Beneficiary for such Shares in accordance with the Company's governing instruments and Applicable Law. Prior to the issuance of Shares or Restricted Shares pursuant to an Award, a Participant shall not have the right to vote or to receive dividends or any other rights as a stockholder with respect to the Shares underlying the Award (unless otherwise provided in the Award Agreement for Restricted Shares), notwithstanding its exercise in the case of Options and SARs. No adjustment will be made for a dividend or other right that is determined based on a record date prior to the date the Share is issued, except as otherwise specifically provided for in this Plan or an Award Agreement.

Appendix I: Definitions

As used in the Plan, the following terms have the meanings indicated when they begin with initial capital letters within the Plan:

“Affiliate” means, with respect to any Person, any other Person that directly or indirectly controls or is controlled by or under common control with such Person. For the purposes of this definition, “control,” when used with respect to any Person, means the possession, direct or indirect, of the power to direct or cause the direction of the management and policies of such Person or the power to elect directors, whether through the ownership of voting securities, by contract or otherwise; and the terms “affiliated,” “controlling” and “controlled” have meanings correlative to the foregoing.

“Applicable Law” means the legal requirements relating to the administration of options and share-based plans under any applicable laws of the United States, any other country, and any provincial, state, or local subdivision, any applicable stock exchange or automated quotation system rules or regulations, as such laws, rules, regulations and requirements shall be in place from time to time.

“Award” means any award made pursuant to the Plan, including awards made in the form of an Option, an SAR, a Restricted Share, a RSU, an Unrestricted Share, a DSU, a Performance Unit, a Performance Award, or Dividend Equivalent Rights, or any combination thereof, whether alternative or cumulative.

“Award Agreement” means any written document setting forth the terms of an Award that has been authorized by the Committee. The Committee shall determine the form or forms of documents to be used, and may change them from time to time for any reason.

“Beneficiary” means the person or entity designated by the Participant, in a form approved by the Company, to exercise the Participant’s rights with respect to an Award or receive payment or settlement under an Award after the Participant’s death.

“Board” means the Board of Directors of the Company.

“Cause” will have the meaning set forth in any unexpired employment agreement between the Company and the Participant. In the absence of such an agreement, “Cause” will exist if the Participant is terminated from employment or other service with the Company or an Affiliate for any of the following reasons: (i) the Participant’s willful failure to substantially perform his or her duties and responsibilities to the Company or deliberate violation of a material Company policy; (ii) the Participant’s commission of any material act or acts of fraud, embezzlement, dishonesty, or other willful misconduct; (iii) the Participant’s material unauthorized use or disclosure of any proprietary information or trade secrets of the Company or any other party to whom the Participant owes an obligation of nondisclosure as a result of his or her relationship with the Company; or (iv) Participant’s willful and material breach of any of his or her obligations under any written agreement or covenant with the Company. The foregoing definition does not in any way limit the Company’s ability to terminate a Participant’s employment or

consulting relationship at any time, and the term “Company” will be interpreted herein to include any Affiliate or successor thereto, if appropriate.

“Change in Control” means any of the following:

(i) Merger. The Company consummates a merger, or consolidation of the Company with any other corporation unless: (A) the voting securities of the Company outstanding immediately before the merger or consolidation would continue to represent (either by remaining outstanding or by being converted into voting securities of the surviving entity) at least 50% of the combined voting power of the voting securities of the Company or such surviving entity outstanding immediately after such merger or consolidation; and (B) no Person (other than

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Persons who are Employees at any time more than one year before a transaction) becomes the Beneficial Owner, directly or indirectly, of securities of the Company representing 50% or more of the combined voting power of the Company's then outstanding securities.

(ii) Sale of Assets. The stockholders of the Company approve an agreement for the sale or disposition by the Company of all, or substantially all, of the Company's assets.

Notwithstanding the foregoing, a "Change in Control" shall not be deemed to have occurred by virtue of the consummation of any transaction or series of integrated transactions immediately following which the record holders of the common stock of the Company immediately prior to such transaction or series of transactions continue to have substantially the same proportionate ownership in an entity which owns all or substantially all of the assets of the Company immediately following such transaction or series of transactions.

"Code" means the Internal Revenue Code of 1986, as amended.

"Committee" means the Compensation Committee of the Board or its successor, provided that the term "Committee" means (i) with respect to any decision involving an Award intended to satisfy the requirements of Code Section 162(m), a committee consisting of two or more Directors of the Company who are intended to be "outside directors" within the meaning of Code Section 162(m), and (ii) with respect to any decision relating to a Reporting Person, a committee consisting of solely of two or more Directors who are intended to be disinterested within the meaning of Rule 16b-3.

"Company" means Vermillion, Inc., a Delaware corporation; provided that in the event the Company reincorporates to another jurisdiction, all references to the term "Company" shall refer to the Company in such new jurisdiction.

"Company Stock" means common stock, \$0.001 par value, of the Company. In the event of a change in the capital structure of the Company affecting the common stock (as provided in Section 13), the Shares resulting from such a change in the common stock shall be deemed to be Company Stock within the meaning of the Plan.

"Consultant" means any person (other than an Employee or Director), including an advisor, who is engaged by the Company or any Affiliate to render services and is compensated for such services.

"Continuous Service" means a Participant's period of service in the absence of any interruption or termination, as an Employee, Director, or Consultant. Continuous Service shall not be considered interrupted in the case of: (i) sick leave; (ii) military leave; (iii) any other leave of absence approved by the Committee, provided that such leave is for a period of not more than 90 days, unless reemployment upon the expiration of such leave is guaranteed by contract or statute, or unless provided otherwise pursuant to Company policy adopted from time to time; (iv) changes in status from Director to advisory director or emeritus status; or (iv) transfers between locations of the Company or between the Company and its Affiliates. Changes in status between service as an Employee,

Director, and a Consultant will not constitute an interruption of Continuous Service if the individual continues to perform bona fide services for the Company. The Committee shall have the discretion to determine whether and to what extent the vesting of any Awards shall be tolled during any paid or unpaid leave of absence; provided, however, that in the absence of such determination, vesting for all Awards shall be tolled during any such unpaid leave (but not for a paid leave).

"Deferred Share Units" or "DSUs" mean Awards pursuant to Section 8 of the Plan.

"Director" means a member of the Board, or a member of the board of directors of an Affiliate.

“Disabled” means a condition under which a Participant –

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(i) is unable to engage in any substantial gainful activity by reason of any medically determinable physical or mental impairment which can be expected to result in death or can be expected to last for a continuous period of not less than 12 months, or

(ii) is, by reason of any medically determinable physical or mental impairment which can be expected to result in death or can be expected to last for a continuous period of not less than 12 months, received income replacement benefits for a period of not less than three months under an accident or health plan covering employees of the Company.

“Dividend Equivalent Rights” means Awards pursuant to Section 10 of the Plan, which may be attached to other Awards.

“Effective Date” means the date on which the shareholders of the Company approve the Plan, as amended and restated.

“Eligible Person” means any Consultant, Director, or Employee.

“Employee” means any person whom the Company or any Affiliate classifies as an employee (including an officer) for employment tax purposes, whether or not that classification is correct. The payment by the Company of a director’s fee to a Director shall not be sufficient to constitute “employment” of such Director by the Company.

“Employer” means the Company and each Subsidiary and Affiliate that employs one or more Participants.

“Exchange Act” means the Securities Exchange Act of 1934, as amended.

“Fair Market Value” means, as of any date, the closing price of the Company Stock on the New York Stock Exchange, the American Stock Exchange, NASDAQ or such other stock exchange as the Company Stock is then listed for trading, as of such date (and, if none, as determined by the Committee in good faith based on relevant facts and circumstances).

“Grant Date” means the later of (i) the date designated as the “Grant Date” within an Award Agreement, and (ii) date on which the Committee determines the key terms of an Award, provided that as soon as reasonably practical thereafter the Committee both notifies the Eligible Person of the Award and enters into an Award Agreement with the Eligible Person.

“Incentive Stock Option” (or “ISO”) means, an Option that qualifies for favorable income tax treatment under Code Section 422, and which is intended by the Committee to constitute an Incentive Stock Option

“Non-ISO” means an Option that is not an Incentive Stock Option.

“Option” means a right to purchase Company Stock granted under the Plan, at a price determined in accordance with the Plan.

“Participant” means any Eligible Person who holds an outstanding Award.

“Performance Awards” mean Awards granted pursuant to Section 9.

“Performance Unit” means an Award granted pursuant to Section 9(a) of the Plan which may be paid in cash, in Shares, or such combination of cash and Shares as the Committee in its sole discretion shall determine.

“Person” means any natural person, association, trust, business trust, cooperative, corporation, general partnership, joint venture, joint-stock company, limited partnership, limited liability company, real estate investment trust, regulatory body, governmental agency or instrumentality, unincorporated organization or organizational entity.

“Plan” means this Vermillion, Inc. Second Amended and Restated 2010 Stock Incentive Plan.

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“Recapture” and “Rescission” have the meaning set forth in Section 14 of the Plan.

“Reimbursement” has the meaning set forth in Section 15 of the Plan.

“Reporting Person” means an Employee, Director, or Consultant who is subject to the reporting requirements set forth under Rule 16b-3.

“Restricted Share” means a Share of Company Stock awarded with restrictions imposed under Section 7.

“Restricted Share Unit” or “RSU” means a right granted to a Participant to receive Shares or cash upon the lapse of restrictions imposed under Section 7.

“Retirement” means a Participant’s termination of employment after age 65.

“Rule 16b-3” means Rule 16b-3 promulgated under the Exchange Act, as amended from time to time, or any successor provision.

“Share” means a share of Company Stock, as adjusted in accordance with Section 13 of the Plan.

“SAR” or “Share Appreciation Right” means a right to receive amounts awarded under Section 6.

“Ten Percent Holder” means a person who owns (within the meaning of Code Section 422) stock representing more than ten percent (10%) of the combined voting power of all classes of stock of the Company.

“Unrestricted Shares” mean Shares (without restrictions) awarded pursuant to Section 7 of the Plan.

“Withholding Taxes” means the aggregate minimum amount of federal, state, local and foreign income, payroll and other taxes that the Company and any Affiliates are required to withhold in connection with any Award.

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Vermillion, Inc.

Second Amended and Restated 2010 Stock Incentive Plan

Appendix II: ____ Sub-Plan

This Appendix II applies to any Awards that are made to Eligible Persons who are residents of _____ and who are or may become subject to its tax laws (i.e. income tax and/or social security tax) as a result of Awards granted under the Vermillion, Inc. Second Amended and Restated 2010 Stock Incentive Plan (the “Plan”). Terms herein that begin with initial capital letters have the special definition set forth in the Plan.

This Appendix II shall be read in conjunction with the Plan and is subject to the terms and conditions of the Plan; provided that, to the extent that the terms and conditions of the Plan differ from or conflict with the terms of this Appendix II, the following terms of this Appendix II shall prevail:

1. _____

Vermillion, Inc.

Second Amended and Restated 2010 Stock Incentive Plan

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.O. Box 64945

Paul, MN 55164-0945

Shareowner Services

P.O. Box 64945

St. Paul, MN 55164-0945

TO VOTE BY MAIL AS THE BOARD OF DIRECTORS RECOMMENDS ON ALL ITEMS BELOW,
SIMPLY SIGN, DATE, AND RETURN THIS PROXY CARD.

VERMILLION, INC.'s Board of Directors recommends a vote "FOR" all director nominees listed in proposal 1 and "FOR" proposals 2, 3, 4 and 5.

1. Election of 01 James S. Burns 05 David R. Schreiber FOR ALL WITHHOLD ALL

directors: 02 Veronica G.H. Jordan, Ph.D. (except as marked

03 James T. LaFranceto the contrary below).

04 Valerie B. Palmieri

(Instructions: To withhold authority to vote for any indicated nominee, write the number(s) of the nominee(s) in the box provided to the right.)

2. Proposal to ratify the terms and issuance of the Company's Series B Convertible Preferred Stock, and to approve the issuance of such number of shares of the Company's common stock issuable upon full conversion of the Series B Convertible Preferred Stock, including shares issuable pursuant to customary anti-dilution provisions.

3. Advisory vote to approve the compensation of the Company's named executive officers.

4. Proposal to approve an amendment to the Vermillion, Inc. Second Amended and Restated 2010 Stock Incentive Plan.

5. Proposal to ratify the selection of BDO USA, LLP as the Company's Independent registered public accounting firm for the year ending December 31, 2018.

THIS PROXY WHEN PROPERLY EXECUTED WILL BE VOTED AS DIRECTED OR, IF NO DIRECTION IS GIVEN, WILL BE VOTED FOR THE NOMINEES LISTED IN PROPOSAL 1 AND FOR PROPOSALS 2, 3, 4 AND 5.

Address Change? Mark box, sign, and indicate changes below: Date

Signature(s) in Box

Please sign exactly as your name(s) appears on the Proxy. If held in joint tenancy, all persons should sign. Trustees, administrators, etc., should include title and authority. Corporations should provide full name of corporation and title of authorized officer signing the Proxy

VERMILLION, INC.

ANNUAL MEETING OF STOCKHOLDERS

Thursday, June 21, 2018

8:00 a.m. (Eastern Daylight Time)

35 Nutmeg Drive, Suite 260

Trumbull, CT 06611

VERMILLION, INC.

12117 Bee Caves Road, Building Three, Suite 100

Austin, Texas 78738

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proxy

THIS PROXY IS SOLICITED ON BEHALF OF THE BOARD OF DIRECTORS

The signatory hereby appoints each of Valerie B. Palmieri and Robert Beechey, with full power of substitution, as the lawful attorney and proxy of the signatory, revoking all proxies previously given, and hereby authorizes each of them to vote as designated on the reverse side, and, in his or her discretion, upon such other business as may properly be presented at the meeting, all of the shares of common stock of VERMILLION, INC. which the signatory shall be entitled to vote at the Annual Meeting of Stockholders to be held on June 21, 2018, and at any adjournments or postponements thereof.

This proxy, when properly executed, will be voted in the manner directed by the stockholder(s) signing on the reverse side. IF NO CHOICE IS INDICATED, THIS PROXY WILL BE VOTED "FOR" THE NOMINEES LISTED IN PROPOSAL 1 AND "FOR" PROPOSALS 2, 3, 4 AND 5 ON THE REVERSE SIDE. This proxy may be revoked

at any time prior to the time it is voted by any means described in the accompanying proxy statement.

PLEASE COMPLETE, DATE AND SIGN THIS PROXY AND MAIL IT PROMPTLY IN THE ENCLOSED ENVELOPE TO ASSURE REPRESENTATION OF YOUR SHARES.

(TO BE SIGNED ON REVERSE SIDE)